Matthias Zeuch
Editor

Handbook of Human Resources Management

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With 181 Figures and 31 Tables

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In Memoriam
Katharina Cortolezis-Schlager and
Jens Peisert

Preface

Dear Reader,
How to find a common denominator in a handbook with more than 85 authors from approximately 20 countries?

Despite the highly appreciated diversity of styles, methods, and approaches, there still is one thing all authors have in common: a passion for people. All authors believe that with a humanistic HR management both people and business win: A motivated, engaged workforce delivers best results while its members enjoy their employment experience.

All articles in this book are based on real-life experiences of the authors. The book contains:

- "Essentials" articles, which provide a broad overview of a whole area within HR management and view this area from four predefined perspectives: People (cultural, social, and psychological aspects), Risk (legal and other external considerations), Economic (tangible implications regarding cost and value-added), and Operational
- Cases with Lessons Learned and Essays, which pinpoint one specific example or topic.

With this mix of broader and specific articles, the reader will get both a 360-degree overview and practical insights into relevant details.

As a new form of publication, the contents of the book are discussed within the LinkedIn group "Global Human Resources Management" and are also available as a one-year interactive qualification program. For more information, please contact info@gahrm.net.

In the name of all authors, I wish you a rewarding reading experience and am looking forward to exciting discussions with you in our LinkedIn group and/or our qualification program!

April 2016

Matthias Zeuch
Murten, Switzerland

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Mr. Matthias Zeuch has managed human resources for more than 40 countries during the 28 years of his career. As General Manager Human Resources Management, he is responsible for the Region Europe of Johnson Electric International. Together with the authors of this book, he established the "Global Association for Human Resources Management" (www.gahrm.net).

Prior to this, he was in several international HR management roles at Daimler in Europe, North America, and Asia/Pacific, including regional HR head for North-East Asia.

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Part I

Human Resources Marketing and Recruiting

Human Resources Marketing and Recruiting: Introduction and Overview

1

Nicole Dessain

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Abstract

Rapid economic changes, skill shortages, changing candidate expectations, new technologies, and the advent of better people analytics are key factors that impact how organizations recruit talent in today's globalized society.

However, most recruiting organizations are not prepared for this rapidly changing environment. According to a recent study, only 13 % of the

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297 companies surveyed believe that their recruiting function is fully optimized (Erickson et al. (2014) High-impact talent acquisition – findings and maturity Model. Retrieved from http://marketing.bersin.com/talent-acquisition-systems-2014.html).

This chapter will provide Human Resources and business leaders with a comprehensive overview of key aspects of high-performance recruiting as well as tactical tips and tricks on how to optimize the function.

Readers will gain the following insights from this overview chapter:

- Learn about the history and definition of HR Marketing and Recruiting
- Identify key pillars of a strategic recruiting function
- Consider the perspectives of various stakeholder groups, especially those of the candidate and hiring manager
- Calculate the business case for investment in HR Marketing and Recruiting
- Identify key metrics to measure the performance of recruiting
- Learn about different candidate sourcing channels and how to optimize the source mix
- Understand legal considerations and learn about key risks to recruiting such as selection bias and brand exposure
- Learn about organizational models for structuring of the recruiting function
- Identify ways to optimize the recruiting process
- Understand how technology can enable the recruiting process
- Learn about future trends that are impacting HR Marketing and Recruiting

Keywords
Recruiting • Recruitment • Talent acquisition • HR marketing • Staffing • Recruitment marketing

What Is HR Marketing and Recruiting?

The process of attracting and recruiting talent is ancient. Some credit its origins back to the year 55 BC when Julius Caesar handsomely rewarded soldiers who brought others into the Roman army (Singh 2008). Fast-forward centuries to 1940 where drafting soldiers into World War II created gaps in the workplace which were quickly being addressed by a new invention: the employment agency. Fast-forward again to the 1990s and the advent of applicant technology and the Internet started impacting the recruitment industry and continue to shape it.

Modern-day organizational recruiting can be broken down and defined as follows:

HR Marketing (also referred to as Recruitment Marketing) includes activities that attract active and passive candidates who exhibit the company's desired skills and behaviors. HR Marketing should be based on a clearly defined and well-communicated employer value proposition (EVP) which is a set of positioning statements outlining why the company is an attractive employer. The EVP is the core of a company's employer brand (also referred to as talent brand).

Recruiting (also referred to as recruitment, staffing, and Talent Acquisition) activities are geared toward hiring people who are interested in the company and who have the skills and behaviors needed to successfully perform their role. The recruiting process is composed of planning, sourcing the candidate, pre-assessment, final selection, job offer, and contracting.

While Human Resources activities are usually internally focused, HR Marketing and Recruiting clearly have an external focus. The way the company presents itself as an employer through its HR Marketing and how it interacts with candidates throughout the recruiting process have a major impact on the overall company image.

The following are a few examples of how HR Marketing and Recruiting impact a company's reputation:

- Job postings indicate growth and optimism regarding the future.
- The level of respect and courtesy the company expresses to people who applied but were not selected reveals the real values of the company and its culture.
- Job applicants share their experience of the selection process via social media – the good and the bad.
- Candidates may be a company's current or future customers.

Key to recruiting success is to move away from being a merely transactional and reactive cost center that fills empty seats.

Taking a strategic, businesslike approach to recruiting is vital in maintaining relevance in a business environment where support functions are easily outsourced if they cannot demonstrate strategic value.

The following framework outlines the main components of an integrated HR Marketing and Recruiting strategy (Fig. 1).

Key elements of the framework will be explored in more detail throughout this overview chapter and subsequent subchapters.

People Perspective

Recruiting is one of the most difficult Human Resources processes to get right due to the involvement of many internal and external stakeholders.

The two key stakeholder groups in the recruiting process are candidates and hiring managers. The perspective of each of these groups will be examined in the following section.

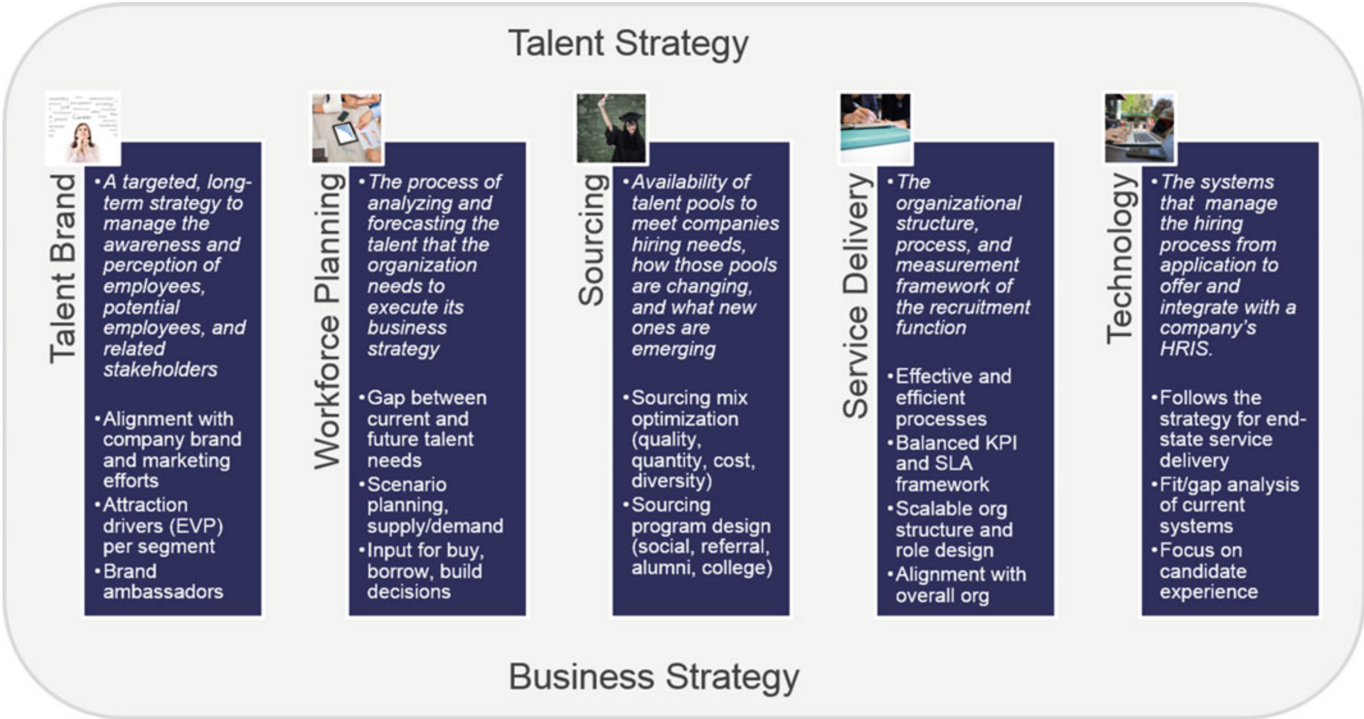

Fig. 1 HR Marketing and Recruiting strategy framework (Source: talent imperative inc)

Candidates

Organizations have never treated candidates as well as they did their customers, but the high jobless rate during the economic downturn has allowed corporations to make matters worse. Today, a number of factors, such as economic recovery, skills shortages, and changing expectations and social sharing behavior of the millennial workforce, have resulted in a shift from a company-centric view of employment toward a talent-centric view.

For HR Marketing and Recruiting, this means analyzing the key stages of the recruiting process from a candidate's perspective. An engaging candidate experience drives increased reapplications, referrals, retaining or gaining candidates as customers, and the likelihood of increased performance once a candidate is hired.

The importance of the candidate experience in the recruiting process has garnered enough attention that in 2010 the nonprofit organization Talent Board initiated an annual Candidate Experience Award process highlighting companies' leading practices in an effort to establish benchmarks for the candidate experience. The 2013 Candidate Experience Award data shows that there is room for improvement: only 53 % of candidates gave high marks to their recruiting experience (Talent Board 2014).

The following are key steps along the recruiting process an organization can take to create an engaging candidate experience:

Designing a tailored approach – Taking a page from the marketing book, the talent pool can be segmented by certain characteristics. Once talent personas are identified, it is easier to take a customized approach toward branding and customizing the experience (Cantrell and Smith 2010).

Creating an engaging online experience – Candidates today want to research and apply for jobs from anywhere. An engaging recruiting experience across the company's online presence (career site, social media pages, mobile) needs to ensure that the application process is user-friendly and provides an authentic experience. The 2014 ERE Recruiting Excellence Award finalist Geneca has created an engaging candidate online experience (Raphael 2014).

Building talent communities – Interacting with candidates on social media and building talent communities are a critical component of twenty-first-century recruiting (Smith 2013). Getting key employees involved as brand ambassadors and starting to have authentic conversations with candidates are a few ideas on how to go beyond mere posting of company updates and job postings. A good example is how the online retailer Zappos built a social media following on Twitter (Zapar 2014).

Including self-assessments – Providing a realistic job preview by adding "A Day in a Life" videos to the career website, offering online culture-fit self-assessments, highlighting career paths during the interview, and/or allowing candidates to shadow current employees aid the decision-making process and ensure the candidate does not experience buyer's remorse once they have joined the organization. The 2014 ERE Recruiting Excellence Award winner Air New Zealand accomplished this well (Raphael 2014).

Streamlining the interview experience – One way of enhancing the interview experience is to minimize travel through the use of video interviewing tools. Another is to ensure there are no redundancies in the selection process, interview appointments are kept, and everybody involved in the process is prepared to play their part.

Creating communication and feedback loops – Communicating throughout the process and asking the candidate for feedback to collect input for continuous improvement about the candidate experience are critical. The financial services provider Capital One is using the same approach for analyzing candidate feedback as they do for their customers (Halzack 2014).

Hiring Managers

Recent research has shown that Talent Acquisition organizations who effectively involve hiring managers in the recruiting process experience higher quality hires, increased productivity, and improved perception of Talent Acquisition across the organization (Erickson et al. 2014).

However, many organizations have difficulty building an effective recruiter/hiring manager relationship. In a recent study hiring managers gave their recruiting function's performance only average grades (Mester 2014).

The following are some common disconnects and suggestions for how to address them:

Insufficient workforce planning – There often is a lack of planning for replacements and new positions resulting in reactive hiring requests. Business needs change rapidly, and it becomes increasingly difficult to predict workforce needs. Effective Talent Acquisition functions partner with the business to put more rigor into workforce planning and alignment with strategic planning cycles.

Difficulty articulating job requirements – Sometimes hiring managers have difficulty articulating what they require in terms of skills and experience for the roles they are trying to replace and what constitutes high performance in a role. A skilled recruiter consults with the hiring manager to help translate needs and codify them into a realistic job description.

Varying levels of experience with interviewing – Every hiring manager brings a different level of comfort and experience to the interview process which can make it hard to assess candidates objectively and consistently. Just-in-time and easily accessible interview training helps to bridge knowledge gaps and creates awareness about company standards for candidate assessment.

Waiting for the "purple squirrel" – Hiring managers may want to hold out for one more candidate to make sure they hire the best person possible. While aspiring to high standards in recruiting is absolutely essential, it can sometimes result in losing good talent, especially for roles where the market is competitive and candidates have choices. Consultative recruiters can help hiring managers understand market and talent pool dynamics to create realistic expectations.

Lack of knowledge about salary negotiation policy – Hiring managers may not be aware of a company's policy around salary negotiations and/or pay ranges when it comes to making offers. Providing them with these parameters during an initial planning meeting can help create clarity.

Insufficient communication and relationship building – Few organizations offer a structured mechanism for hiring managers to provide feedback about the recruiting process on a regular basis. This can result in misunderstandings and misaligned expectations resulting in escalations. Creating a regular survey mechanism and/or assigning dedicated account managers can help establish more fruitful communication.

Overall, trying to see the recruiting process through the hiring manager's lens and understanding that recruiting is one additional task that gets added to their workload will help in ensuring an effective process. In the end, both hiring managers and the recruiting team are working toward the same goal: to hire the best qualified person for a role and for the company.

Other Stakeholders

Additional stakeholders may at times get involved in the recruiting process. The following is an overview of the most common groups:

Executives are more and more attuned to the impact of talent to the bottom line and expect to see business-guided hiring metrics. Also, when relationships between recruiting and hiring managers have gone sour, it is not uncommon that escalation may make it all the way to the C-suite.

HR business partners may be involved in parts of the recruiting process or when organizational restructuring requires new roles or role designs and associated hiring. It is critical for the recruiting team to clearly identify touch points with the HR team and establish effective collaboration.

Employees are an organization's most powerful brand ambassadors in the age of social media. Building a thoughtful employee advocacy program can greatly benefit any HR Marketing efforts (Miller 2014).

The IT department is an increasingly important partner to the Talent Acquisition team when it comes to implementing, upgrading, or replacing recruiting-related technology. It is critical to build effective working relationships with IT, especially since they are typically juggling many projects and may be asked to prioritize customer-facing technology projects.

The finance and procurement department plays a key role in helping to define credible recruiting metrics (Engler 2014). For organizations that hire a large number of contingent workers, close collaboration with procurement is key to effectively hiring, tracking, and managing this workforce.

The marketing department is a key partner in helping to define an organization's HR Marketing/employer branding strategy and material in alignment with corporate marketing efforts. Most marketing professionals come from an external consumer marketing background and may not be familiar with the candidate market as an audience.

Parents of millennial job seekers are more involved in the professional development of their children than any previous generation. Companies that employ a large entry-level workforce need to consider these multipliers in their employer branding and overall candidate experience efforts.

Recruitment vendors may range from recruitment technology solution providers, search agencies, to recruitment process outsourcing (RPO) suppliers and contingent workforce managed services providers (MSPs). Key is that all these external partners understand their client's unique culture and recruiting strategy and are held accountable to deliver hiring results in close collaboration with client counterparts.

Economic Perspective

Recent research indicates that high-performing Talent Acquisition functions perform 30 % better on business outcomes than their less mature peers (Erickson et al. 2014).

This section will explore the key aspects of a business case outlining the economic impact of recruiting, how to measure its performance in alignment with business outcomes, and how to optimize key sourcing cost drivers.

Business Case

It is now commonly understood that making good hiring decisions and focusing on quality of hire can prevent more cost-intensive consequences in the future. Harris Interactive (2013) research puts the average cost of a poor hire in between $25,000 and $50,000.

A company can calculate their own bad hire cost by identifying key cost drivers. These are the main ones:

***Costs related to having made a poor hiring decision*:**
- Cost (time) of other employees completing tasks of former employees
- Wasted salary of unproductive employees
- Wasted benefits
- Reduced customer satisfaction
- Unrealized business opportunities for the organization
- Legal costs

***Costs related to bringing a new employee on board*:**
- Sourcing and recruiting costs (ads, search firms, referral bonus)
- Prescreening and interviewing (time of interviewers, assessment cost)
- Relocation costs
- Training costs (time of supervisor and coworkers, training cost)

Another business case consideration is to calculate the business impact of an unfilled vacancy. The most powerful way to make the business case is to calculate this for mission-critical positions (those without whom the organization would not be successful and who possess a unique skill set that is competitive in the market).

A simple formula to calculate cost per vacancy for revenue-generating roles is:

$$\begin{aligned}&\text{Annual Revenue}/\#\text{ of employees}\\&= \$\text{ revenue per employee}/\#\text{ of annual working days } (220)\\&= \$\text{ daily employee revenue} \times \text{average } \#\text{ of days a position remains vacant}\\&= \$\text{ revenue loss per vacancy}\end{aligned}$$

Sullivan (2005) has written comprehensively about this topic and offers additional ways of calculating the business impact of an unfilled vacancy.

Key to successful business case development is close collaboration with finance. Working through the process together will result in cost calculations that are recognized within the organization and create credibility around the numbers.

Performance Measures

How can high performance in recruiting be measured? Over recent years this topic has evolved from a sole focus on efficiency (viewing Talent Acquisition as part of HR and thus as a mere cost center) toward a more balanced metrics framework. In the recovering economy and faced with looming skills shortages, time to hire and quality of hire have become increasingly important measures of performance (Mester 2014).

Recruiting can be fast-paced and transactional, and it can seem hard to take the time to think through a meaningful metrics framework and to create discipline around data collection, especially if data pulls are largely manual.

The best way to get started is to keep it simple and focus on a few, relevant metrics that balance delivery, quality, and productivity measures. These metrics (also referred to as key performance indicators/KPIs) should be designed jointly with the business to determine the ones that have the greatest impact and that are really worth measuring. Table 1 illustrates a sample scorecard with a few metrics per category.

Wherever possible data sources for metrics should be system generated. Getting to reliable data is critical but may be a journey depending on an organization's current systems and analytics capabilities.

Targets should be designed carefully and always be based on historical internal data and relevant (industry-/workforce-specific) benchmarks.

Source Optimization

Next to the personnel expense of the recruiting department itself, sourcing costs are the second largest driver of the cost per hire metric. Unlike the former which tends to

Table 1 Illustration of a balanced recruiting scorecard

Metric	Definition/calculation	Data source(s)	Target	Actual
Delivery – identify process bottlenecks and inefficiencies				
Demand plan fulfillment	% target fulfillment + pipeline status	Applicant tracking system (ATS), WF planning system	x%	x%
Time to hire	# of days from the date a job requisition is approved to the date a new hire starts	ATS	x days	x days
Quality – ensure quality of hire and stakeholder process satisfaction				
Quality of hire index	Performance + retention + hiring manager satisfaction	HRIS, perf. mgt. system, survey	x	x
Candidate process satisfaction	Year over year survey improvement	Survey	x	x
Productivity – measure cost and efficiency of operations				
Source effectiveness	Cost, diversity, yield, quality by source	ATS	x	x
Cost per hire	Total recruiting costs/total number of hires	HRIS, ATS, procurement system	$x	$x

undergo regular scrutiny, the latter is often overlooked as a way to achieve cost and quality optimization.

Once upon a time recruiters did what is known as “post and pray” – posting a job to multiple job boards and in the local newspaper and hoping the right people would apply. These days are over as it gets increasingly difficult to find the best qualified talent in a shorter period of time. Sourcing has become a strategic activity.

A “source” in the context of recruiting is a specific channel that is used to find potential candidates. There is not a lot of standardization around what constitutes a source, and the collection of correct source information continues to pose a challenge to many organizations.

Every recruiting function should attempt to create discipline around capturing source information and conduct a source optimization analysis by assessing each channel based on quality, quantity, diversity, and cost. External benchmarks such as the CareerXroads annual “Source of Hire” report (Crispin and Mehler 2013) can be used as best practice insight, but not as the only input to determine what the right source mix is for a particular organization.

The following is an overview of usually high-performing hiring sources:

Employee referrals – Leading referral programs extend beyond employees and include alumni referrals and “friends of friends” referrals via social media integration. In some countries and company cultures, referrals may carry a negative connotation (nepotism) – a more solid business case and guiding policies may be required.

Please refer to the subchapter ▶ Chap. 6, “Human Resources Marketing and Recruiting: Essentials of Employee Referral” for a detailed overview about the topic.

Internal talent – Integrated talent management technology aides in creating visibility of internal talent to the recruiting team. Leading practices include to create a transparent internal application process and developmental feedback loop and for employees to actively manage their career by continuously updating their internal skill profiles and taking advantage of company-sponsored development and projects to ensure their skills and experiences stay relevant for the company's business needs. Leading companies also measure the talent mobility and promotion rate of diverse talent and address gaps with structured mentoring or sponsorship programs.

Alumni/"boomerangs" – Former employees have become increasingly important in economies that were affected by the downturn and resulted in workforce reductions even of top performers. Some industries have a seasonal or demand-driven staffing model (e.g., retail, professional services) and may have a need to bring back these "tried and true" resources.

Competitors – Top talent that works at competitors is another potential candidate source. Setting up alerts to monitor key people over time to eventually attract them to a role can prove to be a targeted strategy, as well as monitoring industry news for early identification of competitor layoff plans.

Boolean and resume database search – Crafting a good search string is an art that can yield targeted candidate leads. Another rich ground for searches are databases of the job boards a company may already have contracts with and an organization's applicant tracking system database.

University recruiting and internships – For organizations that hire a large population of entry-level college talent, creating a university relations program is essential. The focus should be on a few strategic key schools that long-term relationships can be established with. Internships are a key sourcing strategy to attract and assess entry-level talent early. Trainee programs are a key value proposition in attracting graduate talent to an organization.

Please refer to the subchapter ▶ Chap. 7, "Human Resources Marketing and Recruiting: Essentials of Internship Management" for more information about this topic.

Contingent and temp-to-perm labor – "Try before you buy" can be an effective strategy to identify potential full-time talent that is the right fit for an organization. A focus should be on improving the hiring, tracking, and management of the contingent workforce through a close collaboration between procurement and Talent Acquisition. Large spend in this area may result in working with managed services providers (MSPs) and vendor management technology (VMS).

Social media – Social media channels provide ways to source candidates for free through interactions and basic searches on their platforms. Job postings and extended search capability are usually available for a charge. The effectiveness of social media as a source varies depending on employer branding, access to the right talent pool, and different platform audience preferences depending on geography, age, workforce type, and gender, to name a few. For example, LinkedIn mostly attracts experienced professionals while Pinterest has a large female following.

Please refer to the subchapter "▶ Human Resources Marketing and Recruiting: Essentials of Digital Recruiting" for more information about this topic.

Risk Perspective

Like with many other employee-related processes, the HR Marketing and Recruiting area is fraught with risk potential. This section provides an overview of common risk factors that need to be considered by anyone involved in recruiting.

Legal Considerations

The hiring process is subject to regulations that vary significantly by jurisdiction and country. It is critical to be familiar with local employment law and specifically anti-discrimination practice for every country where a company operates.

For example, hiring in the United States is governed primarily by the Equal Employment Opportunity Commission (EEOC) which is responsible for enforcing federal laws that make it illegal to discriminate against a job applicant or an employee because of the person's race, color, religion, sex (including pregnancy), national origin, age (40 or older), disability, or genetic information. Additional state legislation may also apply and vary by state.

Any selection instrument an organization uses to identify candidates should be vetted by an employment lawyer for its potential of adverse impact.

A fairly new area of possible future regulation is the use of social media for background checks on candidates. According to recent research 51 % of US employers decided not to hire a candidate based on what they found on social media (Harris Poll 2014).

Job seekers are starting to protect their online privacy, and attempts by some employers to obtain social media passwords from candidates are highly controversial. Most US states have already passed legislation to prevent employers from obtaining social media passwords of current or prospective employees (National Conference of State Legislatures 2014). It is advisable for organizations to determine their ethical guidelines on this topic and to stay current on local legislation.

Bias in the Recruiting Process

One of the first things that happen when meeting a candidate is that we form a first impression. What happens next is we make a decision whether or not to hire the candidate, based on that first impression. We then spend the rest of the interview either selling the candidate or going through the motions. The result can be a poor hiring decision based on an inaccurate first impression.

The main principle at work here is what's commonly known as "unconscious bias" – the fact that humans (without realizing it) defer to bias in all types of decision-making. This happens all the time, but it can significantly impact one's hiring decision – either positively or negatively. In addition to exposing a company to legal risk, it may also result in missing out on talent that is qualified to do the job but has been passed over due to bias.

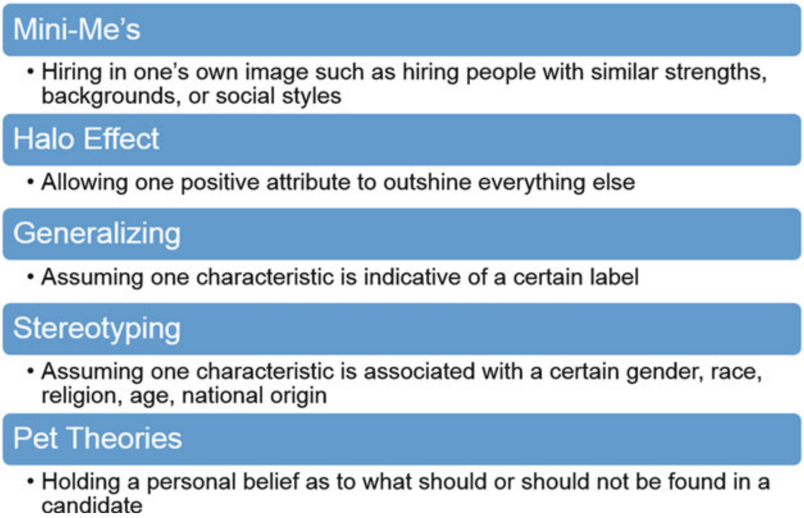

Fig. 2 Types of bias in the recruiting process

Figure 2 provides an overview of the main types of biases that commonly impact hiring decisions.

An example of "stereotyping" is the perception that women are less qualified in the area of science. Recent research shows that this bias still impacts the selection of men over women (Reuben et al. 2014).

This has raised concerns, especially among organizations that hire large engineering and technology workforces. Silicon Valley-based technology companies such as Google have started to implement systemic diversity training programs to combat hidden bias and to increase the diversity of their workforces (Manjoo 2014).

In general, a company can reduce risk by implementing standardized recruiting and selection instruments that minimize bias.

Brand Exposure

Another area of risk in the recruitment process is not actively managing a company's talent brand.

Like so many other things in the age of social media, word (and mostly bad word) of mouth now can spread exponentially faster and broader than ever before.

An example to illustrate the viral power of social media and the impact it can have on a company's brand is the YouTube video "FedEx guy throwing my computer monitor" which has been viewed over nine million times as of Oct 26, 2014. In response to this, FedEx published their own YouTube video. With only 579,797 views within the same time frame, it got a mere fraction of the distribution as the video that triggered its response. But FedEx realized that if they could not control the online dialogue, at least they were able to join it and portray their values and the uniqueness of their brand.

Similar to consumers who turn to online reviews before purchasing a product, candidates are relying more and more on third-party review sites to assess potential employers. The leader in employer online reviews, Glassdoor, has 25 million users worldwide and its impact is growing. Job seekers turn to the site to get the “inside scoop” from reviews of former and current employees and to obtain salary and interview process information. Most companies have a default profile on Glassdoor. But many organizations are not even aware that they are being reviewed on the site, let alone that they can impact their presence on Glassdoor by adding images and videos and by responding to user reviews.

The subchapter ▶ Chap. 2, “Human Resources Marketing and Recruiting: Essentials of Employer Branding” outlines in detail how to craft and maintain an effective talent brand presence.

Operational Perspective

Ensuring a company’s recruiting function is as effective and efficient as possible is a key consideration for a high-performing organization. This section examines how the Talent Acquisition team structure can be optimized, the way processes are streamlined, and how technology can support the function.

Organization and Team

How to structure and organize the Talent Acquisition function to be as effective and efficient as possible is a key operational concern.

The following three models have emerged over recent years:

The University of Michigan professor David Ulrich (1997) designed a groundbreaking model of Human Resources in the 1990s. The fundamental assumption of the model was “segregation of duties”: HR business partners would provide strategic consulting services to the business, a shared services team would handle transactional inquiries, and the Centers of Expertise (CoE) would provide strategic guidance and develop policies around topics such as Talent Acquisition. Many organizations – especially large ones – have adopted this model. When dividing recruiting tasks within this model, a general rule of thumb is that transactional/repeatable tasks (e.g., interview scheduling) are performed in shared services and strategic ones (e.g., employer branding strategy) in the CoE.

A consideration may be to outsource all or parts of the recruiting function to a recruitment process outsourcing (RPO) provider. This requires careful planning and thorough assessment of risk and benefit. The Talent Acquisition process is one of the hardest to dissect – it is critical to take the time and carefully examine each process area. For large, globally distributed organizations, outsourcing may be a viable option. Another consideration is to outsource parts of the process (e.g., background checking) or recruiting for a particular workforce only (e.g., seasonal, high-volume roles or specialized roles).

Please refer to the subchapter ► Chap. 9, "Human Resources Marketing and Recruiting: Essentials of Executive Search" for more information on how to partner with a third party in hiring this audience.

The third model that may be considered when structuring the Talent Acquisition function is the evolution of an in-house sourcing model. In essence it takes out the front part of the recruiting life cycle – the research and the search for candidates – and parses it out into a new role on the team: the sourcer. There is little standardization yet in this model. Some organizations create a few sourcer roles that handle candidate search for hard to find roles; others view the position as junior recruiters and a stepping-stone to becoming a recruiter. The role of the sourcer requires a specific skill set – ideal candidates enjoy researching, engaging in various social media settings, and developing creative ways to find the best qualified candidates. Recruiters on the other hand nurture the candidate and the hiring manager relationship. Research suggests that the success and the popularity of this model are spreading (Crispin and Mehler 2013).

Regardless of the model, the Talent Acquisition function needs to have a leader who not only understands best practices in recruiting but also exhibits a fluency in analytics, strategy, marketing, and finance. They need to be cross-functional collaborators and business consultants who can forge relationships with various stakeholder groups. Prioritization and change management skills are increasingly important to lead a function in an environment of economic uncertainty. The old recruiting model called for a transactional micromanager, but the Talent Acquisition leader of the future measures outcomes.

For the recruiting team, critical skills are customer service and consultative orientation, time management, organization skills, and social media literacy. Changes especially in digital recruiting require frequent training and skill refreshers. It is worth checking with recruiting suppliers – most of them will provide their client teams with complementary training. Encouraging knowledge sharing among the team is another way to stay current on recruiting tools and techniques.

Determining the right number of recruiters to staff appropriately for an organization's requisition load remains a challenge for many companies. External benchmarks provide a starting point and vary based on the type of workforce or skill sets a recruiter hires for. In general, the harder to find the skill set, the lower the requisition load should be.

Creating appropriate accountability measures for the recruiting team is another area that many organizations struggle with. But in order to support the business case for recruiting, it is critical to develop a set of a few metrics that are in the individual's control and that can be objectively measured. If an organization has sourcers and recruiters, it needs to clearly outline what sourcers are responsible for (and measured) versus recruiters.

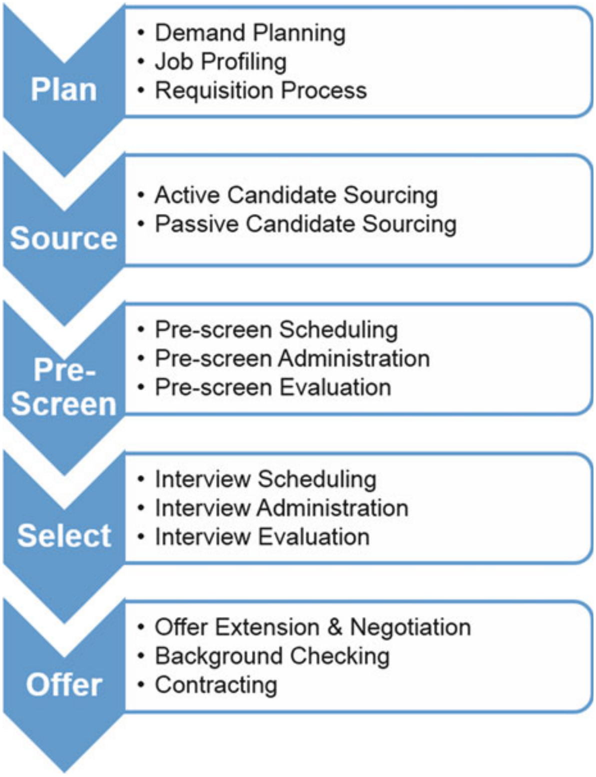

Fig. 3 High-level recruiting process steps

Process Efficiency

Another important operational perspective is to assess whether the recruiting process is as streamlined as possible. The figure below shows a generic high-level recruiting process. Each organization may employ slight variations of this process (Fig. 3).

When assessing process efficiency it is critical to break each process area into sub-processes and down to individual tasks. The more detailed the breakdown, the easier it is to identify bottlenecks, redundancies, and inefficiencies.

These are a few tips for re-designing a recruiting process:

- Involving the right people – representation across the end-to-end recruitment process.
- A Six Sigma or process design consultant to assist with facilitation of the process mapping session and improvement discussion.
- Key information to capture per process step: how much time is spent performing the task, who performs the task, what are inputs/outputs, what are current success measures, what tools/templates/systems are used.
- Once the current process is mapped, improvements should be identified from an efficiency/automation perspective, the hiring manager perspective, and the candidate perspective.

- Responsibility for each process step should be documented utilizing the RACI (**r**esponsible/**a**ccountable/**c**onsulted/**i**nformed) methodology.

Technology Enablement

Once strategy, process, and organization are designed, it's time to ensure that the organization's recruitment technology solutions support aligned execution. Talent Acquisition is one of the key areas in HR where technology can be a true enabler and depending on the size of the organization is an absolute necessity to be able to process thousands of applications, comply with regulations, and provide insightful analytics.

The recruitment technology landscape is so fast moving that it's hard to stay current and identify how to integrate the various solutions so they are not just cobbled together or have overlapping functionality, but so they truly align with an organization's recruiting process.

Leading recruitment technology solutions integrate CRM functionality, video interviewing, employee referral functionality, and social media.

The biggest challenge that organizations face is how to optimize their tools and processes for mobile. According to a recent study, 19 % of job seekers said they "currently use" their mobile device for career-related activities, and over 50 % "could imagine" doing so (Potentialpark 2011). On the flip side, only 110 out of 694 employers globally have a mobile career website or app (Potentialpark 2013).

The subchapter ▶ Chap. 3, "Human Resources Marketing and Recruiting: Essentials of Digital Recruiting" examines in further detail the recruitment technology landscape.

Final Comments and Outlook

The HR Marketing and Recruiting field is undergoing significant changes in the twenty-first century and will continue to evolve at a rapid pace.

Thanks to the increasing availability of talent analytics tools, HR Marketing and Recruiting is at the verge of transforming itself into a people data science lab. Long-held assumptions about what makes a great hire will be challenged, and new tools will be able to create ideal candidate profiles and crawl the Internet to find them. Other emerging solutions leverage gaming to assess whether a candidate is a good fit.

Silicon Valley and the start-up industry in general are leading the way in redefining how an organization interacts with talent in a meaningful way. They are front-runners in questioning commonly held assumptions in recruiting such as: "Why do we need a job requisition?" (Zappos) (Inside Zappos 2014) or "What data points really predict success in a certain role?" (Google) (Bryant 2013).

The potential for Talent Acquisition to become a key business partner and move away from a pure transactional cost center is in close reach.

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Human Resources Marketing and Recruiting: Essentials of Employer Branding

2

Phill Lane

Contents

Abstract

This chapter seeks to outline, address, and evaluate the theory and practice of employer branding. The origins of employer branding are discussed and a working definition is given: employer branding refers to the tools and practices by which an organization manages its brand, or reputation, as an employer, among certain, specified audience groups.

Influencers of employer branding, segmenting an audience for research, and the research methods used to determine and shape an organization's employer brand are discussed using people (who you should listen to and how to segment them), economic (measuring the economic impact), risk (who are your influencers and researching the external audience), and operational perspectives (tools for understanding your audience).

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In order to communicate an organization's employer brand, an EVP (employer value proposition) is developed to focus on the positive aspects of the employment offer, based on what an organization would like to and can credibly offer to employees and prospective employees. The development of EVP statements and pillars and how these are delivered creatively and integrated internally are discussed in a "Do" and "Don't" fashion.

As a closing part to the chapter, brief case studies are given on organizations in different industries on how developing an employer brand gives measurable returns, such as increases in non-agency hires, decreased attrition rate, and greater internal satisfaction.

Keywords
Employer brand • Employer branding • Employer value proposition • Talent acquisition • Marketing communications

What Is Employer Branding?

The terms employer brand and employer branding are both in common use within the field of human resources. However, an understanding of the subject and the practical application of tools and methods necessarily means having a good grasp not only of the origins of these terms, but also of the differences in meaning.

An employer brand refers to the reputation that an organization has as an employer. An oft-used quote from Jeff Bezos, founder of Amazon, encapsulates this nicely:

> Your brand is your reputation. It's what people say about you when you're not in the room.

Employer branding, on the other hand, refers to the tools and practices by which an organization manages its brand, or reputation, as an employer, among certain, specified audience groups.

In other words, it is everything you do deliberately – through policies, recruitment advertising, induction programs, training, management, and other means that exert an influence on how the organization is viewed and perceived by those that come into contact with it: employees, peers, parents, and more.

A simple way to think of the difference between the two is that while you can certainly exert influence over your company's employer brand, your employer branding can be directly controlled and managed.

Introduction and Overview

Origins and Evolution of Employer Branding

The terms employer brand and employer branding have their origins in the early 1990s and have been applied with increasing enthusiasm ever since they were first aired.

Tim Ambler, senior fellow of London Business School, and Simon Barrow, chairman of People in Business, introduced the term in the Journal of Brand Management in December 1996, following on from its first mention at the CIPD Annual Conference in 1990.

The early intention was to apply brand and consumer thinking to the fields of HR and talent management. Whereas it was already commonplace to apply marketing ideas to the attraction and retention of customers, clients, and consumers, this was the initial step in seeing if such techniques could be successfully replicated when trying to attract, engage, and retain candidates and employees.

Ambler and Barrow defined the employer brand as "the package of functional, economic and psychological benefits provided by employment, and identified with the employing company" (Ambler and Barrow 1996) – a definition that is widely recognized by industry practitioners as the official definition.

It was perhaps the attention drawn to the psychological and emotional benefits that gave the employer brand idea momentum.

In 1997, McKinsey & Co coined the term "war for talent" denoting a global marketplace in which it becomes ever more difficult for organizations to attract and retain top talent.

Against such a background, employers realized that simply paying more to talented employees was not going to produce sustained success. Instead, they began to make serious efforts to rethink what they could offer over and above the "functional and economic" benefits Ambler and Barrow would later codify.

The McKinsey report created the ideal conditions for employers to engage in employer branding wholeheartedly.

By 2001, of 138 leading companies surveyed by the Conference Board in North America, 40 % claimed to be actively engaged in some form of employer branding activity (Dell and Ainspan 2001). And in 2003, an employer brand survey conducted by the economist among a global panel of readers revealed a 61 % level of awareness of the term "employer brand" among HR professionals and 41 % among non-HR professionals (The Economist 2003).

The topic continues to be high on the agenda of organizations, large and small. But how to manage their employer brand, how to define it, to understand it, and to use it to their advantage require more than just an understanding of where employer branding began.

It requires an understanding of the tools and techniques that Barrow and Mosley were trying to apply in the first place, tools and techniques that continue to evolve.

People Perspective

First Things First: You Already Have an Employer Brand

Many organizations that begin to grapple with the idea of the employer brand and who want to begin the process of employer branding start with a simple question: "Do we already have an employer brand?"

The answer, always, is yes.

Returning to the idea raised by Bezos, your employer brand is your reputation as an employer.

It is something you can heavily influence, but it is not something you can completely control. And every company has one – from the two-person start-up to the multinational corporation with hundreds of thousands of employees.

Your employer brand is influenced by everything you say about yourselves as an employer and by everything that you do. If one person has an opinion of what it might be like to work for you, then that is your employer brand – it is what employees and others think of your company as a place to work.

Other important questions to consider at the outset are:

1. How do you know what the employer brand is?
2. Can an employer brand be bad as well as good?
3. Why should you care about any of this?
4. How can you manage your employer brand?

How Do You Know What Your Employer Brand Is?

If your reputation is the collective opinion of what people say when you are not in the room, finding out what they are saying requires you, or someone else, being in that room and listening.

There are a number of tools that are appropriate for this, and any HR professional attempting to take on the role of employer brand manager needs to have a good understanding not only of what is being said, but who is saying it – and why.

So Who Should You Listen to?

The simple answer to this question is everyone – but not necessarily all at once.

One of the most basic tools to be adopted in employer brand management is that of audience segmentation. At its most simple, you should be attempting to understand what your own employees think and also have a good understanding of what people who do not work for your business think of you as an employer.

But, simply knowing that your employees, on average, rate their fulfillment at work as five out of ten does not allow you to understand the difference between the sales force, who rate their fulfillment as 10/10, and the engineering team, who (hypothetically) average 1/10 on fulfillment.

Segmenting the audiences – internally and externally – is key to producing insight that you can act on.

How to Segment an Audience for Employer Branding Research

Within the organization, there are typically a number of audience groups that can be viewed as distinct and important – but remembering that this is not an exercise in trying to determine who the most important group within the organization is; some may be more critical than others at any given time.

Whereas in consumer marketing audience groups may be segmented based on spending habits, the distinctions here are based on what each group is likely to need from the organization at this stage in their career, what their roles/functions are, and what the market context is like. Each of these shapes their opinion of the organization.

Typical employee audience segments will include:

Senior leaders
Those at the top of the business join companies and stay at them for very different reasons to those at earlier stages in the careers. To generalize, they will be more concerned with company performance and strategy, the size of their role and influence, and the impact they may be able to make. What they think of an organization may be colored by what they read in the financial reports and less by what the culture of the organization is like.

New joiners
Those that have recently joined a business (depending on the organization/industry, this could be determined as anything from a matter of weeks up to about 2 years) will not only have a view on the business that should be reasonably positive, but they will also have a view that takes into consideration the comparative strength of an organization's brand. This is because they will typically have seen what else is available from other, similar employers; heard how other organizations are marketing themselves; and will, often, have direct, recent experience at a competitor to draw on – and by competitor, in the sense of "competitors for talent," as opposed to competitor in a traditional business sense.

Long-serving staff
In direct contrast to those new to a business, those that have been there a long time are able to give valuable insight into how the business, and the brand, has changed over time. For organizations that have a distinct culture and for those going through substantial change, such as a merger, understanding what they could potentially be losing through any changes is important in order to be able to weigh it against any perceived benefits.

High performers, **high potentials**, **future leaders**
Many organizations have an identified talent stream. This may be the graduate or MBA intake, or it may be less formal. Whichever option your organization has adopted, however, it is likely that there will be more investment in and notice taken of the (relatively) small cohort that has been earmarked as the future leaders of the business. This is often the group that is seen as most difficult to retain and satisfy – the front line of the "war for talent." Ensuring a full understanding of their opinion is often crucial.

Volume hires
While high potentials can make up a small group of those that might make a disproportionately large impact on the business in the future, many businesses have a particular job role that accounts for a large volume of staff. From frontline retail staff, to factory workers to contact center employees, these may not be the most difficult staff to find and employ, but they constitute a disproportionately high percentage of staff and, through their friends and families, can reach an extremely wide network of people with their opinions. What they think of you as an employer matters.

Functional or Critical Workforce Groups

Finally, within every organization, there are some groups that will be deemed to be different or critical. This varies depending on the business but, when segmenting the audience for research and insight, the three questions that need to be asked are:

- What are the functional areas that we should survey?
- Are there any groups of people that are harder to attract or retain than others?
- Do people in different locations think different things?

Functions will be specific to the business but companies will often be able to review opinion as relatively homogenous by function, collecting together the thoughts of just a sample of engineers, or those in the finance team, or sales and marketing, or of customer service agents and treating them as a representative view of the function without having to speak to every single employee.

In the same way, understanding whether there are groups of hard to find people, such as software engineers or big data analysts, is a first step to segmenting your internal audience so as to be able to gather opinion from those that do already work in such critical workforce groups and allow you to get a clearer understanding of your brand for that audience segment. In some instances, the sample could be convened based on age, gender, or disability – helping an organization to better understand the reality of their offer for a specific audience group such as women with children.

The third question is one that will come up time and again for organizations that work across multiple locations. It may be that you have lots of consultants working for the business who, in theory, are relatively homogenous. But, the reality may be that consultants in Singapore have vastly different expectations or experiences to those in Mumbai or Melbourne. This could be down to the local management, different external competition, or a different business structure and operating conditions.

Understanding how things like location, function, and stage people are at in their careers impact on employee experience is all key to being able to build up a good, overall picture of how you are viewed as an employer by those that already work for you.

Tools for Understanding Your Internal Audiences

Having segmented the audiences, how should you gather insight and opinion? As with the audiences, so the methods vary.

The basic options include surveys, focus groups, and interviews as primary sources – but there are a number of secondary sources that can also provide interesting data and are discussed later.

Surveys: Standard or Bespoke?

Standard staff surveying is something that many companies do regularly, either as employee opinion surveys or as engagement surveys to understand how engaged staff are at work.

These types of survey have real benefit in allowing you to understand not only how any given audience group thinks about a certain topic (e.g., management communication) but also whether those thoughts are improving or getting worse year on year.

In addition, standardized surveys provide a means to compare your own results to those within the rest of the industry. This is critical. Knowing that 47 % of your own staff thinks that the leadership team is excellent means something quite different if you also know that the average in your industry is 17 %. But, if the average is actually 97 %, very different action will be needed.

However, such surveys do not allow you to probe into the reasons behind the results as well as other, qualitative methods do, and the ideal scenario is one in which you are able to use both quantitative survey methods together with interviews and focus groups to understand both the sentiment and the reasons behind it.

Moreover, although standard questions give a comparison group, they may not be tailored particularly well to some internal audience groups or your type of business. In this case, a bespoke solution is better. This can give you year-on-year data, explore topics that are specific to your business (such as your values or selling points), and allow you to gather information from across all locations and functions quickly and simply.

Of course, given the bespoke nature of such work, no normative data would be available with which to compare yourself to the industry as a whole. For that, external surveying would be necessary – see below.

Focus Groups and Workshops

Another standard tool for exploring employee opinion is to run structured focus groups or workshop sessions with staff drawn from the appropriate audience segments.

In an ideal world, such sessions would cover all of the critical workforce groups, segments, and other permutations previously outlined. In practice, employer brand projects typically have to compromise due to budgetary and timescale pressures, creating a research plan that covers as many audiences as possible in a way that is simple and useful to report on, while keeping to the given budget and time frame.

For example, rather than hold separate groups of engineers, new joiners, and longer-serving staff, it could be better to run sessions that include a number of newly joined and longer-serving engineers in the same group and actively explore the different perspectives in the same discussion.

This is often a practical solution to reviewing opinion across organizations that can be varied and diverse, especially when the workforce is split across different sites and countries.

In practice, focus groups and workshops are great tools for exploring opinion with many types of employee but are less often used for senior managers who want to give more of an opinion than they would be able to within a group. They allow for group discussion of ideas and provide real insight into the positive and negative aspects of working for a company.

Variations include mini groups – if a typical focus group contains eight to ten participants, a mini group could include two to four people. Mini groups bridge the space between full focus groups and interviews – they are often held for team leaders or managers whose thoughts should be captured but who could not be included in the focus groups due to the fact that staff will usually not participate fully if a manager is present.

Online focus groups are becoming more commonplace. Typically, these are less desirable than face-to-face groups since they lose the element of interaction and eye contact that comes from having participants in the same room. They are, however, a practical solution for some businesses and projects and can be successful in producing additional insight.

Interviews

Face-to-face, telephone, or even online interviews (or depths) are a way of getting rich insight from audience members who have a lot to give. Often senior managers are interviewed rather than invited to take part in focus groups or surveys. This is because they usually have a strong and well-thought-through opinion not only on what the organization is like as an employer but on what it could and should be like. This is relevant to the employer value proposition as discussed later on in this chapter.

External Audience Segmentation

Understanding what your own employees think about you as an employer is critical – but it is not the complete picture.

To understand your employer brand, you not only have to know why people join and stay, but why people do not or would not want to work for you. That means surveying the external population.

There are a number of ways of doing this and a number of groups whose opinion matters.

Potential Employees

The most obvious group of people whose opinions of you matter are those people that could work for, especially those who you struggle to attract.

But potential employees, just like employees, fall into a number of categories that should mirror those of your internal workforce. They should also mirror your HR and recruitment strategy.

For example, although you may recruit on university campuses, if you offer internships to students at the start of their university careers and full-time positions for those who are graduating, you will need to know what different year groups think about you as a potential employer of interns and as a potential employer of graduates, respectively. It will not be enough to know what “those at university in general” think.

Some of this insight can be gained from people who have already joined you in these roles – as discussed above – but what this would fail to show is what the reasons are for candidates who could work for you choosing not to do so, either because they are unaware of the available roles, or because they have actively chosen not to for some other reason.

Aside from students, it is important to understand the opinion of people with experience in your direct competitors for talent and across a range of roles and functions into which you hire.

It can be useful to know the overall opinion of industry groups and rankings, but it is most important to understand the opinion of people who are good enough to join you. These audiences will give you the insight into why people do not join your organization – which is just as valuable as understanding why those that do do.

Typically, there are two reasons people (who you would want to hire) do not join a company:

1. The first is because they were not aware of it or the availability of jobs there.
2. The second is because they have chosen not to.

The first of these, a lack of awareness among a target audience group can be addressed relatively easily through employer branding campaigns – but only if you know that this lack of awareness exists. This is actually very common when businesses expand overseas. Often, because the company is well known in the home market (where head office is based), they assume that people will know who they are in the local market too. For major US brands entering China, or vice versa, that is often not the case at all. Even if you know that people have heard of the brand, because you have sales outlets there, that is not the same as them being aware of you as an employer. This is something you need to know. In brand terms, this is people not talking about you when you are not in the room.

The second reason is the one to address through active employer brand management.

It could be that people do not join you because they believe that you do not hire people like them. This is often true for diversity recruitment, so the messages in your employer brand campaigns would need to change to be inclusive, if that is the case.

Perhaps more often, people cannot “see” their role within that business. For example, although it is obvious that bankers work at Deutsche Bank and IT people work at Microsoft, it is less obvious that Microsoft needs finance people and Deutsche Bank has lots of jobs in technology. Understanding if people are ruling themselves out for these reasons is the starting point for you to be able to change those perceptions.

However, being unaware of the appropriateness of the roles is just one side of it. There are also groups of potential employees who choose to work for a competitor even though they have considered your opportunities. Again, we can break these into two categories:

1. Those that know something about your business, that is not true, that they do not like
2. Those that know something about your business, that is true, that they do not like

Again, tackling each in turn.

If people have a perception that is not true – such as that local talents cannot progress in a business that has lots of expats in management jobs – then that perception needs to be changed. Employer branding is the way to change that – research is the way to find out that that perception exists in the first place and needs changing.

If people have a perception that is true, and that is putting them off, congratulations – your employer brand is well understood in the way that you need it to be.

It may seem counterintuitive to suggest that putting people off is a good thing, but it is. For example, accountancy firms need people who are good with numbers. If an external audience knows that PwC needs numerate people and either does not consider themselves good with numbers or does not want a job that deals with numbers, then they will not apply – which saves time and money for the firm.

Often, the goal of employer branding is not something as simple to differentiate as "being numerate" – after all, the recruitment process can filter applicants who are not. Instead, employer branding tries to help candidates understand what kind of culture an organization has and allows them to self-select or deselect accordingly.

Again, an example may be instructive.

Consider two aeronautical engineering firms, company A and company B, both of whom make airplanes. Both make very high-quality products that sell well, have cutting-edge technology, and are safe and well loved by customers. But how each approaches their business is different.

Company A works within well-understood frameworks and processes. It feels like a company where project management is the most important skill and where everything from design to sales is about following a shared method.

Company B works completely differently. Although they still need to follow processes in many areas of the business, when it comes to design and innovation, they like to be completely creative. They accept that lots of crazy ideas will fail, and they allow for that in their business plan, management style, and performance reviews.

As an aeronautical engineer, you have a choice based on *what you would prefer*. In one company, you are likely to thrive; in the other, you would not be capable of producing your best. But what would be true for you would be the opposite of what would be true for someone else.

Because of this, if you are company A and your external research among engineers shows that people think you are process heavy and focus on project management and this puts them off, you should not change anything. This shows that the perception people have of you in the external market is accurate. This is what you want.

If, as discussed above, the perception is not accurate, change it through employer branding, but be wary of trying to change your communications to please what an external audience thinks they want – especially when that comes from a large-scale survey of "unqualified" voices. For example, this typically happens when companies listen to findings from surveys of those still at university which may report that the average student wants a company to focus more on CSR activities. There are lots of dangers here:

1. Firstly, this is an average result, not one focused on your critical audience.
2. Secondly, in this instance, it comes from an audience who has no experience to draw on – they are guessing about the employment experience.
3. Finally, if all firms listen and act accordingly, there will be no differentiation – nobody will seem more attractive, yet all will have spent money – this is value destruction.

Instead, make sure your offer is in line with business objectives and tailored to the right audiences, not the popular vote.

Social Media Listening

Another option that is available for understanding employer reputation is social media listening. While all of the options above require actively putting questions to a group of people (a group who you will have to identify and persuade to take part) and noting what they say in response, social media listening involves finding the conversations online that people are already having about your brand.

There are some challenges, of course – including the fact that people often use social media to complain more than they use it to praise a company, but as a comparative measure, understanding how much people talk about you, what they say, whether it tends to be positive or negative, and whether it is true or misguided allows you to understand the scale of the challenge ahead of you, especially if you compare the level of activity, both positive and negative, to some key competitors.

Social media listening is your way of knowing what people are saying about you when you are not in the chat room.

Economic Perspective

Employer Brand Statistics: Claims, Evidence, and Sources

An important part of managing the employer brand is understanding the impact. This is also fundamental in gaining senior buy-in for a project in the first place. Although EB management is an ongoing task, not a project, it is often initiated as a project and, as such, needs supporting metrics to achieve budget sign-off.

Some of the most widely cited benefits, together with some company-specific examples, that are helpful and provide evidence of these benefits are as follows:

- **Twenty percent increase in the pool of potential employees**
- **Fourfold increase in commitment among those joining**
- **Ten percent decrease in payroll costs**

These three claims come from an article in The Economist, published in 2006. In this article, a study from the Corporate Executive Board is quoted as follows:

> *On the basis of a detailed study of about 90 companies, the Corporate Executive Board argues that the rewards for managing an EVP effectively are huge, increasing a company's pool of potential workers by 20 % and the commitment of its employees fourfold. It can even reduce the payroll: companies with well-managed EVPs get away with paying 10 % less than those with badly managed EVPs.*

- **Highly engaged employees – up to 20 % more productive**

Productivity of engaged employees can be found in a number of places. Hewitt have reported in their annual best employers report of Fortune 500 companies that 79 % of employees at best employers say they are inspired to do their best work every day versus 55 % of employees at other companies.

Hewitt Associates. Human Capital Foresight Research. Fortune 500 company benchmark.

Other findings from Hewitt include:

1. A 10 % increase in attracting and retaining pivotal employees adds approximately $70–$160 million to a company's bottom line.
2. Average annual sales growth is nearly 40 % higher for best employers versus other companies.
3. Best employers enjoy nearly half the turnover and double the applications per opening versus other companies

In addition, the CIPD guide to employer branding, released in 2007, reported data from Sears in the USA, who, in 1992, proved – to its own satisfaction – that employee engagement was the principal factor behind turning a $3 billion deficit in one of their key divisions into a healthy $752 million income.

More recently, Towers Perrin (now Towers Watson) have claimed that, for every 1 % improvement in engagement, a 0.1 % improvement in sales growth will surely follow. It is a neat, memorable formula.

Can an Employer Brand Be Bad As Well As Good?

Because employer branding is often regarded simply as marketing, it is reasonably common for organizations to forget that their employer brand itself is not only made up of all of the positive elements that they offer as an employer, but also all of the negatives connotations.

In this day and age, where social media and word of mouth can create reputational crises at great speed, it is important to remember that anything an organization does that is negative, or seen to be negative, will impact on their reputation – on how people view them as an employer.

This is not just about media and marketing, however. Policies and behaviors play a large part in influencing thinking.

If an organization pays worse than its competitors, for example, it will get a reputation for being a lower payer. If it treats staff worse, that too will come to form part of its employer brand. In such a case, simply changing the way you talk about yourself as an employer will not change perception – certainly not among those staffs that already work for you or those with whom they regularly talk about work.

In this instance, as in all instances, the brand reflects the reality of the reward policy and management behaviors. Reputation is based on reality.

Of course, it does not follow that all organizations that act in the way described above will have a poor reputation.

For some, such as charities, low pay is an understood trade-off for the emotional buy-in to the organization's purpose. For others (traditionally banking firms), treating people badly can be seen as a rite of passage and foster loyalty. It can be seen as a badge of honor and enhance what potential employees think.

However, these counterintuitive examples simply serve to show that there are many factors at play in determining whether your employer brand is positive or negative – and part of the role of the HR or employer brand team is to understand, rather than guess, what people do think so as to be able to make decisions about how to act to reinforce or change perceptions, as appropriate.

It is worth noting that negative perceptions can seldom be changed through marketing alone, unless it is a misunderstanding. In most cases, it is only by addressing any issue head on that reputation can be changed. For example, a reputation for long hours can only be mitigated by changing the hours people work – and, even then, it may take time for people to realize that that change has occurred.

For many businesses, agreeing what you want to be seen as is an important step. In order to make the business model work, it may be that some "negative" elements are also necessary and that there needs to be an acceptance of that internally and externally in order for the right talent to thrive. Brands need to have a balance and be appropriate – a strong employer brand will put off more people than it attracts by the very nature of the fact that most people in the world could not work for you. Trying to appeal to people who you neither need nor want is a recipe for disaster.

The Economic Downside of Not Managing Your Employer Brand Effectively

An employer brand produces a range of returns for an organization, but it mitigates against others, including:

- **Ten to twenty percent higher compensation premiums for companies with poor EVPs**

  In a piece of 2006 research, the Corporate Leadership Council measured the impact of an attractive employer proposition on demanded remuneration when changing roles.

  They found that when candidates view an organization's EVP as attractive, they demand less of a remuneration premium when deciding to join the company. And, specifically that:

i. An EVP viewed as unattractive requires a 21 % premium to attract candidates.
ii. An EVP viewed as attractive requires only an 11 % premium.

- **Reduction in replacement costs (150 % or more of salary)**
  The numbers for replacement of staff obviously vary by role, company, and marketplace, but the 150 % figure is quoted in several places, including the same CIPD guide to employer branding and the 2002 Strategic HR Management/EMA Staffing Metrics Study.

  SHRM data shows that the cost to hire for an employee group in the $40–60,000 salary range (with an efficient staffing operation) might be in the range of 20–25 % of the salary.

  But, the cost to replace is much higher, about 150 % of the salary in that salary range. This is based on the Bliss-Gately tool.

  The above statistics show that the benefits of employer brand manager can be expressed in terms of either the positives they bring or the negatives they reduce.

Risk Perspective

In addition to the economic risk of not managing your brand, there are other risks to be aware of as follows.

Employer Brand Influencers

Having a clear understanding of what people who could work for you think is important as it is these people who you will need to persuade to join you.

However, for many types of people, what they believe is influenced to a larger or lesser degree by a whole host of other influencer groups. Often, if you need to change the awareness or understanding of a target group, you also need to change the awareness or understanding of those people who influence them – and that means knowing who they are and what they currently think and including them in any perception research.

These groups include, but are not limited to:

Parents – for entry-level and graduate roles in many countries; parents play a large part in helping their sons and daughters make career decisions. In emerging markets such as China, there are strong cultural and economic reasons for this, but even in Western markets such as the USA and UK, the increased cost of higher education has seen parents take a much more active role in helping their children make decisions.

Teachers and lecturers – just as parents exert undue influence, so too do teachers and university lecturers. It may not be that these individuals know any more than their students about your organization, but they may well be a source of misinformation. Understanding what they think is the first step to making sure it is accurate.

Journalists and (micro) bloggers – depending on the company and your corporate brand, what is written about you in the media forms a large part of what people think about you as a company and as an employer. Whether you operate in a market with a traditional press or one where social media and microblogging is more common, if news stories are inaccurate or misaligned to your employer branding, they will continue to influence perception in a way that is counter to your efforts.

Peers and friends – whether friends at school or contacts on professional social networking sites; what people's circle of friends and peers say about you is important in coloring their opinion. This is the room in which the discussion of your reputation is happening.

Your own employees and alumni – it is increasingly easy for potential employees to find someone who works for you or used to work for you. What they say about the opportunities and culture will be taken seriously. So, if there are a number of disgruntled employees on social media bad-mouthing the business, again, you need to be aware so you can take the appropriate action.

Professional bodies and associations – a great source of information for candidates; it can be the case that poorly funded professional associations can be behind in their information and yet exert lots of influence on potential employees.

Recruitment consultants – finally (for now), those who are paid as headhunters, executive recruiters, or recruitment consultants are speaking to candidates all of the time. It is their job to influence them and to persuade them to join you. But do they have an accurate understanding of what it is like to work for your business? Or is it outdated?

All of these audiences, and more, potentially know something about you as an employer or think they do. Some will be more influential than others, but you have to be mindful that all of these opinions exist.

So, how do you do that?

Researching External Audiences

The tools and techniques discussed above for internal audience research form the basis for external research too. Focus groups, surveys, and interviews all have their place. But there are some considerations that need to be borne in mind when surveying opinion among external audiences.

Surveys and Rankings

As with internal work, surveys can reach a large number of people and gather excellent data, when used well. Standard surveys are widely used in some countries and with some audience groups, especially among students.

These are great for rankings – which can give you an understanding of how attractive your brand is relative to other employers. However, the headline findings which are often cited in the press/online are not necessarily the most important points to focus on.

When using standard surveys, it is important to understand whether they include the audiences and influencers whose opinion you care about, whether you can review the findings so as to be able to differentiate audience groups as defined above, and whether the ranking itself is helpful.

To expand on that final point, rankings not only favor better-known brands (in some instances, they can be little more than a measure of the target audience's awareness – which is still helpful when taken as that measure alone), but they can also seemingly give undue weight to brands that are (a) not very distinctive or (b) those that appeal to the most commonly found audience type.

As an example of the latter, if 75 % of a survey sample wants to work for a government employer, a private sector organization will never feature highly in that ranking, nor should it. Instead, as an employer brand manager at a private business, you should be interrogating the data to see how many people did state a preference for working for a private business and then look at how you fared among that group only, relative to your competitors.

Why surveys can favor less distinctive brands is a direct correlation to the idea above that you want to put off the wrong people as much as you want to attract the right ones.

So, using the example of aeronautical companies again, company A and company B, if company B has done a good job of demonstrating that it wants creative engineers, but company A has not really made it clear whether it wants creative thinkers or people who follow process, in a survey lots of people who are not creative will rule out working for company B. So, let us say 50 % of aeronautical engineers say they would like to work there.

But, nobody really knows what kind of people thrive at company A. All they know is that it is a successful company – so 100 % of aeronautical engineers tick the box that they would like to work at company A.

In this scenario, twice as many people have ticked company A as ticked company B. They will rank far higher and it looks like they are doing better among their key audience.

However, that is opposite to the true situation. The reality is that 100 % of the people who said they would like to work for company B match what company B is looking for – both aeronautical skills and attitude. In contrast, just 50 % of those that choose company A are appropriate.

If everyone goes on to apply, company A will have to spend twice the money, time, and effort, sorting out the wrong candidates and may well end up hiring some that leave quickly because they joined the wrong company. All of this is expensive and costly.

For these reasons, rankings, while extremely useful when analyzed properly, nonetheless need to be treated with care.

A final note on standard external surveys is that they have to ask about a wide range of companies, not just yours. This has two implications:

1. Firstly, the amount of data you can get on your business is limited. When surveys are reporting on hundreds of employers, they cannot go into any depth of why people think what they do or give much insight as to how to fix it.
2. Secondly, some standard questionnaires use a list of employers when asking for brand opinion – which means that users could be reviewing you because they saw

you in a list. That is not a true measure of awareness and can lead to survey respondents commenting on you despite having no real opinion whatsoever.

Bespoke Surveys

Using bespoke surveys to understand audience opinion gives you more control over the content and audience groups but has the downside of being more expensive to activate than the standardized surveys. This is because the planning, design, and data collection costs are not spread among a number of companies.

Included in this, and in much external audience work, is a cost for incentivizing participants to take part. While internal audiences will take part in surveys, focus groups, and interviews willingly, external respondents typically receive an incentive to take part. As with consumer research, incentives vary greatly depending on local laws, customs, and expectations of the target group in question.

In addition, external response rates can be low. Frustratingly, the more difficult an audience is to recruit, the more difficult it also tends to be to survey as both involve targeting niche audiences and getting them to engage.

Because surveys require reasonably large numbers of participants in order to be viable, it is always worth finding out the feasibility of a good response before going ahead with bespoke surveys.

Focus Groups and Interviews

As before, focus groups and interviews are also useful ways to supplement external surveys and are often a good way of exploring initial opinion gathered from the surveys in the first instance.

Using a combination is also a good way to make sure that no element of the research work is wasted.

For example, company C is a large pharmaceutical business that is well known in Germany but needs to understand why it is not seen as so attractive in Brazil among experienced scientists, so it commissions research.

It is considered that, due to sample size, they would not be able to get enough senior scientists to respond to make a survey worthwhile so run a focus group instead to find out why people do not think they are attractive.

They recruit the session "blind" (see below), and in the first few minutes of the group, it becomes clear that nobody in Brazil has heard of them. There is no perception problem – it is wholly to do with awareness. While this is a useful finding, the company can now launch an employer branding campaign to promote its job opportunities, and the focus group cannot now go on to comment on why the business is not attractive or shed any light on what they think about the culture, management, or approach to innovation. They have not heard of the business, so whatever they say would be guess work.

This is not a total disaster since a skillful moderator will now use the time allocated to discuss the general market, who the competitors are that they do find attractive, and why. But this does highlight one key challenge in conducting external perception research in a market – there may be no perception of your brand at all.

Researching Blind

In the previous example, we discussed a focus group being recruited "blind." What that means is that the participants do not know before the group starts on whose behalf the research is being run.

This can be important (especially in some cultures and markets) so that participants do not do research before the group. You are trying to understand what people like this think about you, not what people like this who have had time and a reason to browse the corporate and career websites directly before the session.

Blind research clearly cannot be done with an internal audience, but it can be very useful when done externally. A typical technique here would be to run part of the research session before revealing who the company is, allowing for unbiased response about a range of companies before focusing specifically on your brand in the second half. This gives rich, comparative data.

Influencer Interviews

For potential candidates, as with internal audiences, the more you think someone will give a well-considered view, the fewer people you tend to need in the room. School-age respondents tend to be better in groups; senior managers tend to research better in one-to-one meetings. This is especially true in external research. Consider, for example, a research program for a major law firm in Sydney that includes interviewing a few associates at rival firms. This could be done in one group (with a decent incentive), but there is a strong chance that associates from rival firms will know each other either from university or through working on opposite sides of client deals and transactions. To bring them together into one room runs the risk of compromising their anonymity – which research participants need if you are to get honest responses from them. The most likely method in this instance would be telephone interviews.

Some of the influencer groups identified above, such as parents and teachers, can be researched in groups – sometimes even in the same group as each other – but many will be better on their own.

One group of influencers for whom this is the case is recruitment consultants. These are a very good group of influencers to speak to because they will have the crucial insight into why good candidates turn down the opportunity to interview with your company.

If the maxim is true that what can be measured can be managed, these interviews can plug a serious hole in your perception data by providing information from candidates who would otherwise not even be known to you.

Operational Perspective

Taking Active Steps to Manage Your Employer Brand

Understanding your current brand perception can seem daunting when covering as many audiences and as many tools and techniques as outlined above, but all major employer brand projects have to start with a comprehensive understanding of:

- Who your target audiences are
- What they currently think
- How you can change/reinforce that perception

And that is what this next section focuses on – how to communicate your employer brand in a way that helps people understand what it is like to work for you. In essence, this is what people mean when they talk about doing employer branding.

And it all begins with the employer value proposition – or EVP for short.

Your Employer Value Proposition

If your employer brand is made up of what everyone thinks about you, good and bad, as an employer, your employer value proposition (EVP) is what allows you to begin to focus on the positive aspects of your employment offer.

Companies that do employer branding really well tend to do three things:

1. They understand what audiences think about them.
2. They define and articulate a compelling and credible EVP.
3. They communicate that EVP clearly, consistently, and coherently.

These three typically constitute the three steps in an employer brand project. The first we have already covered in some depth – researching and understanding your audiences.

The second is defining and articulating your EVP. This is a key output of any research program – ensuring that you have a collective understanding internally of what it is that you would like to and can credibly offer for employees and prospective employees.

Put most simply, your EVP is what your company looks like on a really good day.

Defining and Articulating Your EVP

Research programs give you insight, but defining an EVP that can be used practically also requires an element of judgment and vision.

As a professional brand consultant, the first question to put to an organization that is trying to define their EVP is not what is it like to work here, but what you would ideally like it to be.

All employer branding activity should align to the business goals, and so this starting point is really about getting to grips with what the company is trying to achieve – how it wants to go about that and what kind of people it is going to need to be successful.

This constitutes the employer vision, the first step in building an EVP model, and an EVP. And it should come from the very top of the business.

In effect, this sets the objectives for everything that is to come.

Employer visions should include:

- What the company does/is.
- What it wants to be known for (as an employer).

- What kind of people are needed for this to happen.
- What kind of environment they will create.

So, an example for a big data company in China might read:

At XXXX, we want to be the employer of choice for data scientists and software engineers who want a fast-paced and dynamic career that shapes the future of online media analytics globally.

Within a simple paragraph, this captures the kind of work being done and the environment they want to create and appeals to a type of data scientist – one who wants to influence and influence on a global scale.

Each of these serves to differentiate the business, but it also ensures a focal point for the EVP. If that is what the leaders want to be seen as, what does the business need to be able to offer to back that up?

You Should Have an EVP Model, Pillars, and Toolkits in Place

In order to ensure a consistent understanding and application of the EVP, most companies develop a model of some kind. These are variously known as EVP model, employer brand model (though that is something of a misnomer, since a brand model should technically include the negative connotations, not just the positive messages), or message house.

Looking at Fig. 1, content varies by company, but a model can contain:

- **EB (employer branding) vision** – what the organization would like to be known for as an employer
- **EVP statement** – a short statement that articulates the positive aspects of the employment experience with that organization
- **Extended EVP statement** – a longer version of the above that encapsulates more aspects and detail
- **Values** – company values
- **EVP pillars or attributes** – the core selling points that underpin the overall EVP

With an established vision for what kind of employer the organization would like to be, the research program as outlined in detail above should be focused on establishing what the organization is like to work for (internal view) and what the perception of it is (external view.)

Employer brand management is all about understanding the gaps and, where necessary, closing them.

If there is a gap between the internal and external perceptions, for example, then it is likely that well-developed communications will be able to close that over time. The EVP model becomes the platform for that communication in order to ensure consistency of message.

If there is an identified gap between the vision and the reality (internal view) – then this shows that what the employees and management think is not in alignment.

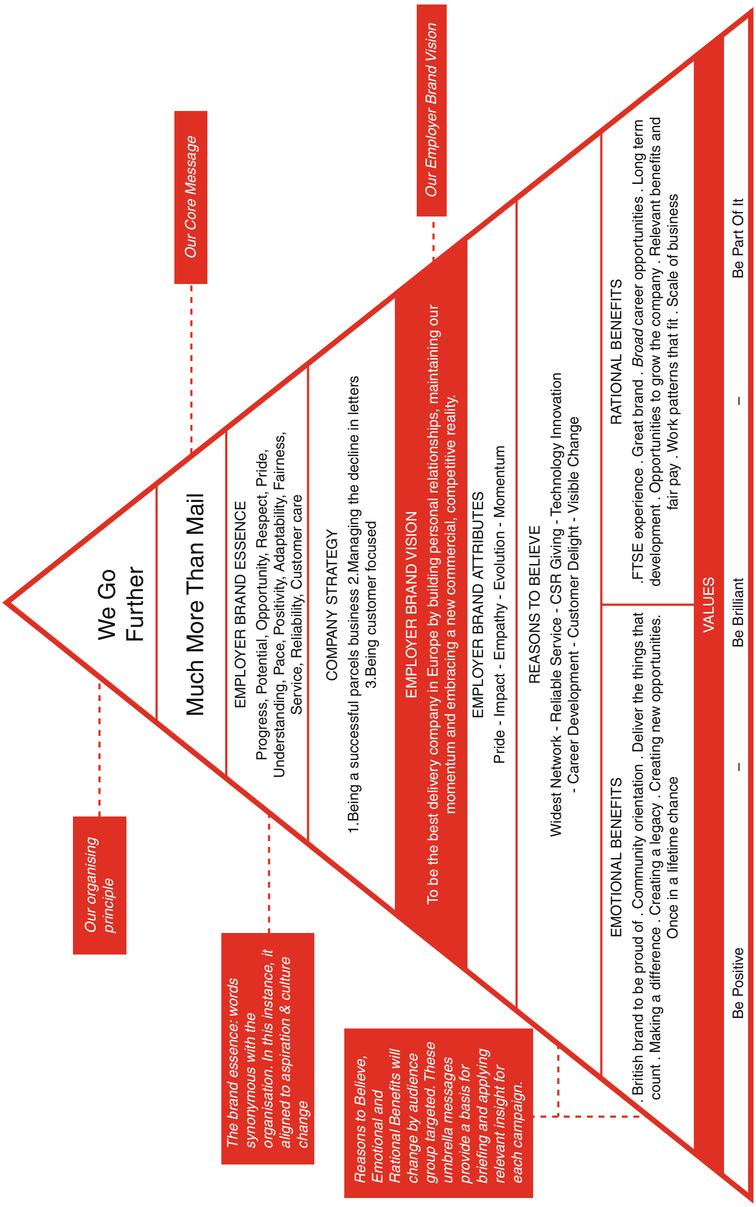

Fig. 1 Example of an EVP model

This would then require an assessment of the issue at hand. Is the problem one of communication, or is there a structural or policy issue to address?

EVP Statements and Pillars

The research program will inevitably throw up non-comms challenges, especially the internal research, and here it is important to revisit what you can get from these internal and external research elements.

The external research, though more challenging to administer in practice, is simpler in its content and aims. Its purpose is purely to understand levels of awareness and understanding and to allow you to see if that understanding is in line with what you would like it to be.

The internal work is easier to run, but much more difficult to analyze because it is dealing with multiple audiences and multiple experiences, of the same workplace. Employees will interpret things differently depending on their level, age, experience, and a range of other factors.

When analyzing the internal research, the goal is to define some clear EVP pillars or attributes. These are the positive and distinctive elements of the employment experience within that organization which are compelling to current and potential employees.

There is no set number of such pillars – though many organizations work somewhere between three and seven.

These pillars should be focused, so fewer than three and each pillar becomes a fuzzy compilation of ideas – and should really be split into its constituent parts.

With the pillars in place, along with the EB vision, the closing step in finalizing the EVP model is to write the EVP statement – a statement which will articulate the positive aspects of the pillars and give a great sense of who you are as a business. Here is an example, for a global chemical firm:

Example EVP Statement

As a leader in the global pharmaceutical and chemical sectors, we develop and sell high-quality specialty products, applying our unique skills and clever science to global challenges.

We believe that success on the international stage can only be achieved through global standards and local insight.

In nearly 350 years, we have never shied away from the complicated tasks or settled for the easier options.

We recognize performance, reward achievements, and foster potential.

Our worldwide network of opportunities enhances professional development and personal growth. We are passionate about what we do and take pride in the achievements we share.

Through our inventiveness and creativity, by hiring the best brains and creating stimulating environments, we enable our employees everywhere to meet specific customer needs and improve people's lives.

Creative Development and an EVP Toolkit

With a fully developed brand model, it is time to go into creative development, to design and create a visual platform that brings your EVP to life.

The EB vision, statement, and pillars should now be backed up with proof points and evidence from the research and written up as a creative brief for a specialist employer branding agency to turn into compelling creative work that can be applied across everything from social media and websites, to campus campaigns and internal launches.

With creative developed, many companies feel the need to create an EVP toolkit – a simple tool that will allow all those responsible for using the EVP, from line managers and internal recruiters, to recruitment consultants and careers services – to have one reference guide which ensures consistency of messages.

Expect to engage a specialist agency to complete both of these elements. From scratch, this should be achievable within 4–6 weeks giving you visual materials as well as the EVP model which now act as a platform for using the EVP in the field!

Using Your EVP: Communication and Integration

Defining and articulating your EVP is a vital stage in employer brand management – but, in some ways, this is where the real work begins, the work of using the EVP clearly, consistently, and coherently.

Here, the work splits into two parts: communication and integration.

Communication of the EVP will address a number of challenges identified in your external research. Most of all, internally, it creates pride and engagement among your employees. Done well, the clarity and consistency of the communication will remove confusion and create greater levels of affinity and productivity – leading to a more successful business.

Externally, a consistent, well-defined message makes it easier for people to make decisions – for the right candidates to opt in and for the wrong ones to opt out. This saves you money and allows you to compete better, gaining more than your fair share of the best candidates.

However, there is also an internal integration element that goes beyond communication and needs to be addressed here.

EVP Touchpoints

Figure 2 below shows what are often called EVP touchpoints. These are all of the elements that carry some influence in communicating the EVP.

It is important to note that few organizations will have completely aligned all elements of their EVP consistently well. For many, this is an evolving process and, as their business changes to changing market conditions, so too does their EVP evolve – that is one reason that EVP projects are initiated/revisited every few years and why brand management is an ongoing task.

Upon completion of an EVP project, organizations should always prioritize which of the touchpoints they want to tackle first.

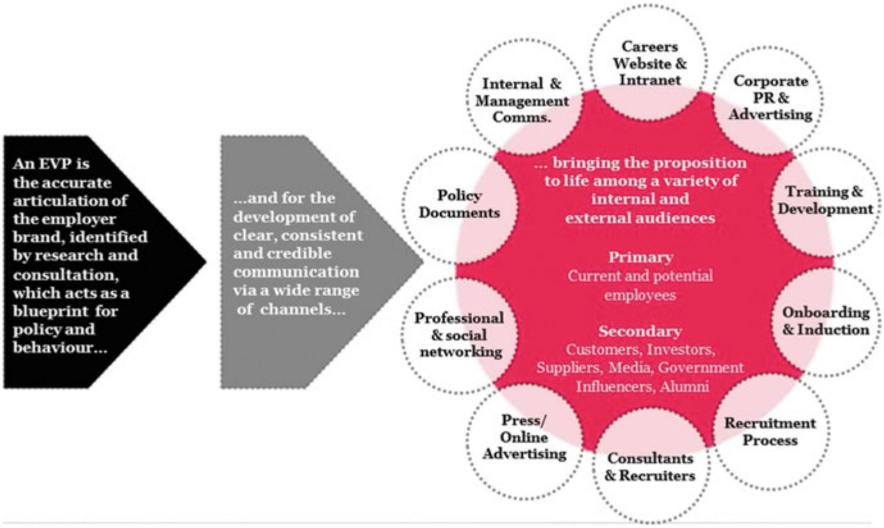

Fig. 2 EVP touchpoints

There is no one answer here since an organization that redefines its EVP in order to tackle high levels of attrition has different objectives to one that is facing a recruitment shortfall.

What is common, however, is that no organization should try to tackle everything at once. Instead, it is far more common to review each type of communication in light of the newly articulated EVP and start applying it on a needs must basis.

Of course, there is an interconnectedness to the touchpoints. Many companies want to use their new EVP in external recruitment communications as a first expression of the EVP, but this is likely to fail if the recruitment process and career website have not also been updated.

For those organizations that want to start communicating internally first, adapting internal communications and the induction/onboarding materials must go hand in hand with education for the recruiters and line managers, otherwise there will be a disconnect.

It is certainly worth asking the questions:

- Is the EVP to be applied more urgently to external or internal communications?
- What elements of communications should be tackled first? And what is next?
- What is more pressing: communication or internal integration?

Internal Integration

In some ways, the communication of the EVP, once defined, is the easy part.

However, communication that is not reinforced through consistent behaviors, actions, and policies can do more harm than good by creating or reinforcing dissonance, especially with the internal audience, and it is vital that an HR or EB manager understands where the gaps are internally and commits to closing them properly.

For example, let us return to the internal research findings for a moment.

Earlier on, when talking about EVP as a platform for communication, we concentrated on the positive aspects since we were thinking of this as a means of promoting the selling points.

That is the right way to consider this. But, that does not mean that any negative themes highlighted in your internal research should be ignored. Integration is a second set of activities that should focus specifically on closing those gaps identified as existing between the employer brand vision and the current reality.

Again, it is possible to use the chart above both as a tool for aligning communication and also as a tool for implementing internal changes that will make the business stronger. This is also in line with the earlier discussion as to whether the EVP pillars should be aspirational or descriptive only.

Let us take "training and development" as an example and again use one of our aeronautical companies who want to promote "unlimited career possibilities" as one of their main pillars.

In this instance, they have recognized that they need to offer this to attract the top talent globally, but they also know that they only really offer this to a few people who come in at MBA level in the USA.

It will be very difficult to communicate this pillar without any proof – unless there is commitment to show instead. So, the best course of action is to convene a set of stakeholders to develop programs that will make this pillar true in time (3–5 years at the most if this is to be credible).

The internal research will show that the current situation is piecemeal, but will also have a lot of insight from current staff and line managers, ideas as to what might be done, and a view of the competition – what are they saying about career development and what are they doing?

With stakeholders in place and objectives set, it is possible to review the current offer, identify the size of the gaps, and start to plan improvements.

In this instance, the solution could be to create global rotations for high performers and continuous development in technical and managerial streams for all staffs that are good enough and show the desire to improve. They could implement global internships, graduate schemes or placements, a buddy network, and work alongside universities.

By using the tool above, an organization is able to review its current practices and policies against the EVP. By implementing changes over time, it is able to ensure that high-flying employees who join expecting "unlimited career possibilities" will indeed find that to be true and will stay and thrive within the organization.

So, the EVP becomes a tool that not only allows consistent communication, it allows for consistent business improvement because it is all tied into the original EB vision.

If an EVP program is developed without senior buy-in, then there is a real risk that the evidence to support the pillars will not be available or that the business itself will not have the appetite to grow and change in a way that continues to make it attractive to top talent – without whom, it will not be able to compete.

Global Differences

Employer branding was initially a reaction to the fact that employees were no longer satisfied with organizations simply paying more money. As McKinsey identified, the top talent – those with a choice of who to work for – exercises that choice by considering a raft of other factors, from business vision, purpose, and strategy, to culture and management style. This is, however, only significant in markets displaying two characteristics: a restricted supply of talent and choice of opportunity for that talent.

In reality, economies enter these conditions only as they move along the continuum from developing to developed. At the less-developed end, not only are most workers interchangeable – and, therefore, fail to create the first characteristic, that of talent scarcity – opportunities are largely undifferentiated. In such a market, people change jobs for functional reasons (such as a few extra dollars) or not at all since all options are similar.

In a developed market, although there are still large numbers of lower-level jobs, the difficult to find roles are taken by talent who, by and large, can choose to ignore functional issues such as salary (on the basis that they will be able to demand a high remuneration package at any of a number of employers) and, instead, choose employers based purely on the emotional factors that matter to them.

For these reasons, EVP work is most common and most necessary in markets as they become developed because this is where competition changes to one of function to one of emotional differences.

Richard Clark, formerly of Barkers, once noted that "a company that wants more than its fair share of the top talent can rely on one of three things. Paying more. Luck. Or marketing."

Whereas luck and paying extra will work in emerging/manufacturing-based economies, as markets develop into service and knowledge economies, employer branding is the marketing needed to secure the best talent.

EVP Statements and Pillars

Having beyond seven pillars within your EVP runs the risk of simply being a list of selling points, not the core selling points. It is important to resist lengthening the list of pillars which will often happen when key stakeholders ask to include a number of elements that, while important to the business, are not key selling points in themselves.

A good example of this would be "safety" in engineering firms.

Safety is of utmost importance to those businesses and is rightly listed among the values in many of them, but it is unlikely to be one of the core reasons for a skilled engineer joining that business nor is it likely to be a key differentiator among competitor firms. If it is neither of those, then it is hard to make a case for it being an EVP. Along with salary and CSR, safety is more likely to be important if done badly. It is expected as part of everyone's offer and, as such, would be far more likely to be seen as a hygiene factor, not a core pillar. Where this is not the case could be for an MNC operating in a market of local firms in a region such as Brazil and an industry such as construction. In such an instance, it could be that MNCs can differentiate from local firms based purely on their safety record, and so it does become a core part of the message.

A helpful step in analyzing the research outputs is to start by looking for common themes in the work. You may identify specific topics to investigate up front – safety might be one of those, as might innovation, high-performance culture, development, and progression. By discussing these, themes will emerge from the conversations and will be positive as well as negative.

For example, a theme could be that many employees feel that innovation conflicts with high performance or that development does not have to be tied to upward progression but is just as satisfying when considered as sideways movement and continuous learning.

Returning to the example of safety, how your company addresses safety may well be a theme and could eventually become a pillar. If, for example, discussions around safety highlight that this is indicative of how your company puts people first, adheres to processes, or is particularly diligent, then one of those starts to become a differentiating idea, not just a hygiene factor.

In other words, themes will emerge as an organization's approach to something that matters.

There are always going to be common areas that are important to most employees, but how you tackle such an area will be a little different, and the areas that you excel in will be noticeable through the research. These positive themes are the starting point for developing your EVP pillars, but your pillars should combine in such a way that they are unique to you as a business.

In fact, there are three tests that should be applied and are very useful in defining the EVP pillars.

For each pillar, you should be asking:

1. Is this compelling to our specific, identified audience?
   Is it a core selling point that both attracts and engages the kind of people we really need and want? Again, think back to the core sells, not just anything and everything that forms part of the sell, such as salary or CSR activities.
2. Is it differentiating from our competitors? No single pillar will differentiate you all by itself; if it could, you would only need one. It is, in fact, more than likely that you will share one or more pillars with your competitors but that you will also have a point of difference somewhere that really matters.
   Returning once more to our aeronautical businesses, let us assume that they each have four pillars:

Company A	Company B
At the cutting edge of technology	At the cutting edge of technology
Unlimited career possibilities	Unlimited career possibilities
Global success	Global success
World-class processes	Freedom to innovate

The first three are shared, not with all other aeronautical business, but with each other. The choice for candidates, if they understand the difference, is that one offers "freedom to innovate," the other access to "world-class processes." There is only one real point of difference, but it will make all the difference in the world to engineers who, otherwise, would not know which business they are better suited to.

Of course, there may be other companies in their industry who offer freedom to innovate, but external research should have shown that those businesses would not therefore be offering the others too.

Finally, it is actually possible that all of your pillars are similar in some way to another business that is not in your industry. Consider those pillars again (using freedom to innovate) and apply them to two separate companies: Google and Airbus.

They could work for both (potentially) but the nature of the industry would be what sets them apart. And this is equally important – because as well as articulating the pillars, when it comes to communicating an EVP, you will need to show evidence to support those pillars. In the case above, Google and Airbus would both demonstrate cutting-edge technology in very different ways.

3. Is it credible?

Finally, for any pillar chosen, it is important to assess the credibility. In fact, it could be argued that the whole method of EVP research is geared up for this purpose. Establish what senior leaders would like to say, and then see how credible it is by talking to the staff.

Again, however, there is a judgment call to be made. When used as a marketing platform, EVPs are designed to be aspirational, not merely descriptive. Going back to point 1 above, they must be compelling and engaging and that means that there may well be an element that cannot necessarily be supported with evidence yet, but that can be supported by commitment to that point.

When determining the final set of pillars, then, we have to be mindful not only of the current situation but of the desire, commitment, and plan for the business itself to change – to make the EB vision a reality.

Perhaps, in the above example, you have evidence for three of the pillars but cannot yet offer "unlimited career possibilities" – the question to ask then is whether you want to say it simply because you know it will appeal to the market or whether this is a realistic ambition for the business with both senior-level support and a plan to make it happen.

If it is the former, then this should not be part of the EVP; it is not credible. If the latter is true, then to include one aspirational pillar out of four is more than acceptable.

Getting the balance right is challenging with so many people to please.

The ultimate set of pillars that is right for a business will satisfy all parties, senior leaders, current employees, and potential employees, creating a unique and compelling position that distinguishes that business in the market, making employees proud and making potential employees aspire to work there.

Do's

- Take active steps to manage your employer brand, considering:
  – Who is your target audience?
  – What are they currently thinking?
  – How can you change/reinforce that perception?
- Define and articulate your EVP. Think about:
  – What does the organization do?
  – What does the organization want to be known for?
  – What kind of people are needed for this to happen?
  – What kind of environment do you want to create?
- Have an EVP model, statement, pillars, and toolkit.
- Bring the EVP to life through creative development.
- Communicate and integrate your EVP using your EVP touchpoints.
- Keep in mind global differences.
- Measure the impacts at every stage.

Don'ts

- Have too many pillars within your EVP – it is what you want to be known for, not everything that you do.
- Have pillars that are not key selling points in themselves such as values, salary, or CSR activities.
  – These may be part of your culture but are seldom the reason people choose you.
- Use pillars that are not well defined.
- Make promises that the business is unable to keep.
- View employer branding as a project; it is a continual process.

Final Comments

This chapter has outlined, addressed, and evaluated the theory and practice of employer branding and how this is communicated internally and externally through the employer value proposition. A narrative is given in who you should listen to, who your influencers are, what research methods to use to gauge your internal and external audience, how to develop your EVP statements and pillars, and how the EVP is developed creatively.

As a closing statement, it must be reiterated that the danger in employer branding is that it is often seen and initiated as a project. Employer branding is a continual process and this needs to be kept in mind when thinking of future budget allocations.

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Human Resources Marketing and Recruiting: Essentials of Digital Recruiting

3

James Purvis

Contents

Abstract

This chapter will cover digital recruitment from its definition thru to its history in recruitment and trends. The subject itself could cover an entire book or an entire module at university, so this chapter will broadly touch upon the key elements and considerations. Under cultural perspective, the recruitment life cycle will be broken down into its individual parts, and digital solutions will be examined for each individual part of the process together with the impact this has on the knowledge and challenges for the manager and team. The economic perspective will assist in prioritizing initiatives and building a business case for the introduction of digital recruiting solutions. The risk perspective will raise awareness of the potential pitfalls and the operational perspective on the key considerations for a

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successful implementation. Finally, the key messages of this chapter are summarized in the Do's and Don'ts.

Keywords
ATS • Technology • Video • Social media • LinkedIn • Mobile

Introduction and Overview

Recruiting is an activity that has been around for thousands of years, from simply bringing in family members to help with the crops in the ancient era to separating the most suitable persons into farming or fighting during the middle ages. Traditionally, recruiting has also been a frequent early adopter of new technology, from shortly after the advent of the printing press to further disseminate opportunities to the early recruitment advertisements on black and white television. At the start of the twenty-first century, there is an exponential growth of new technologies and potential opportunities for application in digital recruitment. Selecting those mature enough to adopt while avoiding the pitfalls in doing so can become a minefield. The goal of this chapter is to assist in navigating thru this challenging territory. It will not provide an inventory of all of the available technologies because this is a dynamically changing landscape; however, it will cover the main areas where digital is delivering in recruitment, and moreover it will provide a methodology and mind-set for assisting in evaluating the potential opportunities that both existing and emerging digital technologies may offer across the recruitment life cycle.

What Is Digital Recruiting?

"Digital recruiting" – what is it? Is it a buzzword? Is it a trend? Is it something you are already applying, and, if so, where are you, for example, with respect to Gartner's Hype Cycle – are you a victim to the hype on the peak of inflated expectations, suffering from post-implementation stress and hence in the trough of disillusionment or have you successfully navigated the mindful to arrive on the plateau of productivity? (Gartner's Hype Cycle provides a model with respect to the maturity and adoption of technologies. There are five key phases in the model ranging from the technology trigger, the peak of inflated expectations, the trough of disillusionment thru the slope of enlightenment to the plateau of productivity. More information can be found at http://www.gartner.com/technology/research/methodologies/hype-cycle.jsp.)

Let's start with a definition. First of all, one can define digital recruiting as the use of technology to improve efficiency, effectiveness, and impact, reduce costs, and/or increase capacity across the recruitment process. In general, digital recruiting (also known as online recruitment) can facilitate in reaching a wider pool of potential candidates as well as facilitating the selection life cycle.

This chapter will take you on a journey of digital recruiting offerings from attraction thru to onboarding. Investing in digital recruiting will require time, effort, and money. Simply "mapping" existing paper processes to online technology is often the most tempting route, but to reap the highest benefits, you are urged to consider redesigning the recruitment strategy, integrating technology as a change agent rather than simply an administrative platform.

People Perspective

Digital recruiting can enhance an organization's efficiency and effectiveness in its ability to anticipate, plan, brand, attract, source, and select talent. Digital recruiting techniques are exciting for a team to adopt and can enhance team cohesion, motivation, and productivity. From the client's perspective, digital recruitment can enhance the service offering of HR, "modernizing" the approach, methodology, and offering compared with traditional techniques. This section will examine the arguments to support the use and application of digital recruitment across the recruitment life cycle.

Recruitment most often starts with a "need." The traditional scenario is a hiring manager who comes to see the recruiter wanting to hire a new person, either because the workload is increasing, the business is expanding, or often due to a departure. The recruiter's starting point as a result is usually already too late – no matter how fast the recruiter can hire, they are unlikely to succeed in ensuring full business continuity for the hiring manager by having a new person in place and trained "on time" (the definition of "on time" can vary, but experience shows it is usually d-1, where d is the day when the need is identified). Digital can help. **Digital workforce planning systems** can be used to anticipate needs by anticipating departures or proactively anticipating business expansion scenarios. Departures due to retirements are the simplest to forecast (they usually occur on a precise birthday!), but departures due to turnover can also be forecast. Scenario planning can also be used for "what-if" analysis ("what if" the business expands in Asia or develops product line X). Digital workforce planning allows an organization to anticipate and forecast its needs, examine the impact of turnover, flag critical skills, and consequently put in place a preparatory planning for a talent pipeline (in-house or on the market). Digital workforce planning systems are becoming increasingly more sophisticated yet are frequently overlooked for recruitment – but they have the power to transform recruitment from a passive/reactive approach to a proactive and anticipatory approach – ensuring and enhancing business continuity and competitiveness.

An important foundation of recruiting is the employee value proposition or EVP. The EVP is the key message as to why a candidate would choose to work for you as opposed to choosing another employer. The EVP needs to be genuine and built upon solid foundations. This chapter won't go into detail in employer branding as it has already been covered previously; however, **digital technology can help disseminate and reinforce the employer brand**. The employer brand should be consistent across all digital channels (career websites, Facebook career pages, YouTube videos, Twitter, LinkedIn, etc.) providing consistent look, feel, and messaging. An "inconsistent" use of technology for your employer brand can do more harm than good, for example, don't launch a recruitment campaign to attract candidates using Facebook if the use of Facebook is banned inside your organization. Unlike paper, with digital, employer branding is not solely about what is being communicated but also how it is being communicated. Is interaction and engagement encouraged or is the conversation just one-way? What are the channels that potential candidates can use to interact with the company? How is feedback received? One often talks about social media presence, but in this phrase the "social" is as important (if not more so) than the "presence."

With the needs analysis and branding defined, you know "what" to say in describing the opportunity to promote, but you don't yet know "where" or "which channel" to launch your recruitment campaign. Here, digital technology provides a multitude of opportunities and also some quite sophisticated metrics to assist in measuring the ROI of your **digital attracting strategy**. Using digital technology, you have the following opportunities for promoting your job:

– Online job boards
– Social media (Facebook, Twitter, etc.)
– Professional media (LinkedIn, Xing, etc)
– Videos (e.g., YouTube)

There is a plethora of online job boards available and armies of sales people who will provide you data on how many visits, clicks, etc., their job boards receive. This data unfortunately tends to be too generic to be of use for your needs. Would you rather post on a job board that brings you 200 clicks and 20 applicants, yet none are relevant, or one that brings 20 clicks and 2 applicants, but both of them an exact fit for your requirements?

If you are using online job boards, then ideally you should be gathering your own metrics. You also want to be using multiple job boards – depending on the profile for which you are recruiting. **Multiposting technology** is a technology that allows your ATS (applicant tracking system) to simply "plug in" to potentially hundreds (if not thousands) of online job boards and for you to select the job boards to use relevant for each posting. Furthermore, multiposting technology provides for integrated metrics that are both quantitative and qualitative – thus showing the clickstream traffic to your site and how many clicks are converted into applications and in turn how many of these are interviewed and/or hired. Multiposting technology is not only a real time-saver but equips the recruitment unit with the tools and metrics to continually evaluate and improve the recruiting process.

Multiposting technology will typically also broadcast your job advertisements to social media. However, beware; simply broadcasting job advertisements to social media is not generally an effective sourcing strategy as it's unidirectional and crucially omits the "social" aspect from social media.

An **effective social media strategy** needs to be built around engagement. In contrast to posting advertisements on job boards which tend to have an immediate impact and quickly reach the active candidates, a social media strategy is generally a more long-term view but can also reach passive candidates. Facebook, for example, can be used to showcase careers in your organization and engage with people interested in finding out what it's like to work there. As engagement increases (measured by the number of "likes"), then a community is being built up whereby once an opportunity does become available, the community can become ambassadors for spreading the word. Strategies recruiting students have proven extremely effective using Facebook campaigns.

Twitter equally can help in increasing the visibility of your opportunity – not only by increasing the Google pagerank but also thru engagement.

YouTube also can help if you have videos showing an insight. Given that videos have a higher probability of appearing on a person's wall than photos or text, then posting YouTube videos on Facebook combines the best of both worlds and increases potential engagement. In this way, **social media is effectively providing a digital** "**word of mouth**" for spreading news about your opportunity. But just like "word of mouth," the messages need to be short, concise, relevant, and insightful. A 10 s glimpse behind the scenes of a job is likely to have far more hits than a 10 min video testimonial. Videos don't necessarily need to be vines (6 s maximum), but the shorter the video is, the more effective it will be.

Many people have realized the power of social media as a referral tool which is why there exist specific **digital referral tools** available that allow you to build in a referral program in your organization (with rewards or just purely gamification – or both) which can tap into the social (and professional) networks of your employees for promoting opportunities. Traditionally, hiring managers have put the onus on the recruiting team to find the candidates, but ironically it would usually be the hiring managers (and their team) that have the most contacts in the relevant recruitment market. Digital referral tools allow the recruitment team to tap into the network of contacts available through the hiring manager's team and thus offer a targeted recruitment potential via referrals.

The inverse of using technology to attract and direct candidates toward the recruitment opportunities is the idea of going out on the digital channels and sourcing and searching for candidates. There exist sophisticated and powerful tools and possibilities out there in digital recruitment. Many job boards provide CV databases, so access to job portals often includes powerful searching of CV databases. LinkedIn provides for powerful searching techniques, and LinkedIn offers a range of licenses with differing levels of visibility of search terms and access to contact people. Resources permitting it may be worth considering a "recruiter seat" license for LinkedIn. Social media such as Facebook also provides for extremely powerful but often underutilized search techniques. Facebook's "graph search" allows for quite sophisticated English language like terms to be directly entered. Facebook is a social platform, so, while it has a powerful search, the "profile results" will give insufficient data about the job relevance of a candidate. This can be solved by carrying out what is called an "X-ray" search, for example, by finding the corresponding professional network (e.g., LinkedIn or Xing) profile of the Facebook profile. Such "hunting" requires efforts but can produce quite targeted and successful results. Alternatively, there exist "people aggregators" which are tools that already combine data and information from multiple sources. These may save time but may require a paid access.

As much of this data is publically available, then it can also be accessed thru search engines such as Google. Sophisticated search techniques using Google are a skill in themselves, and dedicated training exists should you wish to equip your recruiters with such techniques.

Technology is also advancing which can digest and seemingly understand CVs specifically for advanced sourcing. Such technology allows you to search for a "financial project manager," for example, even though that specific phrase isn't on the CV. This technology can parse and understand both CVs and vacancy notices and even attempt to propose a matching and ranking between the two.

Ultimately, independent of how the person heard about the opportunity being promoted, the potential candidate usually arrives at the **online career website**. The online career website is a pivotal part of your organization and your recruitment strategy because not only it is the branding but is effectively the front door to the organization where the candidate may look around, examine the value proposition that is on offer, and reflect before deciding whether to take the first step of submitting an application. If you are hosting your own career website, then tools such as Google Analytics may help you to examine metrics such as "bounce rate" which may show candidates coming to but then turning away from your website.

Career website design is key and something in which it is worth investing as the longevity of the career website is often several years. All too frequently website design can fall symptom to the "HIPPO" syndrome. The HIPPO syndrome is what happens when a discussion occurs around an important feature, and, instead of using data to support the decision, the decision is made based around opinion – the HIPPO being the "highest-important-paid-person's opinion" or the most senior person in the room. Website design should not be based upon opinions but on data and metrics around best practices and provide the information the target candidates are seeking in the most efficient and competitive manner. Numerous surveys and data repositories exist which can assist in career website design by providing data to make the design decisions (e.g., by prioritizing features). Visiting the website is the first "experience" a candidate will have of the organization, so candidate experience is key.

The website is going to be ubiquitous – being designed on today's technology but accessed via tomorrows. Hence, a responsive design (one that adapts to the device be it mobile, tablet, or other) should be implemented from the outset. Consistent branding will also help reinforce the EVP. Pilot the design and compare the designs of competitors – after all, that is what the candidate will be doing.

Designing a career website is not just a "one-shot" process, but regular maintenance, monitoring of data (such as bounce rate, unvisited pages, most visited sections, etc.), and constantly adding new content to continually attract requires an ongoing effort which is not to be underestimated.

The goal of your career website is to advertise and promote your organization as an employer of choice and ultimately to guide the right candidate profile to apply (whether it be for a current opening or to register interest for a future opportunity).

With digital recruiting, the application will usually be handled by the ATS (applicant tracking system). Your career website should pass over the digital baton in this relay to your ATS, and the ATS (even if hosted elsewhere) should provide a seamless candidate experience.

In digital recruiting, an applicant tracking system is often the first large building block that one puts in place. However, it is often the first critical error whereby paper processes are taken "as is" and mapped to the new technology without rethinking how the technology can in fact alter the recruitment process. Traditionally, the "job application" prior to digital technology was a paper CV or SAF ("standard application form") which was posted to a company, usually in response to a job advertisement. It was a "one-shot" apply with a "one-shot" response (usually "no, thanks" or "invitation to interview"). Sadly, many organizations still map these historical processes onto digital technology without rethinking the new possibilities and opportunities. Ultimately, an ATS is a tool for allowing potential candidates to apply for jobs, but furthermore it also provides for

– The ability to deal with significantly many more applications but treating them all in a "personalized" manner
– Building a relationship with potential candidates for future opportunities
– Registering interests of candidates so that they can be alerted when potential opportunities arise
– Providing for a multistage application process that allows for expression of interest from a mobile device thru to fully fledged detailed apply via a tablet or computer
– Referral/social referral mechanisms
– Self-assessment for suitability/eligibility of open or future positions
– Providing a knowledge base on your organization for a talent pipeline

The choice of an ATS for your organization is going to be key, especially as it is easier to put in place a new ATS ("greenfield install") than migrate from an existing one. SaaS (software as a service) solutions are fairly standard in the ATS world, so this removes the requirements of having an on-site IT infrastructure. However, just because you don't need an IT infrastructure doesn't mean that IT should be completely bypassed (even if this seems tempting) as there are important aspects of integration with other HR systems that need to be considered. Most ATS solutions that are SaaS have standard interfaces for integration with a wide variety of software and can even be adapted to integrate with in-house and/or legacy systems. Integration is usually far less of a problem that it was some years ago.

When choosing an ATS, it is easy to be sold over by the marketing material. It is essential to make the decision based on requirements. Visiting other sites which are using the ATS that you are considering is strongly recommended and examining what they find to be the strengths and weaknesses. Moreover, apply for a job at the other site and see what the candidate experience is like. An ATS has two sides and the usability of both is critical: the outward-facing candidate side must provide a positive candidate experience and not deter applicants from your organization and the inward-facing (also known as “back office”) component is the one which is going to be used consistently by your recruiters, and it’s essential that it provides for an efficient and effective interface for repeated tasks. If it takes five clicks and three screens to review a single applicant, imagine the effort if you have 1,000 applicants for your position! (You may say you don’t expect 1,000 applicants – but the future is all about scalability, so be prepared!)

Another pitfall of evaluating ATS is the configurability of the ATS. Be careful not to compare an excellent ATS that is poorly configured with a mediocre ATS that is highly configured. Evaluate the base functionality and the configurability with respect to your requirements. An ATS is providing a continuation of the candidate’s journey from your career website. If the marketing and advertising has worked well (e.g., via multiposting and social/professional media efforts as mentioned previously), then they will have driven significant amounts of web traffic to your career website. The career website in combination with the ATS should then act as a “funnel” to ensure that all the relevant and potentially interesting candidates progress thru the journey, those that are potentially interesting for the future remain “engaged” for a future time, and those that are not relevant still have a positive experience (in order to be a good referral) but understand the reasons why they would not be considered further. This is a challenging balancing act, and the interplay between the information on the career website, “self-screening,” and the funneling in the ATS will be one of the challenges in managing this process. Letting too many, but not relevant, candidates proceed through to the full application will be frustrating both for the recruiter and the candidate, but filtering out potentially excellent candidates too early on will be detrimental to the business. Short videos on the career website can show typical profiles and can also give hints and tips about applying and what the organization is seeking in applicants. In a modern ATS, the application form is no longer a “one size fits all” but usually is dynamically configured to the position in question – features such as “JSQs” (job-specific questions) allow applicants to answer questions during the application process that are directly relevant to the job and assist in a first assessment for the job. JSQs are preferable to “killer questions” which are an alternative form but generally are more abrupt and “abort” the application process if the correct reply isn’t given (a typical killer question may be regarding if a candidate has a driving license for a job involving a vehicle, whereas a JSQ may more be around self-assessment of competency levels and/or experience directly related to the requirements of the position).

Traditionally, in recruitment after reviewing a CV, a decision would be made to invite the candidate to an interview or not. Nowadays, this is simply both too risky and too costly to have a single-step process. It is too risky because a CV may indicate a particular skill but without proof of its neither proficiency level nor applicability. For example, a CV which says “java coding” on it could be anything from a person having read a book on java coding to a proven java guru (or even a persistent but poor programmer). It is too costly because of the time that would be required of all those involved in the process to interview a large number of candidates (let alone if any travel expenses are paid for). Digital recruitment can provide a number of tools to reduce the risk and cost, and these evolve around **online assessment and screening**.

Online assessment as part of the digital recruiting process allows the probing of specific skills or competencies relevant to the position. Testing in itself is an entire subject and will not be addressed in depth in this chapter, but suffice to say one should evaluate the requirements relevant to the position and consider online testing of the following categories:

- Personality
- General aptitude
- Cognitive ability
  Abstract reasoning
  Verbal reasoning
  Numerical reasoning
- Technical
  Job knowledge
  Work sample/simulation
- Language

It's important not to get over zealous in the testing as too much testing can deter candidates. For example, if you were recruiting a java programmer to integrate in a team in France, a first reaction may be to have a psychometric test for team worker, coding challenge for Java, and a language assessment for French. Candidates having three such assessments may easily be deterred, and this will generate the risk of losing the ideal candidate. Adopt the MoSCoW approach ("must have, should have, could have, and would be nice to have") and test for the "must haves." In this case, if it's Java then a coding challenge could be launched using a variety of online tools.

Online assessment tools are not foolproof and cheating can occur (e.g., the person carrying out a coding challenge could "google" the answers or have a "testing party"). Estimates are that around 10 % of online assessments are completed with some form of aid. Techniques are becoming more and more sophisticated to detect and deter cheating (e.g., detecting typing vs. copying/pasting of solutions, measuring speed to reflect, etc.), but the safest approach is to retest what was tested in the final interview (e.g., with a question "can you explain your reasoning behind the solution you provided to X at the online code challenge?").

Online tests however are not the only technology which can help reduce risks and minimize costs. **Video screening and particularly asynchronous video screening** are a very effective digital recruiting technology in screening and assessing candidates in a penultimate step prior to the live interview.

Traditionally, telephone screening has been used (and still is being used) to assess a pool of candidates prior to deciding which subset should be invited to the final live interview. Telephone screening however is costly in administrative overheads as it requires synchronization of many persons' busy agendas (hiring manager, recruiter, candidate, and more), and the information captured at the telephone screening stage is only shared by a few persons. Asynchronous video screening provides a cost-effective digital alternative. In asynchronous video screening, the recruiter agrees a set of questions with the hiring manager whereby the answers to those questions determine if the candidate should proceed to the final stage of interview. Typically, four or five questions would be prepared (a question bank may even exist). The candidates are then invited to participate in the online interview – but the participation is asynchronous. This means that the candidates can choose the most convenient date/time for them to carry out the video interview within a given period (usually a week). The software then simulates interview conditions in the candidates' own home (or wherever they have chosen for the interview to take place), i.e., the candidates cannot see the questions in advance, and, once the interview has started, they cannot "pause" the interview (e.g., to go and find the answers on Wikipedia or ask a friend for help). The candidate can typically carry out the interview on a PC, tablet, or mobile device – anything with an Internet connection and the ability to record sound and video. Once the deadline has passed, then these "recordings" become available for the hiring manager to review and evaluate in order to determine the final short list of candidates for interview.

Usually, the final face-to-face interview is the most traditional element of the recruitment life cycle. However, digital technology may still be of assistance. Using digital technology, it is not always necessary to physically invite the candidate on-site – for example, videoconferencing or Skype may be used to carry out the interview. Conversely, in the event of a panel interview, technology can be used to have a virtual meeting of the panel members or have the presence of one or more of the panel members assured thru videoconferencing. These technologies can assist in the logistics and reduce the overall costs of the final interview stages.

Digital recruitment doesn't stop at the interview and selection. Sophisticated onboarding systems combined with e-learning facilitate the selected candidate's integration into the workplace and ensure the shortest possible delay for the candidate to become productive. Both onboarding and e-learning are separate topics in their own right that will be treated elsewhere in this book.

The recruitment life cycle is a process of continual feedback and improvement. In order for this to work, digital recruitment should include automatic gathering of a vast variety of data around the recruitment process with the ability to synthesize these into key data analytics messages and key performance indicators (KPIs). From the click-through data on the career website used to identify the most effective recruitment channels thru to data on time to hire, cost per hire, and ultimately quality of hire and process (often using perception metrics), digital recruitment allows an organization to build up a dashboard of recruiter effectiveness to constantly monitor and pilot the organization's recruitment processes to ensure continual alignment with the changing business needs and priorities.

In summary, there are a plethora of digital recruiting tools, techniques, and technologies covering the full recruitment life cycle. A cultural consequence of this is that, where "recruitment" has traditionally been viewed as the entry-level HR position, the skills and competencies required by the recruiting team are becoming increasingly advanced and sophisticated – to the extent that it is questionable if this is still an entry-level function or moreover a specialization.

Economic Perspective

Building the business case for introducing and/or improving technologies used in HR processes can be challenging. Compliance aside, the business case needs to be based on data, metrics, analysis, and a projected ROI (return on investment) – a terminology which may traditionally be less familiar to the HR department's population. Successfully convincing the CFO will require the HR director to understand and speak the language of the CFO as opposed to the inverse. It may also require access to data or numbers that are not easily available in the current financials (such as "what is the cost of an unfilled position?"). Help can usually be sought either internally or externally – often simply finding a person who has already been on this journey and seeking their advice. LinkedIn discussion forums provide a place where peers often share such experience and can be a useful starting point.

Building the business case for a digital workforce planning system should not be an HR initiative alone. If a corporate system is being sought after, then planning in general should come from the budget and finance, and workforce planning could be integrated into this initiative. Applying the KISS principle ("keep it simple, stupid"), workforce planning could be tried in a proof of concept with as simple tools as spreadsheets based on data extracted about current demographics, turnover, etc. Even such manual tools can identify areas where proactive recruitment – anticipating needs – can have a significant business impact. If you can convince by success on a small scale, then this may be de facto your business case for a larger-scale implementation.

Building the business case for the employee brand or EVP is addressed in the previous chapter, so digital recruitment simply focuses on how digital technology can disseminate and reinforce the brand. While the use of many social media channels is free, resources are still required to publish, post, and engage on these channels, and a common pitfall is to overlook the requirement of such resources. Ideally, the identification of such resources is integrated into the EVP business case, but if not they can be added subsequently. Fortunately, metrics are abundant in social media, so, for example, one can compare how much web traffic a posting on social media brings to the career site vs. a paid-for job posting. Arguably, a job posting may have more targeted traffic, but social media may carry a stronger referral element.

The cost of developing content for social media shouldn't be overlooked. Videos, photos, branding, etc., all require investment. Here, marketing (or communication) becomes the strong ally of HR since marketing has already been on this journey. Marketing has experience in producing videos, posters, photos, and content for use in the digital environment. EVP is simply "HR marketing" instead of promoting why customers should purchase your product but why candidates should choose your company. The challenge is that the impact on sales and revenue can be significantly more indirect in HR marketing than in traditional marketing. This will make the business case more challenging to develop when focusing on ROI but not impossible.

Building a business case is not all about numbers. Credibility and a proven track record can be equally important. For this reason, it could be useful to first identify the quick wins or (if there are any) the "no-brainers." If your company is advertising across many job boards or many channels, then automated multiposting technology may be a quick win. There is a small initial outlay in the setup, but you can obtain economies of scale, metrics which allow you to focus on the most effective job boards and reduced time spent on posting in the recruitment team. Starting with small proven track records eases the path for preparing the business case for the larger costs such as purchasing or replacing an ATS.

There are areas of digital recruitment where it is far easier to build the financial business case. The use of online testing, job boards for advertising, and even introducing asynchronous video screening are business cases which are all relatively easy to formulate in a cost-benefit analysis.

However, the bigger areas such as the career website and/or a new applicant tracking system (ATS) can be significant challenges for the business case. This is because ultimately the business case may rise to the business key questions that perhaps not even the CFO can answer. What is the cost of an unfilled vacancy? What is the cost to business of hiring a bad candidate? What is the cost of the best candidate going to your competitor?

It may be difficult to put figures to answer these questions, which is why the risk perspective is perhaps also an equally important component of the business case.

Risk Perspective

Digital recruitment can potentially open up a new set of risks to which your organization has not previously been exposed. Traditionally, HR systems have had their data protected either physically or at least behind an intranet, firewall, etc. However, for recruitment the systems require that the IT system is exposed to potentially anybody in the world – this opens the doors to potential theft or loss of personal data. There have been cases in the past where an organization's applicant database has been found to be publically available due to loopholes in the applicant tracking software used. This is the most frequently thought about case since it is the widest publicized – but it is not the only risk to consider.

The use of social media in recruitment opens up the doors and channels for communication that can be extremely positive for the organization but can also be potentially detrimental to the reputation – depending how the interaction with the community is managed – particularly around controversial subjects. All companies at one point or another will have opponents that for one reason or another want to pass messages which may potentially damage the brand. On the one side, social media encourages open dialogue, but steps can also be taken to minimize this risk. For example of Facebook, a fluid dialogue can be achieved around themes by allowing people to reply to posts but not enabling an "open wall" policy (i.e., disable the feature which enables any person to post to the wall).

Typically, in the social media arena, experience shows that candidates are more well behaved via the recruitment social media channels than customers can be via the traditional marketing social media channels. You may already have a legal/risk blueprint for handling such channels via your marketing or communication department.

As mentioned in the opening paragraph, ATS implementations come with their own risk. Is the data secure? Will the system integrate with other existing systems? How is accessibility to the data and confidentiality handled? With an ATS, you may be rejecting over 90 % of the applicants, so is there a rigorous process in place that can objectively demonstrate the criteria upon which candidates were selected or rejected at each phase of the application process?

SaaS (software as a service) solutions risk to pose legal questions such as "where is the data stored?" and "how is the data protected?" The attraction of SaaS solutions – whether it be for a fully fledged ATS or simply components such as CV parsing or video screening – is that no IT infrastructure is required inside your organization and you are effectively paying for a service and achieving significant economies of scale. However, the risk is about how/where your data is stored, what happens if the service provider goes into liquidation, etc. The legal department should help evaluate such risks, and it's important to take into consideration the advice – but it's important to put this into perspective. Zero risk doesn't exist, so, while the risks will be highlighted and advice can be sought on steps to mitigate the risk, this shouldn't be a deterrent or a scapegoat for not moving forward with the implementation.

The biggest risk is the long-term risk of inaction. Not implementing digital recruitment techniques and being overtaken by your competitors in the long run will mean your organization is losing out in attracting the best talent – and ultimately the business will suffer in the long run. It's important therefore to put all the legal, compliance, and financial risks in the context of the overall business case for implementation.

Operational

Traditionally, recruitment was viewed as an entry-level position in the HR career ladder. With digital recruitment and the associated techniques, recruitment (and sourcing) is becoming a true specialist field with specialist skills and competencies. Acquiring and maintaining these competencies in your organization can be a challenge in the implementation of a digital recruitment strategy.

The competencies required for effective recruiting and sourcing in the digital era are rapidly evolving. This section will once again take the recruitment life cycle covered previously and examine the operational challenges.

Recruitment starts with a need, so the recruiter's first tools for understanding this need are the competency framework of the organization. The competency model provides for a structured language in which to describe requirements of the organization. With access to internal data (e.g., from workforce planning), the recruiter can also understand issues and challenges of the specificity of the post (e.g., reasons for high turnover) to understand the target audience (school leavers, experienced professionals, etc.). The recruiter should know where to turn for data and metrics concerning the recruitment challenge – this is an area where there are known skill shortages, the company is paying below the market rate, etc. The use of data turns recruitment from an art to a science. A full understanding of the context in which the recruitment takes place will help the recruiter best brand the opportunity (applying the EVP and emphasizing the relevant attraction factors for the role) as well as select the most appropriate channels and actions for sourcing.

Metrics will continue to play an important role throughout the process as the recruiter monitors (and adjusts) the strategy to direct potential applicants from a variety of sources thru to the career portal and ultimately the applicant tracking software.

Sourcing expertise will be required with knowledge of the platforms and technologies available as well as the regular innovations in this field. The challenge will be to acquire and maintain this expertise, either by hiring into the team, using external consultants, or training members of the existing team. In most instances, a combination of all three approaches is perhaps the ideal.

Implementing digital recruitment solutions is an opportunity to learn new techniques and acquire new competencies – capacity building in your team. It can be extremely motivating for the staff if the change management is handled correctly. Ensure that budget is allocated for training and/or knowledge transfer of the capabilities to your staff – this may be for the implementation of a new ATS, new features in the ATS, and new tools such as video screening or CV parsing or sourcing techniques. Obtaining the capabilities in your HR team is more of an opportunity than a challenge. However, it does require that inside HR you are no longer simply recruiting people who "want to work with people," but you have evolved to people who use technology; are numerate, process oriented, and structured; can project manage; work to tight deadlines; and, of course, have all the behavioral competencies to work with people (client focused).

Implementing digital recruitment technologies should force and rethink existing processes. The biggest mistake would be to take the route of examining how to map existing processes ("as is") onto this new technology. The new technology provides for opportunities to entirely rethink the existing processes. Mobile devices, for example, provide for an entirely new paradigm of potentially expressing interest for a position – with geolocation on the mobile device, candidates in the vicinity can easily find out about positions relevant to them. A candidate's mobile device has an incredible amount of knowledge about a candidate, so a mobile paradigm would encourage candidates to share the relevant information with minimum effort (e.g., "apply using my LinkedIn profile"). Mobile devices can be used to keep a wider passive audience up to date of news/opportunities to have a potentially larger talent network than traditional technologies.

Digital recruiting generates more information, more leads, more data, and ultimately more candidates than traditional methods. The challenge is how to process this increase without it in turn generating an increased workload. Hence, the scalability of the processes is a key factor. On paper, an organization may have been receiving and reviewing a thousand CVs per annum. When implementing digital recruitment, this may jump to 10,000. The approach that worked for 1,000 won't necessarily scale to work for 10,000 (and may not be feasible with the resources in the unit). Hence, how can the technology be used to funnel, filter, and screen candidate to enable that the focus is on quality not quantity. This may require a full rethink and redesign of the recruitment process.

When examining digital recruiting solutions, it’s important also to look at the wider picture. Requirements may start from the need of a “better tool” for recruitment, or the ability to have a “mobile presence,” and the focus may initially be on recruitment. However, it’s important to take a holistic approach in HR and examine the full career life cycle from recruitment and including learning and development and career management. This may change the parameters of the problem being addressed – for instance, in aligning the selection and choice of HR technologies, it is a “best-in-class” ATS solution that’s required or a full life cycle solution that covers recruitment and L&D, for example. It may be worth making compromises on the single-source solution if the overall benefit is larger. With the best-in-class solution, integration questions need to be answered – how will the system integrate with existing eRP or other HR solutions?

Furthermore, the technology choices go beyond “best-in-class” vs. full life cycle solutions. The question of the level of involvement of your IT department is crucial. If the software is to be “purchased” and installed and configured in your IT infrastructure, then a critical operational success factor will be the early involvement of the IT department. Ideally, for such scenarios IT would be involved in assisting with the requirements analysis and working together on solutions that meet both the HR requirements and the IT infrastructure or integration requirements of the organization. Alternatively – and this is a hugely growing area – “software as a service” (or SaaS) solutions have the attraction that they don’t require the IT infrastructure of your organization. These are provided as a web-based “service” which translates effectively into a rental of a service. The solutions can be configured, branded, and tailored to adapt to your needs. While it may seem tempting to completely bypass your own IT department, it would be recommended to involve IT also in a SaaS selection process – this is because these tools often require integration and configuration, and your in-house expertise will be of great assistance.

In addition to introducing new tools and technologies, at the operational level consideration needs to be given around structuring the team and roles and responsibilities: (a) Will each recruiter be trained in all the areas or (b) will there be dedicated roles such as “sourcing specialist” and “social media manager”? Both centralized and decentralized approaches work and have their pros and cons, but either way responsibilities need to be clear for the team to provide the best service.

Introducing digital recruitment technology can seem daunting – especially focusing on potential risks, missing competencies, and other challenges. However, digital recruitment technology presents an immense opportunity as a catalyst for change. It represents an opportunity to question and rethink the fundamental recruitment paradigm and associated recruitment processes. It represents an opportunity to acquire new competencies in the team which can be extremely motivating for the persons concerned. It represents an opportunity for providing a modern leading-edge HR service that anticipates and delivers proactively upon the needs of the client. It represents an opportunity of overall improvement in HR service delivery.

Do's and Don'ts

Don't simply map your current processes to a new technology.

Technology should be seen as an enabler. To get the most out of new technologies, one should review, rethink, and even redesign the HR/recruiting process. Simply taking existing ways of recruiting and mapping them onto new technologies risks failure in reaping the benefits the technology would bring. New technology allows for new approaches to the recruitment process to increase quality, reduce costs, or become more competitive. However, successfully implementing technology will require a change in mind-set and a rethink of existing recruiting processes.

Understand your target audience.

See your process from your target audience's point of view. Profile them, understand which digital channels they use for what purposes, and develop a strategy to build engagement with them

Treat the candidate as your customer.

Treat each potential candidate as a customer. Understand their behavior. Then prioritize your implementation of technology around what adds the most value first.

Define and use metrics.

There is an adage which says "you can't manage what you don't measure," and this is certainly equally true for digital recruiting. Measure the impact and engagement of social media and use of technology. Invest in those channels giving the highest returns, and consider dropping those which are not making results. Make decisions based on metrics not trends.

Take decisions based on data not opinions.

Avoid the "HIPPOs" (highest-important-paid-person's opinions). Don't fall into the trap of designing a new career website based on input from "HIPPOs." Use data to take decisions. What are the topmost desired features? Do you have them? Prioritize the implementation of features and content around the needs of your target population.

Design a strategy.

Digital recruiting offers an overwhelming choice in opportunities. Which social media channel? What applicant tracking system? Job boards or referrals? Before embarking on any implementation of any one component, paint the big picture and agree on an overall strategy.

Identify and implement some quick wins with technology.

The risk around technology projects can be long timescales (and large budgets) diminish confidence. However, some technology solutions (typically small SaaS offerings such as online testing or asynchronous video screening) can be set up, branded, and implemented in less than a day. Before embarking on the larger technology projects, build confidence by identifying some quick wins with the technology and building confidence, and trust in your strategy.

Understand when you do and don't require in-house IT resources.

With the ubiquity of SaaS (software as a service) solutions available, particularly in HR, you may have more autonomy than you realize for implementing a variety of technology solutions (without even having a technical background). However, you may have existing corporate systems or processes which require interfaces. Understand the role of the in-house IT team but also the opportunity of off-the-shelf SaaS services in recruitment.

Use your network to look for successful blueprints.

Although we are in a competitive world, the HR network tends to share its case studies. Therefore, before embarking on a project, don't rely solely on the sales pitch, but visit customer references or other sites that have succeeded.

Be aware of paradigm shifts with technology and the hype cycle.

Don't assume that the technology you have just implemented today will be valid in 5 years' time. Within 10 years, it may certainly be obsolete. The exponential growth in mobile means your current way of applying may have to be entirely rethought to leverage mobile opportunities. Your existing traditional career website may even be gone in a few years.

Monitor the trends and stay up to date.

Technology is changing tremendously, regularly offering new opportunities. It is important to find time to keep up to date with news feeds on what is hot and what is not and question what potential role these new technologies could play in your organization's recruitment or sourcing strategy.

Final Comments and Outlook

Digital recruiting is here to stay. It will become the "norm" of all recruiting, and the differentiation between companies will simply be the level of digital technology being used at the various stages of the recruitment life cycle.

Digital recruitment brings with it a new set of challenges but also a new set of opportunities. It also transforms the recruiting profession from a general entry-level position to one of specialization where experience, training, and specialized skills and competencies are required to successfully deliver.

Designing a digital recruitment strategy for a company is an iterative process – because the landscape, technology, and opportunities are constantly changing – as is the recruitment market and needs of the company. This chapter has given an insight into some of the key messages of designing such a strategy, building the associated HR capacity, and managing the risks and implementation – but it is by far from being a blueprint. Today, no such blueprint exists because each company and each challenge is unique – but the attraction of digital recruitment is that the solutions can be tailored and adapted to the unique requirements far better than solutions that have previously existed in the past.

Cross-References

► Human Resources Marketing and Recruiting: Digital Recruiting at Sodexo
► Human Resources Marketing and Recruiting: Essentials of Employee Referral
► Human Resources Marketing and Recruiting: Essentials of Employer Branding
► Performance and Talent: Essentials of Succession Planning

Recommended Reading

LinkedIn Groups

There are so many LinkedIn groups out there that finding them with keywords can be difficult. Look at what groups your peers are participating in and look at membership numbers and activity. Opting for digest emails can reduce the inbox overload.

The following groups all have relevant discussions and trends in the field of digital recruitment

Applicant Tracking Systems – HR and Recruiting Industry

Corporate Recruiters Network

E-Recruitment Group of Sr. Recruiters

Excellence in Recruitment

Institute of Recruiters

Linked:HR (#1 Human Resources Group)

Recruitment Futurology – the evolution of online and social recruitment

Recruitment Technology Discussion Group a subgroup of The Recruiter.com Network

The Forum for In-house Recruitment Managers (The FIRM)

The Recruiter.com Network

Websites

Whilst the majority of these websites are commercial, the author is not endorsing any particular brand or product, but referencing these sites because of the large amount of free material and up-to-date studies available in the domain of digital recruiting. Generally search for the 'white papers' or 'blog' sections of these websites to find the latest research

https://www.airsdirectory.com/

http://broadbean.com/

http://metashift.co.uk/

http://netnatives.com/

http://onrec.com/

http://potentialpark.com/

http://socialtalent.co/

http://sonru.com/

http://strategic-hcm.blogspot.ch/

http://universum.com/

http://workcomms.co.uk/

https://recruiter.com/ (e.g., https://www.recruiter.com/recruitment-technology-trends-2014.pdf)

Books & e-Books

Many excellent books exist in this domain, but the problem with paper literature is they can rapidly become out of date if they are too technology specific.

Mobilizing generation 2.0: a practical guide to using web 2.0: technologies to recruit, organize and engage youth (2008)

Recruiting on the web: smart strategies for finding the perfect candidate (2002)

Recruiting salespeople on LinkedIn: using social media to find and hire sales superstars (2014)

Recruiting with social media: social media's impact on recruitment and HR (2010)

Social media recruitment: how to successfully integrate social media into recruitment strategy (2015)

The new rules of recruiting (2013)

Human Resources Marketing and Recruiting: Digital Recruiting at Sodexo

4

Arie Ball, Trish Freshwater and Sherie Valderrama

Contents

Abstract

Digital recruiting has become an important element of sourcing, attracting, and recruiting top talent at Sodexo, a world leader in Quality of Life Services with 125,000 employees in the USA. As an early adopter of social media and one of the first to launch a mobile app allowing candidates to apply for jobs directly from their mobile device, Sodexo has recognized the cultural shift in preferred communication methods by job candidates. Because of this, they have deployed a number of digital recruiting campaigns in recent years. In this case study, details are provided about the comprehensive digital campaign deployed to expand

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M. Zeuch (ed.), *Handbook of Human Resources Management*,
DOI 10.1007/978-3-662-44152-7_14

outreach and engagement with student members of the National Society for Minorities in Hospitality – a target audience for Sodexo's hospitality pipeline sourcing.

Keywords
Digital recruiting • Social media • Mobile recruitment • Diversity • Employer branding • Technology

Introduction

Sodexo, Inc., is a world leader in Quality of Life Services with 125,000 employees in the USA. Annually, they recruit for more than 6000 executive and management positions. To meet aggressive growth goals, the company recognized the potential of using digital recruitment approaches to expand their ability to source, attract, and recruit top talent.

What Was the Challenge?

Sodexo's challenge was to maximize technology as a competitive advantage.

Looking back at the evolution of digital recruiting, new opportunities via social media and the concept of building talent communities became central to many of the techniques used today. As each new platform emerged – from LinkedIn to Facebook to Twitter – companies around the world looked for new ways to communicate with external audiences, including potential job candidates.

From 2006 to 2012, social media adoption and the emergence of new platforms grew at phenomenal rates. Facebook saw an annual compounded growth rate of 109 % during this time frame, topping off with one billion registered users globally – the equivalent of becoming the world's third largest country. Twitter increased by about a 507 % annual compounded growth rate. And newcomer Pinterest, in short 3 years from its launch in 2010, saw a 4,900 % annual compounded growth rate – the fastest growing of these three platforms.

Additionally, in 2008 another clear trend was emerging: an increasing adoption and reliance on digital and mobile technology. Very quickly, mobile technology use was increasing at exponential rates – for everything from news gathering to banking, from connecting with friends/family to entertainment, and for professional networking through social media sites. And, at that time, Sodexo saw trends indicating that minorities were adopting mobile use at faster rates – thus creating an opportunity for the company to further its diversity recruitment goals through the use of mobile technology.

In 2014, this trend continued. According to the Pew Research Center (2014), 90 % of American adults own a cell phone, and 58 % have a smartphone.

Additionally, 32 % of American adults own an e-reader and 42 % own a tablet computer. Even more telling about the mobile trend is the fact that 63 % of adult cell owners use their phones to go online and 34 % of cell Internet users go online mostly using their phones and not using some other device such as a desktop or laptop computer.

Because of this, it is clear that developing a comprehensive mobile recruiting strategy will significantly enhance a company's ability to attract and recruit top talent by making it easy for candidates to learn about the company, connect with recruiters, and view and apply for jobs from their mobile devices. Additional research also shows that a mobile strategy would have a positive impact on the diversity of candidates and the opportunity to promote internal mobility to employees.

And so, in response, Sodexo developed a mobile recruitment strategy that included on-the-go access to online properties, and they developed one of the first mobile job search apps that allows candidates to connect with recruiters, access Sodexo's online career properties, and apply to open positions directly from their mobile device. Additionally, candidates can opt-in to receive various messages and newsletters from Sodexo via the mobile app.

Throughout the company's engagement with social and mobile media technology, it became clear that digital recruiting requires an integrated philosophy. Gone are the days of posting job advertisements in newspapers. Today, candidates and employers alike are using the Internet to find each other and to build relationships that were not possible even just 10 years ago. From e-cards to social media posts to mobile engagement via QR codes and text messaging, the landscape has changed. If a company wants to truly engage candidates, their efforts need to involve digital technologies and be seamless across all platforms – from digital to traditional.

What Was Our Plan to Master the Challenge?

- Sodexo increased the use of integrated digital tools to support diversity in entry level hospitality roles.

One area of focus for Sodexo is supporting their value of diversity while attracting top talent for their hospitality clients. One way this is achieved is by developing relationships with key professional organizations and select colleges across the country to build a pipeline of top entry level talent. The National Society for Minorities in Hospitality (NSMH) is one example of such a professional organization that the company has partnered with for a number of years.

NSMH is the premier professional organization for hospitality students – and a source of diverse future leadership for Sodexo's talent pipeline. Each year, NSMH assists members in making the transition from "Today's Students to Tomorrow's Leaders" through networking and professional development opportunities, most notably at the national conference where students can engage with experts in the field as well as prominent corporations.

As a corporate sponsor of NSMH, Sodexo is able to leverage strong partnerships within the company to pursue this diverse talent of student members as well as attendees at the national conference. The company's annual campaign uses a range of approaches, including social media techniques, speaker panels, and on-the-spot hires. Additionally, the NSMH campaign assists in developing relationships with students from diverse colleges and universities starting in their freshman year, leading to internship placements across the country as well as permanent placements after graduation.

Steps to Optimizing Digital Recruitment Programs

Digital recruiting encompasses the use of different electronic means to source, attract, and recruit top talent. This may involve the integrated use of a candidate relationship management (CRM) system to build ongoing relationships with candidates, online properties like websites and career centers, as well as social interactions on sites like Facebook, LinkedIn, Twitter, Pinterest, YouTube, and the like, and the sharing of information via blogs and e-newsletters. To maximize successful use of all of these platforms, recruiters at Sodexo are required to attain their Certified Internet Recruiter (CIR) credential.

It is also important to note, as mentioned earlier, digital recruitment programs are more successful if they are fully integrated across all of your efforts and across all of your online properties – the company website, social media profiles, mobile sites and applications, as well as blogs and other publications.

Creating and implementing a digital recruitment strategy can increase the frequency and the quality of your outreach while building stronger relationships with the members of your talent community. This is beneficial for top talent interested in working for your company in the future, even when an opening may not be available now. Additionally, digital recruitment can increase your access to the pool of top diverse talent and result in year over year savings in recruitment advertising. At Sodexo, they have been able to yield more than $300,000/year savings in advertising by using digital recruitment efforts.

And another way that Sodexo has maximized its use of social media is by utilizing a social sharing platform called QUEsocial. QUEsocial makes it easy for recruiters to share useful, relevant content generated by Sodexo's Talent Acquisition Brand Ambassadors on their individual social media profiles. Additionally, an outcome-based game engine in the platform issues challenges that encourage users to convert their social media activity into business outcomes.

To optimize digital recruitment programs, you should consider the following:

- Set clear, attainable goals that include details about your audience, how you will measure success, and the types of messages you want to share.
- Choose your platforms and the timing of messages to support engaging your different audiences. Will you use e-mail, website, social, and mobile platforms? Will you include live communication? Remember that using multiple mediums

can help build momentum for your campaign and can culminate in personal, live interactions that yield hires.
- Select your content – text/articles, videos, photos, stories, profiles, testimonials, etc.
- Plan for an all-encompassing approach that includes communications prior to the event, during the event, and following the event.
- Create a timeline or calendar detailing when and how you will communicate with your audience, i.e., schedule dates for specific Facebook posts, blog posts, cross posts, e-mail messages, etc.
- Consider the use of video interviewing tools like InterviewStream to save time and money and create convenient opportunities for managers and candidates to connect virtually.

And lastly, remember there is no one size fits all when developing your digital recruitment strategy.

Having a true understanding of what you hope to accomplish with each of your campaigns and selecting the right tools to use will bring greater success.

Dos and Don'ts of Digital Recruitment Programs

A few things to keep in mind as you plan your digital recruitment program:

- Be consistent in all messaging. Unify your messaging with an overarching theme and graphics/imagery.
- Create unique web pages and maximize the use of shortened URLs to track hits and your audience reach.
- Use a wide spectrum of media that include social, electronic, and live methods of communicating with talent communities to offer more opportunities to engage with your audience.
- Remember that not all social media sites are created equal. Choose the outlets you want to use that most closely align with your goals based on audience and type of messaging (i.e., short vs. long posts, strong use of imagery, etc.).
- If you use multiple communication channels to achieve your recruiting goals, remember to connect all of the communications with cross-links to avoid isolation within any one platform.
- Keep your content short and engaging, remembering that most people scan online content rather than read it word for word.
- Spell-check, spell-check, spell-check.

As you launch your campaign and begin to post content, do not become a one-way megaphone of information. Engage your audience with comments, likes, and Retweets. Be responsive.

Also, do not spam your audience with multiple, repetitive posts. Be selective and deliberate in all of your messaging.

Case Study: NSMH – Prior to the Event

Sodexo's involvement with NSMH begins long before the national conference each year. In fact, the company remains engaged with the organization throughout the school year building relationships with students beginning their freshman year of college via classroom presentations and live attendance at regional events leading up to the national conference.

However, when it comes to the national conference, they initiate regular meetings for a planning committee that organizes every detail of their involvement in the conference – before, during, and after.

Specific campaign elements include:

- **Culture of Synergy and Inclusiveness**: Sodexo engages students throughout the year at regional events leading up to the national conference opening ceremony and closing banquet through special events, networking and interview opportunities, and breakout sessions and panel discussions.
- **Strategic Planning**: Sodexo strengthens relationships with HR and operations to leverage their support and commitment to NSMH and college recruitment.
- **eCard Campaigns**: Sodexo sends eCards both internally and externally to build excitement, support, and engagement for the NSMH national conference, while encouraging hiring managers to make employment offers. eCards are also sent to students for pre-screening and pre-scheduling of interviews.
- **Online/Social Media**: Each year, Sodexo develops a specialized NSMH landing page on the Sodexo Careers website for students to get information about their participation in the upcoming conference. Additionally, they create a Facebook event page; leverage Twitter, Pinterest, and Google+; and promote the national conference through an e-newsletter called *Career Connections* to build relationships and excitement before the conference. All of this content is mobile optimized and available to students accessing content via the Sodexo Careers Mobile Jobs app.
- **Branding**: Through all communications, the company positions Sodexo as an employer of choice to students and as a corporate option to pursue outside of the traditional hotel and restaurant industry. Sodexo team member enthusiasm and energy at the national conference takes on a life of its own quickly and is valued by attendees.
- **Scholarships**: Each year, NSMH students can apply either for a scholarship to assist them in attending the conference and/or for an academic scholarship that is awarded to a deserving student to be applied to their college studies. The academic scholarship winner is announced at the national meeting each year.

Case Study: NSMH – At the Event

During the actual conference, Sodexo hosts a number of live activities, including a welcome/hospitality suite, and their recruiters, operations leaders, and Sodexo-NSMH alumni participate in panel discussions and other breakout sessions. Additionally, they conduct a full day of interviewing intern and management candidates, and they are the only large company making on-the-spot offers to candidates.

Supporting all of Sodexo's activities on-site, their team actively posts to both personal and company social media profile information about Sodexo's on-site activities, as well as other relevant bits of information to engage with attendees.

Case Study: NSMH – After the Event

After the conference is over, Sodexo recruiters reach out to those who were met to continue engaging them with the company. To facilitate this process, Sodexo uses their candidate relationship management (CRM) system to stay in touch with those NSMH members currently in school who might be interested in internships and those who are preparing to graduate who might be interested in entry level positions.

For those students still in school who apply and are accepted into the Sodexo Future Leaders internship program, professional development webinars as well as virtual mentoring is offered as part of the program. And at the completion of the internship, former interns are granted access to the company's alumni network program called Reconnexions. Access to the Reconnexions portal gives the students access to additional professional development opportunities and job openings not available to external candidates.

Also, top students who complete the internship program as well as current employees who are former NSMH members are encouraged to become official brand ambassadors for Sodexo at their home schools, sharing information about careers at Sodexo and encouraging others to become active in Sodexo-NSMH events. Sodexo provides these ambassadors with social media training and guidelines on how to use Twitter and other platforms to engage socially with potential candidates, and provides opportunities for these ambassadors to be guest bloggers on the company's career blog.

For graduates and former NSMH members, Sodexo maintains contact with them for future career opportunities with the company and also encourages them to refer other candidates to Sodexo. In fact, the company has gone back as far as 2008 to source NSMH students who were previously interviewed and may now be ready for general manager positions.

Additionally, Sodexo works to connect students with jobs through internal marketing within the company's talent acquisition team. During their weekly talent acquisition department calls in the spring, time is dedicated to spotlight NSMH students to increase awareness of their availability. Additionally, invitation-only e-mails are sent internally to solicit HR partners to participate in workshops and panels in support of marketing and branding of Sodexo at NSMH.

What Was the Real Outcome?

Each year, metrics are gathered to measure the effectiveness of Sodexo's communication strategy as well as overall engagement with students who attend the NSMH conference. The 2014 conference was held in St. Louis, Mo., and was overshadowed by a winter storm that prevented many chapters from attending the conference.

However, Sodexo's use of Twitter in 2014 vs. 2013 saw an increase of 115 % in accounts reached and a 7 % increase in impressions. But the true measure of success was their on-site engagement – despite the overall low conference attendance: Sodexo conducted 56 management and intern interviews over a span of 8 h, resulting in 10 offers for management hires and 12 offers for internships, as well as identifying five students who are under consideration for employment after they graduate later in the year.

What Are the Lessons Learned?

The strategy developed for the NSMH campaign has become a best practice for Sodexo's future college recruitment strategies. Future campaigns will introduce new mobile technologies/techniques, continue the mentor/coach approach to students, and foster relationship building with students who attended previous events.

Sodexo's NSMH campaign is about more than increasing the number of hires achieved at the national conference. It is about building relationships with students who become part of a diverse talent pipeline that can meet future hiring needs in the company. It is about building relationships and strong partnerships with Sodexo's internal customers and colleagues in operations and HR who are willing to go that extra mile to pursue this talent. And, above all, it is about developing an innovative campaign that brings all of these relationships together to achieve results.

While new technologies have become the tool with which Sodexo implements its campaign, at Sodexo it is more about the people and the long-term relationships developed. Developing an effective recruitment campaign is not built simply to achieve better numbers than last year. An effective digital recruitment campaign supports the building of long-term relationships that meet hiring needs now and into the future.

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Human Resources Marketing and Recruiting: Essentials of Recruiting Events

5

Nicole Dessain and Matthias Zeuch

Contents

Abstract

Recruiting events are one way of attracting and finding talent and an integral part of a company's overall sourcing channel strategy.

This topical chapter explains the various types of recruiting events and the kind of talent that is mainly sourced through this channel. It highlights required investments (both human and monetary) and identifies potential risk areas.

The chapter outlines key steps for successfully planning, executing, and following up on recruiting events. It concludes with an outlook on the future of recruiting events compared to other sourcing channels and in consideration of technology advancements.

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Recruiting events • Career fairs • Job fairs • Recruitment marketing events

What Are Recruiting Events?

Recruiting events (also known as career fairs or job fairs) are live or virtual events focused on recruiting a specific target audience – usually at a prescheduled date. Recruiting events can be organized by a company itself or by third parties such as universities or professional associations.

Below is an overview of the most common types of recruiting events.

Events hosted by professional associations – Professional or industry associations may offer recruiting events as a way to assist member companies in recruiting specialized talent, or they may integrate recruiting opportunities into topical conferences.

University career fairs – A university's career services team supports their students' ability to find internships and permanent positions. Especially in the USA, career fairs are an integral part of a university's career services offering.

Diversity-focused events – These recruiting events are commonly organized by associations that support minority groups in their job search. An example is the National Black MBA Association (NBMBAA). Universities may also offer events and other recruiting opportunities that target their diverse student population.

Military veteran-focused events – These events focus on the reintegration of military veterans into the civilian job market. They provide a venue for employers to specifically hire from this talent pool, and they may also provide resources that aid in the translation of military experience.

Events hosted by chamber of commerce – Similar to events organized by professional organizations, (international) chambers of commerce may offer career fair opportunities to their membership.

In-house career fairs – Companies may also organize in-house recruiting events. These either are targeted at current employees and provide an overview of various departments and career paths or may be an integral part of the company's selection process for external candidates.

Virtual career fairs – Virtual and online career fairs are a recent evolution of live recruiting events (Korn 2014). A virtual career fair is an interactive online platform that connects job seekers to employers and employment opportunities. Virtual career fairs may last from a few hours to a couple of days and feature 24/7 online access, live chats with recruiters, ability to record video pitches, and company booths.

Non-recruiting events – Hackathons (24–36-h competitive marathon programming sessions) and annual interactive conferences such as South by Southwest/SXSW (Swartz 2015) have become innovative recruiting event opportunities, especially for attracting scarce technology talent.

Companies may participate in a few or all of these types of events, depending on specific talent hiring needs.

People Perspective

There are certain people aspects to take into consideration when conducting recruiting events. Besides identifying the candidate audience, it is critical to determine which employees should participate in events. For all event types, it is advisable to include non-HR employees and managers. This fosters employee engagement and provides candidates with an opportunity to get a better sense of the company culture.

When selecting employee ambassadors to participate in recruiting events, the following attributes should be considered:

– Exhibit a positive attitude toward the company.
– Have good communication skills.
– Represent the diversity of the company and society of the respective country.

In addition, the following outlines event-specific people-related considerations:

In-house career fairs – Recruiting events, especially if they are conducted on-site at the company, can send a strong signal about the future of the company. The message to current employees is: "Your job is safe with us because we are hiring even more people." In order to avoid disruption of daily operations, there can be designated stations within each department where candidates can get information. Breaking down the boundary between external and internal can make candidates more comfortable with the company's culture and environment. It also shows applicants the real life within the company and aids in the decision-making process whether to join the company. A negative decision based on a realistic cultural experience is better than having candidates join the company only to find out that it's not a good fit.

Off-site events – When organizing recruiting events off-site at an attractive location, the company sends a clear signal that it values investment in talent. Such events lack the opportunity to have candidates experience the company culture but might – depending on the location – offer other opportunities to showcase positive aspects and messages regarding the company. If the location is too luxurious in comparison to real life in the company, there is a risk of creating false or too high expectations with candidates which might lead to increased early attrition.

Off-site events hosted by third parties – Depending on the size and reputation of the company, attendance at major third-party events may be critical for maintaining brand equity. Especially large organizations should not miss major local recruiting events, even in times of crisis. During hiring freezes or very moderate hiring, event communication should focus on general employer

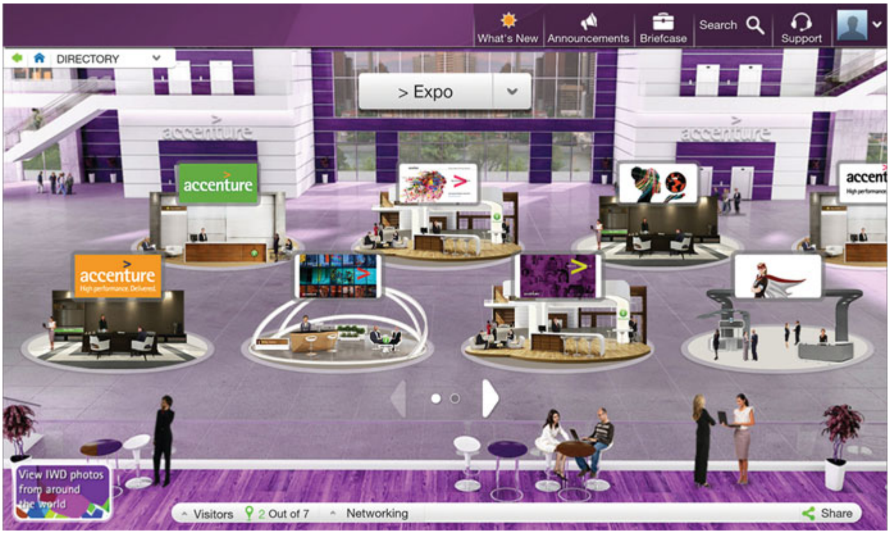

Fig. 1 Accenture virtual event environment (Source: Accenture corporate marketing)

attractiveness and company information. A decision not to participate in major recruiting events can cause a long-term harm to the employer brand. Maintaining a continuous presence is especially important in university/college graduate hiring. Even when employers are not actively hiring on campus, they can maintain a presence with students through networking events. As students are always being reminded of the importance of networking to their job search, they attend these events even if there are not any open positions.

Virtual career fairs – Virtual career fairs are especially conducive to the communication style of the new generation entering the workplace. Participation in such fairs can send a positive signal to the candidates about the company's openness for new technologies, its innovative mind-set, and adaptability to the new generation. The lack of direct personal contact may be perceived more favorably by this millennial generation than by other workforce segments.

An example of effectively engaging participants in a virtual environment is Accenture's 2015 International Women's Day event. Participants can enter the environment before the day of live events and access the networking center, resource room, and expo hall to learn more about Accenture and International Women's Day (see Fig. 1).

Economic Perspective

Who organizes the event and whether it is a live or virtual event determine the monetary investment required to conduct recruiting events. The following provides economic perspectives for the various types of events:

In-house career fairs – On-site events may result in expenses for:

- Catering
- Investment in additional displays
- Additional cleaning costs
- Security measures
- Safety measures
- Overtime payments for participating HR staff and non-HR staff (especially if events take place on weekends or after hours)

If the company sells retail products, the event could also be used to familiarize the visiting candidates with its products and thus increase sales.

Off-site events – Off-site events may require the following expenses:

- Rent of the facility
- Transportation cost
- Cost for designing, creating, and building the complete decoration of the facility to align with the company's look and feel
- Overtime payments for participating HR staff and non-HR staff (especially if events take place on weekends or after hours)

This type of event is usually the most expensive option because the company basically creates a temporary, in-kind outpost at another facility.

Off-site events hosted by third parties – Off-site events organized by others may require the following expenses:

- Rent of booth space and participant cost
- Cost for interview space
- Stand design and production
- Marketing collateral
- Transportation cost

Virtual career fairs – Third-party charges for virtual career fair platform access may vary. It is advisable to collect quotes from several vendors to assess which solution provides the capabilities needed at an affordable price point.

Risk Perspective

Risks may vary by type of recruiting event, depending on who is the organizer responsible for the event.

In-house career fairs – On-site events incur the highest risk compared to the other types of events. Usually company facilities are not prepared to be turned into a "museum" with open access to visitors.

Risks may include:

– Safety Risks: Especially when the company also has production facilities at the location of the event, precautions have to be taken that visitors will not get injured. This either requires locking production areas for visitor access or having security guards and/or guided tours through the production.
– Security Risks: When granting visitors access to offices, confidential company information has to get secured first. This includes whiteboards, pin walls, and flip charts with discussion results, documents on desks, access to computers, and other forms of information. It is advisable to conduct an employee security briefing prior to the event.

If, on the other hand, the visible space to visitors is strictly limited, the positive effects as detailed under section "People Perspective" will be diminished, and the investment (see section "Economic Perspective") might not pay off.

Off-site events – The risk exposure of off-site events usually is in between the relatively safe and secure events organized by third parties and the high-risk on-site events. The company is still responsible for most safety risks, unless the location is managed by a host who assumes that risk. The safety risk for visitors depends on the choice of the location. The security risk, especially regarding confidential company data, is low because all information material has to be actively carried to the location so that the risk of unauthorized access to company information is low.

Off-site events hosted by third parties – Off-site events organized by others usually are both the safest and most secure form of recruiting event. The company rents a defined space, and everything around that space is managed by third parties. Also the risk of unauthorized access of visitors to company information is rather low.

Virtual career fairs – Usually there are minimal safety and security risks if the virtual career fair is facilitated by a credible organization. Any time personal data such as resumes, grades, etc., are shared online, the virtual career fair vendor must ensure compliance with all applicable data security laws.

Operational Perspective

In-house career fairs – Operationally, on-site events are most work intensive, both for the HR department and for facility management and security staff. Since the company is liable (see section "Risk Perspective") for all that happens during the event, precautions have to be taken, staff has to be trained/informed, and a large number of staff has to be present during the event.

For an HR department that is understaffed or overworked, a recruiting event at their own premises may not be doable. An advantage of on-site events is that usually all meeting spaces and offices are unattended during the weekend, so it is possible to conduct interviews with potential candidates already during the event.

Off-site events – Depending on the location selected and the services provided by a potential host, the workload for HR staff varies significantly. Usually HR (potentially with the help of facility management) will be responsible for designing and preparing the off-site location for the event which can cause a major workload. Certain parts of the facility may be used to conduct interviews during the event.

Off-site events hosted by third parties – This form of recruiting event is the least work intensive. The preparation is confined to the limits of the defined square meters of the company's booth area. Neither access control, catering, safety, nor security has to be taken care of, and HR can concentrate on marketing and recruiting activities.

Conducting interviews during the event may be limited to semiprivate discussions in open spaces or require additional investment in interview rooms.

Virtual career fairs – While there are no physical activities necessary to attend a virtual career fair, there are still work-intensive parts regarding information collection and posting, designing the virtual booth of the company, and attendance of the fair.

When participating in virtual career fairs, HR has to ensure that all staff takes the participation in this as seriously as it would with a face-to-face event. Similar to eLearning, fostering engagement is more difficult than in a face-to-face setting.

Dos and Don'ts

Recruiting events – especially live ones – require a considerable amount of planning and coordination. It is important to be aware of key tasks required before, during, and after the event.

The list below captures success factors across all these three stages:

Event strategy and planning – Any type of recruiting tool cannot be a one-size-fits-all solution. Recruiting events need to be an integral part of a company's overall segmented sourcing strategy. Preparation for the event in terms of identifying the audience, creating an annual event schedule, and appropriately sizing the event team is a critical success factor. Time and effort required to analyze competitive event practices and designing attractive marketing collateral should not be underestimated.

Technology integration – The event can be publicized socially prior, during, and after the event day (e.g., by encouraging visitors to tweet about their experience in real time). Pre-event blog posts or webinars around topics of interest such as resume writing and interview skills can further drive candidate engagement. Recruiters can learn from social media marketing best practices on how to promote events effectively (Reynolds 2015). The exhibition stand design may incorporate digital technology, portable displays, and social media. Using iPads to collect candidate information during the event enables better tracking and easier follow-up.

Company culture showcase – Recruiting events can serve both for HR marketing and for recruiting purposes. Companies should invest in a professional look and feel for the exhibition stands, print material, and technology to showcase the company's unique culture and products. Company culture is further reflected in how the event team is dressed and the type and level of representatives the company chooses to bring.

Candidate experience matters – It is important to create a positive experience for everybody visiting a company's recruiting event booth, not only for those whom a company wants to hire. All visitors are potential ambassadors or detractors of a company's image as an employer. A good practice is to walk around and analyze how other exhibitors (especially competitors) handle this and to integrate these best practices.

Presence of decision makers – When attending events with potential high-quality candidates, it is important to bring decision makers who can make immediate hiring decisions. Inviting key executives to speak about interesting trends draws talent for targeted networking opportunities and showcases the importance of recruiting talent at all levels of the organization.

Time management at the event – Especially at large events or for companies that have a well-known brand, lines at the booth may exceed capacity. Recruiting should limit conversations with interested visitors to a few minutes maximum and then schedule a 1:1 interview after the event with those candidates that were short-listed based on the initial assessment.

Follow-up – Capturing information about candidates during the event is key for an effective follow-up. Especially for large recruiting events, a timely and memorable follow-up can set an organization apart from the competition.

Final Comments and Outlook

According to CareerXroads Source of Hire Report 2014, career fairs made up 1.4 % of companies' total hires in 2013. That was down by 0.5 % compared to 2011. Overall, career fairs ranked fairly low compared to other sources – only print ads and walk-ins generated fewer hires (Crispin and Mehler 2014).

Recruiting events have not evolved much over recent years unlike several other recruiting channels. One could argue they are made obsolete by constant enhancements to online, social, and mobile recruiting channels. On the other hand, a human need remains for high-touch, quality personal interactions.

This leads to the conclusion that there is an opportunity for recruiting event reinvention. As virtual, interactive, video, and holographic event technologies evolve, there may be a potential to reshape recruiting events into something new, a hybrid between social sourcing, community building, gaming-facilitated assessment, and experiential employment branding. The advantage of virtual event technology is that it enables asynchronous access to a global talent pool and may also ease barriers of access for people with different abilities.

As a case in point, the candy producer Hershey provides a glimpse into the future. Their talent acquisition team experimented with immersive technology in an effort to increase candidate engagement at job fairs (Colino 2014). The below image (Fig. 2) shows candidates interacting with iPads during the career fair.

Fig. 2 Hershey's immersive technology at career fairs (Source: http://www.slideshare.net/fullscreen/hersheycareers/hershey-immersive-job-fair-experience-33602189/1)

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Human Resources Marketing and Recruiting: Essentials of Employee Referral

6

Bryan Moll

Contents

Abstract

This chapter covers an overview of the description, implementation, and management of an employee referral program. This is an important recruitment tool, and so it is crucial that any company looking to introduce one or to learn more about how they work initially researches the processes, benefits, and risks involved.

The purpose of looking at an employee referral program is to outline the main areas to consider and dedicate further research before committing to an organization-wide launch.

The report used current reported methodology and academic findings as well as the results of studies carried out into this field of staff recruitment, incentive, and retention.

The chapter shows that this type of program can be extremely successful if managed correctly and that employees are fully aware of the processes of how it works and how to access the program and the benefits to them as participants.

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It also looks at the risks to consider and safeguards to have in place with reference to certain areas.

The chapter demonstrates that with thorough planning and communication, an employee referral program is an incredibly efficient tool, although one which should be considered as whether it is a fit to a particular company and the way it operates.

Undertaking this introductory and feasibility investigation into an employee referral program will help any recruitment expert or company owner in making a decision as to the positive outcome which can be achieved through the integration of such a tool into their human resources recruitment and retention suite of methodology.

Keywords
Recruitment • Employee • Referral • Incentive • Program • Loyalty • Retention • Economy • Human resources

Introduction/Overview

One of the most important elements of any business is the workforce – the staff who are there each day to make a company a success. It is sometimes not easy to motivate and manage a team, and so there is a need for a policy to inspire them to remain loyal to their brand, build trust in them as people, promote confidence in their worth as employees, support them in their ideas and decisions, and communicate clearly strategies and corporate vision. A successful industry influencer will engage, educate and train, empower, and lead their employees by example.

One way to engage and empower is to offer defined and structured incentives through different policies and programs. One which should always be part of an inclusive team approach is an employee referral program.

What Is an Employee Referral Program?

An employee referral program (ERP) is an internal recruitment approach where an organization incentivizes current employees to promote, attract, identify, and refer possible candidates from both their social and professional networks to current employment opportunities at their organization. ERPs are considered to be one of the most impactful recruitment strategies used by every level of company and type of industry today. When planned and executed correctly, an ERP can produce significant cost efficiencies as well as provide organizations with better quality recruits.

ERPs are widely considered as sound human resources (HR) and recruiting business investments because they provide a nonrevenue-generating department the highest performing cost-effective means to recruit talent in a very efficient way. They do this while also providing organizations with quality recruits which come from their most trusted contacts – their employees. The added value which ERPs provide keeps employees who participate engaged as well as encouraging a distinct amount of retention capabilities. As an example, when an employee successfully refers a friend or colleague to their company, they not only feel a sense of contribution to the welfare and success of their organization, they also gain the positive feeling of helping someone within their own network to find a good job.

People Perspective

When looking at the personal benefits of such a scheme, ERPs offer employee recognition as well as the ability to boost employee morale when implemented within a comprehensive employee engagement strategy. They utilize the networking skills of staff in order to grow a business for the future as well as attract new customers. Sound ERPs foster a friendly yet competitive spirit among employees. Those who already work for a company are one of the best and most cost-effective advertising and recruitment resources, and a solid ERP builds on that foundation (PR Newswire 2014).

By providing monetary and nonmonetary rewards as well as a sense of contribution to the success of the company they work for, ERPs encourage current employees with both short- and long-term incentives to remain with the company for an extended period of time. Many studies have shown that the benefits of ERPs outweigh alternative ongoing investment made by companies by attributing the success of this type of program to key metrics such as the quality of hire, cost per hire, and overall employee morale.

Most ERPs are designed to have a desirable and positive effect on employee recruiting as well as employee retention; however, there are personnel-related risks to ERPs that companies should be aware of. The most likely is the recruiting of undesirable employees through the ERP. However, this risk can be effectively mitigated through ensuring that all potential employees are properly vetted through the HR department and then go through the same training as non-ERP employees are required to attend. Some staff may be discouraged when they discover and refer potential employees and then are not eligible for the reward because their recruit did not make it through the vetting process, but if an ERP participant refers qualified leads, then this should not prove to be a huge issue.

Friendly competition within the ERP can create a positive and healthy work environment; however, the ERP will need to be constantly monitored to ensure that the friendly competition does not lead to resentment among employees, which in turn can create hostile work environments. Workplaces may need to set limits on the maximum reward an individual can achieve, either overall or during a certain time period. Workplaces may also need to create restrictions on who can participate in the ERP. As an example, a workplace may restrict the recruiting department employees from participating in the program, since their main job is to recruit potential employees and ERP bonus programs may not be appropriate for this department.

Economic Perspective

ERPs can offer both monetary and nonmonetary rewards to influence and encourage current employees to actively promote their company's talent brand and employer value proposition. The goal is to incentivize employees to continuously participate in the recruitment process and to encourage proactive networking on behalf of their company to discover and refer great talent. ERPs have grown more useful with the evolution of technology over the last few years and are primarily utilized by the employees through social media – more specifically professional online networks such as LinkedIn (LinkedIn Talent Solutions 2013).

Time is money and this is especially true when it comes to efficiently recruiting top talent to a forward thinking and future proofing organization. ERPs allow recruiting departments to efficiently use their time and resources when choosing candidates for open positions by creating a way for employees to become marketing extensions for their company's talent brand. This means that employees are in fact actively marketing their employer, searching for and initially screening potential candidates for open positions, as well as providing valuable candidate pipelining work for future vacancies. Many HR and recruiting departments are usually small in comparison to the workforce they support. With the implementation of an ERP, these departments can raise and promote their organization profile and achieve much more reach in terms of their recruitment marketing efforts and targets.

ERPs are not always all necessarily geared toward attracting new employees. ERPs can also take advantage of the marketing and networking skills of staff in order to attract new customers. ERPs which are designed to attract either customers or employees also help raise employee awareness about their workplace and enhance feelings of unity and respect among coworkers. The costs associated with these types of ERP are greatly overshadowed by the profits and economic growth that they bring in with new customers and increased sales (Taulbee 2010).

Operational Perspective

Designing a successful ERP requires communication of how program success is envisioned and the budget available to determine how straightforward it will be to achieve the desired outcomes. This could well depend on the size of the organization, the industry sector, and how many open roles it is perceived will require filling in a given quarter or year. In order to maintain a successful ERP, there will be the need to consistently execute the following:

- Attractive messaging which encourages employee participation while educating on how to fully utilize the program
- Technology implementation to help streamline processes and capture important data to measure program success and identify areas for improvement

– Employee guidance on what the company is looking for in specific positions which are being advertised as well as relevant information on broader talent profiles the organization can utilize to pipeline for future hiring needs

It is considered good practice to communicate to the organization the referral award amount which will be paid out when a successful employee referral hire is made. The amount needs to be sufficient to incentivize action but not too much that it becomes a distraction or the amount no longer provides the organization with an acceptable cost per hire metric. The right amount of referral reward will be dependent on certain criteria such as the following:

– Size of company
– Industry sector
– Position type
– The number of positions
– Time frames or deadlines to fill open positions

One thing to consider is the cadence in which the company pays out the referral bonus. Best practice is to pay out the referral bonuses in two installments where half is paid immediately after the referred employee start date and the second half is then paid after a few months. This approach ensures the referring employee remains with the company for both installments as well as giving the employer an opportunity to manage budgets and resources.

There are many alternate forms of referral rewards outside of monetary compensation. Many companies offer rewards in the form of additional vacation time, tickets to a special event or industry conference, charitable donations made on behalf of the employee or team, and even company-wide recognition which is often seen as very valuable to employees who want to raise their profile as being a worthwhile and valuable member of the workforce. It is important to provide a variety of rewards to help the ERP stay fresh and exciting to encourage continued participation by the employee base.

There is also another way which will help expand an ERP program and continue to receive active referrals. Some companies are expanding their reach to former employees or vendors as well as trusted contacts within other similar, like-minded companies (PR Newswire 2012). This type of ERP may or may not offer rewards from referrals from outside sources; however, it can still be an extremely effective and cost-friendly approach to recruiting new hires.

Recruiting programs utilize many different forms of marketing when spreading the word that they are hiring. Historically, companies marketed their jobs using many formats, from print, radio to even television, but marketing is expensive, and with limited budgets many recruiting department leaders are using the Internet and social media as the major vehicle to both fuel the marketing of their talent brand and carry their employee referral programs.

There are several different ways in which the Internet can be used to its fullest advantage with any ERP. Redesigning business websites to incorporate the ERP has been shown to be advantageous when implementing new ERPs (Taulbee 2010).

Databases and registries can be created to help track employee progress and rewards earned. Social media can also be used as a way for employees to advertise their business with no cost to the employee or the business; however, there would need to be a way to accurately track employee referrals through social media.

Social media recruiting allows for a much more cost-effective means to promote open jobs but also provides an incredible efficiency when engaging the social media networks of employees. By engaging these platforms with curated content and job opportunities, the messaging will be much easier and faster to disseminate to the range of social media tools. It is important to note that effectively communicating what the "must haves" are for each position so that your extended recruiting team (i.e., employees) can focus on contacts within their networks who are in line with what the company looks for from both a skill set perspective and cultural fit.

There are a variety of social media recruitment tools and technologies available on the market today to choose from. The place to start is to look at the budget constraints and then test a program within these parameters. The use of affiliate marketing technology is a further trend which is seen as being responsible for the evolution of adoption of an ERP by employee workforces. The more streamlined, accessible, and easy to understand participation is made, the better the results. This requires recruiting leads to learn about which technologies will help your ERPs to become fully integrated into the everyday work processes used by the company employees. The primary goal with these technologies is to seamlessly engage the employee population to help build strong online talent pools to be used for both present and future open positions.

Some companies are also turning to "low-tech" solutions to implement ERPs, and these have been equally successful (Taulbee 2010). Businesses are able to simply distribute company business cards with an employee's signature on the back of the card, and when a new employee gives that business card to the HR department during the interview process, the employee receives a reward or a certain amount of points for the referral (Taulbee 2010). Companies can also limit the reward to employees who refer successful hires which will help reinforce the integrity of the ERP program.

Dos

Before implementing an employee referral program within a company, it will be necessary to provide HR and finance leadership with extensive research on best practices and a prospectus on possible ongoing expenses and maintenance to the program. It is important to assess multiple ERP programs within different types of industries to gauge which is the right approach for the organization. It is also important to fully consider the feasibility and implementation of nonmonetary rewards because not all ERP programs require money to be paid for successful referral hires. Recognition from internal leadership, event access to thought leaders and industry influencers such as at conferences or workshops, and additional time off mechanisms can be used as rewards for participating. This approach provides additional employee betterment, networking, and learning opportunities which can produce a higher-quality employment experience versus simply making a monetary payment. Having an all-year round ERP and unlimited referrals objective is important because recruitment is an all-year round activity which requires employees to be incentivized to assist in the continual identification of strong passive candidates who are in the market and could be referred for current and future opportunities.

Each referral should be tagged in a standardized procedure, and if the candidate is successfully hired at any time in the future, a referral fee should be paid out to the successful employee who introduced the candidate.

It is best practice to break ERP payments into installments to confirm referrals have successfully been employed for an acceptable period of time. This also helps retain employees who are responsible for the referral.

Continual management and promotion of the ERP program is crucial because employees have their own job to focus on, but it is important to continually promote communications of the program highlights, details, and advantages of participation in order to stay fresh in the minds of all. The best times to introduce the program are during new hire orientation, company meetings, and at scheduled times during the year. Showcase how easy it is to participate and what the rewards look like on a regular basis. Fluctuating rewards and a consistent schedule will help keep employee attention and interest in the ERP. It is also important to run promotional periods where successful referrals are paid a premium award versus the usual amounts. This will help keep interest in program participation during key quarters of hiring growth.

Successful employee referral programs require consistent, standardized, and continual assessment, measurement, monitoring, evaluation, and maintenance in order to deliver on their initial benchmarked objectives. The best ERP examples capture, measure, and market the data and share actionable insights to business counterparts. This should be in an effort to further justify the investment as well as improve upon results. These insights should look to answer a number of important questions such as how many hires come from employee referrals compared to other recruiting programs and strategies, how long do employees who were referred stay at the company versus other non-referred employees, and are referral employees more successful in terms of performance appraisals than non-ERP hires. These are all important talent metrics which other nonemployee referral recruitment approaches are measured against. One way to measure ERP quality is to survey current employees and hiring managers to help capture important data and insights and to gauge how effective the program is as well as to identify areas for improvement. Most improvement areas which arise are usually around whether the amount or type of referral incentives is incentive enough to participate and if the process is easy to follow and provide results for all who are involved.

It is important to maintain a thorough vetting process even with an ERP in place. There may be concerns voiced about the possibility of hiring poor leads from an ERP; however, these can be effectively mitigated with a comprehensive vetting process. ERPs do not replace the employee vetting process, and new hires who are discovered through an ERP should still complete the same requirements and orientation processes as regular new hires (Mohanty 2011).

Any incentive which is given for ERP hires should be disbursed out once the new employee completes the vetting and orientation processes. As already indicated, companies can also schedule ERP payments once new employees reach certain milestones within the company. This ensures that employees who use the ERP program do not take advantage of it by referring people who would otherwise not meet the requirements to be hired by the organization.

Don'ts

The important issues to concentrate on preventing within an ERP program concern budget, quality of recruitment, and promotion of program.

Budget constraints are part of every company finances, and the introduction of an ERP will have a monetary impact – the setting up, the management of, and the incentive itself whether it is actual money or the cost of a nonfinancial reward such as access to a chosen conference or training course. Therefore, it is important that the budget is clearly defined at the outset with each relevant department being aware of their maximum spend, HR and marketing in particular. Overspend will eventually bring the downfall of the program, so the excitement of this new method of recruitment should never overshadow the actual cost of carrying it out.

It is also equally important that monetary payments are staged, so the current and new employees stay with the company for a set amount of time and do not leave as soon as they are paid their extra referral fee. Consider a period of time such as 3 or 6 months, perhaps dependent on the usual staff turnover rates.

Carry on recruiting in other traditional ways as well as the ERP. Focusing purely on ERP employee referrals could lead to poor recruitment candidate choice and the lack of quality applications.

The staff need to know about the scheme, so do not forget to tell them about it and how it works. They need to comprehend the overall idea and the exact role they play; otherwise there will be no referrals as the workforce will not know what they should be doing.

At the same time, even if you have launched the ERP with an impressive flourish and accompanied it with information in various formats, do not let the initial enthusiasm and communication stop at that point. It is a program which requires regular marketing, and it would be wise to assign a member of staff to take on the role of refreshing the dissemination of information as part of an ongoing strategy. If the staff become too involved in their daily workload, they will quickly forget about the ERP unless there are constant and visible friendly reminders about how it works and the benefits on offer.

Final Comments and Outlook

ERPs can be extremely beneficial to any company; however, they can in particular help companies which are understaffed to find qualified new employees to help boost their ranks. They can also help create a more positive work environment which can lead to better employee retention and loyalty. ERPs are not designed for companies which are already contending with financial issues because most ERP programs will involve an investment of money, even for those that use nonmonetary rewards as the actual incentive.

If ERPs are utilized and managed effectively, they can affect most companies in an extremely positive way. They help to build morale among current employees, while also increasing both successful recruitment and retention rates. Employees who are allowed to have a voice in the hiring process may feel that they will be more cohesive with people that they recommend for positions than people hired through a random hiring process. This will help increase workplace satisfaction among employees and also provide a word-of-mouth advertising for businesses, further assisting in the recruiting process for businesses which utilize ERPs successfully.

ERPs may be the difference maker in companies which are trying to be successful in struggling economies. They are low cost and do not always have to involve monetary rewards to be successful. ERPs focus on using the networking skills of a current workforce rather than, or in addition to, paid advertising. Personnel recruited through ERPs already have one solid reference which is referring them to the hiring company, and a thorough vetting process can ensure that companies are still hiring the most qualified individuals for each advertised position.

An ERP may not keep a company from going out of business or declaring bankruptcy; however, it will help conserve much needed costs that can be utilized in departments where the funding can be more effective. Therefore, it is reasonable to suggest that successful ERPs will benefit the entire company and not just the recruiting department and the department where ERP hires are assigned. Departments that may have had funding cutback in the past in favor of more funding for the recruiting department may be able to have funding restored with successful implementation of an ERP program.

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Human Resources Marketing and Recruiting: Essentials of Internship Management

7

Michael Griffitts

Contents

Abstract

As demographic realities become more apparent to business and HR leaders, the focus on early-career talent will continue to grow over the next decade. There is a significant investment to manage an internship program, but with good preparation, the investment can strengthen the employer brand and the pipeline of talent from the rising generation. The foundation of a successful program includes

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meaningful projects and close supervision from engaged managers. With this foundation, appropriate university relationships can be established along with a recruiting process, onboarding, and integration into the organization. Planning should also include a process for high-performing interns to convert to regular employment. An outstanding internship program will hire motivated and talented students who feel embraced by the organization and empowered by their managers to make a positive difference in their roles. And these successful interns will spread positive messages back to their peers and help to enhance the company's brand.

Keywords
Employer brand • Interns • Millennials • Recruitment • University

Introduction and Basics

Internships are one lever in building a robust recruiting function and in managing a company's employer brand. The National Association of Colleges and Employers (NACE) in the United States offers the following definition of an internship:

> An internship is a form of experiential learning that integrates knowledge and theory learned in the classroom with practical application and skills development in a professional setting. Internships give students the opportunity to gain valuable applied experience and make connections in professional fields they are considering for career paths; and give employers the opportunity to guide and evaluate talent (NACE 2014a).

An internship program can provide tremendous value to an organization over the long run when the conditions are right, but the time and expense of bringing students into a company is considerable and requires strong commitment and careful preparation. An internship requires appropriate roles/projects, effective managers, qualified candidates, an engaging onboarding and integration process, and a clear procedure for ending the internship. The energy and ideas that interns can provide, along with the potential future talent that can be attracted, can be enormous benefits to an organization.

The decision to develop and implement an internship program shows a commitment to developing university-age talent. There are many organizations that decide to focus their talent acquisition efforts on experienced hires who typically require little development before being full contributors in their roles. Internship programs require senior leadership support, hiring managers willing to spend their time (and some financial expense) onboarding, structuring project(s), and coaching for performance. The amount of work by HR and by the hosting departments is considerable, so the business case should be thoroughly examined.

The learning element differentiates internships from other forms of temporary summer help or part-time jobs. Organizations that decide to implement an internship program are committing not only to finding meaningful projects but to supporting the learning and development of the students who are accepted into the program. Program managers and hiring managers need to build learning opportunities into the structure of the internships.

The benefits of an internship program can go beyond the temporary help completing work projects. Interns require host organizations to integrate employees who are new to the world of work. In the process of integration, quiet assumptions about how (and why) things get done in the workplace become more explicit. Bright and curious interns may question cultural practices that can be limiting the organization's effectiveness. This interrogation of an organization's cultural practices should be encouraged as an important opportunity to leverage the power of the intern program.

People Perspective

Talent/Management Development

An initial benefit that will appeal to most business leaders is the boost that an internship program can provide to building the long-term talent pipeline. Growing companies, even slow-growing companies, are scrambling to figure out ways to attract and prepare millennials and the "digital natives" to take on leadership roles. The 2014 Deloitte Human Capital Report points out that two-thirds of global organizations are dissatisfied with their efforts to develop millennials into leaders, and only 5 % see themselves as excellent at this imperative. Young talent that can be acculturated and come to embody the skills, values, and mission of the company can be a powerful cadre of future leaders.

Creating a strong brand with the best and brightest of the newest generation of workers can be a crucial prong in this strategy. A professional, fun, well-run internship program should be a core element of this strategy. When a company can consistently attract talented university graduates, develop them into high-performing contributors, and prepare them to manage and lead within the organization, a virtuous cycle of growth, talent acquisition, and development can be set in motion.

In addition to valuable project support, an additional benefit of internships is the opportunity to provide management experience to high-potential employees who do not yet have direct reports. The transition from individual contributor to first-line manager is a notoriously challenging career step. Internships can provide selected employees with a short-term management experience that includes recruiting and selection, performance management, work planning, coaching, and feedback.

Identifying high-value development experiences for long-term high potentials should be one of the highest priorities for a company's talent management strategy. An internship program not only can identify and attract new talent into the organization, but it can provide a solution to a population hungry for management experience. But if an organization decides to utilize new managers for interns, management skills training should be mandatory or at least strongly encouraged. Management training should include basic skills such as structuring work assignments, observing behavior, active listening, clear communication, and motivating people to perform at their best.

Of course, the manager of the intern manager should take this experience seriously, supporting the first-time manager with clear expectations on managing the work to be accomplished as well as expectations for effective people management. But when well planned, the development of the intern manager can be one of the most valuable benefits of an intern program.

Once the business case is made for an internship program, one of the first decisions to make is what types of positions make the most sense for the organization. Certainly it is tempting to identify departments that have plenty of work that can be accomplished by employees with very limited experience. But internship opportunities should give the interns something tangible and challenging to accomplish – not just busy work.

Employers should start by ensuring that management understands that internships are part of a long-term talent strategy and that identifying challenging and meaningful internship roles is a key success factor to implement a successful program. A good place to start is to encourage strategic business units and functions in the organization to identify projects that could be delivered within 2–3 months.

Connecting Interns to the Organization

Forward-looking organizations connect leaders to the intern population. When senior leaders participate in an intern orientation, for example, it sends a powerful statement about the importance of this population to the growth and vitality of the organization. And consistent visibility of leaders to interns is one of the strongest ways to brand the internship program and by extension the company itself. In addition to welcoming new interns into the company, it can be very effective to host regular lunch and learns where senior leaders share their career journeys and lessons that they've learned over the course of their professional lives. Interns tend to react very positively when they can hear about the business trends and how they can help solve business challenges and how they can be part of the organization's future.

In addition to senior leader engagement with interns, sharing the norms and etiquette of the organizational culture will help these new employees to avoid embarrassing faux pas in the workplace. Cultural training is often overlooked in organizations because the informal, often unspoken, practices are so embedded that they are ignored in the orientation process. But for interns who are new to the workforce, this often leads to social errors in judgment that could be easily avoided. An in-person session to talk through communication practices like email, voice mail, messaging, meetings, etc. can be one way to help prepare interns to be aware of common communication practices and to be mindful of how they communicate with colleagues.

Interns should also feel well acquainted with the products or services of the organization. At Genentech, a biotechnology company where FDA approval is crucial to the business, the College Programs team developed a board game for interns to match their products with their corresponding approval year. Games, presentations, mobile device applications, and an "open house" session are all possible methods for building interns' awareness of the organization and its products.

Connecting the interns to the organization through discussions on the culture and products of the business is an important first step, but there are also methods to institutionalize the intern program itself in the larger organization. One way to share the output of interns' projects, for example, is to set up a poster session where interns can share their work with other employees both visually and in person. Their projects should have some "afterlife" – and both the content and the process of their work can inspire other employees to take on business challenges and opportunities that can improve the organization. Intern presentations are another potential way to share projects with a wider audience. Depending on the number of interns, presentations would typically need to happen only in a local department rather than to a broader employee population.

Finally, as organizations seek sustainability, social responsibility, and a reputation as key partners in solving community and social challenges, engaging interns in some form of community service can further establish the organization as a place where the rising generation can "do well and do good" at the same time. There are many creative ways to identify community service activities that connect to the mission of the organization. Engaging the interns themselves in identifying opportunities is one approach that can work well. In the end, interns should see the organization as part of a larger community and that they should feel connected to keeping that community strong.

The Intern-Manager Relationship

This relationship between the intern and the manager is a crucial factor in the success of an internship experience and, by extension, to the success of the internship program itself. Preparation ahead of time can help to get the relationship off to a good start. Clarity solves a great deal of challenges. Managers should provide clear expectations for outcomes and identify very early on the key stakeholders who can support those outcomes.

Interns can have an early orientation activity that helps them to organize their work effectively and build good professional relationships. Using David Allen's *Getting Things Done*, or similar approaches, could provide a very useful way to help interns plan effectively and manage their work successfully (Allen 2002). Project success is the foundation of a strong relationship with the manager, but interns should learn on day 1 (if not before) that successful planning and implementation must be based on good professional relationships. Relationships are not sufficient, but they are necessary.

Of course, in a 2-month internship, there is not much time for extensive training in productivity and interpersonal effectiveness, but some themes and tips should be part of the orientation and the learning expectations for all interns. To the extent that these foundational concepts can be incorporated and illustrated concretely in orientation, performance plan documents, lunch-and-learn presentations, etc., the greater probability that interns will feel supported and will perform successfully in their roles.

Economic Perspective

Costs of an Internship Program

There are a number of very concrete costs that accompany an internship program. A business case for initiating an internship program is an important way to present the notion to business leaders. The business case should include expectations around the size of the program, recruiting strategy and tactics, employer brand, and effects on business operations.

One of the first questions to answer is how many interns should one target. Benchmarking studies have shown that companies that robustly leverage internship program hire at a rate of about 5 % interns to the overall employee population. The low-end percentage is about 1 % for companies that have interns but do not invest as much or convert as many to full time.

It is typically possible to use regular recruiters to fill intern requisitions in addition to their regular, full-time positions. At least one recruiter should be well trained and identified as a key point of contact in the details of the intern program and recruiting process. The time commitment for each intern requisition should be one variable to consider when establishing the business case for an intern program.

Another cost can be campus or event-related expenses. Establishing an attractive employer brand with a diverse and relevant university student population requires a professional presence at universities and career-related events. Although the rapid transition to digital employer marketing can reduce the costs of some traditional collateral material (like glossy brochures), driving candidates to digital materials requires resources from IT partners. There can be significant costs to shooting even short, high-quality videos. Digital material should be made with care and should connect the internship program to the employer brand. A rushed, poor-quality video will tarnish the brand and discourage applicants.

Beyond the advertising resources, the employee time resources should also be included in the business case. This would include an estimate of the time needed by HR and the business to go to campuses for presentations, career fairs, interviews, and less formal campus activities. A strong brand requires a high-touch approach, and having the right representatives using their time to speak with students is another cost that needs to be factored into the case.

A University Relations or College Programs FTE will typically be needed for larger programs, but even for smaller programs (~30 or less), it would be wise to allocate 25–35 % FTE to an experienced recruiter or HR Business Partner to manage the intern program.

Hiring manager time is another cost that bears mentioning. From interviews to expectation setting, regular check-ins, performance planning and evaluation, coaching, and instruction, a manager should expect to add at least 10 h per week to bring the intern up to speed. Ideally there will be some tangible business benefit to the time invested, but over the course of a 2–3-month internship the break-even point in terms of a manager's time is often not met.

There has been a great deal of publicity over the fractious issue of intern compensation. From an intern's point of view, the career-boosting value of internships leads some to consider unpaid internships to get their foot in the door of especially attractive employers. The option to get academic credit, the network they can establish, the glisten of a top employer for their resumes, and the possibility of conversion to a full-time job are important motives for interns to accept such conditions.

But the litigation risks of such arrangements are convincing most employers that deciding to have an intern program entails financial compensation. Depending on the academic backgrounds that one is targeting, the base salaries can vary widely. MBA interns, for example, can require salaries approximately double those of undergraduates. And fully loaded costs of interns will add 20–30 % to the base salary.

Benefits of an Internship Program

Given the clearly significant costs that interns require from an organization in time and resources, any decision to implement a program must demonstrate some compelling benefits. Alas, strictly financial estimates of the benefits are more difficult to demonstrate, but internships are an important process for attracting early-career talent to an organization.

Recent data from NACE indicates that conversion from intern to regular employee at their partner companies has been over 50 % (NACE 2014b). A LinkedIn survey that was conducted earlier this year shows a range of conversions across industries, from 12 % on the low end (publishing) to 31 % on the high end (accounting) (Koba 2014). Even the low-end conversion rates show the important role that internships play in the early-career talent acquisition efforts for organizations.

Research by PwC has highlighted several elements of an employer brand that seem to be particularly prominent with the millennial generation. They value learning and development. They prefer to communicate with technology. They are attracted to employer brands that they value as consumers. And they value opportunities for career progression (PWC 2014).

In the much shorter term, internships can also provide valuable contributions toward projects that are needed by the company. With managers consistently looking for additional resources to help them achieve their targets, a well-chosen intern can be a great solution. Internship projects can include such activities as evaluating current programs, researching social media strategies and platforms, reviewing the company website and proposing improvements, drafting a budget, coordinating a large meeting or company event, gathering information on industry news and summarizing for the team, etc.

The project must be well conceived. The ideal internship project is one in which the intern leaves the position commenting that she/he cannot believe that the company gave so much responsibility to an intern. It should involve some kind of proposal or decision by a leadership team at the end. It might also require some interaction across the department and across other functions. And the manager should be open to expanding the project or initiating a new project if the intern demonstrates the capacity to take on additional responsibilities.

For interns who are a good skill match for the role or project, and who are highly engaged, the opportunity to take on additional responsibilities should at least be an implicit goal. Hiring managers would do well to encourage this kind of enthusiasm in their interns from the very beginning. Interns need to be very clear about the basic expectations of the project, along with ideas for how to meet those expectations. But when a manager also shares possibilities for expanded responsibilities, the intern will often feel the trust and confidence that can inspire superior performance (Grant and Sumanth 2009).

As important as a well-planned project may be, the selection of the right candidate is even more critical. Each internship should have a clear list of technical and nontechnical skills and qualities that the organization is looking for. Recruiting collateral, presentations, and interviews should repeatedly emphasize these skills. For internships, interviews will typically be used to make the selections decisions, but those interviews should bring out ways to explore the needed skills.

When the project structure and intern selection are done well, value-adding contributions, even over a 2-month period of time, can be considerable. Important training sessions can be designed, developed, and implemented. Information can be analyzed and recommendations can be presented based on a thorough analysis. The preparation time by hiring managers to structure key objectives, activities, and stakeholders will pay off much more than a fuzzy, unclear project that takes a month after the intern has started to finally emerge.

Risk Perspective

Internships are by nature very short term, and in some respects, a program poses relatively few risks. Poor hires will be gone in 2 or so months, and if the internship program does not meet expectations, it can be modified or discontinued without significant disruptions to the business.

At the top of the list of risks are legal concerns. Payment for internships that at least meets minimum wage standards is one important way to minimize these risks. If the organization opts for unpaid internships, then great care must be given to ensure that the terms meet legal requirements for intern employment and that those terms are clearly stated in a signed offer letter. Making clear that the position is not guaranteed after the completion of the internship is an important point to make explicit in drafting the offer letter (or memorandum of understanding) (Leachman 2013).

Beyond the legal considerations, poorly conceived or executed internship programs can lead to unwelcome business outcomes. One risk that an internship program can pose is to hurt a company's reputation with the younger generation of workers. Socially networked university students will not hesitate to share negative internship experiences that can begin with a small circle of friends and quickly spread to millions of people. The HR marketing and/or communication functions should be involved in establishing and promoting an effective social networking strategy for the program.

The best way to mitigate this risk is to execute the program effectively. Some of the key processes that need to be implemented well include recruiting, selection, onboarding, manager readiness, performance management, learning opportunities, and ending the internship. Expectations should be aligned from HR and business leadership to intern managers and the interns themselves. If the strategy is to convert a significant percentage of interns into full-time roles, then an effective conversion process should be put in place and communicated. If there will be few full-time opportunities, then interns and managers should be aware.

Regular employees should be supportive of interns in general, but there is the risk that providing too many perks to interns can alienate employees if they are not available to all. In cost-constrained environments, it is not a major risk, but conspicuous intern activities that are not available to other employees do risk raising eyebrows of employees. An important way to forestall this risk is to ensure that the intern manager is an enthusiastic and vocal supporter of the intern program. The internal reputation of the program gains legitimacy when managers defend the program to their peers. Indeed, one notable comment from an intern at Facebook (rated the number one company for interns in 2014) was "everyone is actually happy that interns are there" (Bort 2014). This is the kind of youth-embracing culture that is a hallmark of successful intern programs.

Operational Perspective

With projects and managers identified, the candidate sourcing process can move forward at full speed. Of course, many of the sourcing preparation activities can be initiated well beforehand. The strategy established for the program should guide the operational decisions, but building a sustainable talent pipeline usually involves setting up long-term relationships with universities that can be a consistent source of candidates with the education and basic skills needed by the company. School rankings are often a leading factor cited by business leaders, but the relevance of a university's academic programs to the business and the geographic preferences of graduates are typically even more compelling factors to consider.

Universities often try to give greater investment to majors that are relevant to local industries, so begin by getting clarity on which programs within local geographic area(s) are the strongest in subject areas that are (and will be) important to the organization. An important way to manage university relationships is to develop a structured method that works for the company to evaluate target schools. The factors should be as concrete and tangible as possible so that the rationale is clear to program administrators and business leadership.

The effectiveness of sourcing and recruiting should be evaluated based on the factors that matter most to the company. Strength of relevant programs, number of university graduates currently employed, diversity profile of the university, geographic preferences of university graduates – all could be factors to include in the target school assessment. But the criteria should be customized to align with the organization's mission and talent needs. The number of target schools should start small and expand as needed. It would be wise to start with one or two schools as the company is starting out or rebuilding an internship program.

Whatever the number of universities targeted by the organization, each should have a dedicated campus team. These teams are often comprised of alumni, but could also include people passionate about university recruitment. Ideally, actual or potential hiring managers will comprise a majority of the campus team. There is no real downside to very large campus teams, but all participants should be well versed in the internship program, target candidate profiles, and types of internship opportunities. Campus teams will be utilized to present the company and the internship program at campus events, attend career fairs or other recruitment-focused activities, and conduct interviews of candidates from the target schools.

One effective practice for managing university relationships effectively is to assign an intern to be a "campus ambassador" back at their university. At Genentech, these ambassadors receive a small amount of funding to hold regular office hours, pizza lunch and learns, coffee chats, etc. back at the university. Building a cadre of brand ambassadors at target universities can significantly extend the reach of an organization with potential candidates.

As important as the high-touch, in-person relationships at target schools are for building a strong employer brand among university students, it is important to have additional channels to attract applicants from other sources. Social media should be utilized to communicate all internship opportunities. Each school can have its own Facebook page, for example, to ease communication with candidates. And a clear application process should be shared along with the needed education, skills, mindset, etc. that are expected from successful applicants.

It is typically advisable to have one or more dedicated recruiters who are receiving the applications and building the candidate pools for each internship position that is opened. They should understand the program goals as well as the specific backgrounds and skills needed for the internship. They will be the most critical source of information for candidates and will need to make sure that communication with candidates is professional, clear, and prompt. Failure to follow up with candidates is toxic to an internship program and to an employer brand more generally.

At least one recruiter should be part of each campus team if possible, so that candidates from target schools who are interviewed on campus will be sure to be included with candidates who come from other sources. A first round of interviews can occur either at a campus or at the company or by phone or video conference. The face-to-face approach is always preferable – it's also preferable when candidates can be interviewed in quick succession.

The first round of interviews should be followed within a couple of weeks by a second (typically final) round with the hiring manager and perhaps other departmental leader(s). Because internships are temporary positions, the candidate assessment process does not need to be as time intensive as regular hires, but interviews should still challenge the candidate to address situations that they are likely to experience in the organization, and explore the values and motivations of the candidates.

The interviews are also a chance for candidates to get to know the company through the campus team and other representatives they meet with. Interviewers should be encouraged to be open and genuine in discussing the company's challenges and opportunities, as well as the particular department and internship project.

Unlike more experienced candidates with many years of work experience to discuss, interns will have very limited professional stories to tell, so the interviews will need to focus primarily on educational experiences. Interviewers can drill down into some depth on coursework and projects completed and can also probe on relevant skills that the candidate has developed. There should also be time for the candidate to ask questions, and the quality of those questions should be considered in the decision to extend an offer.

Internship projects are distinguished not just by their short duration but also by the academic element that is not typically part of work projects. Ideally, a project description will highlight the desired major(s) and the skills expected of the intern. A short statement about the educational value of the internship is also helpful for student candidates to evaluate the project opportunities.

Of course, an internship project description should include a description of the primary responsibilities and expected deliverables. Clear project expectations make the recruiting process more straightforward and successful as both hiring manager and candidates can have more relevant discussions about the work to be done and the skills and qualities needed to get the work done.

As the internship projects are being designed, arrangements need to be made for space and office resources – like a computer, phone, and email account. Often space is in short supply and interns are sitting in temporary work areas with limited space and privacy. If that is the situation in the organization, be sure to manage expectations on space from the time an offer is made. It's of course not ideal, but being clear from the beginning about the workspace situation can help to mitigate some of the discontent that they may feel about the cramped quarters.

As the project gets underway, there will often be changes that shift deliverables or timing. Hiring managers must be agile as they may need to make adjustments to the work expectations in the middle of the internship. And of course, some particularly enterprising interns might achieve their objectives sooner than expected, and great managers find opportunities to extend the contributions these interns can make to their organization. Interns commonly rate the challenge and impact of an internship as the top factor in rating an internship successful – so managers should be encouraged to design projects that will provide some stretch for the candidates.

This leads to the critically important topic of managers. One of the key benefits that is articulated earlier was the opportunity that internships can provide to allow novice managers to start to develop effective management skills, practices, and habits. The clear downside to such an approach is that an inexperienced, unskilled manager can utterly ruin great employer marketing, a highly professional recruiting effort, and a brilliantly designed project.

So how to reconcile these competing priorities? In starting up an internship program, it's wise to opt for a strong manager. Intern managers should be identified based on their demonstration of ability, on the one hand, to manage their work and the work of others and, on the other hand, to build strong, collaborative relationships and interact effectively with other people. In addition, the manager should have a strong interest in working with students. The level of detailed explanation will be much more than normal for a manager, so find intern managers who enjoy breaking down work into smaller chunks.

Ideally, the manager's manager will have the skill and capacity to help the new manager to develop the skills and practices needed to be successful. The new manager should go through a Management 101/First-Line Manager training before the start of the internship. And the manager's manager should be actively engaged in the project design, as well as the performance planning and management process over the course of the internship.

Given the really challenging roles that managers have, it's important to provide both training and coaching to support them in their people management practices. They will need to be able to set clear expectations with their interns, articulate the skills needed to achieve the deliverables, evaluate the skill level, and provide feedback on the skills and delivery. With very inexperienced employees like interns, the need for clear, explicit communication about expectations and needed skills becomes even more critical.

One of the more valuable experiences that interns should take advantage of is the informational interview. Both as part of their project and as part of getting to know the industry and function more generally, helping the intern to schedule one-on-one meetings with the right set of people is an important part of the manager's responsibilities. The manager should, then, have a strong network of colleagues and make introductions to the most relevant people for the intern.

Bringing the Interns Onboard

Once candidates have been assessed, the recruiter will need to be ready to follow up with all candidates and move forward with an offer that can quickly be closed. Salary, benefits, and other logistics will need to be ready to communicate with the selected candidate. It will also be helpful to engage the hiring manager or other business leader to close the candidate on the opportunity of this internship. Top candidates will have multiple offers, and having leadership ready and willing to speak with these candidates to encourage an acceptance of the offer is a great way to close the process.

The onboarding or induction process should be fun, be well prepared, and again involve business and functional leaders. It's not necessary for all interns to start on the same day, but there should be orientation meetings that provide an opportunity to deliver key messages to a group of interns and complete required forms, receive employee badges, and get IT equipment and access and other basic information and equipment.

The orientation should be professional, but lively and interactive. Business leaders should deliver a welcome and share the value of the internship program for the company as well as for the interns' individual career paths. The interns should get an opportunity to get to know one another through creative introductions. The program manager should share the program activities that will be happening over the course of the next 2–3 months.

Overall the tone should reflect a deep commitment to the company and its mission and should encourage interns to inject their energy and ideas into the departments where they will be working. The speakers should share personal stories and their own professional journeys. The interns should be invited to support each other and their other colleagues in ways that extend beyond their individual projects. The value and impact of effective collaboration and productive professional relationships could be a beneficial theme for the intern population. They should be humble and focused on listening and learning during their short time at the company, but they also need to find ways to share their questions and their insights.

The formal, stated values, principles, beliefs, and commitments of a company should be shared and illustrated as part of orientation, but the unwritten ways that things get done should also be communicated. A buddy or a mentoring initiative (or both) can be a great way for current employees to share their experience and advice with interns. Buddies and/or mentors should be carefully selected and provided with guidance on the kind of advice and support appropriate in these roles. These should be employees who are positive and optimistic about the company and able to relate well to the intern based perhaps on their educational backgrounds or other areas of common interest. Regular lunches or coffee meetings can go a long way to making the interns feel welcome and integrated, even outside of their individual department.

Internships move fast, but if you can block some time to include basic organizational skills training, it can be a great boost to interns' engagement during their time with the company. Possible topics for intern learning could include topics such as working more effectively, communication in organizations, building strong professional relationships, and delivering great presentations. And in the spirit of learning by doing, it can be really effective to have interns self-organize into committees (e.g., social) where they can practice skills of communication, organization, setting priorities, motivating colleagues, achieving results, etc.

As internships wind down, it's important to have some kind of capstone event that gives interns a sense of achievement and recognizes what they have learned and contributed to the organization. Departmental presentations or poster sessions are two good options to consider. You might also consider a closing internship meeting that includes both managers and interns to give thanks and recognize. Another useful concluding activity could be instruction and discussion about managing online identities effectively. Genentech brings in a representative from LinkedIn, for example, to share insights and tips to help interns optimize their social media presence.

Overall outcomes from the internship program should be agreed upon and measured appropriately. Intern conversion to regular employee status should be one key metric to consider. Top internship employers tend to convert at least 50 % of eligible interns. The intern conversion process should be clear and implemented effectively.

Another outcome to measure is the success or "afterlife" of intern projects. That is, how many led to tangible business benefits after the intern had left, and how could those benefits be demonstrated. Other indicators to consider include touch points with business leaders (e.g., mentoring relationships, presentations), intern satisfaction/engagement surveys, and manager satisfaction surveys.

Lessons Learned: Dos and Don'ts

Internships Should Be Part of Your Long-Term Staffing Strategy

Interns provide a wide variety of benefits to organization, not least is the opportunity to attract high-quality, long-term talent. The temporary employment as an intern offers both parties a good opportunity to confirm a mutual benefit. The risk of attrition drops considerably when the intern understands expectations and culture in the organization.

An Internship Program Provides an Opportunity to Refresh the Culture

The ideas and modes of communication from interns can help your company stay connected with the newest generation of graduates. Design activities that will combine business relevance and idea generation (e.g., hackathons). The enthusiasm and energy that interns bring can help bring engagement and ideas to the organization.

Combine with University Relationships

Use existing university relationships or build new ones to develop a sustainable pipeline for internships. Look for opportunities to combine internships with research coming out of universities. If appropriate, consider mentoring or other supporting activities to strengthen the company's partnership with the university.

Interns Should Not Be Viewed as Low-Cost Labor

Although interns usually cost significantly less than regular employees, do not ignore the educational purpose of the internship and view them as additional operational workers. It could be a violation of labor laws, union agreements, and other forms of applicable regulations. Treating interns solely as an extra pair of hands can negatively influence the company's image as an employer in relevant parts of the labor market and could certainly also reduce the number of future interns who view the company as attractive.

Engage Senior Leaders and High Potentials

Create opportunities for senior leaders to interact with interns as part of onboarding activities or for lunch-and-learn sessions. High potentials should be used as managers and mentors to give them additional experience in management and developing others. These interactions can have an energizing effect on the leaders and high potentials, and this kind of exposure to leadership is a fantastic way to engage and integrate the interns.

Final Comments and Outlook

Internships are an engaging, forward-looking vehicle to promote your employer brand with a population of emerging employees and consumers. Thoughtful organizations can create multiple benefits for a relatively small investment in an internship program. Interns can help make progress on key projects for your company and can be a source of innovative ways of working. Mentoring and reverse mentoring can provide benefits to interns and to regular employees at once. As technology becomes more embedded into our day-to-day activities, an internship program can be a valuable method for your organization to get in touch with the next generation, build your reputation with this generation, and help them prepare to enter the workforce in a skilful and effective way.

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Human Resources Marketing and Recruiting: Vocational Training in China

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Rainer Wieland

Contents

Abstract

Vocational training in China gets more and more attention in society. It is a long way to establish a well-working dual education system to prepare the youth for sustainable employment in a modern economic environment. Due to the fact that Chinese economy is growing constantly and foreign companies established their business in China, the requirements of skills changed in the past few years. China is not the playground for quick wins and low-cost production anymore, but business and products reach a serious level, which is close to Western standard.

The following case study shows how it can work, which hurdles have to be cleared, what kind of circumstances have to be obtained, and where the mind-set has to be changed. Starting from the political decision to change a vocational

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training system to a more suitable one, meeting industry demands faces a lot of challenges, changes, and chances.

The top-down approach has to bridge a big gap and only people involved can make the difference. In the past a lot of investigations were taken by different organizations regarding which country has the best education program in general. But there is no clear answer about that. No system is directly transferable as a blueprint to another country.

It takes a lot of persuading, but at the end, the most important aspect is to have a rough idea, define responsibilities, and start with a small project. Regular communication and evaluation and monitoring the process are essential and lead to success.

Keywords
Introduction/actual situation • Preparation • Teacher education • Students • Learning • Daily routine/execution • Perspective

Introduction

Vocational training has a long-lasting history in Germany and guarantees a stable and well-educated workforce. Most of the bigger companies established their own technical training center and deliver the practical oriented training. Therefore, each company installed a training organization to ensure the quality of the apprentices. Next to an own training facility, the most important aspect is well-educated and qualified trainers. Basically, these trainers joined the vocational training system some years ago, got later on some basic methodical and didactical training, and gained the first experience with a small group of apprentices. It needs at least 2 years to conduct a holistic education approach.

The second pillar in vocational training belongs to a government-owned vocational school. Teachers take care about the theory. Most of the teachers have a diploma or bachelor's degree and are focused on conducting theoretical contents according to their major.

The general vocational training duration takes three and a half years; in special cases it can be shortened. All in all, apprentices spend two thirds of the apprenticeship in the technical training center, one third in school. For the entire duration, all apprentices sign a contract with the company and get a monthly salary.

The situation in China is different. The biggest difference is all the apprentices belong to the school, thus to the government, and have to pay tuition.

All teachers have at least a diploma or bachelor degree and are responsible for theory training in their respective field.

Since several years the Chinese government takes high attention to develop the vocational training situation and cooperate with some Western countries. Besides that, the government spends a lot of money in training teachers abroad, buying new training equipment and building up new facilities. The necessary conditions are created and ready to use.

Due to the fast economic growth of China and the higher demands from the industry, the workforce and therein the people have to be trained and qualified in a more effective way. New technologies, cost-saving measures, and high quality standards need employees who are aware about that and can deliver their knowledge to satisfy customers' demands.

A lot of globally acting companies try to solve this problem with an effective qualification program. To make it successful and sustainable, it is important to spend a lot of efforts in vocational training. A close cooperation between companies and schools is the first step for a bright future, not only for the business, mainly for the employees and their families.

The government is aware about the situation that most graduates want to study in higher education to get at least a bachelor's degree. A lot of efforts were made in the last 10 years; the biggest problem is and will be that vocational training has not got a high reputation in society.

Preparation

All German car producers want to expand the business in China. Different joint ventures were set up with the focus on local total production after a while. Milestones were defined and one was the establishment of an own vocational training system. The responsible managers possess a lot of experience running vocational training in Germany, but what about China? Is it possible to implement the same system, which will be the suitable cooperate school, and how to convince the partners about the cost intensive approach?

A lot of questions raised and the answers were difficult to find. Luckily, the project had priority and high management attention. A small team with a Chinese and a German was founded and both ran the project. The Chinese colleague tried to get in contact with some governmental officials; the German colleague tried to get support from Germany. The best idea and most important decision was put into practice. A German master trainer from the German car company should come to China to help and support the establishment of an own-operated vocational training school.

After successful negotiation with a department of the Beijing Municipal Education Commission , one school was pointed out to be the partner for a common Chinese-German cooperation.

Learning Journey to Germany

Officials, school representatives, and teachers went for a learning journey to Germany. During their 2 weeks stay, they visited different company-owned training centers. The objectives were clearly defined and both parties did their best to start a bright, shining project.

The Chinese visitors were basically interested in hardware that means equipment, tools, and the facility themselves. After a while, the discussion turned to the soft factors. Nothing is running by hardware alone; the people behind make the differences. The most important role in the education process belongs to the master trainer. How good are they educated? What does the company provide for further development? What is the trainer/apprentices ratio?

A lot of explanations were necessary to convince the Chinese delegation. It was often mentioned that technical training has a long tradition and is developed over years. Also, the close cooperation with all relevant business units is important to evaluate the needs and trends. To be open minded and able for lifelong learning is mandatory to deal with apprentices as well as understanding the youth. Next to all knowledge and practical skills, a high focus is on soft skills. Trainers should be able to deliver fruitful feedback for individual growth. It is the holistic approach that makes it happen.

One question appeared very often: what kind of training material (hardware) can the car company provide? The answer was not satisfying the guests. Nearly all electrical training boards or mechatronic kits were designed and produced by apprentices and are not available at the market. During this manufacturing process, an effective learning and understanding are guaranteed, and the technical knowledge is developing constantly.

At the end of these packed and intensive days, everybody was motivated to support the project. Although the Chinese colleagues understood that through this close cooperation there will be a lot of changes in the future, and therefore, they were a little bit doubtful at that early stage.

Master Trainer from Germany to China

Just a couple of weeks later, a German master trainer visited Beijing. The focus was to:

1. Check the facility and give some recommendation.
2. Show the idea of implementation of technical skills.
3. Select teachers by interview and give suggestions.
4. Learn how China is working and think about whether to spend all his efforts and energy in China for a while.

The first condition was easy to handle. Due to the fact that the school moved to a new campus, everything was brand new. Suggestions regarding equipment were noticed with the promise to order. The money for hardware was not a problem at that time because the budget was sufficient.

The first group was a batch of future assembly fitters. In their future job, they need mechanical skills and knowledge including usage of different kinds of machines, joining technologies, as well as basics on painting. To teach all of these in real life, each participant had to produce his/her own product (a model car) and needs an own-assigned workbench to do so. It was not easy to convince the local partners of this approach and of the workbench for each participant.

Selecting Teachers

From a group of ten, four teachers had to be selected. Some requirements were set up at the beginning, like how many years of experience and what kind of major communication ability and open-mindedness to learn new education style. A translator was needed because of the lack of candidates' English skills.

There is a significant difference between German and Chinese proficiency in the English language. If in Germany a pupil/student gets an intermediate mark, his/her English skills are sufficient to engage in a basic conversation. In China many graduates who passed the CET 4 (College English Test) lack the ability to communicate in English.

The ten candidates provided were well prepared and everybody had an English written CV. Some of them failed because their majors did not fit to the requirements or they were not teachers anymore and worked already at the management level in school.

At the end, suggestions with pros and cons were given to the school principle, and after internal discussion, four teachers were selected to join the program. Of the candidates chosen, each had an interesting history as teacher. For example, one female teacher was educated for 3 months in New Zealand and two male teachers had a short-term assignment in Germany several years ago.

Teacher Education

In June 2006 the two female and two male teachers were sent to Germany to attend a 4 weeks training at the "State Academy for In-Service Training and Human Resources Development at Schools" in Esslingen. The program was developed in close cooperation between the car company, and the academy's. main focus was "activity-oriented learning."

The Chinese teaching and learning method is usually an ex cathedra teaching. The teacher is standing in front of the group, reading phrases from a book, or presenting PowerPoint slides. Students are listening more or less carefully and repeating randomly as a group what the teacher is asking for.

Chinese students are excellent in learning by heart and they can memorize very well. This is a kind of short-term learning. After a certain time, it is hard to remember for the pupils or students what they have learnt a certain while before.

Many Chinese schools are very modern equipped, with projectors and computers in each theory classroom and teachers using preferably PowerPoint. The position and standing in the society of a teacher is very high. Therefore, it is very important that the teacher knows everything. The teachers themselves ensure the smooth teaching approach by trying to avoid possibilities for their students to ask questions.

This has something to do with the Chinese culture. Losing face has to be avoided. Unexpected questions can bring a teacher in an uncomfortable situation.

The first day in Esslingen was packed with a lot of information, the introduction of all participants, the agenda, and the weekend activities. From the next day on, hard-learning staff met the teachers and interpreter. Half a day was used to explain the "dual system." The cooperation between enterprises and state-owned vocational training schools should work as a role model for the new establishment of both parties in Beijing. At the beginning some employees of the enterprise joined the lessons as well. Everybody wanted to know more about each other. In China it is of high importance to create a bond of trust.

In the first couple of days, teachers were acting like traditional Chinese students. Listen carefully, write everything down, and be silent. Slowly, the teachers dared to ask questions when some aspects were not totally understood.

One obvious problem occurred. The interpreter was able to translate the regular communication. When it came to specific technological terms, the interpreter's knowledge was limited. The stunning faces of the teachers emphasized that observation.

Nevertheless, everybody tried to give all the best for a common success. The atmosphere and the mood of all participants were always good. There was only one reason for criticism, the food. Chinese abroad cannot survive without their loved dishes. One room got a portable stove and in the evening, big cooking events made everybody happy.

To learn more about the interaction between theory and practice, the facilitator used real examples, like the brake system of the car. Generally speaking, the syllabus of a job profile is distributed in several key functions. When talking about the car mechatronic as a job profile, there are 14 different key functions, e.g., engine and combustion, transmission and driveshaft, axles, electrical systems, chassis, etc.

The professional teaching approach consists of six different sequences:

Informing – **Planning** – **Deciding** – **Executing** – **Inspecting** – **Evaluating**

If learning is implemented as a complete action in the training, it results in a higher productive efficiency of the skilled workers. That means, it is important that students learn in an early stage to follow these six steps independently as soon as possible. Sure, at the beginning the teacher has to explain more details and more deeply. After a certain while, the teacher is changing his/her role and is acting like a coach and supports only when it is necessary or the learning progress is to be at risk.

The six sequences in detail:

Informing: Students use media, documents, the Internet, or technical books to learn as much as possible theory to accomplish the given task. In the mentioned case, the topic area was "Different brake systems and their functions."

Planning: Students have to check the brakes on an existing car. Therefore, they have to write down a working plan that mentions what kind of equipment has to be used, which tools and measurement tools, and the different working steps have to be listed.

Deciding: Usually, this step has to be done by students and teacher together. Students show their documents and explain the working approach to the teacher. It should be a dialog between both parties and the teacher should use questions that she/he can distinguish if the students understood the content well. Later on, the decision can also be done with a group of students, depending on their experience.

Executing: Now, students are going to the car and execute the given task. Here, the teacher has to control the working safety and observe the action and handling carefully. It is helpful to make some notes for later discussion.

Inspecting: Students write down the results and recheck it, clean the working place and store the tools and equipment, and the task is finished.

Evaluating: Finally, evaluation is done to see whether all steps have taken an optimal course. This has to happen together with the teacher through a technical discussion.

Errors and aberrations from the planning are analyzed. The workflow is examined simultaneously and mistakes that could be avoided in the future are detected. Thus, the students can assess their strengths and weaknesses and develop objective quality benchmarks for their actions.

This evaluation also pursues pedagogic aims. The existing qualification deficits shall be recognized in order to target their removal. Moreover, a final work review – in which the individual action steps are recapitulated on the basis of the action result – supports the internalization of the action.

As the activity knowledge is still to be built up, the activity execution demands a comprehensive and reflected planning of the workflow. The students often already know some basics or partial aspects of completion of a task through the company or vocational school. But a lot is still to be accomplished before the execution of the planned work assignment can be started. In such a situation, students often want to try out immediately whether and how they can proceed with the solution of an assignment. But such an approach should be avoided even though “making mistakes” is allowed.

An “although-they-do-not-know-why-but-they-do-it” mentality cannot do justice to activity-oriented learning. Radical learning processes can thus not be implemented.

Here, the teacher shall intervene and demand a goal-oriented planning of the action steps, because the learning starts from this point. Hence, the teacher has to observe the learning process and intervene, if necessary. From a didactic point of view, it is very important that the action steps are formulated by the students. Therefore, their ideas about the work assignments have to be put down in writing and subsequently have to be discussed with the teacher. The recognition of problems which – for the time being – prevent reaching the goal requires the understanding of the basics and background of a work assignment by the students.

That is the theory behind activity-oriented learning. In reality and especially for all the Chinese teachers, it was hard to catch the idea. The teachers always compared immediately their teaching environment in China with the learning atmosphere in Esslingen. One aspect was always mentioned: our classes are too huge to follow activity-oriented learning. Instead of trying to find solutions on how to apply the new method, they were busy trying to justify the traditional method.

During teaching hours, another problem occurred. The teachers never heard something about the coherence between different competences. In their mind teaching and training is only related to technical skills and competences.

For the accomplishment of work assignments in the industry, however, extensive qualifications are necessary that go above and beyond the pure technical area. Only those skilled workers who have the **action competence** at their command are able to adjust to new requirements as opposed to just being qualified to repeat processes they once learned.

Qualification denotes the direct utilization and application of what has been learnt.

Competence, however, describes the ability of the individual to act appropriately and responsibly in a given action situation as well as to be willing and able to acquire new qualifications.

Thus, besides the professional competences, methodical, social, and personal competences, which are independent from the direct workflow, are increasingly expected from the skilled worker.

Action competence is the ability to accomplish new work assignments in time and repeating. The skilled worker must be able to deliver required work results in appropriate time; to decide about means, materials, procedures, etc., to be applied; to obtain the necessary information; and to communicate with the client, peers, and colleagues. He/she has to be able to structure the work in a sensible manner and execute and review it. Thus, occupational learning means the acquisition of action competence. Competence is much more far reaching than qualification. A skilled worker can be professionally qualified, but that does not necessarily make him/her “capable of acting” precisely because he/she possibly lacks the ability to work in teams and the motivation, the self-organization or the independent and responsible planning ability.

Professional competence consists not only of knowledge, skills, and abilities directly related to the profession. Besides the theoretic knowledge and the practical, well-founded handling of materials, substances, appliances, tools, and machines, the ability to transfer knowledge and to be able to apply it to new tasks also belongs to it. Professional tasks have to be recognized; procedures for problem solutions and decision-making regarding possible work techniques have to be mastered and evaluated. At the same time, professional and methodical handling of tasks have to be ensured to be able to apply what has been learned in the professional life.

Methodical competence shall enable the future skilled worker to apply his learned and tested abilities and experiences flexibly and creatively to unknown situations and fields of activity. Such a method competence can especially be promoted through an activity-based and project-oriented instruction during the training. For the trainees, the point is to recognize task structures, apply and evaluate problem-solving and decision-making procedures, and transfer their gained knowledge independently on specific tasks which solution is not clear and predetermined from the outset.

Social competence defines the ability to cooperate, resolve conflicts, communicate, and interact in professionally demanding situations. Social relationships and interests have to be grasped and understood to be able to deal and communicate with others sensibly and responsibly. Among others, it is about the teamwork, tolerance, cooperation, politeness, conflict resolution, and responsibility and solving individual and common tasks. An adequate competence and a responsible action can mainly be internalized by your own activities and by the joint work in groups.

Personal competence is the ability to act for oneself and toward others responsibly and reliably. That means gain in reliability, willingness to learn and perform persevering, and ability to work under pressure. It also includes the development of accuracy and conscientiousness, of independence and readiness, to take on responsibility. But also, the ability for criticism and self-evaluation as well as the enhancement of creativity and flexibility should be fostered. The more the students are motivated to cope independently with a task – important both to them and others – the more such a competence can be built up.

After that theoretical introduction, the holistic teaching approach was set up. Methods were defined; the didactical concept and syllabus was introduced, and learning targets were clear and some technical details understood. As this was a completely new way of teaching, some of the teachers appeared to be slightly overloaded by all the new inputs.

Four weeks of intensive teaching was over; the group moved to a vocational training center of the car company. It was planned that teachers got an insight how apprentices get trained in a company-driven training center. Now, they experienced very close the daily cooperation between apprentices and German master trainers. Sure, it wasn't easy for the translator to translate each single word, but through observation the teachers learnt a lot. They were astonished how motivated and curious the students were, asked questions, and discussed with the trainer in a polite manner. This was very seldom in China at that time. Also, they recognized a calm atmosphere while every student had some tasks to fulfill and followed the action-oriented teaching.

How to bring these standards to China? A big question mark occurred in each teachers face.

Students

Participants in vocational training are called students in China. This sounds better than apprentices and expresses no differences to students in universities. All students, no matter which institute, school, college, or university, are united under the umbrella of the Ministry of Education. It is scaled from national level until provincial level. In Beijing alone, there are 250 vocational training schools offering different kinds of professions or job profiles. Each school that exists has roughly about 3,500 students in total and 250 full-time teachers. All teachers must have at least a bachelor's degree. Most of students joining a vocational school did not pass the exam for university. Therefore, their motivation to learn is less because all of them know, after examination, the possibility to catch up a good and well-paid job is very low. But the circumstances are changing in a growing market. Blue collars are the workforce to produce products in high quality. Most of the Western companies pay high attention to the education of their staff, no matter which kind of job they fulfill.

As mentioned in the introduction, the Chinese government knows about the demands of the companies and wants to convince the local producers as well to invest in good-educated and well-trained skilled workers.

To show the holistic approach in recruiting students, the home company's recruiting test papers were used as a blueprint. The test papers were translated. The context was focused on math, logical thinking, Chinese phrases, basic English, and technical understanding. Additionally, a manual hand skills test was established. A short introduction to all parties involved followed so that each member of the recruiting team had the same understanding about the process.

The school made a preselection according to candidates' grades from secondary schools. Two hundred fifty participants in the first round were very nervous about the upcoming test. At that time, it was something new that a foreign company gives suggestions, how students can be recruited. Luckily, the school management was convinced. When there is a new education process; the whole system has to be changed. This was different from experiences from the past when Chinese partners listed carefully to the concepts of foreign partners, took out only some parts which they viewed as "the best," and left the overall process unchanged.

During the test, significant differences between candidates' performance were obvious. Some were really below expectations, a lot of them were good and showed potential, and some of them were outstanding. This situation is typical in recruitment processes for vocational training in Germany also. At the end of the day, it is important that a company recruits students who fit to the culture, the products, and the philosophy of the chosen company. The English test was not highly weighted because most of the candidates' English was really poor and even the supervisors' English was not good enough to judge in a fair manner. One hundred candidates were chosen for the next day, the practical skills test.

This practical skills test consisted of two parts:

1. A quick check about their hands-on skills. A simple drawing was given to each of them and they had to bend a piece of wire according to a drawing. Even here, the differences about the quality were tremendously obvious.
2. All candidates got a second chance and had to build up a car model based on a technical drawing. Forty-five minutes were given to fulfill the task. Only a few candidates could finish in time. Most were visibly overloaded and did not know what to do. One reason can be that Chinese children seldom have the chance to repair a bicycle, for example. If something is broken, it will be given to a repairman on the street, whose business it is. Another example is that in Germany,

kids get toys to build up some models to gain some hands-on skills. This is not so common in China.

Still, companies need staff with hands-on skills and a sense of technical understanding. This is why this type of test is important.

At the end, 24 candidates were chosen to join the "pilot class" for assembly fitter and 24 as car mechatronics.

From this moment on, candidates knew that they are working for a big automotive company, and they were quite proud about this. They moved into their dormitories and got the overview of the schedule and an introduction of the courses. The company provided working clothes and explained the company history and philosophy to create loyalty of the students from an early stage.

The first 4 weeks were covered by Chinese history and military training. These lessons are mandatory according to the Chinese law. After that time, it is negotiable, what kind of lessons are following. Of course, there is a rough plan made by school, but the companies should focus on their demands and establish a training and teaching plan according to their needs. Therefore, it is very important to invest in a person who is permanently in school for an ongoing support. This might be a guarantee for a sustainable development; in the case described, it was definitely true.

Many Chinese, no matter which function they have in daily business, went to foreign countries, asked a lot of questions, and heard about new teaching and training philosophies. The essence of dual education, however, cannot be found in lesson scripts, curricula, or classroom designs – the essence can only be understood when talking with students, on-site masters, and teachers about their experience.

Project Learning

In the following chapter, the focus will be on the assembly fitter education. Therefore, the car company sent a German master trainer to China to stay at least 2 years in the cooperation school to deliver daily on-site support. The trainer from Germany brought technical documents to establish a project-based learning system in the school. The project consists of a 1:10 model of the so-called Unimog. The ideal case of teaching was described above as complete action in training.

For the informing phase, it was very important to find some Chinese textbooks about the information needed. The market for such books is huge. Beginning with technical drawing, a lot of good books were already published in the market. Technical drawing is the entrance card to understand a complete design drawing. In the past students learned some rules and regulations but did not use this knowledge afterwards. Here, it became the foundation for all the next steps. Students got a single drawing from one part of the entire project. They had to:

– Understand the drawing.
– Identify which technical skills were needed to produce this part.

– Deliver the expected quality.
– Know the theory behind it.

Even though the approach sounds straightforward in theory, reality was different. Additional on-site support to the school was necessary to teach all detail skills for the abovementioned learning process.

The “four steps method” is very popular to explain a technical issue and ensure that the students grasp the context.

1. **Preparing and explaining**: The teacher or trainer prepares all relevant materials which are needed to demonstrate what he/she wants to show. He/she gathers students around him/her and explains in detail the technical aspects, the functions, and the security aspects or, when needed, a machine.
2. **Representing and explaining**: The teacher operates with relevant material or machines and explains in detail what he/she is doing and why. Repetitions and asking questions, to ensure students grasp the details, are necessary.
3. **Reproducing and making explanations**: Now, it is the students’ turn. They have to handle the given task and explain their action to the teacher. If students can handle the skills acceptable, the next step will follow.
4. **Deepen through exercising**: Students are able to handle tools, machines, and measurement tools by themselves and can fulfill the given task in a proper quality.

Especially, here was the bottleneck in that approach. Only a few Chinese teachers were able to show their hands-on skills. Most of them are theoretically educated in universities and are not used to practice. This was the second important point to preserve German master trainer support. Nevertheless, the most important aspect during the first couple of days was a deep cooperation and communication. Nobody could achieve the highly appreciated goals without the other. Of course, the communication was not that easy at the beginning. The obstacles occurred of something unknown. Communication has to be set up and a foundation of trust and reliability has to be created that cannot be implemented by defining authorities.

Some joint events were organized by the school. Gatherings and activities in leisure times involving the families created the bond of trust which was necessary for success.

Remark: Everywhere in China where foreigners try to speak Mandarin, they are much more welcomed. The same applies to dining habits and selection of food: The more a foreigner expresses his/her appreciation for local culture, the higher the acceptance.

Basically, the project is divided into two parts:

1. **Single exercises**: On a single spare part of the entire product, students learn the relevant technique. That means, here, the students have to inform themselves about the theory, they plan their work, and they discuss with the teacher. Afterwards, the teacher uses the “four steps method” to show the right handling; students execute, inspect the manufactured part, and evaluate it with the help of a quality sheet.

To make it more visible, an example is given. The drawing shows a "steering bearing." Students know how to read the drawing. Then, they write the working plan with different steps: Marking, corning, and filing. They use a high caliper to mark the sizes. The usage of the hammer and center punch to corn. They describe the different files they want to use to fulfill the requirements. The square angle is necessary to check frequently the angularity and flatness; with the vernier caliper, they control the size of the part. After a self-evaluation, students show their result to the teacher. The teacher uses the same quality or evaluation sheet and gives his/her points. One hundred is the highest score; less than 60 means failed. At that stage it makes sense that the teacher has a technical talk to the student. At the beginning it should be individually; later, it can be as a group discussion.

2. **Exercises to deepen the strength**: There are a couple of spare parts which require no new technology or skills. For these parts there is no specific evaluation sheet available. But at the end, when it comes to assembly, failures are easy to detect. Therefore, students have to work very precisely as well. Especially when it comes to machining work, students have to work very carefully and follow the safety instructions. Working carefully all the time, checking the sizes frequently, following the working standards, and trying to achieve a good result are much more important than rushing through. For both, teachers and students, one aspect was hard to accept: cleaning machines and working environment after usage or at the end of the day. Even students were able after a while of permanently exercising, after weekends or vacations it seemed, they forgot everything about cleanness and order and the disaster started again. Companies have to take really good care and have to train their staff regularly to avoid losing control and getting in a mess.

To complete the entire Unimog model, 17 different mechanical skills are necessary:

(a) Quality management: it is divided in several tasks and has to be trained frequently.
(b) Marking: transfer the drawing onto raw material.
(c) Corning and stamping: make the lines visible.
(d) Sawing: the first simple chips workmanship.
(e) Filing: removing chips in different tolerances.
(f) Drilling and lowering: making boreholes by using a machine.
(g) Milling: conventional machining tools driven.
(h) Turning: conventional machining parts rotating.
(i) Tapping: cutting threads.
(j) Grating: increase the quality of boreholes.
(k) Joining: differences between temporary and permanent joints.
(l) Assembling: mount all single parts together.
(m) Material science: has to be taught when new material shows up.
(n) Bending: construction work for cabin and dumper.
(o) Welding: different welding technologies.

(p) Bearing: area of application.
(q) Basic automotive training: how a vehicle works.

This training approach works well in the cooperation school and is still in use. During more than 6 years of close cooperation, the teachers' role changed successfully. All of the teachers on duty are able now to teach, train, and coach students to achieve a technical level, which is appreciated by the company. It was, however, a long process.

The role of the teacher is newly defined with a lot of expectations from company's side.

The teacher takes over a position not so much in the center of the action but in a didactical vital function. He/she has to arrange the learning situation and be responsible for the learning processes. In this case they often take on the function of a mediator or counselor.

Part of the responsibility will be transferred to the trainees. The teacher does not "produce" the knowledge in the heads of the students. Their job is to enable and support the processes of independent development and acquisition of action competences. Teachers design and help rather through learning questions, tasks, and requests and advise the trainees during the planning and execution of action goals. Teachers point out possibilities of action and ask for alternatives, make information sources accessible, and prepare them systematically as needed. Besides this, the teachers support the execution of the work, point out inspection criteria, and counsel during the assessment of work results in the framework of a technical discussion. At the same time, the principle to keep support to a minimum is always applied or in other words: "as little help as possible and only as much support as necessary." Thus, the teacher intervenes in the learning, planning, and work process only if it is not possible for the students to develop solutions independently in reasonable time and required quality.

Students get a new role as well. In primary and secondary schools, they were used to listen to the teacher during ex cathedra teaching. Now, they are requested to participate actively and are in the focus of the new education model.

Here, it may be noted again that action competence is only built up when the acting knowledge is structured and thought through systematically, conceptually, and professionally as well.

Daily Routine/Execution

In the news it is always mentioned how concentrated and disciplined Chinese students are. Sure, as long as they get recorded and the visitors are announced, it looks like the Chinese students are lamblike. Working everyday in a Chinese vocational training school shows another picture. And this picture looks like everywhere in the world, luckily. Students try to explore their constraints. Some try to be the best, some like to cheat, and some are even lazy, but at the end it is the job of a good teacher to educate and guide them. It is very important to set up clear targets and expectations; ultimately, a good job perspective is given. Everybody's performance counts and everybody is responsible for himself/herself.

The Chinese teachers gave each student some special tasks, e.g., monitor, responsibility for the keys, etc. This was the first step to strengthen their sense of responsibility. If something went wrong, the teacher reacted immediately, gave some small punishment, and noted it. This was one requirement from the company, to observe students' behaviors. Eventually, it affects the scholarship which was provided by the company.

On the other hand, it makes more fun and brings a better atmosphere when a pleasant learning environment is given. Sometimes, a smile on everybody's face makes things easier. And students at the age of 16 or 17 also expect a fair handling. Possibly, the presence of the German trainer was the reason for the smooth progress. Students were curious about the foreign trainer. Why does this guy join their class permanently? He gave instructions to the Chinese teachers, are they not good enough? How to communicate and act with him? A lot of open questions occur, but after a couple of weeks, the German was totally accepted. Everybody got a benefit from each other. The good cooperation and communication between the trainer, the teachers, and the students was never a question of language; it was the question about mutual respect and trust.

The students found out very soon that the trainer wanted to establish a well-running education system at the school and tried to support them whenever it was needed as well and that impressed all students deeply, the trainer showed good hand skills and got dirty hands.

The teachers were a little bit shy at the beginning and did not dare to asked questions or wanted to tell their opinion. But teachers also figured out that the trainer offered help in a kind manner.

Every morning, all teachers, including the trainer, used a small shuttle bus to reach the school. Transportation time was used to discuss the upcoming day. Open issues were clarified, the schedule finalized, and also some private words were spoken.

The students were already in the class after arrival. They behave very disciplined and prepared already tools and equipment. The teacher explained the goals of the day and students started working independently. When it came to presentations that one group had to present the safety rules for using a drilling machine, for example, the students were a little bit nervous at the beginning. The entire groups gathered around the board, no matter how many of them were presenting. After they were used to give a presentation, it was not a problem anymore. Only one student was standing self-confident in front of his/her classmates and presented well. Teachers seldom had to add some contents but when necessary, they did it in a polite manner.

One issue was always under discussion: What are the differences between Chinese and German students in terms of learning?

The answer is crystal clear. There are no differences, when the Chinese students receive the same kind of education like the Germans. Sure, it took a while to arrange everything according to the German standard, but this was reasonable. The key factor for success is the teacher. If the teacher is willing to change and able to conduct lessons, training, and education as learnt in Germany, then there are no differences detectable. There is only one important point to consider: The German "dual system" is not 1:1 transferable to China or somewhere else in the world. The circumstances in each country are different and have to be respected. There are rules and regulations from ministries which cannot be changed. But the system can be adapted to the existing environment.

Some companies in Germany spend their apprentices 1 week, where they can learn something about soft skills and gain experience in unknown situation to strengthen their social competences.

To give the Chinese students the chance to gain social competences besides daily working and learning as well, soft skills training was separated and taught to experience it randomly.

The focus was set up to six key qualifications:

1. Work methodology: is based on how students learn independently and focused on the professional teaching approach
2. Ability to take the initiative: shows the motivation of students to strive for good results and using their knowledge
3. Communication ability: is based on using the right words in terms of technical items and their ability to give and take feed back
4. Cooperation ability: is based on knowledge sharing and respecting peers
5. Problem solving ability: shows students solution orientation based on experience and their creativity
6. Sense of responsibility: shows the reliability and how students comply with rules and regulations

After half a year, students have to evaluate their performance first based on a performance evaluation sheet. In parallel the teacher is filling out a second form. Afterwards, the student goes into dialog with the teacher and both sheets have to be compared. The reason behind is to know from each other. The teacher explains his/her opinion and should name some situations, which were obviously easy to observe and the student can remember. It is not for sure easy at the first time and both sides really do not know how the perception and assessment from the other one is – but this is exactly the reason behind. The teacher should give a feedback and some advice for personal self-development in an open dialog to the student. A lot of information and explanations were needed to run this process smoothly and it took several years to become successful.

The cooperation between a Chinese vocational training school and a German company attracted a lot of visitors around Beijing and neighbor countries. At least once per month, the management informed that it has to be cleaned very well. Unfortunately, the visitors arrived after the class was over. They rushed through the building, looked at sophisticated machines, and were not really interested in the new teaching progress.

A camera team from a local education channel showed up in the school and recorded an entire day. And they recorded live without any screenplay. Students were very proud to get filmed and gave their best for the shot.

The second time, a camera team which appeared had another focus. This time, the record was used for teaching material, which the school provided to the education market. It showed the development of the project; every single step was explained. At the end, the result was very attractive: students were set up in action, teachers were shown during explanation, and animations illustrated the production process.

The highlight in terms of records and media was a visit of certain students, teachers, and management staff at a local TV station. The Beijing Municipal Education Commission invited four former students to share their opinion about their experience they made during vocational training in different majors. Afterwards, a discussion about pros and cons was held. It was an open dialog between some school representatives and members of the education commission. They pointed out that the efforts of the government were done. They spent a lot of money in hardware and teacher education. They reformed the organization and opened new channels. Now, it is the common task for schools and companies to establish a new spirit in cooperation to achieve successful goals.

Besides media attention, the “pilot class” got management attention from the company. As a multiple-car producer, the company has a second production location in Fuzhou. The management team decided to bring the same vocational training system to an elected school at Fuzhou. Some representatives from the joint venture and the chosen school visited the running school at Beijing. Experiences were changed and the advantages of an action-oriented training were highlighted. After some deeper discussions, the German trainer supported two Fuzhou vocational training schools as well. There were two schools chosen because of the huge demand on students. In total, 12 teachers joined the education training program which was held during the summer vacation. Immediately afterwards, 150 students were recruited per school and divided into five classes. This is really a big advantage in China. There are no long planning phases; everything can be arranged in short notice and human recourses are always available. When a decision was made, the implementation is following straightforward.

Next to Fuzhou, the company set up cooperation with one vocational training school in Shanghai and Guangzhou to deliver after sales training for the dealer network. All processes were used from the assembly fitter “pilot class” in Beijing. The company extended the vocational training department, hired some additional staff to monitor the progress, gave on-site support to the schools, and handed over the curriculum. The job profile was named “car mechatronics” to ensure the quality of service and maintenance the cars.

The general education approach is split into two phases. For two years, students are in school, and in the third year, all students join an internship in the company. Especially in the plant, students are allocated to one department during that time. This is not the ideal case. A rotation after a period of time is much better, a challenge

HR departments are not prepared for. The company provides a monthly allowance to attract students and brand them. In the past and even at present, there is a war for talents in China. Good-educated and well-skilled young people are welcomed in each company, no matter what kind of major they learned. And it is not only a question of money. A lot of factors have to be borne in mind that youngsters stay in the company for a while. Where is the company located and does the company provides transportation? How is the reputation of the company? What kind of bonus will be paid? Is there a career opportunity? However, the HR departments should be alert that there is a new generation of job seekers on the market, and not every company is aware about these circumstances.

Although in the abovementioned case the same happened, students were determined to join a department for 1 year and learned more or less how to fulfill quantity. At the end that had nothing to do with learning anymore. It is not easy to change this mind-set of executives and will take a while until new management style becomes reality. Luckily, there was one big advantage for the company. Nearly all students grew up in remote areas of Beijing and the possibilities to find an adequate job were less. So all of them were happy to join the internship and earned a little bit of money, and the company promised a bright future. Right now, less than 1 % of former students quit the job after employment. This is really a good ratio during the last 8 years.

Besides some negative aspect, which is normal to usher a new era, all involved parties strived to give their best to make some noise in the market. The school invited all the parents to an "open house." The parents got the chance to see what their kids experience during daily routine. Different learning stations were created. Project learning and soft skills activities attracted parents as well as a test driving circuit. Everybody was proud to see kids' performance and a lot of pictures were taken.

To show the school the real holistic vocational training approach at the end of the third year, a practical examination was set up. During 8 h of work, the students had to produce a small project which covers all learned context. The entire day was recorded by a camera team. The students were divided in teams to use the machines and other resources in sequence. All machines, tools, and raw materials were prepared in advance and everything was in good condition. The teachers were a little bit nervous about students' performance. They suspected that a worse result reflected a bad teacher performance. But there is no doubt about it. Students worked fast and concentrated and everybody finished his/her task in time. After the evaluation of the German master trainer, the results were in a range between 78 and 100 points. Everybody was happy and proud about that and the good examination performance showed all parties that the first batch wrote actually a success story. Three years in close cooperation set up a milestone at least in the history of the chosen school.

The cooperation is still working, no matter in which city, and especially, the plants and dealers are very satisfied with the new educated young talents joining their business units.

Perspective

Time is running fast; meanwhile, a lot of money was spent, and finally, the small "pilot class" became a role model for vocational training in China. The government is satisfied with the successful implementation of a new education system. The participating schools can highlight a fruitful cooperation with a German car producer for self-marketing. The car company can offer attractive employment and ensure the high quality standards of their products. The teachers learned more in a various field and the German master trainer got rich in never expected experience.

It seems like a true successful story but there is no time to rest for each and everybody. The economy is still growing in China. New dealerships open frequently and new car models will be produced in the future. New employees with a deep knowledge and the ability to strive for lifelong learning are needed.

During the last couple of years, some good examples for a sustainable development followed. The company initiated a regular trainer support from Germany. A master trainer from a German technical training center spent at least 2 weeks in a Chinese vocational training school. Together with local teachers, they worked on a common project and repeated the "four steps method." Teachers acted as students under the guidance of the German trainer. Hereby, the focus was on the transfer from theoretical knowledge to action ability. This program is highly appreciated by teachers and school heads.

A second pillar to bring German spirit to China is a yearly student's exchange program. Two German apprentices stay for 2 weeks together with Chinese students in their school and generate a common project. The focus is aligned on communication and cooperation ability of the students. It was exciting to see, how fast they could work together, no matter how difficult the different languages are. One interested statement was given by a teacher: "It is fantastic to see, how well organized the German apprentices plan, execute and evaluate their work scope."

From time to time, some engineers from the plant production are visiting the schools and holding a lecture. But it is hard to find suitable persons to deal with students. They are definitely good educated but their wording is too sophisticated for students.

A good impact on daily routine had a so-called learning journey. Representatives from several cooperating schools visited, together with car producer's training staff, some technical training centers in Germany. During 1 week, they experienced different job profiles at different locations. The Chinese colleagues got convinced that the mixture of theory and practice is an essential part of a sustainable change in the Chinese vocational training system. They realized the necessity on good skilled workers with a better technical knowledge.

A lot of efforts were undertaken, a lot of words were spoken, and vocational training is in everybody's mouth, no matter in which field.

Now, it is on the Chinese society to continue in writing the story of success, not only for the economy, basically to provide a prosperous future for the youth.

Final Comments and Outlook

Years of implementation are gone, success is visible and now? To encourage a vocational education reform will be the essential project for the next couple of years. Therefore, learning from the good examples, implementing the holistic approach of learning/teaching in the entire vocational training environment.

It is not easy to convince all the involved ministries, institutions, schools, and companies to get in contact and try to change some educational principles.

It is cumbersome to find responsible persons who take the topic really seriously. Tasks have to be assigned to people who are not aligned with new ideas and concepts. Here is definitely the bottleneck in a sustainable approach. Bring passionate people together, educate them in a proper way, and reduce administrative barriers. Only people can make the difference and are able to change their minds which are necessary to change a traditional education system to become a modern dual education.

Human Resources Marketing and Recruiting: Essentials of Executive Search

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Contents

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Abstract

The chapter provides a fundamental introduction into the executive search industry. Starting by the big picture, the industry with its origin, its economic dependencies, and youngest developments will be presented. Followed by a deep dive into the daily work, the direct search process with its most crucial phases is described. This process is one of the most important core success factors of professional executive search agencies. The depth level of each phase in this chapter varies based on its complexity and importance. For the case of hiring and working together with an executive search consultancy, the need of understanding some further connections and insights is crucial. Therefore, four different perspectives on the industry are provided, including the cultural, economic, risk, and operational point of view. The following section summarizes tips for the daily work with external executive search consultants in the form of do's and don'ts. Finally, selected trends such as the war for talents, gender diversity, and big data allow a discussion about the impact of such external changes and in which direction it might change the industry over the years.

Keywords

Executive search • Direct search • Headhunting • Executives • War for talents • Egon Zehnder • Heidrick and Struggles • Russell Reynolds • Korn/Ferry • Spencer Stuart • i-potentials • Recruiting • Recruitment • Direct search process • Direct search methods • Digital Executives • Matching • Retained search • Contingent search • Executive search models • Career • Job market

Introduction and Overview

Compared to many of the decisions, which need to be made on the highest level in a corporation, the task of hiring the ideal executive for the current and upcoming challenges is probably one of the most crucial, critical, and difficult ones. Therefore, providing systematic, structured, and professional solutions for this major challenge, executive search consultancies belong to the most important strategic senior-level management consulting services provided. This chapter will give you an overview over the industry, its history, and the current economic development followed by a detailed description of the heart of this professional service: the direct search process. Furthermore, the four different perspectives (people, economic, risk, and operational) will provide a diversified view on executive search. In the end of the chapter on experience-based hands-on, do's and don'ts give valuable hints for working together with an executive search consultancy successfully.

The Executive Search Industry

What Is Executive Search

Executive search, also known as informal "headhunting," stands for a specific and well-structured process named direct search. This on a mandate-based service includes an in-depth vacancy analysis so as wanted the defined profile can be systematically sourced, contacted, invited to interviews, and finally placed. Due to the intensity in resources and time, executive search is mainly applied at highly relevant/rare expert positions and executives such as board member, C-levels, vice presidents (VPs), and managing directors (MDs). A direct search process is always initiated to find a specific candidate for a certain position with a very detailed profile in which conventional recruiting methods such as job advertisements do not induce. The intensification of the war for talent through more globalization, lowering retention rates, and increasing expectations of top employees makes it even more important to win out over other employers. Therefore, the direct search, which includes preselecting and also proactively addressing suitable candidates, which are not visibly looking for a new opportunity, is known as the most effective approach to find and hire the best candidates available in the market. Participants involved in an executive search process are the client, the candidates, and the consultancy as mediator or market maker in between. The nature of the vacancy, either executive or specialist, implies the importance of this hire to the organization so there is a substantial interest in lowering the risk of hiring a "miscast" for this position. Therefore, especially such "mission critical" vacancies are often outsourced to specialized external direct search agencies. Other reasons for the outsourcing are the following:

- The organization does not have the resources such as know-how, time, or manpower to process a direct search in-house.
- The organization has been unsuccessful in direct searching the right candidate with its internal resources.
- The organization needs the search to be undercover to assure that certain stakeholder like employees or competitors stays uninformed about the vacancy.
- The desired candidate is already known or identified but cannot be addressed directly so needs to be converted with the help of a third party.

The Rise of the Executive Search Industry

The executive search service, as we know it today, has its roots in North America. In 1926, Thorndike Deland founded the first executive search company called

Thorndike Deland Associates in New York. Due to the shortcoming of high-profile politicians after the First World War, he developed the process of actively researching and contacting potentially interesting candidates for top positions in politics rather than waiting for them to react and apply on advertisements (Barmash 1991).

About 15 years later, during the blistering industrialization in the USA in the 1940s, the rapidly increasing demand of top managers in corporations led to the emergence and rise of executive search agencies. In 1942, George Fry founded the recruitment agency George Fry and Associates in Chicago, followed by newly founded direct search agencies from notable personalities like Sidney Boyden (Boyden International) and Spencer Stuart. These early market participants have shaped this newly evolving industry after the Second World War in the USA intensively. They also strongly participated in the rapid expansion to international markets such as Europe just a few years later in the 1950s (AESC 2009).

Despite different national laws, which prohibited nongovernmental job placement services (such as the German job placement monopoly, which was established in 1931 and was finally overruled in 1991 through the European jurisdiction), several developments in Europe and around the industrial world led to a fast rise of executive search consultancies in the late 1950s (Winterhager et al. 2006):

- The increasing competition through the emergence and establishment of international companies (especially in Europe).
- The increasing difficulty of developing and promoting executives internally fast enough.
- The rapidly moving markets and the new emerging challenges to executives (increasing internationalization of business, increasing complexity and specialization, increasing fluctuation on all management levels, etc.) have led to an intense shortcoming of managers and executives in many industries.
- The realization that job advertisements only reach a small percentage (only the active job seekers) of all relevant candidates for a certain "mission critical position."
- The fact that the ideal candidate often works for competitors and is not easy or even forbidden to address directly.

Spencer Stuart, today representing itself in 55 offices in 30 countries worldwide, was one of the first executive search consultancies launching in Europe. At Spencer Stuart, the next generation of rising executive search consultants were educated and qualified, among others Jürgen Mülder, the founder of Mülder & Partner. He helped the European executive search industry not only to establish a new standard of discretion and reliability. He was also truly engaged in politics and thereby gained relevant reputation for his guild to become more accepted as relevant and common part of the "executive game." Mülder & Partner was acquired from Heidrick and Struggles in 1997 for $27 million. Mülder left Heidrick and Struggles just 7 years later due to internal differences. Another game changer, which Spencer Stuart has produced, is Egon Zehnder. In 1964, he founded Egon Zehnder International in Zurich and since then built up the worldwide second largest international executive

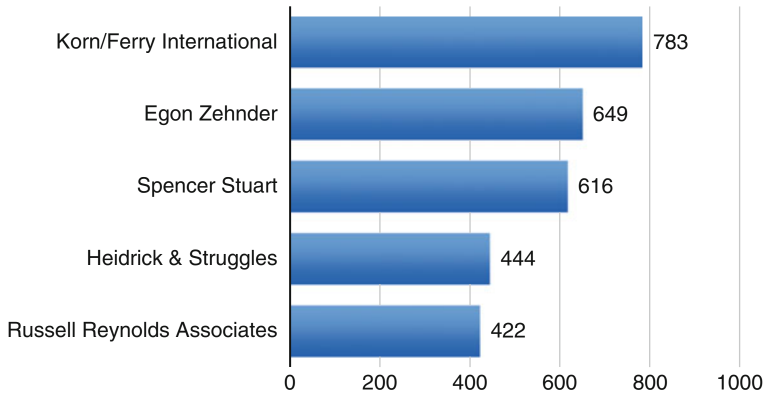

Fig. 1 Revenue of the biggest executive search firms worldwide in 2012 (in $ million) (Source: CESifo-Group)

search firm with over 68 offices and $650 million revenue in 2012. The number one executive search consultancy in revenue, employees, and offices worldwide is Korn/Ferry International. Korn/Ferry was founded by Richard Ferry and Lester Korn in 1968 in LA. Korn/Ferry employs 2,400 people in 80 offices around the world and reported a revenue of $783 million in 2012 (Fig. 1).

Understanding the Executive Search Economy

Today, the executive search and hiring market has grown to an industry of about $10 billion revenue worldwide. Not only because this pivotal form of management consulting has its roots in the USA but also due to their competitive free market economy and the dense landscape of international market leaders and players in all relevant industries like pharmacy, technology, consumer goods, financial services, and science, the majority of all search mandates are executed in North America (Fig. 2).

As many other professional service industries, the executive search market is strongly fragmented. In terms of size, the market is dominated by only a few globally represented and market-leading corporations. Alongside, regional and sectorial specialized direct search boutiques and uncountable well-networked and independent sole traders characterize the industry. In order to stay competitive to the international network effects and knowledge synergies the big international players profit from, many boutiques and individuals are organized in global networks and operate under the same brand name.

Another type of fragmentation in this market is the specialization of consultancies or individuals on selected sectors like financial services or the consumer goods industry. Having already mentioned two of the major sectors, the manufacturing industry is responsible for one quarter of the worldwide revenues of the executive search industry (Fig. 3).

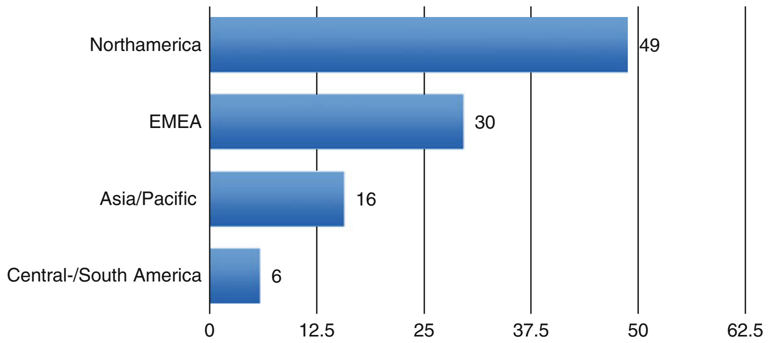

Fig. 2 Dispensation of executive search assignments worldwide in Q1 2013 (in %) (Source: AESC State of the Executive Search Industry Report Quarter 1, 2013, p. 5)

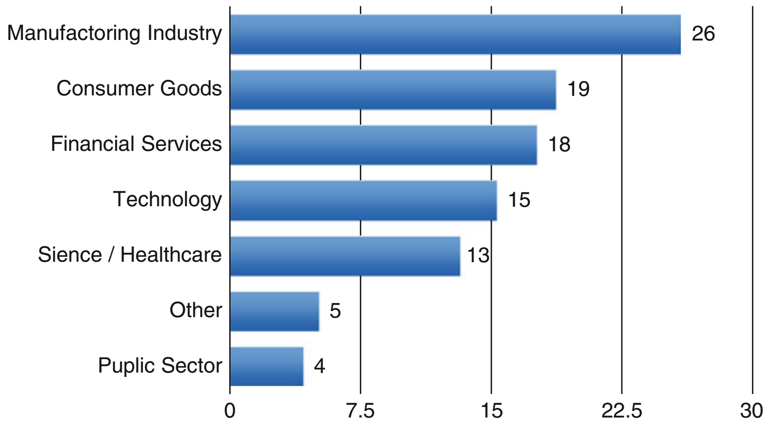

Fig. 3 Segmentation of search mandates to executive search consultancies worldwide until Q1 2013 (in %) (Source: AESC State of the Executive Search Industry Report 2013)

Other service providers do not focus only on a sector but on selected divisions such as digital marketing or product management in the e-commerce businesses.

Analyzing the revenue of some selected years back to the year 2000, the chart below demonstrates several important insights about the executive search industry.

Firstly, the immediate dependency of the executive search industry on the world's economic situation becomes self-evident. Taking the economic crunch in 2009 as an example, it involved the most intense decline of this industry ever. The interest but also the financial ability of investing in cost intense searches for managers and executives dropped in many economic sectors to a minimum. Even though many positions became vacant through layoffs during the economic crunch, unstable forecasts for many sectors led to a mentality of cost cutting on human resources and recruiting, including expensive executives searches.

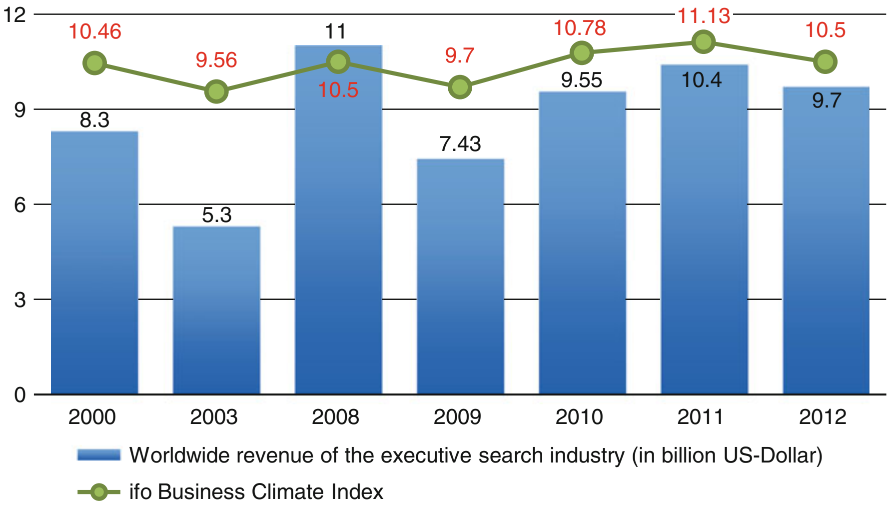

Fig. 4 Worldwide revenue of the executive search industry (in billion US dollar) vs. business climate index (Source: AESC State of the Executive Search Industry Report 2013)

Secondly, the strong dependency is valid in both directions. As soon as sectors such as the automotive industry and financial services had found new trust in their markets such as in 2010, new search mandates for relevant vacancies have been assigned quickly. The executive search industry had some losses in terms of insolvencies but quickly found its way back on track and grew by about 29 % (Fig. 4).

The economic crisis in 2009 had a significant impact on the industry: especially small boutiques and stand-alone consultants were affected. Consultancies needed to lay off employees, some even ran out of business. Based on this dramatic experience, many executive search consultancies, including the market leaders, started to broaden and accelerate their revenue streams through services such as succession management, management auditing, leadership development, outplacement, recruiting outsourcing services (ROS), etc. Korn/Ferry, for instance, bought the leadership consultancy PDI Ninth House in order to increase its revenues from non-search sources up to 40 %. Despite these acquisitions, direct search remains to be the core service as illustrated on the graph below on the example of the German market (Fig. 5).

Taking a closer look at the youngest market feedback around the world, gathered by AIMS International, a global Executive Search and Talent Management organization, the upholding stagnation of the industry in 2012/2013 seems to have come to an end in 2014. Companies are hiring on all levels, and the war for talents, experts, and innovation driving executives is already in full swing again. The order books of the executive search firms are filling up again, and the industry is regaining its self-confidence (Fig. 6).

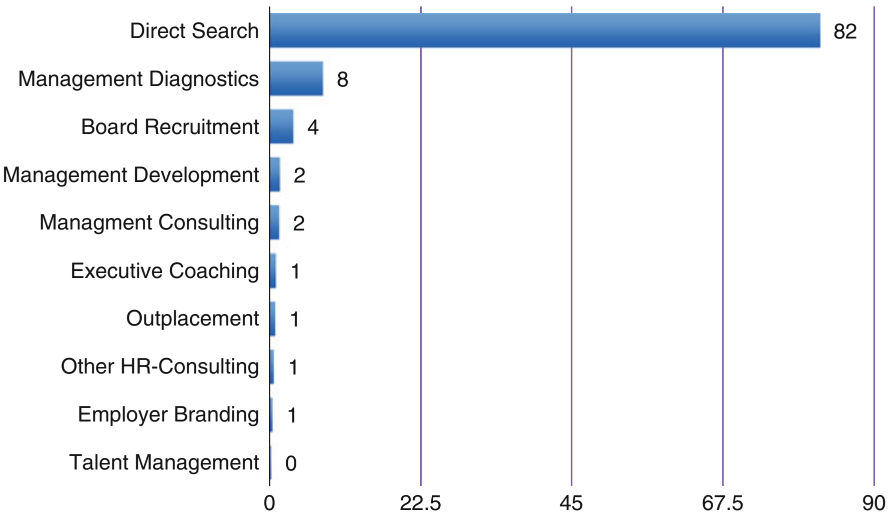

Fig. 5 Segmentation of the German executive search consultancies performed services in 2012 (in %) (Source: Bundesverband Deutscher Unternehmensberater e.V)

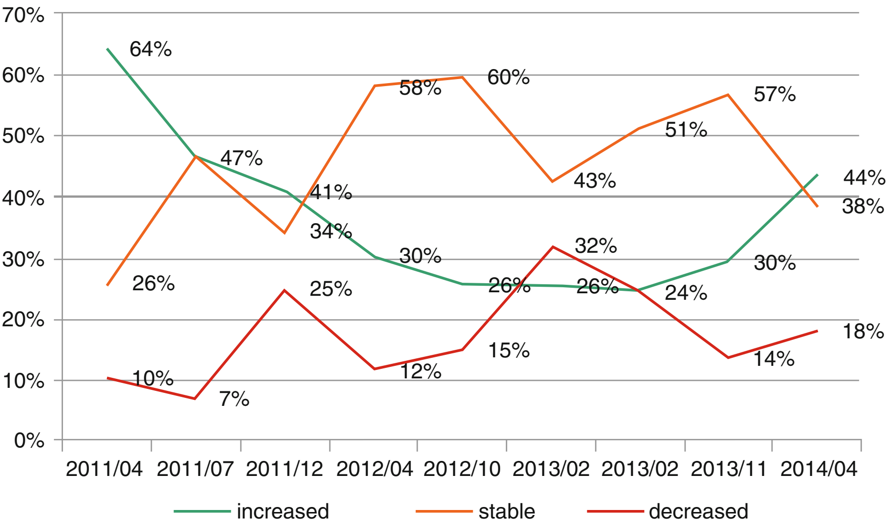

Fig. 6 Quarterly revenue development from April 2011 till April 2014 (Source: AIMS International)

The Direct Search Process

One can describe executive search or direct search as a consultative process since the business model is based on advising clients to understand, analyze, and solve a leadership or staff management challenge. Search consultants strive to first understand the needs and dynamics of an organization by getting to know as many stakeholders as possible. This may include talking to past and present board members, key staff people, or members of the community. A search consultant continually gives feedback during the finding process, and at some point, a new understanding emerges regarding the scope and nature of the position and the requirements for a successful candidate.

The search consultant also recommends a research approach to identifying sources and qualified prospects and develops a road map for identifying the talent needed by the hiring organization. Throughout the whole process, the consultant offers the client feedback and advice.

The consultant can help the client prepare questions to set up a key skill set that is essential in the decision process. In case that questions regarding a presented candidate arise, the consultant recommends an approach to reference checking and testing before making an offer or ideally starts with further background information checks already throughout the search.

The search consultant also typically plays an important role in offer negotiations with the most suitable candidate and advises on what the client needs to consider in making a successful offer beyond compensation.

In the end an executive search consultant can be thought of as an advisor who is responsible for advising the client in keeping the search on track, focused, and on schedule. Having a timetable with specific deliverables and clear expectations and roles for the client and the consultant helps to ensure a successful outcome.

Detailed Briefing

Basic Information

A search always starts with a detailed briefing, a discussion between the consultant or recruiter responsible for the search and the responsible person on the side of the client or department for whom the recruiting is being executed. From an external perspective, there might be exceptions, for instance, if the consultant and client have been working together for a couple of years, he or she may already be considered a trusted partner – that, by the way, should always be the goal!

One might think that this part of the process shouldn’t take that much time. Especially as the company being recruited for (in case the consultant is external) is most likely not planning to spend 2 or 3 h to explain their needs. In the case that the consultant is an HR professional handling internal recruiting using the direct search method, his or her contact partner probably won’t bother to define what they want or need – they will, in most cases, expect that the consultant or recruiter already understands what is needed if she/he is provided with the name of the position.

But professional search consultants or recruiters in general, either within a company or from an external recruiting agency, don’t accept an assignment without understanding the position they are looking to fill – they explore different perspectives in order to fully understand the profile.

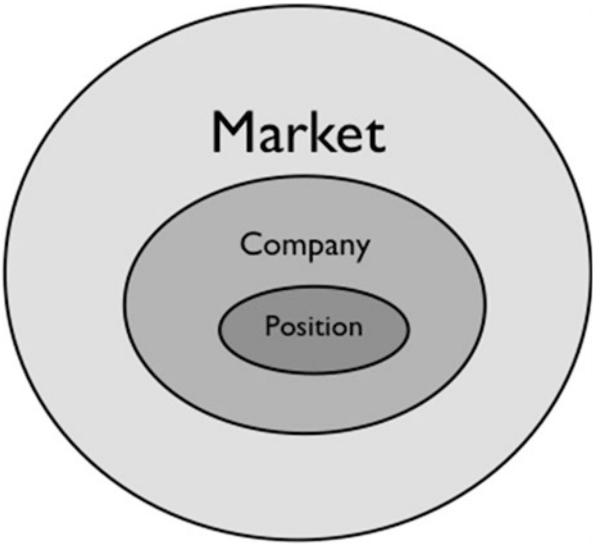

Fig. 7 Preparation and structure research

Preparation and Gathering Information

In the first place, the aim is to truly understand the client or department and their working processes in the best possible way.

The consultant should imagine himself or herself working in the company being recruited for and trying to understand the organization; she/he should define the company structures as well as their current situation (marketwise, competitor-wise, etc.), objectives, vision, and, last but not least, their culture (Fig. 7).

Relevant Information: Market and Company

- Company details
- Founder and management, number of employees and international offices, revenue, financial situation, product, vision, strategy, and culture
- Market share/positioning
- Business model
- Partner
- Ranking, reputation, etc.

Relevant Information: Position

- Level
- Requirements

Understanding the requirements of a position is vital, but at the same time, the level of the position is crucial for the identification of potential candidates at a later stage, which means i.e.: to whom the candidate will be reporting, how big the team will be, and what prospects the candidate will have (Fig. 8).

Fig. 8 Classic company hierarchy structure

Executive (Leader), Manager, and Specialist

To quickly summarize the different levels, the executive (board and C-level, including vice president) is most likely responsible for the overall future strategy within a company, whereas a manager takes care of resources and planning. The specialists are usually very close to the operational part. Understanding the level of the position will help when looking at different profiles and determining if they will be interested in the position that is going to be offered.

Tip: The consultant or recruiter should use or collect different job titles for the same level. A bigger variety will bring more results when identifying relevant candidates. Keep in mind that every company has its own structure and its own way to describe a position – position titles nowadays tend to be very volatile.

Example: Head of Sales = Director of Sales = Team Leader of Sales = Sales Executives, etc.

Every single detail will help the person responsible for the search to understand why they need to fill the position. A helpful tool to make sure to get all the basics together is a scorecard or fact sheet. Using a scorecard in the conversation will definitely help to guide through the briefing and ensures that nothing important is missed.

Scorecard

A scorecard describes the mission for the position, outcomes that must be accomplished, and competencies that fit with both the culture of the company and the role. A scorecard is the blueprint for success.

The following structure of the scorecard can help to structure the information:

(A) Job's mission
(B) Outcomes
(C) Competencies

Scorecard Example Sales Position

(A) **Job's mission**

Task: Describe the essence of the job and why the role exists.

- What exactly is the candidate going to do in this role?

Example: Support of direct sales team with the overall goal of growing revenue through effective marketing materials and online campaigns.

It should be kept in mind that the best salesperson in the team is not going to make the team happy if she/he doesn't fit into the culture (see competencies). If it is already doubtful that a person (typical one-man juggernaut) will not be found in the market, the consultant or recruiter should mention that already and explain why. A discussion in the beginning will definitely help to successfully place a candidate at the end of the project.

(B) **Outcomes**

Task: Develop at least three to five objective outcomes that a person must accomplish.

- What exactly needs to be accomplished in the first 3/6/12 months?
- How much revenue shall be achieved by the end of the year?

Example: Develop a 12-month marketing plan to achieve revenue goals within budget of $500.000. Launch campaigns to drive new customer leads from current 10 per month to 30 per month within the first 9 months.

The responsible party should make sure to have a definition of what exactly must get done (at least three to eight outcomes – these outcomes need to be objective and observable) and in what time frame. It's very important to have the right people in the right spot at the right time, which means that the consultant or recruiter should not be hiring a generalist but rather a specialist.

(C) **Competencies**

Task: Identify as many role-based competencies as are appropriate to describe the behavior someone must demonstrate to achieve the outcomes.

- Which competencies are critical and job related for the role?
- What values (company culture) are essential for a long-term relationship regardless of the role?

Example: Job-related competencies – persistent, proactive and analytical, hardworking, and influential. Cultural competencies – open minded, fast paced, and results oriented.

At the end, it all comes down to:

Competencies define *how* they expect the candidate to operate in the fulfillment of the job and the achievement of the outcomes.

The consultant or recruiter should always be looking for narrow but deep competencies. It should be kept in mind that certain criteria are connected not only to the position but to the company culture to ensure the behavioral fit – it is not only about their professional qualifications. People who don't fit culturally fail at the job, even when they are perfectly talented in all other aspects.

The search consultant or recruiter should understand the company culture (which values are important and what exactly defines the culture) and should translate the culture into a series of competencies. Sometimes successful hiring means having the discipline to pass on talented people who are not a cultural fit.

The scorecard not only helps to understand what exactly to look for but is also a guardian of the culture. It encapsulates on paper the unwritten dynamics that make a company what it is and ensures those elements are taken into consideration in hiring decisions.

Along with the gathered information and after making sure that every question is answered, the person responsible for the search can determine the requirements the candidate has to meet and prepare a detailed job description that will be sent out to candidates who are interested in the position.

Job Description

After collecting the relevant information, the search consultant can, together with the client, develop a differentiated job profile. This will include a clear definition of the role within the company, the ideal background, and required skills and experiences.

Job descriptions can also be of great value to the client or head of the department. Creating a job description often results in a process that helps determine how critical the job is and how this particular job relates to others and identifies the characteristics needed by a new employee filling the role.

Once a job description is prepared, it can also serve as a basis for interviewing candidates, orienting the future employee, and in the evaluation of job performance later on the job – using the job description for future evaluation should be part of good management.

Components of a Job Description

1. **Short company description and background**.
2. **Functions of the position**. Usually this section is the lengthiest and contains details of what the job actually entails and can be quite specific. It should detail any supervisory functions in addition to being as specific as possible describing tasks the employee will face every day. This is also the best place to indicate whether the person will deal with customers, the public, or only internal employees. This section should also be used to place priorities on the activities.
3. **Competencies needed for the position**. This section should detail any technical or educational requirements that may be critical or desired. This is also the place to provide some insights into the type of work environment the company is attempting to maintain and should mention at least a couple of competencies that define a suitable profile.
4. **Reporting**. This section provides details on the reporting and organizational structure. This will help the future employee to better understand how his or her activities fit into the overall organization.
5. **Evaluation criteria**. The more specific this can be, the better. Writing this section will probably help to define what is most important for the organization as well as for the employee. The consultant or recruiter should try to make sure the evaluation criteria of the position will promote the type of activities which enhance the success of the business.

6. **Compensation**. From a recruiting agency perspective, it is probably better to work with a short statement: e.g., depending on work experience. Internal recruiters could include a range instead of a specific figure – that will ensure more flexibility. It is usually better to have a specific amount, especially if the job description is being given to the employee. If the organization uses salary grades, use that.
7. **Physical location and surroundings**.

Keep in mind:
- The description should be short and simple and easy to understand and should try to create a bigger picture.
- It should start with a description of the company and its history as well as the current situation and future strategy.
- The job description should explain why the position is open and what exactly needs to be done in the role.
- Last but not least, it should differentiate between crucial and cultural competencies.

The document should be well structured and not longer than three pages. One of the key differences in direct search is that the search consultant or recruiter is actively contacting candidates in positions where the majority is not actively looking for a new job – so she/he has to convince them from the very first moment.

Tip: The final version of the job description can be used as another touching point with the client or department. They should have a look at the summary and give their final go that the information can be sent to potential candidates making sure that it does not include any confidential aspects. Nobody wants the market to gossip around!

One of the last bits that need to be done before the job description can be sent is to prepare a *target company list* – a well-structured list of companies in which suitable candidates are most likely to be found.

Target List

Since these lists are growing through the whole search, there is a difference between a so-called long list and a short list. With the short list, the client or department will get an overview in the beginning of first ideas and where the recruiter is going to look for candidates. Handing it over gives another chance to check if there are any *blacklist companies* on the list – companies where she/he should not be hunting because it is a business partner or a close business relationship.

Depending on the company and the position being filled, it makes sense to structure the list into different segments:

- Business models
- Size of the companies
- Competitors
- Countries/cities or areas they are operating in

- Revenue
- etc.

As can be seen, although the search hasn't started, it feels like a week or two has already passed. Accuracy will help quite a lot in the overall process. To be efficient, the search consultant or recruiter had better do his or her homework in the beginning of the search. But with the overall understanding, finding the right candidate and starting with the identification are closer than ever.

Identification and Approach

How to Identify "Mr./Mrs. Right"?

After having a closer look in his or her own network, the responsible party should always start with the screening of the companies on the target company list to identify potential candidates. The consultant or recruiter should not forget to write down where she/he has been looking already. The list can be used as a management tool and a certain control tool. When reporting to the client or department, it gives them an idea of what has been done and what they can expect (market perspective).

Other very important sources that might be useful to identify potential candidates (always depending on which industry/sector being looked at):

- Network or companies' network
- Multipliers
- Internal or external databases
- Social networks (XING, LinkedIn, etc.)
- Specialist forums, networks, and organizations
- Recommendations

It is important to keep in mind that people (naturally) are always looking for the next step in their professional career. Candidates to whom the same or a similar position is being offered (which would mean a side step) most likely won't be interested in learning more about the position.

How to Screen Profiles and What to Look for?

One of the most challenging parts is to figure out which profile might be the best and most suitable. While screening hundreds of different profiles, it is super important to be very selective in the beginning of the search. Efficiency is truly key! Over the years, after the consultant or recruiter has probably screened thousands of profiles, she/he will develop an eye for every single detail and will be able to read profiles within only seconds.

The consultant or recruiter should make sure to be checking that all relevant criteria from the briefing are fulfilled and in the beginning only concentrate on those profiles that fulfill every single detail. The client or department, especially in the beginning, won't compromise right away when a candidate does not have one of the requirements that she/he is looking for.

Try to keep in mind the following aspects and criteria:

- Professionalism
- Educational background
- Industry expertise
- Job-hopper or unexplained gaps in the CV
- Current position
- Extracurricular activities
- Keywords

Depending on the position/role being filled, the person responsible should always make sure to have a certain amount of identified profiles to choose from.

Tip: A rule of thumb should always be: It's better to have fewer than a hundred profiles that fulfill every single requirement rather than 200 which don't. It's quality, not quantity, that counts.

There might be situations in which it is unclear if the profiles the consultant or recruiter has found are the right ones; it's more cost and time efficient for both sides to take an extra 10 min to speak about the first profiles and get even more input.

With a variety of different profiles (various backgrounds and experiences but still within the criteria from the briefing – it is best to find a more junior and a more senior version) suiting the position, the consultant or recruiter also has the chance to see what profiles are preferred.

After double-checking a certain amount of profiles (to make sure that the consultant and client are on the same page regarding the expectations) and when the search consultant or recruiter has identified a solid number of candidates, she/he can finally start contacting the candidates.

Approaching Candidates

Candidates should always be approached discreetly, individually, and directly while treating them with the utmost care. Before starting, the search consultant or recruiter needs to decide what the fastest and most effective way will probably be of contacting candidates. Having the position as well as the profile in mind, there can be differences depending on the industry they are working in. In the case that the position is a sales manager, the consultant or recruiter can probably just ring the candidate and quickly ask if the offered position could be a relevant next step. Sales managers tend to be very extroverted and communicative, whereas an IT expert might prefer an e-mail. The consultant or recruiter should make sure that the candidate is feeling comfortable with the approach and should try to anticipate! In addition to keeping the message short and simple, it should contain three to five key aspects that causes a certain stir of interest and convinces the candidate a certain stir of interest to talk further about the position.

When contacting a candidate for the very first time via e-mail, the person responsible should not simply copy and paste – the candidate will probably notice and just delete the message. They need to feel that they are special and therefore the only ones who have been contacted for the position. It is very important to personalize the messages in stead of simply changing change the name of the addressee (one of the worst cases of copying and pasting if sending an e-mail to a potential candidate is to still have the last name of the former candidate in the salutation). The consultant or recruiter should be sure to include information that she/he already found out, e.g., if the candidate has been in the same position for more than 3 years, use the info as a teaser. "As I see that you have already been with the company for the last couple of years, I thought you might be interested in a new challenge."

- Via telephone (fastest way to contact the candidates is to directly call them – be careful while calling them at work, always try to find a slot before or after working hours)
- Via e-mail
- Directly via social networks (Twitter and Facebook are not suitable for every position!)

Scenario 1. The candidate will respond and be interested in more information. Then the consultant or recruiter can directly give him or her more details – even send the job description if it is not confidential – and ask for his or her curriculum vitae (CV) to have a closer look at the profile and get a better understanding of their experiences.

Scenario 2. The candidate gets back to the consultant or recruiter but is not interested (common reasons: relocation, position, company, happy in the current position, etc.). If a candidate hasn't mentioned any details regarding family and relocation, the consultant or recruiter should give it another try and see if she/he can convince him/her – it won't work out every time, but one out of ten might take the bait.

Scenario 3. The candidate does not get back within the first three to five working days. It should be taken into consideration that there is always a slight chance that he or she is on vacation or a business trip. If they were contacted via e-mail, the consultant or recruiter can definitely try to reach them via phone after the fifth day, telling them that she/he already tried to reach them via e-mail. In that case, she/he should have a short pitch/summary ready to quickly give them an overview on the phone.

Scenario 4. The candidate does not respond and it's impossible to reach him or her via phone. Then the consultant or recruiter still has the chance to ask his or her network if somebody might know the person or can make an introduction. If the position is for a PR and communication manager, channels on social networks such as Twitter or Facebook are also possibilities; those ways of contacting are not always the most suitable, but depending on the position, they will not be offended.

But the consultant or recruiter should not spend too much time convincing people – concentrate on the ones who show interest from the early beginning.

There should not be more than five working days from the day the candidate is first contacted until an initial interview is arranged. It is important to keep them in the loop – the faster the process, the better it feels on the candidate's side.

Before scheduling an interview, the consultant should ideally have their CV at hand. It can be used to gain a better understanding of what exactly they have been doing so far and to check if they fulfill most of the professional or technical criteria. Some of the candidates will not have an updated version ready because the majority is not actively looking. For the initial interview, it is a good idea to check if they have a relevant profile on one of the common professional networks such as XING or LinkedIn.

Note: The process can be considered as a give-take situation. If the consultant or recruiter is providing more details, she/he can also ask for an updated CV to already have a closer look at their background; it's best to make sure that it's worth it to do a first interview. Checking details beforehand enables the consultant or recruiter to decide whether it makes sense to further concentrate on the candidate or to decide against him or her. The more efficiently the work is done, the faster the position can be filled.

Interviews

Preparation

All suitable candidates should be evaluated thoroughly during a minimum of at least two interviews (via telephone and ideally in a personal interview involving at least two people) and should be reviewed under special consideration of relevant qualifications and competencies. As mentioned before, the *job description* or the s*corecard* can now be used to structure the interview and make sure that the most relevant requirements are being focused on.

To be a great interviewer, one must get out of the habit of passively witnessing how somebody acts during an interview – decisions shouldn't be based on how somebody acts during a few minutes of a certain day. The consultant or recruiter should use at least two interviews (plus a reference interview) to collect facts and data about the candidate's performance track record.

Once a potential candidate has been found, the search consultant or recruiter should prepare a well-structured guideline to use in every single interview for the position, making sure that there is an objective basis to compare the candidates and to evaluate their skills. There are hundreds of different ways to interview and techniques to use. The technique is not the most important aspect but rather making sure that the same structure and questions are constantly used for every single candidate that is going to be interviewed. This is to try to ensure a comparable starting situation.

Note: The consultant or recruiter should try to spend at least 10–15 min in preparation before picking up the phone or meeting the potential candidate, and she/he should show interest! Looking at the candidate's CV or profile, what they are currently doing, and where they are working are good ideas. These provide a starting point to trigger the discussion.

First Interview (Phone-Based or Personal Interview)

Guideline for the first interview (minimum of 45–60 min):

- Overview of the interview – How long it's going to take and what you are going to talk about: it is important to give a road map!
- Short introduction of himself or herself and the company she/he is working for (this helps to establish some kind of relationship from the early beginning throughout the interview)
- Basic checkup of the requirements (background and education, professional career steps, salary, availability, etc.)
- Evaluation of relevant experience – Get curious (What? How? Tell me more)
- Motivation and value system
- Expectations
- Short overview of the position and first questions
- Outlook and next steps

The interviewer shouldn't just ask about all the information that is important for the position – she/he should engage the candidate to take part in the dialog! That is the only way to find out if she/he can be considered as Mr. or Ms. Right. But it should be kept in mind that for 80–90 % of the conversation, the candidate should be speaking.

In the unfortunate case that the candidate is not convincing or lacks experience, the consultant should already point that out during the conversation. This will help later on if he or she must be rejected later in the process.

In the case that the candidate fulfills the requirements and has convinced the consultant or recruiter to talk a bit more about the position, the next step is to set up another interview to talk about more details (again, the faster, the better. Do not lose too much time in between the interviews – the more time in between, the more difficult it is to remember details). Now it is time to send out the job description if that has not already been done. This gives the candidate a chance to further research the company and investigate a bit more to see whether the opportunity could be a possible next step.

Tip: It's best to try to arrange either a personal meeting or at least a video call for the second interview. A personal interview will give the consultant another chance to not only hear what the candidate says but also see how she/he acts.

Second Interview (Personal Interview)

The second interview can be considered even more important because it allows the consultant or recruiter to gather additional, specific information about the candidate. They can focus, for example, on the outcomes and competencies of the scorecard and be curious after every answer by using the *What*? *How*? *Tell me more* framework. She/he should keep asking until it is clear what the person did and how she/he did it.

Guideline for the second interview (minimum of 60–90 min):

- Details of position and Q&A
- Evaluation of the job-related interest of the candidate
- Review of necessary competencies: What? How? Tell me more
- Strength analysis and attitude
- Evaluating and double-checking cultural fit

The data gathered about the candidate now ideally matches up perfectly with the job and the culture of the company, and in the consultant's or recruiter's mind, the person already works for the company. When the two interviews are over and the consultant or recruiter feels totally excited about the potential candidate, a third interview should be considered – the reference interview.

Reference Interview

The reference interview can help grow even more understanding about the candidate and might point out a couple of important aspects. There are three things to keep in mind to have a successful reference interview:

- Pick the right reference (boss, peer, subordinate. Do not just use the reference list the candidate provides).
- Ask the candidate to contact the references to set up the calls or at least to inform them.
- Conduct the right number of reference interviews (minimum of three).

The consultant or recruiter should try to verify the candidate's answers by using a couple of questions from the previous interviews; asking for multiple examples helps to put strengths and development areas into context. It is good to keep in mind that people probably don't change that much when it comes to certain criteria – past performance really is an indicator of future performance.

Candidate Short Profiles, Interviews, and Feedback

After interviewing the candidates, the consultant or recruiter should compose a brief and precise short profile that offers a representative overview of the collected information including a personal recommendation. On the basis of these short profiles, the client or the internal person responsible should be able to get an overview of the candidate and decide whether she/he would like to interview the candidates or not.

Tip: The person responsible should use the job description to point out certain competencies and prepare a single fact sheet using a scale (1–5) to make sure that she/he, as well as the client, is able to validate on the basis of the same criteria.

Short profiles usually contain**:**

- Criteria (background, professional experience, availability, salary, etc.)
  - Career insights (challenges, personal development, and achievements)
- Competencies, especially cultural fit
  - Attitude, personality, and strengths
  - Motivation, value system, and goals
- Personal evaluation and recommendation of the interviewer

If the client is not turning down any recommendations from the search consultant, that is a good indicator that she/he understands what the client is looking for.

After presenting the candidate to the client or the internal person responsible and helping to schedule interviews, the consultant or recruiter should always try to take part in the interviews. That can help a lot to even better understand exactly what they are looking for. The consultant or recruiter should try to make sure that she/he still owns the process and shouldn't leave them alone. The search consultant should be managing the process!

If the consultant or recruiter won't be able to take part in the interview, it is best to schedule a feedback meeting/call to get detailed feedback. If possible, she/he should do this right afterward to get first impressions, no matter if they are positive or negative. The feedback helps to better understand what is most important for the client and what they are focusing on.

Tip: The consultant or recruiter shouldn't be offended if the other party is coming back with negative feedback; that feedback can be used for future interviews to ensure that the following candidates fulfill the missing aspects.

Selection of Candidates and Negotiation

If the client or internal person responsible shares the same opinion regarding the candidate, the consultant or recruiter should make sure that she/he will be kept in the information loop. It's not a good idea to turn them loose and try to coordinate with the candidate as well as with the client. At this stage of the process, it is even more important the consultant stays up to date in case there might be room for further support, e.g., during the contract negotiation phase.

The search consultant or recruiter should always be aware of possible changes and therefore try to mediate between the client and the candidate. Until the ink on the contract is dry, she/he should try to stay very close to both sides.

Successful Placement of a Candidate

After the candidate was successfully placed, the consultant should definitely stay in touch with the client. It makes sense to get feedback at the end of the first 90 days after the candidate started working for the client. The consultant shouldn't hesitate to meet up with them and get feedback on how things are going. It's a good idea to try to stay in touch even longer than the most critical time period of 6 months – always keep in mind that this placement could be a future client.

Tip: The consultant should let somebody else from his or her company do a quality call right after the placement and after a certain amount of time to verify what the client was thinking during the process and if there is room for improvement.

People Perspective

People live and work in an age of transformation. Companies are challenged by continuous change due to a more globalized and fast-moving environment. On top of it, demography is affecting company growth or even a stable balance within the workforce. Today, most industries are only confronted with the tip of the iceberg. The so-called war for talent has just started. Soon, the next generation will impact the economic developments since fewer skilled workers (professionals, managers, and executives) will be available on the job market. This forecast results in a fundamental change within the workforce. There is a shift of power between the employer and the employee, which has a substantial impact on all parties involved. As a result, there is a high demand for executive search, which influences both company and employees (candidates) on different levels. In the following, the motivational and cultural changes will be stressed.

Partnership Between Candidate and Executive Search Consultant

Over the last years, employees have gradually changed their focus when deciding on new job offers. On the one hand, they have realized that companies can no longer promise stability and security of employment since some jobs become obsolete, new skills are urgently needed, and structural changes are becoming the norm. On the other hand, skilled workers have also understood that they can benefit from the war for talent in making greater demands. Hence, job changes are more and more corporately accepted due to the growth of skill shortage and increasing competition between employers. As a result, around majority of the workforce is generally open for discussing new job opportunities.

Working with a trustworthy executive search consultant has great advantages for any employee that is interested in an ongoing career development. Not only knows the consultant about the competencies of his or her protégé but also about the hidden motives. Does the employee care about a pay rise, or is he or she more interested in flexible working hours to spend more time with the family? All these questions won't be the center of attention during a typical job interview between a company and a job applicant but drastically influence the candidate's decision.

A well-trained consultant will always be an advisor and won't be seen solely as a service. The communication between candidate and consultant will not only focus on current job offers but also involves information about a career development strategy as well as salary negotiations. Of course, the position of power also shifts toward the employee once directly approached for an open position, which influences the candidate on an emotional level and gives him or her an advantage for further negotiations.

Partnership Between Company and Executive Search Consultancy

After evaluating the current situation, it becomes apparent that businesses have to fight a high turnover due to increasing employee fluctuation or restructuring. In both cases, executive search consultancies supply companies with the needed resources but also poach employees from their positions. This two-sided scenario puts businesses on the spot to change their usual patterns and focus on the changing employee needs. Recent developments have shown that human resources are concentrating on the development of strong company cultures to retain their talents and develop a unique DNA. Since it is becoming more and more difficult for companies to differentiate themselves in a highly competitive war for talent, the new trigger point is called culture (Papa et al. 2008; Hartnell et al. 2011).

Due to these changes, executive search consultancies have a new mission, not only understanding the business model and job specification but also the identity of the firm. It becomes their primary task to identify candidates that match the company's DNA. When contracting an executive search agency, it is of importance to choose wisely the right partner. Especially with senior placements, the risk of a cultural mismatch can negatively influence the company's culture, employee retention, and motivation. Therefore, human resources should focus on an equal fit between their company, their culture, and their agent. It is beneficial for both sides to seek a long-lasting business relationship. Having a sparring partner on recruitment matters that has in-depth understanding of soft factors such as company culture is vital for the survival on an increasingly dynamic labor market.

Economic Perspective

People are the most important asset and resource for successful and sustainable businesses. Therefore, it is fascinating that often no or very small budgets are planned for strategic personnel growth. Quite often, executive search consultancies are contacted when there is no other option left and the vacancy became a pressing matter for the company. Often the required resources and time frame for a new placement are underestimated. The process of searching, interviewing, and actually winning over a candidate can take months. Therefore, outsourcing this task to an executive search agency is an expensive investment, which will be further examined in this section.

The Pricing of Executive Search Services

One of the reasons for avoiding external professional services is that there are plenty less costly recruiting options available (in-house efforts, posting job advertisements, etc.) before considering the support of an executive search agency. Hiring with the help of an established and professional executive search agency costs 25–33 % of the estimated total annual compensation of the candidate, usually plus expenses. Talking about a senior executive compensation package, which normally includes the fixed salary and bonuses, the search fee is easily above 50.000 €. Some consultancies also agree on a flat fee in order to be unbiased, avoiding a conflict of interest during the negotiations of the compensation package.

First, it is very important to understand the economic drivers behind the two major models, retained-based consultancies and contingency-based agencies.

The Retained-Based and Contingency-Based Model

Retained executive search firms ask for an upfront payment, which is often one third of the whole fee. In general, they receive another third of the whole fee after a certain amount of time (e.g., 6 weeks) or having presented at least three relevant candidates, which the client wants to get to know personally. The last portion of the total fee is due, when a candidate is hired and the employment contract is signed. Furthermore, often travel expenses are charged back.

Contingency-based agencies only get paid when a candidate has signed the employment contract. They charge for a placement around 20–25 % of the total annual compensation package. Comparing both payment models from the client's economic and financial point of view, the contingency model seems much more attractive because the agency is bearing all the financial risks. In addition, if there is no exclusivity agreement, the client is able to assign the vacancy to two or even more competing contingency-based agencies, without carrying any financial risk.

Taking on the perspective of an executive search consultancy, it is apparent that economically the contingency-based model does not suit to perform an elaborated direct search process as described in section "The Rise of the Executive Search Industry." If an agency is only rewarded, when a placement is done, it is self-evident that the amount of resources (time, money, workforce, tools, process accuracy, etc.) invested in the process of finding a suitable candidate is kept as low as possible in order to diminish the own sunk costs and risk level.

Additionally, staying in competition with other contingency-based agencies automatically increases the time pressure to present suitable candidates in order to succeed first. Therefore, contingency-based consultancies have to work with smart shortcuts. For instance, it is practice to have easily more than ten mandates at the same time in order to create synergies between similar vacancies. In other words, a great candidate will be presented to several clients in order to increase the possibility of a successful placement. This also indicates that relevant candidate selection criteria such as cultural fit, role, etc., cannot be taken fully into consideration. In a nutshell, if a service provider is not paid for having time and resources to set up an individual direct search process, then neither the expectations should be held to receive such a process, nor the promise should be made that such a process will be executed.

But why is the contingency model widely spread and seems to work? First, because it is often forgotten to differentiate between those positions suitable for a contingency model and those more appropriate for retained-based models. The contingency concept works perfect for sectors or fields in which many vacancies of the same kind exist and the candidates' profiles in terms of skill sets are comparable. This is mainly applicable for junior, midlevel, and generic positions. Of course, the attractive compensation packages of senior and executive positions attract contingency-based agencies to aim for higher positions as well. Second, their pricing model makes it very easy for them to acquire new clients and vacancies in the executive field.

Lately, the contingency model becomes less applicable for executive search consultancies. The profiles become more and more complex, and the missing expertise for the direct search process as well as the huge amount of time and resources, which need to be invested at this point to find great candidates, leads to a withdrawal from the job. Only independent and self-employed executive search experts, who work mostly alone and do not have high fixed costs such as salaries and office rent, can offer a good service and process without retainer – exclusivity preconditioned.

Pricing of In-House Executive Search

In order to obviate the fees described above, some companies have insourced the service of executive search and built up an in-house direct search department. This works out in many companies, especially in the blue chips and fortune 500 companies. They do always have a continuous need for skilled workers, just alone because of natural fluctuation.

But before a decision can be made on "make or buy" executive search, a transparent evaluation of all needed requirements and fixed and potentially emerging expenses needs to be done. Finding, convincing, and hiring the right executives are neither cheap nor easy. The most crucial element for a successful and cost-efficient in-house executive search department is having an up-to-date, highly efficient, and experienced former executive search consultant or headhunter, who will lead and manage the department. Experienced headhunters, switching from an agency to an in-house HR department, certainly know well what they are worth. Therefore, a competitive annual salary needs to be taken into consideration.

Bearing this in mind, the question occurs if there are enough open vacancies, which in fact need to be directly searched. Companies should count with at least 40 positions per year that cannot be staffed easily via job advertisements in order to fully occupy a direct search expert, ideally supported by one researcher.

In order to provide a long-term perspective for your in-house direct search employees, a sustainable job profile or at least a Plan B should be prepared for times when recruiting is not needed. As the economy, markets, and individual companies are swaying, so is the need for new heads. On the other side, it will be a challenge to keep a passionate direct search expert in your company if he is only doing administration and laying off people in phases of low or no recruiting needs.

Besides fixed costs like salaries, offices, communication expenses, etc., variable costs like job advertisements and travel expenses need to be taken into consideration.

Risk Perspective

Risks During the Executive Search Process

Even though a company has found an experienced and professional executive search consultancy, which understands the market, has placed the vacant profile a dozen times, and last but not least gives a good gut feeling, there are many risks along the way of the search process the client can and should keep in mind:

Risk of losing time by searching for a wrong profile. The consultancy can only find accurate candidates if the briefing was accurate and precise. Often, the awareness of being on the wrong track becomes obvious, when wrong profiles are presented to the client, so relatively late. Resources and especially time have been wasted. In order to reduce this risk, it is recommended to be extremely clear what you want from the beginning on. A great consultant will insist on a precise briefing and will not start searching without it. Still, the best way to reduce this risk is communication, before and during the search process.

Risk of expecting a unicorn because of having contracted a consultancy. Just because a professional consultancy is contracted, the quality of the candidates cannot be better than the market allows. They will only find what truly exists and will present only those who are interested in the job, location, and company.

Risk of losing candidates during the process because of being too slow. The clients' bureaucracy, keeping candidates on hold, no time for short-dated personal interviews or several postponements, or vacations of the decision maker without having a decisively holiday replacement are classic reasons for consultancies losing great and at the beginning interested candidates during the process. The better and more attractive the candidates are to the job market, the smaller is the window of opportunity to win them over. Letting them wait and feel unappreciated will drive them away fast.

Risk of falling in love with one candidate and having no eyes for others anymore. Having seen the "perfect" candidate often makes other candidates look gray and uninteresting, even though the "perfect" one might have been a level too high and too expensive or was not interested in the job anyway and the other candidates may fit even better. It is recommended to stay objective and realistic.

Risk of being paralyzed by too many options. Often, clients want to see more candidates, because they have the feeling that there might be another great candidate out there, even if they have four or five great candidates they could decide between. Describes by the paradox of choice, presenting further candidates will not help the client to make a decision. “Even if the paralysis has been overtaken and a choice was made, we end up less satisfied with the result of the choice then we would be if we had fewer options to choose from” (Schwartz 2005). So to overrule this paradox of choice, it is recommended not presenting more than three candidates to the client to choose from at the same time. If the right candidate is not one of the three presented, one or two candidates need to be rejected first before introducing new candidates. Through this strategy, the client is never confronted with more than three candidates at the same time.

Risk of Hiring the Wrong Candidate

Costs of Mis-hires

“Between 5 and 25 percent of the executive personnel decisions are corrected within the first two years” (Bierwirth and Nagengast 2005). Another 5–10 % are bad hires, which are kept in their positions due to internal politics and for keeping the fluctuation low. Summing up, about 80 % of all top-level hires are considered as successful and valuable for the company. This part will examine what it costs to hire the wrong candidate and how the risk of making with each fifth hire as wrong decision can be reduced.

As rule of thumb, taking all direct and indirect costs and expenses of hiring and severance into consideration, a bad hire causes costs of a total amount of at least 1.5–3 times of the annual salary. This does not include intangible costs such as financial damages emerged though mistakes and missed business opportunities nor cultural and motivational damages left behind at the employees though insufficient management and missing leadership. Furthermore, lawsuits, bad press, and resigned top employees are also potential long-term damages which can occur if a mis-hire occurs on the top level.

Cost of hiring process

- External or in-house direct search fees
- Job advertisement expenses
- HR administration and recruiting expenses
- Complete time invested in interviews, discussions, and negotiations with candidates
- Travel expenses for all personal interviews
- Relocation package
- Onboarding and trainings

Cost of separation

- Exemption costs (compensations during absence)
- Outplacement counseling and/or mediator fees
- Complete time invested in negotiating the separation

- HR administration costs of separation (generating termination agreement or cancelation, authoring recommendation letter, reference calls of new potential employees, etc.)
- Costs of potential lawsuits

Potential intangible costs
- Losses in productivity through bad management and leadership
- Losses though procedural stagnancy during separation phase
- Losses in customer relations and reputation though bad press
- Losses in employees' morale and motivation through instable leadership structure
- Losses of knowledge, personal information about certain processes, clients, suppliers, employees, outcomes

Reducing the Risk of Mis-hires

First of all, we are all human and humans are making mistakes; therefore, misplacements are part of the game, and there is no way or strategy for a zero percentage mis-hire rate, especially because visions, companies, structures, teams, people, and roles are changing continuously along the way and ideal setups can change into unpleasant constellations just through a few changes within the company. Still it should be tried to evaluate all known corner marks of an existing vacancy and the future direction and goals in order to reduce the risk of a wrong hire to a minimum.

Knowing exactly what character is needed and wanted. Sounds easy and banal but it is not. On the executive level, it is not only about track record and capabilities. It is far more about the personality, intentions, and values. If they do not fit, the best skilled and with experiences equipped candidate can be the wrong hire. An excellent executive search consultancy will check on the character traits and personal motives as intense as on the capabilities, experiences, and former successes. Often, psychometric testing is applied to get objective and comparable character profiles.

Finding out how and why a candidate left. Making background and reference checks is a basic part of a professional executive search process. It is crucial to find out why and how the former employers have been left. This as well gives interesting insights about the character the new employer might want to know.

Not hiring out of desperation. Sometimes, it just cannot be obviated that a management or executive position is vacant and there is no potential candidate at hand. But being forced to fill a high position vacuum ASAP is not a position of strength and deliberation. If this situation should occur, desperation by taking the next best candidate has to be averted. Alternatively, hiring an interim manager and letting people accompany the recruiting process which are not directly affected by the vacancy so they can contribute a more objective and cool-headed opinion to candidates in the recruiting process is recommended.

Not letting hiring be a side project. Often enough, recruiting, interviews, and debriefing sessions are not understood as priority but as at the same time extremely time consuming for all people involved. Therefore, the recruiting process is often experienced as a bothering necessity, which takes away focus from the actual job and other love projects. As a consequence, shortcuts in the process as well as quick decisions are the result to find a fast end. If this should be the case, either everyone needs to pull oneself together or a specialist should be contracted so the quality of the process is not at risk.

Operational Perspective

Selection Process of a Consultancy

The operative perspective on recruiting mainly focuses on the process conducted by the executive search consultancy as explained in detail in section "The Direct Search Process" of this chapter. In the following, the question about the main criteria of choosing the right external partner for the hiring process will be stressed.

Industry know-how. First, human resources should identify executive search consultancies that operate in their branch. There are various specialists concentrating on specific industries as already mentioned in ▶ Chap. 1, "Human Resources Marketing and Recruiting: Introduction and Overview." For the identification of a suitable candidate, the executive search consultant is required to have an in-depth industry know-how. Clients can reassure themselves by requesting references of the consultancy or asking about the latest placements of the responsible consultant.

The process. Second, when deciding on a suitable executive search consultancy, HR should always be informed about the research process and conditions. Especially the pricing varies between different providers, which is explained in section "The Pricing of Executive Search Services." Often consultants are chosen due to their large network in the industry, which is clearly a benefit for the client since the consultant might be able to contact a few trusted candidates with a successful track record and present those candidates only within days to the client. Nevertheless, the art of executive search is not taking a lucky shot but finding the right match for the position on all levels previously discussed with the client (experience, skills, culture, goals, etc.). The key to a successful placement usually rests in an efficient and well-structured process. Due to a strictly determined workflow, the consultancy is able to properly represent the client and identify a great amount of potential candidates within a predecided time frame. Experience shows; the more complex the positions get, the more focus should be on a highly professional research process. The detailed structure of a search process always benefits the time schedule and supports transparency for the client.

The consultant and team. Third, recruitment or executive search is a labor-intensive and time-consuming task. With respect to the research process, human resources should always inform themselves about the capacity of the consultant (often self-employed) or the executive search consultancy. How many research projects is this person taken care of at once? Who is supporting the consultant with the search process? With complex or C-level positions, it might be advisable to consider an executive search agency that is employing a team of researchers. Often, consultants are focusing on the client relationships, but a research team performs the operative part. A researcher is responsible for the identification of potential candidates and acquisition of new candidates via direct search and active sourcing. According to the complexity of the project, there might be one to three researchers working on one vacancy. They are specifically trained to call their way into the target department to attract the attention of a candidate and make the first contact. In addition, modern researchers have excellent social networking skills and use digital search techniques to identify talents. Researchers provide the consultant with a talent pool and only the best candidates will be presented to the client. Usually, a research team will have screened over 1,000 profiles, contacted over 300 people, interviewed up to 20 potential candidates, and presented a selection of 3–5 candidates to the client.

Placement and onboarding. It is common practice that human resources stop frequent communication with their executive search consultants after successfully placing the right candidate in his or her new role. Nevertheless, the consultant is responsible for the "well-being" of the client as well as the candidate for the candidate's time of probation. According to most recruitment contracts, the business relationship between company and consultancy ends once the time of probation has passed and the company as well as candidate is pleased with their choice. Therefore, human resources should use this as an advantage, keeping in touch with the consultant to prevent an early drop out on behalf of the newly contracted employee. Professional consultants will always have insight knowledge of the current situation and level of job satisfaction of their candidates and will be able to advise human resources on the matter.

Tip: Communication is king for all executive search projects. The most successful placements can be achieved by developing a professional communication flow between the client and the consultant. It is beneficial to implement regular (weekly) feedback loops with HR to navigate the search into the right direction. Communication and clear expectations will always speed up the placement period and increase mutual satisfaction.

Dos and Don'ts

Do build a reliable and long-lasting relationship to direct search consultants, who understand your company as well as your wants and needs. Such a trustworthy relationship will pay off especially in the quality of candidates in terms of cultural and personal fit.

Do not expect an individual direct search process if you do not pay for one. The difference between the processes of retained executive search firms and contingency-based agencies is sometimes difficult to see from the outside but cannot be ignored – especially if the vacancy is crucial to the company. See section "The Pricing of Executive Search Services."

Do not underestimate the importance of the search consultant during the negotiation phase. The consultant has earned trust of both sides during the process and normally has an advantage of information, which are not shared between the parties. This mediator role of the search consultant should be used by both, the employee and employer, to find common ground in negotiations and further points of discussion.

Be aware that the client is sometimes the biggest risk in the process of successfully hiring a great candidate. Of course, the client is not doing it on purpose, but sometimes a consultant needs to make the client aware of his misinterpretations of a certain situation. A consultant should not be an opportunist but rather an honest adviser and respected process owner. See section "Risks During the Executive Search Process."

Try to reduce the risk of hiring the wrong executive to the lowest level possible. Hiring the wrong executive is not only a huge loss in momentum, motivation, and time. It is also very expensive, on average three times the annual salary of the hire. Of course, nobody hires the wrong person on purpose, but there are possibilities to reduce the risk of doing so. See section "Risk of Hiring the Wrong Candidate."

Don't forfeit your image at your candidates. If time pressures filling a certain position, sometimes several contingency-based search firms are asked to screen the market. This might speed up the process but also includes the risk of addressing valuable candidates several times. Being contacted by several agencies for the same job lowers the attractiveness of the offer. Organize the agencies wisely so they do not hunt on the same grounds.

Final Comments and Outlook

This last section of the chapter "Executive Search" will contain some selected trends, which will give an idea in which direction the industry is developing. Nevertheless, a decent economic outlook on the direct search industry cannot and should not be made because the ruling instance, which predetermines the direct search industry, is the economy.

Starting with the war for talents, the sudden drop in birthrates in the 1960s, caused by the introduction of the birth control pill, has led to a disproportion between the retiring baby boomers and the following generations X and Y. Until 2020, thousands of baby boomer executives and experienced managers will retire, and only a few companies feel prepared, e.g., through already installed and sophisticated succession plans. This scarcity of experienced executives, managers, and experts will lead to an intensification of the so-called war for talents.

The scarcity of executives, of course, also influences the average age of executives. If there is no CEO with 20 years of experience available on the job market, the next best one with just 15 years has to do the job. But not only a shortage of candidates leads to younger C-levels, also the perceived importance of age for certain positions has dropped. The CEOs of international global players and market leaders like Google (Larry Page, 40), Facebook (Mark Zuckerberg, 29), Yahoo! (Marissa Mayer, 38), and Burger King (Daniel Schwartz, 33) demonstrate this perfectly.

Also, the trend to gender diversity, which started around the 1980s, will continue. Probably, this trend will even gain in pace, because of many supporting developments such as new expectations on corporate culture and modern leadership, legal quota for women (e.g., for supervisory boards in Germany), initiatives, and engagements on gender diversity on the executive level (e.g., The Enhanced Voluntary Code of Conduct for Executive Search Firms).

The information age hit the direct search industry with an uncomfortable new level of transparency years ago. Employees are able to identify their most wanted candidates over social media platforms such as LinkedIn themselves and do not depend on the in-house data banks of the executive search firms anymore. Even though this trend is not new, it has not reached its full potential in all industries yet. Especially less internet-oriented executives and experts of traditional industries and SMEs did not join such platforms yet. Despite that, in 2012, already over two thirds of all North American executives used online platforms to increase their digital visibility so they can be found easily when their profile fits to an interesting job opportunity.

A much younger trend coming out of the information age corner is called data-driven hiring. Already widely implemented in many other areas of corporations, data-driven decision making is nothing new. But for recruiting purposes, especially on the executive level, only the most innovative companies apply such methods, in particular the big-data-flagship Google. Executive search consultancies have good arguments that computers and data will never replace the personal interview, but data-driven decisions will infiltrate the industry in other areas, for instance, how candidate backgrounds and referrals are checked.

Drawing a conclusion, the importance of finding the right executives, managers, and specialist will most certainly never fade, especially in such a competitive and fast-moving environment, which we are building around us. Also the process of taking external advice on finding a new face for a certain position is human and will never be fully replaced by computers and data systems. Horse sense and experience are elements in this process, which are simply irreplaceable for finding the best candidate (Cifolelli 2014).

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Human Resources Marketing and Recruiting: Search for Senior Accountant for Brabender Technology China

10

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Contents

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Abstract

The case of recruiting a Senior Accountant for German company Brabender Technology in Beijing demonstrates typical challenges and adequate solutions during the process of recruiting executive or senior positions for Western companies in China.

The foundation of the recruitment success was a very close and open way of communication between the responsible Brabender representative and the author. This became true right from the beginning when it was important to really understand what kind of candidate would best suit Brabender. Only after clearly defining the question, the precondition was set to be able to find the right answers. Important key questions were foreign language requirements, intercultural competencies, professional experiences, personality and working attitude, and likeliness to stay with the company.

Another core reason for the successful outcome was the systematic recruitment approach starting with defining the role of the position carefully. Here it became clear that emphasizing too much on the professional experience would not lead to satisfying results. It was therefore important to also imagine what kind of overall contribution the desired candidate would be able to make concerning the support for supervisors, the team atmosphere, and outcome.

Reading CVs, preselecting candidates, conducting telephone interviews, and meeting candidates in person were further important steps to identify Mr. or Ms. Right. To keep an ongoing observing attitude and not evaluating the candidates' suitability too early was another crucial aspect. This also made it possible to gather extremely important additional information about the candidates' suitability which is normally hidden, because it derives from unconscious behavior.

Keywords

Curriculum vitae (CV) • Intercultural communication • Job description • Personal interview • Personality • Professional knowledge • Recruitment • Telephone interview • Unconscious communication behavior • Working attitude

Introduction

At the end of 2013, German medium-sized company Brabender Technology, a worldwide producer of advanced feeding, weighing, discharging, and flow metering technology, was looking for a Senior Accountant for its China operations. To achieve this goal, the author, German Industry and Commerce (Taicang) Co., Ltd., Beijing's Head of HR, Recruitment and Training, was asked to undertake this recruitment case with his Sino-German recruitment team.

The successful candidate should be located in Beijing, the biggest and most important location of Brabender in China, where also Brabender's whole financial accounting system for all China operations is undertaken.

The Senior Accountant to be found should be responsible for the whole accounting and financial reporting system of Brabender's branches in Beijing, Shanghai, and Guangzhou. With a direct reporting line to the Vice President Asia in Beijing and the CFO in the German headquarters in Duisburg, the successful candidate should lead a small accounting team; gather, analyze, and prepare the financial data from all three China branches; and play a vital role in Brabender's future development of the Chinese market.

What Was the Problem/Challenge?

How to Find a Suitable Chinese Manager for a Western Company in China?

Successfully recruiting qualified management staff is in principle a big challenge, everywhere in the world, because the role of a manager, especially a senior or executive one, plays a vital role for the company's success. Recruiting the wrong person can directly and badly influence the outcome of the business and the entire working atmosphere. This holds especially true for a position in the financial field, because money in general, and payment of invoices, and salaries in particular are a very fragile psychological matter and can thus influence customers' and employees' sentiment to a big extent.

Having pointed out the general challenge, it needs to be pointed out that recruiting excellent management staff in China is even more difficult and has always been related to certain general problems especially for every German or other foreign company. One of these particular challenges is to find candidates that can meet the various expectations of a foreign company when it comes to foreign language requirements, intercultural communication competencies, professional knowledge, personal skills and experience, and last but not least personality and working attitude.

Another challenge during the recruitment process is to increase the likeliness that the successful candidate stays with the company instead of hopping to the next job after having worked for only a short while. In the current Chinese working environment, many employees like to change jobs frequently after a relatively short time of employment (e.g., 6 months–1 year) in order to enter into a better-paid position or a position with a better job title in a different company. Only slowly Chinese candidates understand that a CV which consists of a series of short-term employments does not make the best impression on recruiters.

An additional phenomenon to deal with during recruitment cases are candidates of the so-called Generation Y, which in China contains people born in the middle of the 1980s. These Chinese candidates who mainly derive from the Chinese middle class and who are most often single children as a result of the one-child policy grew up in a relatively wealthy environment and developed different values than, for example, their parents' generation. Unlike their parents when they were young, they have been exposed to Internet and mobile phones when they were teens and are often considered to be spoiled by parents and grandparents and of not being so obedient. They often demand a comfortable and supportive working environment with the opportunity of work-life balance, intensive training, coaching on the job, attractive regular incentives, sharply increasing salaries, and excellent career prospects. This high demand toward a job unfortunately very often does not correspond with the professional skills and also not with the willingness to work hard and become better.

But since the labor market for qualified staff in China is very competitive and will stay competitive at least in the short and mid run due to the fact that the Chinese economy is still growing considerably while the Chinese society is in average aging seriously, candidates of the generation Y are actually in a good bargaining position. As long as the educational system is – apart from some straightforward schools and universities – still focusing on memorizing information rather than learning how to think independently and creatively, the situation is likely to continue.

Because of the lack of excellent people, companies in China have to decide whether to invest into the existing staff, develop them, treat them well, and pay them higher and higher salaries or to hire new (and also expensive) staff. Since some companies decide only to raise the salary at a lower rate than the average rate of increase, which was, e.g., 8.9 % in 2013 for German companies in China (according to the 6th Annual Wage Survey of the German Chamber of Commerce in China 2013), people often leave their company if they are dissatisfied with their salary and if they can earn more money for a similar job elsewhere. This phenomenon is well known and has been researched a long time ago by Herzberg et al. (1959), who created the two-factor theory.

Generation Y candidates seem to be well aware of the situation, and this influences every recruitment, especially on the middle and higher management level. The current situation also leads to the general challenge that candidates often ask for a 20–30 % higher pay compared to their existing jobs without even knowing if they can successfully master the new job responsibilities.

Which Foreign Language(s) Were Required?

The first question was which foreign language or foreign languages should be required from the desired candidate. In the past many German companies considered German language proficiency to be a must when recruiting Chinese managers and other skilled employees for the company's China business. But more and more German companies believe that good or very good English skills are sufficient, and no German language skills are required any more. This especially holds true for German companies that operate on a worldwide level, making English a precondition at least for the management team in the German headquarters.

It is important to know that the level of English skills of Chinese job candidates is in average very different from, for example, the one in Europe. Many Chinese applicants are nowadays able to speak and write relatively good English ("relatively" means that they can often communicate well but in average make much more grammar and spelling mistakes, because of a lack of attention to details), especially those under 30 years of age. But older candidates often have huge problems with the English language. The reason is that Chinese people who were born in the 1960s or 1970s often did not learn English in school at all. In fact English education in school only started to develop systematically in the 1990s.

It is necessary to keep in mind that Deng Xiaoping, the visionary leader, opened the Chinese economy only 35 years ago (in 1978). And it was only 13 years ago, in 2001, that China joined the World Trade Organization (WTO) to become an accepted member of regulated global trade activities. The opening of the Chinese economy in the late 1970s thus became the starting point toward internationalization and professionalization and also made it necessary for the first time in China's history (and much later then, for instance, in European countries) to start teaching all Chinese children English. This historical fact of the country's relatively late opening still leads to the problem that senior professionals with the required professional skills often do not fulfill the foreign language requirements.

What Should Be the Level of Intercultural Communication Skills?

Chinese and German culture in general and business culture in particular differ a lot. There has been a lot of interesting and helpful research done in order to better understand how culture shapes values and behavior and thus the logic of how to interact within one culture. At the same time this research contributed a lot to the question of how the communication between the cultures, the intercultural communication, can be understood and should be dealt with.

The challenge is that people who grew up in one cultural background unconsciously expect that the behavior of other people follows the own-learned cultural logic. This leads to a variety of problems with people from other cultures, because the expectations toward the question what is right and wrong behavior differ tremendously.

Some prominent examples of intercultural (or cross-cultural) research milestones lead to a better understanding of the role and content, e.g., of leadership and hierarchy (Hofstede 2005), and the differentiation between low-context and high-context communication (Hall 1989). Other important findings are elaborated on the difference in time orientation of different cultures, e.g., a sequential versus a synchronic approach (Trompenaars and Hampden-Turner 2004), and the dramatic difference in perception and thought processes, which lead to different attitudes and beliefs as well as different values and preferences in behavior (Nisbett 2003). And last but not least, there are the findings of French sinologist Francois Jullien, who contributed a lot to a profound understanding of Chinese culture in general and Chinese thinking and behavior in particular, e.g., by describing how Chinese people naturally make use of the potential circumstances rather than making plans like typical European cultures (Jullien 1995). These are just a few famous examples of researching and analyzing differences which are relevant for a better understanding of Chinese culture. How to transfer these significant findings into strategic human resource management concepts for multinational Western companies in China has been researched and described by Prüfer (2007a, b).

Taking this extremely big challenge of intercultural communication into account, it was a paramount precondition for the Brabender recruitment case that the successful candidate should be able to successfully interact with supervisors, colleagues, and subordinates in China as well as in Germany. Here it became obvious that we were also looking for an open personality who is able to value workplace behavior deriving from both cultural spheres. We were looking for an interculturally competent candidate who feels comfortable in both cultural spheres, who even enjoys being a bit "between the cultures." Having said this, it becomes already obvious that certain personalities would suit the position much better than others. This point will be addressed in more details later.

What Scope and Depth of Professional Knowledge Was Required?

The requirement of professional knowledge seemed to be the most straightforward one, but the contents of the position of a Senior Accountant are not automatically predefined and need to be specifically outlined by the company itself, so that the recruiters understand what they need to pay attention at. The nature of the position of a senior accountant, for example, can be very different in big corporations compared to small- and medium-sized companies. The location of the company, its legal form, its business model, and the industry play a role and jointly influence which accounting and reporting standards and which kinds of taxes are applicable. They also determine if there is inventory to be dealt with, and if so, what kind of inventory needs to be managed from an accounting perspective.

Thus, it was necessary to understand what accounting standards need to be dealt with, e.g., Chinese GAAP or IFRS or specific German systems like Handelsgesetzbuch (HGB) or a combination. Furthermore it was crucial to understand the financial reporting requirements, e.g., the kind and amount of entries in the daily bookkeeping, and the expected financial forecast periods. In general the recruiters needed to understand the complex nature of the accounting and reporting tasks and responsibilities.

In addition the candidate should be able to handle Brabender's existing accounting and office software as well as the established reporting system. The successful candidate should be either already familiar with it or able to learn it quickly.

Last but not the least, it was a must to find out what level of professional work experience was required in order to be able to fulfill all the necessary tasks and responsibilities. And since the working requirements are in principal not the same in every company, it was one of the crucial challenges to find out whether the successful candidate would really be able to adapt to the new working environment and responsibilities.

What Personality and Working Attitude Was Needed?

What kind of personality is needed was a question which could not only be determined by the nature of the work but also by the social environment the chosen candidate would later on be working in. The following questions were important for the recruiters: How does the Beijing Vice President of Brabender who runs the China operations, for example, want the working relationship and the communication with the new Senior Accountant to be like? What are his expectations toward the personality of the final candidate? What have been his positive or negative experiences with previous employees who shaped his expectations into a certain desired direction concerning the question how the new colleague should be and behave like? And what are the requirements for the communication with other staff?

These detailed questions could be summed up by the following single question: Would the successful candidate be fitting into the overall personnel structure especially in the office in Beijing and be able to integrate? This is one of the most neglected questions in professional recruitment. Recruiters in general focus too much on CVs and personal skills. Professional experience and knowledge are important, no doubt about that. But whether the person's personality and his/her over years developed attitude toward working together with other people fit into the system of the existing people or not determines the quality of working together and also the likeliness of severe and ongoing conflicts.

If a management candidate, for example, likes to lead other people in a very directive or even pushy way while having had a lot of freedom in his own decision-making in previous positions, this person is likely to rebel against a supervisor who is a strong and directive leader himself/herself.

And if a person is very scared to make mistakes, this can lead to many bad ways of communication and behavior, e.g., hiding instead of revealing and learning from mistakes, not giving crucial information to other people in order to keep control, and not being helpful to other colleagues in order to save time. Scariness can lead to the consequence of only being worried about the own tasks and responsibilities and also to see qualified colleagues as a threat for keeping the own position.

For the recruiters additional important questions were: Should the desired person be working independently with own ideas or mainly following orders? Should there be a close or a more distant communication with supervisors? Are there any expectations concerning the working attitude of the desired candidate, e.g., in periods of time pressure or parallel projects to handle simultaneously? Is overtime work required? And in what ways should the candidate contribute to the office atmosphere and culture?

How to Ensure Stable Employment?

Many Chinese employees are willing to change jobs quite frequently. There are many reasons, one of them being the desire to climb the career ladder and to increase the salary and improve the living conditions as fast as possible. As a consequence this leads to the phenomenon that periods of employment can sometimes be relatively short, e.g., only half a year, 1 year, or 2 years.

Brabender was clearly looking for someone who would stay with the company. Of course, no recruiter can guarantee that a candidate will stay with the company, because nobody can predict all aspects of a market's or a person's future nor forecast personal decisions or the outcome of working together over a period of time.

In average the fluctuation rate of Brabender in China has been very low; people like to work for Brabender and stay with the company. So, one goal was to evaluate the likeliness that a hired person would stay with the company by following a structured approach based on many years of working and recruiting experience.

One important aspect to specifically take into consideration was the distance between the candidates' homes and the company's location in Beijing (Beijing Development Area). One crucial question was whether the candidates that live faraway from the company's office are willing to commute. Sometimes a company is lucky that a candidate lives pretty much nearby (which is for most people everything up to 45 min traveling for one way).

But often this is not the case, and the likeliness to relocate even within Beijing is most of the time not very high, because people often live together with their partner, their parents, and their children. Husbands and wives often have their own jobs, and children go to a certain kindergarten or school. Children are especially important; therefore, parents' time after work is often considered to be very valuable and should not be wasted by traveling home from work for a long time.

But sometimes candidates are willing to move their home close to the company, especially if the family situation allows them some flexibility. This most often holds true for younger candidates who came to Beijing from other provinces and who do not have children yet.

Considering these aspects, we focused on candidates that have been living in Beijing in a stable social environment for quite some time. And we also evaluated how faraway the existing home of the candidates was from the Brabender premises. Experience showed that the likeliness that a hired candidate from outside of Beijing aims to go back to his/her family sooner or later if an opportunity is arising is very high. This holds true for many Chinese people in particular, because family (including the care for children and parents) plays an extremely important role in the Chinese society.

What Was Our Plan on Mastering the Challenge?

Open and Intense Communication Between Recruiters and Client Should Be the Key During the Recruitment Success

In general Brabender's head of the China operations and the recruiters decided on intensive and open communication throughout the whole project. The better the recruitment team (which consisted of two people) would understand the question "What kind of a candidate would suit Brabender the best?" the better the results would be. One of the most important mistakes in recruitment is not to make enough efforts to really understand the task at the very start. But if the task is not clear and if the recruiter or the recruitment team is not in deep contact with the question, he or she will choose the wrong answers and right from the beginning will start looking for the wrong candidates. This initial mistake, if not recognized in the course of the recruitment process, could then even lead to a final recommendation of a candidate who is not suitable.

Especially in China people can quit a company very quickly, because they most of the time have short termination periods of 30 days and can thus leave a company often within 2 weeks (if, e.g., there are still some holidays which can be taken). But the reasonable expectation from the top management to quickly fill the vacant position again should not result in the recruiters' behavior to act in a rush or start searching staff only on the basis of a quickly written job description from the customer. It is an attitude of indifference (laziness or arrogance) to start searching for senior candidates without spending many hours in first understanding the client's market situation, its business model, and the company's people structure. For that reason, the close, open, intense communication with the client was chosen to be of paramount importance. Hence, the Brabender Vice President Asia in Beijing and the recruiters communicated very closely, not only at the beginning but during the whole period of the recruitment process, discussing every single step of the recruitment in detail.

The Ideal Candidate's Profile Becomes Clearer in the Course of the Process

For mastering the challenge of finding the right candidate, it is important to understand that not all important aspects of the job requirements are, for example, clear right from the beginning. Many important conditions that the successful candidate should fulfill only become obvious during the search process. This particularly holds true concerning the team suitability of a candidate. Just like in a soccer team, where it is not only important to look for a technically brilliant new player to join the team, it is crucial to develop a feeling of how the different candidates would integrate into the team and which specific role within the team they could possibly play best. Client and recruiters need to be aware of this and be willing to enter into a process of understanding step by step what kind of person is really needed.

It was therefore important to agree right from the beginning that the outcome of the recruitment heavily depends on the quality of the communication between client and recruiter with an openness to enter into a learning process throughout the whole recruitment case.

A Systematic Recruitment Approach Helps a Lot

At the beginning of the process, there is the more or less existing understanding of what the ideal candidates should be like. This understanding will then be translated into a job description, which is most of the time a first outline of a desired educational background and of professional experiences and related skills. This first job description is drafted by the client, often as a set of written down bullet points. And this first concrete job description needs to be discussed in detail in a way that the recruiter needs to ask many questions from all perspectives to best understand what the client is really looking for. Through this dialogue the job description is step by step amended. And if the client is more and more happy with the jointly developed job description and if the recruiter understands all aspects of the profile, a job advertisement can be created and later on published. Then, the applications are collected and selected.

In this selection step, the cover letter, the CV, and references and certificates play the major role. This is the only material the recruiters have for the selection process. Since the quality of the CVs in China is much lower than, e.g., in leading European economies (less accurate, less complete, often poorly designed, sometimes much too long, sometimes much too short, often with spelling and grammar mistakes), it is not easy to tell the suitable candidates from the not suitable ones. The CVs of the supposed to be suitable ones should be shared with the client, so that the client can get a first idea of the differences and the expected quality of the applicants.

In order to verify or correct the impressions of the written material, it is very helpful to do intensive telephone interviews (each about 30–40 min) with those candidates that at least seem to fulfill the most important requirements according to the job description. This step is a very crucial one, since it becomes clear if the first impression from the written material was accurate or needs to be corrected. After talking to the candidates on the phone, some candidates appear to be much better than what they showed in their CVs and other material; other candidates appear to be worse and thus fall out of the pool of suitable candidates. Some “fluent English” advertised in the CV, for instance, turns out to be on a poor level where it is hard to understand each other. Some “motivated” and even “enthusiastic” candidates appear to be just looking for another source of (higher) income without being interested in their job at all. Others mentioned some important professional experiences in their CVs to demonstrate that they can fulfill certain crucial job requirements, but after being asked for examples and dates and names that they should easily be able to come up with, they can only recall very little or anything at all.

This stage is thus very important because on the phone it is already possible to find out how good the language skills really are, how accurate the CV was according to the times worked for a company, how sufficient the experiences are, how the personality and attitude is like, and what reasons the applicant names for leaving a previous employer.

That is why it is so important that the recruiter documents the second impressions from telephone interviews with those candidates that seem to be suitable at the first glance. And that is why sharing these observations and impressions with the client is crucial too in order to decide together which of the candidates should be invited for a personal interview together with the client and the recruiter(s).

Following the introduced logic of a continuously joined learning process, the next round of personal interviews is of course particularly important. Meeting the candidates in person, getting the whole picture of their conscious and unconscious behavior, and being able to observe what they say and how they respond in an interview setting are the most valuable source of the whole recruitment process. And again, the observation (and afterwards the discussion!) of differences of the individual candidates shapes the clarity in the client's mind with regard of what type of candidate is most desirable to him or her.

Since Brabender's Vice President Asia would be the person being in daily contact with the Senior Accountant during the next years, this first round of interviews also followed the goal to preselect those candidates that he could basically imagine to work within the next years. The reason is that some of the candidates could basically be able to do the job, but they create a bad feeling inside of the client, who, for instance, cannot trust that after hiring one of them a positive and constructive working together could be established. This feeling of inner resistance, based on the impression that something is fundamentally not right, needs to be taken very seriously.

After this first round of interviews, it was decided to select three candidates whom the Vice President Asia could basically imagine of working together with, because they all more or less fulfilled the above-described set of all important criteria. On the basis of this comfortable position, those three selected candidates were invited for the second and final round of interviews together with a high-ranked representative of the headquarters in Germany. During this second round of interviews, the experienced German representative asked many questions to get an own impression. The recruiters took care of those important questions and made sure that none of the important aspects would be forgotten. After every interview the impressions were shared again, and the pros and cons were discussed.

In the course of the interviews and after many discussions, one candidate evolved to be the favorite one for the company's representatives. With this candidate an assessment was performed. It consisted of a real set of financial statements that contained financial items which should be explained and commented. In addition the German representative asked the candidate to create an own financial statement from the scratch to evaluate the candidate's imagination and creativity (which is very important to do especially in China, where the educational system is still mainly focusing on).

The Ideal Candidate Must Be the Best to Fulfill the Requirements Rather Than Being the One the Recruiters Like the Most

Here it also becomes obvious that the recruiters have to be very open minded and flexible. The best candidate is not necessarily the candidate the recruiters like the most. It is the candidate that would fit best into the client's organization even if the recruiter does not like him/her. Very often recruiters sympathize with candidates who have a similar personality and similar values, strengths, and weaknesses. This not seldom leads to the phenomenon that the recruiters are looking for someone who resembles himself or herself the most. But that is not a good strategy because it neglects the recruitment task.

However, it is the recruiter's responsibility to widen the perceptions of the client by asking constructive questions that can help the client to develop a well-balanced view of the candidates, because the client too sometimes tends to evaluate candidates in an unconscious manner favoring applicants in a way that does not correspond with the job profile. Of course the client, especially if he or she will be working together closely with the chosen candidate, should have a comfortable gut feeling toward a positive and constructive working relationship. But sometimes the candidates, e.g., flatter the client, and the client does not realize that it is the flattering that he likes, which can easily result in ignoring serious weaknesses of a candidate.

What Was the Real Outcome?

Foreign Languages

The company's Vice President Asia and China head together with the GIC recruitment team defined that the ideal candidate should be a native Chinese who speaks excellent English. It would have been possible to search for German-speaking candidates too, but since Brabender is operating on a global level and the financial data is prepared in German and English, English was considered to be sufficient. This decision also widened the pool of suitable candidates in Beijing's labor market. Candidates who have been working for European or American companies were added to the group of potentially fitting candidates.

In the end the successful candidate spoke excellent English due to a long-lasting previous working relationship with a North American supervisor.

Intercultural Communication

To ensure that the requirement of excellent intercultural communication was fulfilled, Brabender management and the GIC recruitment team were specifically looking for candidates that have already enough proven experiences in a Chinese-Western working environment.

This requirement was quite tricky, because the question was how the Chinese-Western working experiences of the candidates could be helpful to best fulfill the new role in Brabender. The company's management and the GIC recruitment team were specifically looking for candidates with several years of regular working together with Europeans as well as with Chinese. We defined that part-time contact via e-mail, e.g., from China to Europe or North America, was not enough to meet Brabender's standards. We needed someone who has worked together with Europeans or North Americans in direct contact on a daily basis. However, the successful candidate should still be able to fit into a Chinese working environment. This lead to the decision that Chinese candidates who are more Western than Chinese would not fit well into Brabender's working environment. This holds true for Chinese who studied and lived abroad for many years and often have huge problems to reintegrate into a Chinese workplace environment (CHOW 2002). The search therefore focused on candidates with solid experiences between the cultures who like to deal with people from both cultural backgrounds but spent their working life mainly in China-located companies.

The successful candidate had a professional background entirely in China, but with Western (in this case North American) colleagues in the office and in the Western headquarters. There was a long-lasting experience in dealing with both cultures on a daily basis, which we found very suitable for Brabender.

Professional Knowledge

One point was very important right from the beginning. Only if the recruitment team understood the professional responsibilities and job functions required right from the beginning, it would be able to distinguish the suitable candidates from the less to not suitable ones.

People are growing into jobs and job functions with the years. The responsibilities they had in former employments determine the likeliness to be able to fulfill the professional requirements in the new role. An important basis is of course the professional knowledge gained at the university and in additional trainings (e.g., by acquiring additional accounting certificates).

Brabender China management and the GIC recruitment team defined that the nature of Brabender's business in China does not require an experienced CFO who has extensive finance and accounting experience and knowledge. The emphasis was more on accounting rather than on finance; thus, solid accounting experiences and knowledge in a working environment and company size similar to Brabender would possibly lead to a good recruitment result.

However, the successful candidate should be able to manage the overall book-keeping, to prepare common financial statements, to forecast cash flows, and to translate all company's business operations into the accounting language to provide the China head of operations and the German headquarters with useful data as the best possible basis for analysis of the business success as well as for the best possible future decision-making processes.

Brabender and the GIC recruitment team decided that it is necessary to find a person who already worked in a responsible accounting position, in which it was necessary to prepare the financial data of the China operations and to translate them into the accounting standards of the headquarters in a Western country. In the ideal case there was regular communication with a Western CFO as well, since this was another requirement of the respective role at Brabender.

It was part of the previous jobs of the successful candidate to regularly communicate with the North American headquarters, which made it necessary to translate the Chinese accounting figures into the North American system and in the English language. Although there were many differences compared to the requirements at Brabender, the client and the recruiters believed that these experiences would be very useful for the new position at Brabender.

Personality and Working Attitude

Through intense initial talking about the profile of the desired candidate, it became obvious that the ideal candidate should be willing to follow the vice president's and the German CFO's guidance and leadership but at the same time being able to think independently and to take over responsibility. It was clear that the ideal candidates should be able to determine goals, milestones, and working steps by himself/herself during the course of the year. This combination is not easy to find among Chinese candidates. They either tend to be very obedient as a result of the still very hierarchical educational system or they tend to do things in their own way, which makes it hard to lead them.

It was therefore decided to look for someone who had already learned to follow the supervisor's guidance and advice, but who was self-motivated to bring things forward and who already developed the wish to act in a responsible way including the ability to think about future goals, to create own timelines, and to shape working steps in a reasonable way.

In addition it was decided that the ideal candidate should be a friendly and cooperative person that can also lead others in a constructive and motivating way and at the same time contributing to a positive working atmosphere driven by the motivation to achieve goals together. Since these are attributes that can be more easily found in Western companies, the ideal candidate should have had exactly these experiences from previous employments in a Sino-Western working environment, but not necessarily in a Sino-German working environment.

In the end the successful candidate showed a very cooperative personality, being patient, willing to learn, and always trying the best to deliver a good performance. The leadership experiences were however relatively short, but enough to make the client and the recruiters believe that leading other people would be feasible. However, it was also clear that some further personal development would still be needed to make this candidate fit into the new and responsible role.

Stability of Employment

It was already mentioned that it is hard to predict for sure if a candidate stays with the new company for many years. However, the past behavior in previous employments gives one important hint. If someone changed all of his jobs quickly, it is more likely that this will happen in the future too. Still it is important to always ask for the reasons why someone left his previous companies. Sometimes the candidate needed to leave, because the company closed down the operations or some private reasons like marriage and the birth of a child resulted into a change of location and thus the need to find a new job.

In this case it was decided to look for someone with the experience of staying with the company for many years. But this was only one important factor. At least as important was to find someone who likes personal improvement, who likes to increase skills, and who likes to develop the own personality and to grow the own field of responsibilities. With that kind of a person, being interested in the work and being motivated by becoming better, it is more likely that a challenging job with the right amount of responsibilities provides sufficient motivation for many years.

Of course it was also checked whether the distance from the living and the working place was really feasible for the candidate, and the people involved in the recruitment process found that this was the case.

Last but not the least, the level of the previous salaries should enable the ideal candidate to also financially grow with the company. It is important to plan mid- and long term concerning the salary development and to decide for a candidate who fits into the existing salary structure. This is also important to make it more likely that someone stays with the company rather than employing a person with ten additional years of experience and a salary expectation that cannot or that can hardly be met and does not leave space for continuous improvement. Such a personnel strategy would more likely lead to the candidate looking for other employers if the salary stays the same.

The successful candidate was in the middle of the range of candidates on the one hand concerning the age and the years of experience and on the other hand concerning the previous salaries. Better candidates were much more expensive, and the company decided not to exceed the set budget. Since all major preconditions necessary to do the job were fulfilled and the candidate fitted into the salary structure and also still had a lot of room to further develop, the decision was made to make a job offer.

What Are the Lessons Learned?

The Importance of Carefully Reading Chinese CVs Without Too Many Prejudices Toward Style and Accuracy

The CVs of all the three final candidates included the general information concerning the professional knowledge and skills needed to be able to successfully enter into this position as a Senior Accountant at Brabender Technology, Beijing. Since the quality of the CVs in China is so different from Western developed countries, it was crucial not to put too much attention to the style, design, and even accuracy of the CV and attached application material but rather to concentrate on the main contents.

HR managers from Western countries tend to tell the good from the bad CVs also on the basis of design, style, and detected mistakes. But in China it is necessary to learn that it is part of the Chinese culture to perform tasks in general and to deliver the most crucial information in the application material in particular in a not perfect way. It would have been a mistake to focus too much on details, creating the prejudice that such candidates could not do their (accounting) work in an accurate way.

The CV and the attached application material of the successful candidate was okay and ranged in the mid level of CVs, but her qualities only showed up in the telephone and personal interviews.

Unconscious Communication Behavior Tells a Lot About Personality and Working Attitude

During the whole recruitment process, there is the obvious level of information contained through reading CVs, conducting telephone interviews, and talking to selected candidates in person. This level of information is most of the time in the center of a recruiter's interest, because it is crucial to find out about the quality of education each candidate went through, the existing professional experiences, and the personal skills and competencies.

A more hidden level of information is provided by observing the candidates' unconscious communication behavior. This, for example, starts when the recruiters write a confirmation e-mail that the application has been received (what we did with all candidates that we found interesting) and the candidates respond to this e-mail or not. Some candidates responded immediately, others responded with a delay of 1 or 2 days, and others did not respond at all.

Another valuable source of information is to observe how the candidates behave during the telephone interviews. After being called and not picking up the call, some candidates did not do anything and waited for the recruiter to call again. Others called back at the next convenient moment. Others picked up the phone and promised to call back at an agreed upon time. Others asked to be called again. These examples show clearly how the observation of unconscious communication behavior can contribute a lot to the evaluation of a person's personality and working attitude. Characteristics like responsibility, reliability, active behavior toward passive behavior, friendliness, and politeness can be much better measured by observing candidates on this unconscious level of communication behavior.

This particularly holds true also during the first and second round of interviews. There was one candidate in the first round of interviews with shining blue contact lenses. Together with other impressions gained from observing the Western designer clothes chosen for the interview, the luxury handbag, the talking about money and better career opportunities being the reason for leaving previous companies after a short time of working there, the importance of shopping in private life, and so on and so forth, the overall impression was that this person might be a good accountant, even an excellent one, but might at the same time be more interested in the job as a mean to earn money rather than being interested in the job itself. Here the conclusion was that this person would leave the company immediately once a better-paid position came as an opportunity.

Another important source of information was to observe the candidates' body language and the facial expressions while talking. There was, for instance, one candidate who talked about how he liked the previous job and how disappointed he was when he had to leave the company. But these words did not correspond at all with his unconscious body language and facial expressions. He appeared to be neutral, because no emotions were involved in his communication. This created a feeling of suspicion. In addition while sitting on his chair, his body was most of the time turned into the direction of the recruiter rather than into the direction of Brabender's Vice President Asia, who would be his future supervisor and the major decision-maker. He seemed to be reluctant to address his possible future boss, which added to the feeling of suspicion and created a feeling of more and more distrust.

In contrast the successful candidate was easy to talk to and a very good listener, with a natural talent of communicating well and openly. This created trust and interest. In addition it was important to observe that the candidate answered certain questions in an honest way, e.g., when it came to certain professional experiences, where it was stated that they were indeed missing. Some candidates never admit that they have a lack of experience here and there. But it is almost impossible that a candidate covers all desired fields of professional experiences. So it should be expected that a good candidate is strong enough to admit that there are areas in which he or she did not gain (enough) experience yet.

The Decision for a Candidate Is a Decision Which Also Influences the Company Culture

When hiring a person, this person will not only work on the job-specific tasks and responsibilities, but this person will be part of the whole group of people, especially those people who work together in an office. It makes a big difference to have someone who is doing the job and someone who is doing a job and at the same time positively influences the whole team. A helpful and reliable colleague very often is able to motivate other people to contribute to the teamwork as well. In the case of Brabender, not only the collaboration with the supervisor added to a positive working atmosphere, but also the teamwork in general benefitted a lot. This valuable experience at Brabender has influenced all the other following recruitment cases as well, so that it has become an important part of every recruitment case to analyze and to forecast how the whole group of surrounding people in the company will be influenced by each of the possible candidates.

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Human Resources Marketing and Recruiting: Search for International Executive Talent

11

Gustav Mueller

Contents

Abstract

Keys to finding and integrating top leadership talent in an international setting cover areas that fall into the responsibility of both HR and the business leadership. In order to understand what is required to set up a functional structure as well as a progressive culture for hiring in international settings, this chapter focuses on potential success factors. It is equally important to understand what mind-set can be found in the candidate marketplace when it comes to leadership talent and how to best locate and engage the top players that could be suitable for the respective open positions. Once located and engaged in initial discussions, every part of the organization involved is tasked to fulfill their part to attract talent and then to ultimately make the right people decision. Process and structure are one aspect to secure talent, but so is defining the right set of criteria that can predict the highest chances of guaranteeing success. Once onboard, integration of new talent is vital in order to help the individual and the organization to gain immediate traction.

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Finding, hiring, and integrating talent is a tedious and costly process that is worth its investment many times over. A successful global leadership network has a multiplier effect and is essential for leveraging true global synergies. However, when things go wrong it will cost not only countless hours, fees, expenses, and lost revenue, but it will also negatively impact an organization in various ways.

Keywords
Executive search • International recruitment • Recruiting across cultures • International talent acquisition • Leadership talent placement • International headhunting

Introduction

As large and middle market companies increasingly become global enterprises in order to grow and to survive, their structures and organizations have to adapt and grow in the home region as well as in their subsidiaries. One of the challenges for leadership and human resources is finding and integrating the right kind of talent in key positions abroad. The language, culture, management style, and the way of doing business are unique in every country and region across the globe. Successful corporations have learned, many times through trial and error, to adapt to the “local way” in order to gain respect with customers and employees in the respective countries. However, the first obstacle to overcome is to gain awareness of this fact, to accept it at all levels, and then to execute this strategy successfully. The cooperation of all departments and levels is required to strategize, plan, and implement a global workforce strategy with a global perspective and local insight. “Think globally, act locally” is an often used phrase that also to some extent applies to global talent acquisition efforts. Is this a task for HR? Yes, but not on their own. Business leaders drive strategy and guide the team to achieve the vision. Business leaders know what is required locally and on global scale to win and sustain successful business relationships. Business practices span across international borders since multinational customers now have global operations that expect a uniform standard and often demand a key account approach, as well as a local contact and fulfillment entity. Therefore, companies doing business with multinational customers are forced to drive a dualistic approach and be global but with local offerings and delivery. Broken down from that, a clear profile of talent can be defined that will be best suited to execute on that strategy. But aside from education, skills, and experience of candidates that fit that bill, a deciding factor will be cultural fit – cultural fit in terms of company culture as well as country culture. Culture is a soft factor and especially on the company/corporate level not always defined or written down. Many things have to come together to find the right people to fit in that environment and are equipped to achieve sustained success. Finding, selecting, and then hiring should be a joint effort between HR and the business leadership. Done right in a collaborative fashion, finding and integrating the best players will have a multiplier effect on an organization and can catapult an organization to new levels. There are several aspects that decide how successful recruiting and hiring will play out.

Search for International Executive Talent

A Changing International Leadership Challenge

What is leadership? For the purpose of this article, it represents a leadership-driven culture that cascades down from the very top to the second and third levels below depending on the size of the organization.

Filling leadership roles always has been and seems to be an even more important issue now facing organizations around the globe. Most multinational organizations are aware of the importance and sometimes urgency to recruit and attract the very best to lead their global or regional organizations. The question is, are companies equipped with the right mind-set, knowledge, and tools to take on the global leadership acquisition challenge?

Every century since the industrial revolution has brought change, new ideas, and new constraints to businesses, but now organizations face the new landscape of a now global economy operating at a rapid pace across borders. A paradigm change has started, stemming from new demands and immense technological advancements that will possibly also widen the gap between generations and their management/leadership styles. A mainstream leadership style has and is undergoing change as a result of large corporate ethics scandals in previous decades and partially perceived management failures before and during the last major recession in the year 2008 and following years. Job security and lifelong careers seem to be a concept of the past. A sense of caution or distrust has spread through the workforce toward past, dominant, egocentric management practices especially by a now somewhat disillusioned younger generation. The command and control approach is often being replaced by a more inclusive leadership style of facilitation and empowerment to better respond to increasingly complex business issues and intertwined technologies. Technical innovation has enabled companies large or small to innovate, expand, and compete globally; the small and nimble can now overtake the large and traditional industry leaders of the past. Complex supply chains span the globe and require a multinational cooperation inter- and intracompany wide. A global, adaptive, and flexible mind-set is required to lead and steer corporations and teams toward growth and success when it has become increasingly difficult to see into the future. Being innovative and creative is a key factor for future successful leaders apart from being business savvy, technologically versed, and having multiple language and cultural fluency. Requirements change; a technology-driven society requires more leaders to be creative, innovative, inspiring, and ever more flexible to differentiate companies and their offerings from global competitors.

Fig. 1 Corporate social responsibility pyramid (Carroll 2004)

An additional consideration for international leaders is a clear understanding of the social and corporate responsibility and ethics standards in various parts of the world that they are exposed to. Balancing global growth and improved business ethics/corporate governance has been added to the scope of the global leader.

The model in Fig. 1 depicts the various expectations that should be met by global entities of multinational organizations and their leadership teams. Sometimes, diverging goals between entities might have to be aligned to achieve a balanced framework that complies with corporate standards and local requirements. Standards and expectations need to be defined and communicated since what is considered ethical or legal in one region might not be considered compliant behavior in another region/country. Being profitable and economically responsible is a universal expectation and the key responsibility at the foundation. However, there are higher standards to be met in today's world for a good "corporate citizen."

The task of being an international leader is clearly not an easy one with a myriad of facets and challenges in an ever changing environment. An organization is a complex social system, an international, multinational, and intercultural organization, and an ever more complex ecosystem. Leaders need to step in and provide guidance and direction in a diffuse environment but furthermore give employees a good sense of clarity and purpose for what is expected down the road.

Key Characteristics of International Top Talent

Everyone is different; however, most high performers across the globe typically share common traits and exhibit similar characteristics that differentiate them from average performers and make them successful. Across the board, top players embrace change once seen by them as beneficial. They tend to enjoy the challenge and prosper in dynamic environments. In order to do this, they adapt and operate in a flexible mode to solve the problems at hand and prepare for those in the future.

The following are examples of traits top talent commonly shares:

- Motivation – They show exceptional commitment to pursue goals. They inspire and motivate others to take (moral) action like they do.
- Curiosity – They are naturally curious and have a desire to learn and explore. They enjoy new engagements and challenges on unchartered territory.
- Humility – They are confident and do not need to exhibit signs of superiority to others below them. They are able to learn from failure and are open to listen to and consider other viewpoints.
- Collaboration – They possess strong communication skills and get along well with others. They do not take negative feedback personally or feel attacked. They understand that together they are stronger than the sum of the individuals. They are not afraid to hire and collaborate with team members that might be even more qualified than themselves in some areas. Top talent shows genuine concern for the well-being of the team.
- Mindfulness – They have the ability to put themselves in other people's shoes. They possess strong emotional intelligence skills as they are self-aware and manage their behavior as much as they are aware of their social surroundings to manage relationships successfully.
- Intercultural competency – Through experience and training, they are able to understand and leverage intercultural differences. They are open to learn about and really get invested in the other culture. They are looking to take the best of all worlds instead of finding fault or giving judgment.
- Development – They are willing to try and learn new ways of approaching or executing strategies. They understand that they are never done learning, and they invest time and money for personal and professional development.
- Engagement – They are the driving force when it comes to engagement. They are invested into the vision and what a company stands for. They show respect and are widely respected within the company. Consequently, they can inspire others and pull along the almost 87 % of the workforce that is not actively engaged (Gallup Inc 2013).
- Determination/resilience – No one can succeed without the determination to be successful. They take deliberate action after thorough analysis and then persevere.
- Creative problem solving – They have an ability to think creatively and "outside the box." They can visualize solutions in unchartered territory. Their ability to see things from different points of views helps find new ways and to get on common ground.
- Adaptability – They can adjust to new demands, new environments, and challenges. Their focus is on success, not on a rigid corporate structure. They are rapid learners and adjust priorities as needed. They always remain calm and show composure especially in unknown cultural and business environments. Failures

are part of business, it can happen to anyone, but top performers learn from mistakes and failures.

But does this leadership talent exist and what drives them intrinsically?

The Mind-Set of Sought-After International Talent

Top performers vary in style and approach especially across age groups, but there are significant similarities that can be observed even across generations like Baby Boomers, Generation X, or Millennials. When recruiting leadership talent for international roles, it is helpful to focus on the similarities first. What motivates them generally? Looking at the potential pool of talent motivation varies depending on how active or passive they are in considering new opportunities. Contrary to many active candidates in any market, top passive talent is not primarily driven by financial reward. They can wait for the right opportunity and carefully evaluate it to see if they would be able to work with high-caliber people who have comparable values, and if they can work on a product, service, or for a purpose, they can really identify with and get excited about.

Once those requirements and the opportunity at hand seem to be a match, talented managers and executives will likely weigh these general considerations as important for an optimal opportunity:

- What impact can they have? How will the network of power and influence between headquarter and foreign entity determine possible local impact? Will this setup allow them to make a difference?
- Is there a possibility for personal and professional growth and development? In the remote unit, at headquarters, or globally?
- What is and will be the work-life balance including global travel requirements?
- How does the financial reward fare against the above requirements?

Eventually when they start considering a new opportunity, top talent carefully evaluates up- and downside potential, risks, and rewards. The following aspects will also influence career decisions.

What will the new environment be like on a daily basis? What will it be like to work for the given leadership group and with the new team at hand? This is one of the practical questions mostly pondered by the talent after being engaged in conversations. What resources are available to them, what authorities will they have, and what is expected of them in the short term and midterm? Coming into a multinational and intercultural setting adds complexity in accumulating all the facts to draw oneself a realistic picture. Not only will a potential candidate work and deal with the local organization and customers, in a global corporation, oftentimes dotted reporting lines are added and global account structures require international customer interaction. Working in the confines of the local structure and standards is compounded with global standards and priorities that can overrule or contradict local powers of authority. Will they really have freedom, support, and resources and do the values align in the corporate context as well as the local entity setup?

Good candidates evaluate risks of a possible career change early on. Most successful top performers look back at a continuous career development. Going from the known to the unknown can be an unsettling proposition. It should be the responsibility of the hiring authority to provide transparency of the future career and company development, opportunities, and risks to grow individually and as an entity. Top candidates with time and choices at hand do not need to make a move that will increase downside risks without a clear overwhelming upside potential and clarity.

Lifetime learning and career development: Top talent understands they are never done learning; they are looking for continuous improvement and advancement in themselves, others, and their organizations. Can professional development and training be provided on the same or higher level as with the current/previous employer? This among many other things will shape their decision-making process.

The Human Aspects: Corporate Culture Within the Confines of the Country Culture

Business results have a direct correlation to an ability of any organization and its members to think, act, and feel as humans. Financial outcome can be seen as an effect not the cause, human engagement, and drive impact success. One should address the human side when trying to attract and engage talent. Ideally one should convey the vision, the company strategy, and how they would fit into this vision as an integral part of the team. What is the fabric of the organization, what does it feel like to work in the international organization, and what is the common global goal?

A company's culture is an intangible concept to many. Generally company culture could be defined through these main components: shared language, shared space, and shared tools.

What are indicators you are on the right track and what are signs of a healthy cultural environment? The following sample indicators can help assess cultural goal alignment (Walton 1991):

1. There is a general sense of transparency.
2. Trust is built through information sharing.
3. Mutual respect is the norm not the exception.
4. People do not have reason to feel fear.
5. People experience employment and overall security.
6. There is a low level of status differences.
7. Employees feel well compensated for performance.
8. Training and professional development opportunities are available.
9. A careful hiring process that emphasizes culture fit is in place.
10. There is a sense of empowerment within the teams.
11. Work is team driven.
12. Continuous improvement is encouraged.

Managing and living a positive corporate culture can yield direct rewards. Studies have shown that a managed company culture can have a direct impact on productivity and bottom-line success.

A decade-long study including several hundred companies in over 20 diverse industries showed that companies that managed their corporate culture outperformed similar companies that did not. Between managed and unmanaged corporate cultures, the research indicates the following differences:

1. Growth in revenue of 682 % (managed) compared to 166 % (unmanaged)
2. Value growth, stock price increase of 901 % compared to 74 %
3. An income growth of 756 % compared to just 1 % (Kotter and Heskett 1992)

The challenge for multinational companies is an alignment and coexistence of a corporate culture within the respective country culture. For talent acquisition purposes, it is a prerequisite to first define their corporate culture at large and then manage company culture in the confines of the respective country. One should question how it can positively attract the right talent in the particular marketplace. Does it speak to the target talent audience and if not, what can be done to convey it to the ideal talent group? A new leadership hire in the local country/market will also somehow be tasked with being a culture-carrier, a person that can convey and live part of the uniqueness and identity of the overall company culture. By the same token, successful new leaders are expected to be flexible and tolerant to the home country organization and its culture as well as to the regional one. This can be particularly challenging for international talent that is from neither the corporate home country nor the subsidiary and possibly create a multitude of issues. A proactive recruiting process and integration process can mitigate risk and develop capabilities (e.g., direct search, culture fit assessment, training, coaching, mentoring, etc.).

Rotating talent around the globe as well as regular global leadership meetings/ events can support such integration efforts early on and on an ongoing basis. A big step is taken by creating awareness and by proactively building intercultural cohesion that feeds into a successful international talent acquisition process.

Locating and Engaging Globally Minded Talent

Due to the before-mentioned current talent market trends and conditions, an overarching theme should be that of caution but openness when looking for new leadership talent. Approaching talent acquisition efforts with an understanding of talent scarcity versus a talent surplus typically yields a more resourceful and thought-out master plan. In an international setting, the approach should be open-minded with an understanding that practices and cultural aspects are neither good or bad, but simply different.

Having a detailed talent acquisition and later development plan is key. What is the current and future hiring plan? Does your organization have a clear strategy which

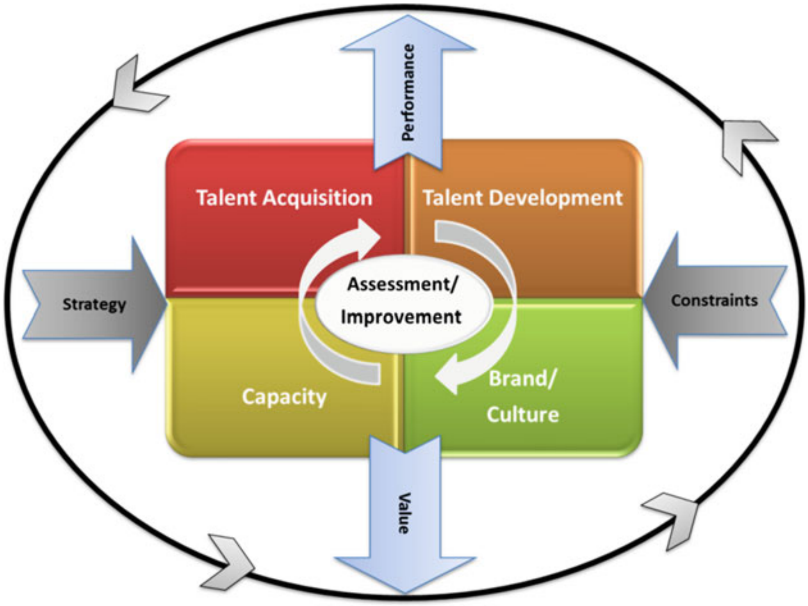

Fig. 2 Talent Optimization Matrix©, InterKon Associates LLC

serves as a foundation for a talent acquisition plan? Thinking strategically as well as tactically is both beneficial for HR and the business side. When looking for international hires in a multinational environment, specifically one should project what the role of leaders will be years down the road. Planning hiring needs 8–12 months out increases the chances of locating and hiring the best. Reacting to changing needs on short notice can create a scenario where one has to settle on hiring any person that has just applied, not necessarily the best talent available in the market. It takes time to locate, engage, and eventually convince a high potential that the given position is a real career opportunity. New subsidiaries and transplants typically have a steeper growth curve than the parent company which has been established for many years. Hiring needs differ from those in the home country for that reason, apart from the country-specific requirements. One tool for a structured approach is the development of a global competency matrix to align talent strategy with business objectives. What are the key aspects for success in the local market as well as in interaction and context with the parent business? Overlaying this with the strategic SWOT analysis can highlight the critical factors for success. The cycle of talent acquisition, transition, and development is closely connected to capacity and culture. Through constant improvement and adjustment driven by outside factors and relevant strategy adjustment, it can be considered a work in progress (see Fig. 2).

Part of a leadership talent acquisition plan in a foreign country is to familiarize oneself with the current local talent marketplace, local customs, and legal employment framework. The marketplace is different and influenced by different factors in Europe than in Asia or in North America compared to South America. Even within those regions one can find vast differences (e.g., Canada vs. Mexico, China vs. Japan, etc.). Sometimes, hiring authorities in the home region or abroad have their own existing networks and connections where people get hired or advance on the basis of who they know or what is most convenient. This can yield poor hiring decisions since an entire pool of possible alternative candidates was never considered or evaluated. Having an open mind and being willing to invest time and money to get presented with and grasp the whole picture will most likely pay off in the long run.

Every great organization thrives to recruit and hire star performers. Most are looking for high performers that can take their organization and teams to the next level. But it is not an easy task to get noticed by A-players in the respective market. This is especially true for new market entry situations where the company name and brand carry no meaning or are not recognized as in the home country. Most high potentials are not actively pursuing a career change but are rather considered passive candidates that need to be approached directly or through referrals. They are busy and engaged with their current career. It is estimated that one in five is not even registered on popular online networks like LinkedIn and certainly not on online job portals. Their time is valuable and in an effort to preserve it, they limit distracting interactions. Confidentiality is also paramount for them to uphold their reputation and avoid rumors.

In order to locate top talent in the local market, therefore, building relationships is key. One can start with local business networking groups, build an in-house recruiting initiative, or reach out to global consulting firms that provide recruiting/search solutions on a global scale or through partnerships in the relevant region.

Working with third party recruiting/search consulting entities has potential benefits that go beyond convenience and efficiency. They have an opportunity to connect and foster relationships in the markets and relevant niche that will go further than what an internal recruiting team can accomplish. Top talent is more likely to network with an independent advisor that can be there for multiple opportunities now and down the road. Always driven to utilize time efficiently, top performers tend to dedicate time for meaningful relationship building with a trusted advisor. Furthermore, third party search consultants work on different schedules and can make themselves available off hours and weekends to build and deepen relationship. First-class recruitment consultants succeed by maintaining close, mutually rewarding connections and a trusted network. For those reasons, third party talent acquisition providers can have an ability to cast a wider net and introduce a much wider variety of potential candidates to choose from.

When working with an international executive search/recruiting firm, it is important to understand and manage expectations right out the gate. If a new business relationship is built, a recruitment plan should be developed together with clear goals and responsibilities. In order to equip the consulting firm with all the necessary "ammunition" to sell an opportunity, the employer should work closely with the consultant to explain and convey the company culture, inner workings, goals, and vision apart from all the standard company information and position requirements. The employer can support the service provider in promoting a position by sharing the passion of the opportunity and by describing all the aspects as detailed as possible. It is a task for both hiring authorities from the business side and HR to transfer knowledge to a service provider to the fullest extent.

Finding and engaging talented people in a scarce environment requires acquisition specialists who can recruit, hiring managers who can attract, and last but not least a company that offers good career opportunities with upward mobility, not just lateral moves.

Finally, all parties involved should keep reassessing the talent acquisition situation and adjust plans and expectations if required. Some common reasons for a failure to hire talent are the following:

- There is just not enough talent in the particular niche/market.
- The talent acquisition strategy and execution plan are not effective.
- Expectations are unrealistic.

Selecting Future Global Leaders

Candidate experience is one of the buzzwords in talent acquisition that has become more prevalent as good talent becomes more scarce. Walking in the shoes of an applicant/candidate opens one's eyes as to how they might see and experience an organization and the process. This is even more complex in an international setting since what one would experience when walking in a candidate's shoes in the home country might differ vastly from what a local candidate in the remote market might experience. Attempting to see the process from another person's point of view not only helps understand how a company's recruiting experience might feel like but also what would drive decision-making from the point of view of a candidate.

Communication is always a two-way process. One person might not necessarily hear what the other person meant to say. Every company has a unique recruiting/hiring process and style. Communication with service providers and candidates is essential to keep candidates engaged. Having a transparent and honest communication strategy supports rapport building and prevents offsets in perception. Intercultural and international standards of communication should be taken in consideration when planning a communication strategy.

Interviewing candidates and communication with candidates is a key component to a successful hiring strategy. Utilizing multiple team members for the interviewing process can have its benefits but can potentially also be the downfall of a successful recruiting process. Introducing candidates to multiple team members on a peer and superior level is useful for a candidate in order to get a feel for the social environment of a future workplace, and it adds an extra set of eyes on the employer side. However, of particular importance is the selection and the amount of team members a candidate will meet. Too many people with too many opinions can distort the picture of the candidate and lead to the fact that a candidate is not hired even though he/she could have been a good fit (politics, personal agendas, lack of interview experience, etc.). In an international setting, a misstep that corporations take unknowingly at times is who they select to be the interviewer and also the decision-maker. In an ideal scenario, it is a small, select group of a handful of people that are tasked with the process and decision-making. The individuals need to be intimately aware with the host country business and social environment, so they do not disrupt the process or negatively impact the recruiting and later decision-making process of a potentially very qualified candidate. In order to avoid confusion and to expedite the entire process, responsibilities within the hiring team need to be set and communicated early on.

When it comes to interviewing, many approaches have been evaluated in recent years for their effectiveness. Behavioral interviewing is a standard practice that has shown its merits but might not provide one with the full picture and projection of possible future success. The environment an employee is in can determine and shape behavior. Therefore, past success or failure in a previous role and organization does not necessarily mean the same in the new organization and environment. Increasingly, research supports the notion that how people are managed has an effect on productivity, quality, and profitability and therefore ultimately business value (Pfeffer 2007). For this and other reasons, careful consideration and structured evaluation are essential for making the right people decisions in an international setting. The stakes are high and it pays to evaluate carefully which candidate best fits into this multifaceted environment. A blended approach of behavioral and performance-based interviewing can be an effective way to understand a candidate's real personality, motives, professional strengths, and shortcomings as well as dreams and ambitions. Pinpointing on previous international/intercultural experience and developed skills will help project possible future success in a global setting. While experience and skills are important possible predictors, having the talent to develop and adapt to the new environment and setting is even a higher priority. There are many pieces to the puzzle and only a comprehensive picture will allow decision-makers to select the best international leader/manager.

"When in Rome. . ., do as the Romans do." Personalizing and adapting the talent acquisition process will generally yield better results. Corporate directives and bureaucracies can sometimes bog down or restrict recruiting activities in the regional markets. While corporate standards are important to maintain a common understanding and reduce variance, it might be hindering for a market-specific talent acquisition activity. What is the norm, legal, and ethical in one country might be different from the other country. Cultures and standards differ as well. This also applies to the perception of time available/needed for a recruiting project. Different countries may have different cultural concepts of time (e.g., monochronic vs. polychronic), but also candidates and employers might have a different understanding regarding the "usual" timeline of a recruiting process. Some regions have customarily long notice periods and longer decision-making processes, while in other regions it could be more time compressed. Creating a plan, adjusting to the local customs, and clear communication support a more cohesive process and can lead to an enhanced candidate experience compared to an unstructured process.

Integrating New Talent in a Multinational, Multicultural Setting

Once a decision is made to hire and the offer has been accepted by the preferred candidate, companies start the onboarding process. Most corporations have a structured approach in place to handle all necessary administrative steps. This might include local or international relocation. Relocation can be an added stressor for candidates and especially their spouses and families which should not be underestimated. Their world will be turned "upside down" for a period of time, and supporting the new employee and families is something that ultimately accelerates the integration process. Offering spousal support and cultural training before and after an international relocation is one component to achieve a holistic integration. This in turn improves the new employees' moral and effectiveness, thus delivering value sooner rather than later. A dedicated onboarding plan can be useful to start the relationship building and to make the new employee most efficient early on. Onboarding is part of the candidate experience that will shape the starting phase of employment. It sets the tone for the beginning work relationship.

In an international environment, a new employee not only has to figure out the culture and processes of the new entity but also deal with the added complexity of a global structure and its inner workings. New relationships have to be developed internally as well as externally. Establishing and fostering personal connections between key leadership staff and the new employee can help make the transition smoother and to make a new hire more comfortable to integrate as a human being, not just an executive branch. It is again the human interaction that can impact the outcome. The more and the earlier meaningful interaction takes place and bonds begin to grow, the higher the success rate. When connected on an emotional level, everyone feels more invested. These efforts will also reduce the chances of a candidate entertaining or accepting a dreaded counteroffer from the current (and now disappointed) employer. Efforts put into onboarding and transitioning should not be underestimated, since naturally everyone assumes everything is a done deal when a candidate signs on. Challenges, opportunities, and day-to-day problems will always be there, but with the right team and the right attitude, they can almost always be solved and new paths can be chartered.

Conclusion

As the world globalizes so should every corporation's talent pool. Finding, attracting, and integrating good leadership talent is challenging enough in one country/region, but it is multiplied in complexity when one is tasked with developing a global leadership network that can function well in a local region and interacts successfully globally. As much as one can prepare for such a task and as much leadership talent gets trained and educated, there is still a sizable portion of "trial and error" and "learning by doing" that takes place. Making mistakes is part of the human learning and improvement process. As long as everything is seen as an opportunity to improve and one can learn from their own mistakes, the global leadership talent conundrum can be solved. As for leadership candidates the same applies but with a lower tolerance level for mistakes as organization looks at the local top 2 leadership levels and holds them accountable for success or failure. However, having had the opportunity of holding one or several international management and then leadership roles can be an extremely beneficial experience and competitive advantage compared to other potential candidates since they have been shaped through this journey before.

Together great things can happen. When people with the same mind-set, experience level, attitude, and level of motivation come together, their impact surpasses the sum of all individuals. Leveraging global synergies through an efficient and diverse international leadership structure can be an untapped source for sustainable success and corporate value enhancement.

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Part II

Training and Qualification

Training and Qualification: Introduction and Overview

12

Katharina Cortolezis-Schlager

Contents

Abstract

It's the decade of the three big "i-factors": "Internet, internationality, and intercultural awareness." Thus, it is exactly these three factors that have been making a huge impact on training and qualification in organizations in recent years. New skills are being asked for, new competencies are being required, and new ways of learning are feasible.

Nobody was born as a leader; however, life gives plenty of opportunities to practice leadership. Starting with early childhood, human beings are in a constant process of becoming leaders. Admittedly, some are more talented than others. But each and every person can develop solid leadership skills. In fact, most people working in organizations operate in an international network and a world driven by project management. Therefore, professionals from various disciplines and industries have to be able to manage people, projects, tasks, target groups, time

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lines, and budgets successfully (compare ► Chap. 17, "Training and Qualification: Essentials of Leadership Development").

Obviously, no one can fulfill all these requirements alone by oneself. In fact, people have to collaborate with the members of their organization, need to interact with their suppliers, and have to communicate with their clients. In times of the big "i-factors," bridge-building teams of external experts and vital networks of different companies are more crucial than ever before. Consequently, it is important to clear the way for innovation taking place beyond organizational boundaries. And most importantly, change and learning become essential parts of our workplace.

How do staff members and organizational leaders learn most effectively?

Why are there high-performer teams, while other groups within the same organization hardly ever collaborate in order to increase their output?

Is the way leading companies are taking care of their trainings and their continuing education offers different to the methods average-performing companies use?

All these questions are key for human resource management. Therefore, HR executives and managers are asked to undertake a thorough analysis of these topics in this chapter.

Keywords
"i-factors" • Leadership skills • Skill management • Virtual seminars • Team development • Training management • Intercultural management • Training approaches • Sustainable qualifications

Overview: What Do the Upcoming Professional Articles Have in Common?

Staff members need transparency in order to know what others expect from them at their specific workplace and how their superiors are evaluating them. Ultimately, successful management is based on successful leadership. Leadership is learnable and includes the competence to encourage team members to become a highly collaborative learning team. Therefore, forming teams requires a systematic and flexible approach, which allows setting up and supplying trainings throughout the organization and within the framework of changing demands and special offers.

So what is usually happening right before innovation starts in HR and when is the best time to create a dynamic training environment? The answer is short and simple: "crisis."

The automotive industry serves as a prime example supporting this premise. With auto-parts being made on different sites all over the world, several automotive companies faced poor communication within the organization. Training always included traveling which was very time-consuming for employees and ultimately expensive for companies. To cut travel costs and improve communication, companies started to establish virtual seminars. Even though employees were used to being trained on a face-to-face basis, these virtual seminars became very successful, and new training skills were adopted quickly.

People Perspective

The upcoming articles are indicating four common perspectives. The first one is called people perspective and concentrates on the jobholder. Detailed job descriptions should support and encourage jobholders and possible applicants. Besides, the recruitment process can be simplified. It deals with teams and their structures, types, models, and members. Furthermore, this perspective assesses people's intentions to create ideal circumstances for the development in personality and leadership. Employees need proper and continuous training to achieve all company goals in a constantly changing working environment. The training of team members should not be underestimated, as the complexity of different team types can vary distinctly. Therefore, emotional intelligence (EI) is an important skill for employees and even more so for leaders (compare ► Chap. 17, "Training and Qualification: Essentials of Leadership Development").

Economic Perspective

The economic perspective centers the economic impact of skill management on team performances as well as on the productivity and effectivity of groups of people. Moreover, it addresses long-dated investments related to leadership. If employees are happy in their companies and feel challenged and forwarded at the same time, their work performance will be better and their organization will benefit from it in the long run. In contrast, ineffective training could cause poor results and enforces the necessity to rework outcomes. Thus, structured training programs should be implemented; the resulting shorter learning periods could save company money. Furthermore, investing in a full leadership pipeline instead of head-hunting agencies is recommended in order to be cost-efficient and effective.

Risk Perspective

The risk perspective deals with risks and threats occurring while designing and implementing skill management. It is endorsed to consider all possible risks, which could occur during the implementation of measures, and to develop different solutions for each possibility. For example, it is important that the measures of implementing team development are consistent with the culture in the organization and that the leaders are aware of the values and policies in companies they are working for. If that would not be the case, these measures, which were actually meant to increase motivation, could cause the opposite. Therefore, it is also recommended to plan, define, and follow through enacted measures.

Operational Perspective

Finally, the operational perspective is concerned with the process of implementation, processing, and development of management, teams, and leadership programs. Before measures can be conducted, it is advisable to determine some guidelines. Prime examples are when and for how long should the measures take place, who is in charge, and what resources will be needed. Additionally, these measures should cooperate or at least coexist with the other running processes. Furthermore, programs should be implanted in steps to assure a smooth transition. In a team developing process, for instance, it is essential to identify the standpoint of the team and to create some kind of road map as a tool for further leadership. For the evaluation of a team situation, a team survey can be used.

Skills and Tools for Training and Qualification

Skill management is the process of identifying, analyzing, and establishing skills needed as indicated in job descriptions. It may help a jobholder to understand what outcome the company expects from his/her position. Furthermore, it assists the organization in detecting possible gaps between the jobholder and the job itself and allows them to be closed (compare ▶ Chap. 13, "Training and Qualification: Essentials of Skill Management").

Leadership is learnable, even though there are more and less talented people. In order to support individuals in becoming great leaders, the development of leadership skills within the organization as a whole and its teams is essential. A good manager is just as strong as the community he or she is leading.

Even though leadership training commonly focuses on middle and top management levels, in recent years, the selection and training of entry-level leadership gained more attention. It specifically targets people who, for the first time in their careers, are required to take over formal leadership responsibilities. This is particularly important when employees get promoted or switch departments within the company.

Living in times of globalization, training intercultural management skills are more decisive than ever before. Dr. Geert Hofstede's framework for cross-cultural communication supports this idea that challenges training requirements. He points out different values and related behaviors of diverse cultures (compare ▶ Chap. 17, "Training and Qualification: Essentials of Leadership Development").

Team development is an ongoing process. Tasks in organizations become more complex every day and it is mostly impossible for individuals to achieve targets on their own. As a result, working in teams has become essential in the workplace, and team cooperation determines the productivity of organizations. Therefore, it is important to create healthy teams in team development processes. As there are different types and development phases of teams, it is necessary to analyze its structure and to work with its members on their working relationship. It is also essential to identify and to work on the different roles of team members in order to guarantee an effective collaboration (compare ► Chap. 22, "Training and Qualification: Essentials of Team Development").

The focus of training management is evolving with the ever-changing needs of employers and the understanding of how to improve the richness and quality of available training programs. Successful initiatives and solutions are an ongoing series of support methods that result in a change in behavior. Training managers can ask leading questions that typically guide a person through the process of realizing changes that need to be made. An assigned lead trainer, who gets updated on a regular basis, should create a training communication plan and consequently manage the delivery of all training programs. Evaluating the training outcomes is essential for further effectiveness. According to Kirkpatrick evaluation takes place in the four levels of reaction, learning, behavior, and results. Furthermore, training managers have an obligation to their teams to help keep them motivated and engaged (compare ► Chap. 15, "Training and Qualification: Essentials of Training Management").

Virtual seminars were introduced in an automotive company because of traveling expenditures cutting rules. As a result a system that works by phone was created. To keep the phone costs low, a callback system was put in place. Additionally an existing IT platform was used. Even though the participants missed the "warmth" that face-to-face communication might provide, their feedback afterward was predominantly positive. Most participants were excited about the unconventional way they had just acquired new skills. Some people even said that they had experienced situations during the seminar where they would feel like they had been knowing the other participants for several years, whereas in fact they had not been meeting in real life yet (compare ► Chap. 20, "Training and Qualification: Online Leadership Training in Crisis").

Final Comments and Outlook

The plan-do-check-act (PDCA) cycle is another great guideline for training and qualification matters. Training and qualification are embedded in a strategic, structural, and cultural organizational level. It supports organizational and team learning processes as well as personal learning. Paul Watzlawick wrote as a first axiom of communication, "One cannot not communicate." Nowadays it can be said, "One cannot not learn."

Finally, it is not only about the content a person is learning but also about a person's readiness to acquire this content. Resistance against change, the fear of new things, or anxiety that one won't get it all done, all these challenges can hinder people to learn effectively, efficiently, and joyfully. As a consequence, powerful organizations try to arrange new approaches and methods of training. After all, only if they successfully manage to do so will they be able to build up and support sustainable qualifications. And qualifications are of overriding importance for an organization's successful performances, not only today but also tomorrow.

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Training and Qualification: Essentials of Skill Management 13

Sandy Chen

Contents

Abstract

This chapter mainly focuses on the questions: What is skill management? Why do we need skill management? and what is the benefit to both individuals and the organization? Also addressed is how to lead and implement a skill management program in the organization in a structured way.

Keywords

Skill management • Skill inventory

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Introduction/Overview: What Is Skill Management?

Skill management is the process of identifying, analyzing, and creating the skills of jobs based on an established job description; developing the learning curriculum based on required skills for each job; developing the learning materials' content for each learning item included in the curriculum; implementing the learning plan for each jobholder to ensure they are able to deliver the expected job outcome; and finally, creating the certification process to assess employee's learning results.

Skill management is a practice that serves multiple purposes. For example, a well-established skill management will help the jobholder understand what job outcome the company expects them to deliver, and what the required skills are in order to deliver the expected job outcome; skill management helps the organization identify the gaps between jobholder and the job itself to ensure the development plans are aiming to close the skill gaps; skill management helps management identify who the people are with the right skills for the next position by measured data; and skill management helps the organization identify what the common skills in place are and what are the skills in shortage are, which will allow them to be well prepared for the business strategy of new market OR a new product.

Skill management results in many lots of details, such as skill inventory, learning curriculum, learning materials, course registration, learning history, certification, etc. and all these need to be managed well by a system; otherwise, it may not create as much value as expected if it is managed off-line.

People Perspective

When people start a new job, it is the normal practice that they will receive the job description from HR or a Direct Manager, and start with their job after the orientation or sometimes even earlier. It happens quite often that both their managers and they will realize that their performance is not up to a certain level yet after the work has been done. It may create the frustration for the jobholder and leave the manager feeling disappointed.

However, a well-implemented skill management can better support the job holder to accomplish their tasks successfully. If both job holder and manager know what skills are required to perform the job well in the beginning, then they can map what skills the job holder has and what skills the job holder does not have; thus, the manager can assign only the tasks which can be well performed by the job holder, and arrange the OJT (on-the-job training) or other development solutions to develop the skills which are missing. This process will help the job holder develop steadily and all tasks are under control.

Skill management can support the job holder to better perform their current job, but it also can help the job holder to prepare for the next position. For those candidates who are aggressive with their learning and development, they can start to learn the required skills for next position, and then they can be more competitive when the opportunity arrives.

When there is a complete development plan in place for employees, they know what they need to do and learn, and how long it will take to bring them from one level to another level. It is believed that this practice will definitely increase employees' sense of belonging and loyalty. As a result, the highly motivated employees with developed skills will provide high performance to the organization.

Economic Perspective

Skill management is to help employees achieve a better job outcome via improved job skills. Implementing the skill management for the jobs which need various and complicated professional skills or specific skills for certain industries will result in an economic impact on the company.

- Learning and development expenditure as a percent of payroll continues to increase, rising from 2.7% in 2010 to 3.2 % in 2011 (Source: ASTD). Companies invest a large amount to people development. In order to ensure the ROI, it is important to make the right decision in the first step on what and in whom to invest. skill management can easily create the gap analysis between "As Is" and "Desired"; the Company can make the right decision by referring to the gap analysis on what kind of training or development plan should be invested in and who the people are that need the training in order to achieve a better job outcome or business result. Following this process can ensure the company invests the training budget in the right place to maximize the value for the money.
- Well-implemented skill management can shorten the job holder's learning period so that the organization's productivity can be improved. Table 1 shows what skills each job holder requires in order to perform the job well, it also shows what the common skills are among each job. If there is an opening for Sales Engineer, the company can easily tell by referring to this table that Technical Solution Engineer and Senior TSE share the most common skills with Sales Engineer, so a TSE job holder should be the candidate to consider since they can pick up the Sales Engineer's job more quickly than a CS Engineer post or new recruits.
- Well-implemented skill management can also improve the retention rate and save the recruitment expense. From Table 1, a CS Engineer knows exactly what additional skills he/she needs to learn in order to upgrade to Senior CS Engineer or Product Experts. Or, if he/she would like to change their job career from Customer Service to Sales, and then he/she can start to prepare based on the job skill requirement and be ready upon the opportunity's arrival. Employees basically can diversify their career, and they can manage it proactively.
- Transferring the skill into a business result is the process of turning input to output. It is the ideal result from skill management, for example, by referring to Table 1, "Mentoring Skill" is a skill which can guide the Sr. CS Engineer to provide mentorship to a junior engineer. If the Sr. CS Engineer received the training of a mentoring skill, it only proves that he has learned the skills, but not sure whether he has mastered the skill or not. If the Sr. CS Engineer has mastered

Table 1 Shows what skills each job holder requires in order to perform the job well, it also shows what the common skills are among each job

Position / Skills	Customer Service (CS) Engineer	Senior CS Engineer	Product Expert	Technical Solution Engineer (TSE)	Senior TSE	Sales Engineer
Hardware Knowledge	x	x	x			
Product Portfolio Knowledge						X
Basic SW & Application Support	x	x	x	x	X	
SW & Application Support		x	x	x	X	
Expert SW & Application Support			x		X	
Installation at Existing Site	x	x	x			
Installation at New Site	x	x	x			
PCB Process		x	x	x	X	X
Communication Skill	x	x	x	x	X	X
Customer Handling Skill	x	x	x	x	X	X
Mentoring Skill		x	x		X	
Project Management Skill			x		X	X
Sales Proposal Capability					X	X
Information Seeking				x	X	X
Marketing Intelligence				x	X	X
Influencing Others					X	X
Negotiation Skill						X
Presentation Skill			x	x	X	
Certification	100%	100%	100%	100%	100%	100%

the mentoring skill, and then he/she is able to build a comprehensive mentoring plan with his/her mentee, under the mentorship from mentor, the mentee's learning period can be reduced from 6 to 4 months by delivering a good result. This will be the expected result from the mentoring skill which focuses on turning input into output. Implementing skill management is not only focusing on what the job holder needs to learn, but it also needs to measure if there is a result derived from each learning activity.

Risk Perspective

The risks are embedded in each step when designing the skill management and the risk existing in the implementation process as well. The skill management steps are stated as below:

1. Create the job's Key Result Area based on an updated job description and interview with job-holder experts for a specific job. The job outcome that the Company expects this job holder to deliver is the basis for skill management.
   The risk: Normally the job description is kept in file for years without updating, but the organization is changing and requirements of the job holder are changing too. It is a must to ensure the job description is updated before starting the process.
   There is a high risk when interviewing job-holder experts. It is true that they are the people who are most familiar with the post requirements, but the first step of the interview is to find out what ideal outcome the job holder should deliver.

The job-holder experts usually think from their previous experience about what they can and not what they should do. If the Key Result Area is created based on what the job holder can do and not what they should do, then the rest of the work won't help achieve the desired goals' potential.

2. Present the draft Key Result Area to the concerned senior management for their input and validation. This is an important process to involve the senior management since they are the people who know what the new direction of the organization, and it may result in additional requirements to the specific job.
   The risk: Senior management is normally very busy and it is difficult to get their attention. So before kicking off the project, it is important to invite the senior management as the project sponsor and mark their time for certain actions.
   Senior Managements is also not aware of the importance of their input to the Key Result Area. The project leader needs to prepare them in advance and make sure they know the importance of this step since it may affect the whole program's effectiveness. It also needs to highlight that they are creating the ideal job requirement for the organization to meet the company's long-term business strategy.
3. Define the core skill, knowledge, and attitude the job holder needs to acquire in order to achieve the Key Result Area. This process will generate the skill list for the specific job.
   The risk: This step is done by holding a meeting with a group of job-holder experts and their managers. During this process, there is a risk that either participants list too many skills or very few skills. Why does this happen? Too many skills are listed because they do not know what skills should be considered or they tend to exaggerate their job complexity to prove how complicated the job is. So in the beginning of the meeting, the project leader needs to inform every participant that all skills are necesssarily nice to have. Too few skills are sometimes listed because participants are veterans and they think some skills the job holder should naturally have and are not necessary to mention. So the project leader needs to advise the participants that the listed skills should involve a learning process to acquire. Also they need to double-check if they have the skills A and B. In other words, can the job holder perform the task as expected?
   All these risks will affect the skill management effectiveness and need to be well managed in the process.
4. Define the learning activities for each required skill or knowledge to help the job holder acquire the skills and knowledge. This process should also be done by interviewing the job holder expert and managers.
   The risk: During the interview, when the expert or manager is asked what kind of learning activity the job holder needs to have in order to acquire the skill? They normally answer that they should join the training course. If training turns out to be the only development solution to all skills which will increase the company's cost, on the other hand, it might not be the most appropriate and effective solution to help job holder acquire the skills. So an interviewer or project leader, needs to have the interviewees understand that the learning activities are not limited to the

training course as it is only one of the development solutions. The interviewer should have good knowledge and background with learning and development, otherwise this process may have a high risk of failure.

There is also a risk that the learning activities are ideally designed, look reasonable and perfect; however, they will create big barriers for implementation. It is important to have the learning activities designed which are practicable for implementation; and they also need to consider if it is the best development solution to help the job holder acquire the skills.

5. Design the training materials or select the right training content based on the listed learning activities.
   The risk: If the learning activities are to be implemented by external training suppliers, HR needs to outsource the training suppliers and reserve the budget. If the learning activities are designed for internal training, HR needs to coordinate the material's readiness with the due date. Normally it is difficult to have dedicated people for training materials design due to limited resources. So it is common to see that training materials are submitted late or the quality is not up to the standard. In order to avoid the risk, it is recommended to set the item writer's criteria first and what kind of training needs to occur before starting an item; and then to nominate the learning item writers based on criteria when defining the learning activities for each knowledge level. It is also important to obtain the item writer's commitment from both individual and direct managers. By doing so, it can ensure the project can be delivered on time with quality.
6. Identify what are the Key Performance Indicator (KPI) are for each skill to set the competent standard based on Key Result Area and learning activities; suggest using the How, When and Who to assess the KPI. This step is very important to justify the certification quality.
   The risk: It is a long and hard process to identify KPI. The KPI must be measurable either by quantity or quality, otherwise there is no meaning to set the KPI for each skill and the company is not able to tell if the job holder really acquired the skill upon completion of the learning path. However it is a challenging process to find the KPI for each skill since some skills are not easy to be measured, or it may result in a dreadful process by going to the extreme.

Operational Perspective

The operational perspective addresses the question of how to perform or implement skill management. What are the things to consider and think of prior to, during, and after the execution of the process?

Prior to even designing a skill management process, a few questions need to be answered:

- Who should initiate the skill management program?
  Normally the program initiated by the Human Resources Department will easily be perceived as an additional load by the Business Department. But if business

executives initiate the program they will be the program sponsor, and then the whole process will be much more efficient. The Human Resources Department should be the one to create the sense of urgency for the need of skill management in front of executive management, for example, prepare some data for executive management to show the inefficiency of people development and try to link poor learning performance with business result, such as a longer learning period for one ready employee at critical positions, poor knowledge transfer due to inappropriate training, etc. In the meantime, executive management should see how a skill management program will help with people development and performance improvement. With this process, the executive management should be able to initiate the program and HR can request them to act as program sponsor.

- Who will own the process?
  Often the perception is that people development should be the Human Resources Department's accountability. Which means HR should take the responsibility to drive the whole process. However, having each related business executive to share the ownership with HR will definitely help expedite the process and increase the program success rate.

  So basically, before starting the skill management project, it is recommended to make the stakeholder analysis and define different people's role and responsibility in the beginning to ensure it goes smoothly along the way.
  - Executive management should be the program sponsor, and they will be in place to give support when there is a need
  - The line manager needs to be aware of the project and they will be the person to ensure skill management implementation in their team.
  - The job holder will be involved during the implementation stage and understand what they are expected to learn how to be measured and act accordingly.
  - The technical expert should be the major contributor for technical skills identification, assessment, and learning methods.
  - HR should be the project manager to facilitate the whole project.
- What resources will be needed?
  The amount of resources (people, money, time, etc.) may vary based on the size and complexity of an organization. Normally, the large and complex organization may require more resources than the local small-sized company. If there is a resource constraint, then it is suggested to focus on critical positions first.

  Resource planning should start before skill management Program is kicked off. Resource planning should cover the program design to implementation of the whole period. The resource plan below is for one particular position's skill management:
  - What additional resources are required to fulfill the program?
    When decideding to work on one critical technical position. i.e. Customer Support Engineer, one needs to think about who the right person is to lead the process from the Customer Support Department by working together with the HR department. Normally it is suggested to invite the CS Director level, and then a focus group needs to be established which is responsible for identifying what Key Result Area the CS Engineer can ideally deliver. Since the CS

Engineer is a technical position, only if the CS Engineer's manager is proficient in technical skills should he/she be invited to join the focus group. It is recommended to invite the expert level of the CS Engineer from each branch to form the focus group. Once the Key Result Area is defined as well as requirements of both technical and soft skills, then the appropriate learning curriculum should be designed based on all this information. Once the learning curriculum has been created, additional resources are required to design the training content, and one also needs to determine who the person will be to deliver the training. For external training, the HR department should communicate with the project sponsor and get approval for the budget needed.

  – Is the company ready and willing to make a financial investment for a software solution?
    This will heavily depend on the financial situation of the company, and how many jobs and employees will be managed with skill management. It would be the ideal if the company purchases a Learning Management System to manage employees' learning activities and certification, and then it will be much easier to maintain all learning history and monitor employees' learning progress. Also it would be easy to create related reports to track the whole organization skill and knowledge status.

- How does this fit with existing processes?
  With the implementation of skill management, every employee will be certified a knowledge level once they completed the learning curriculum. HR will work further on how to link the knowledge level with HR job level to ensure the company is promoting the right person at the right position with the right package as well. It is recommended to put knowledge level as the basis for employees' promotion but not the only condition. For instance, for knowledge level 1 (an entry level) upgrading, it is recommended to directly link with job level, which will encourage and motivate young and junior employees' learning and career advancement; for knowledge level 2 or above, it is recommended to link with job level, individual's performance rate and also business needs. Investing in educating employees or prompting an employee to a higher level, it should be determined by individual's performance and also if there is a business need to utilize his/her skill.

  Normally HR will create the job level for jobs in the organization, but it is not necessary to create the knowledge level for all kinds of jobs unless the job's skills require systematic learning to acquire, which also needs to be assessed by test or observation. Bearing in mind this practice can help the project leader prioritize and focus on critical jobs.

  Skill management can also connect with the existing performance review process. For example, if the performance review is based on competency assessment, then direct managers should take employees' skills learning progress as a reference against certain competency assessment. In the meantime, a manager could also determine the employees' learning attitude and learning capability based on his/her learning result at year-end review.

- How to implement skill management for the first time?

First, all "must have" elements should be well established for skill management, such as, knowledge level, learning curriculum, learning period, learning content, and measurement for all critical skills. For the first-time implementation, the most critical step is to assign all job holders with an appropriate knowledge level which highlights each skills' achievement status, and then each job holder will understand what skills are missing in order to graduate from the knowledge level. This step is generally called Skill Mapping. There are two approaches introduced below for Skill Mapping as a general guideline:

Approach 1

1. Have a direct manager to diagnose which skill level the job holder should be mapped
2. Have the job holder join all concerned on-line and off-line tests for the appointed knowledge level
3. The job holder's knowledge level will be determined based on the test result

Pros: This approach can help ensure the job holder's skills are appropriately measured, which reflects the job holder's real capability.

Cons: Too time consuming and it also creates hard feelings for employees that their previous performance was ignored.

Approach 2

1. Assign the job holder to an appropriate knowledge level for mapping based on learning history in the organization; all employees whose work experience is less than the first level's learning period will be assigned as level 1 by default.
2. The direct manager will diagnose each of the job holder's single skills against a skill measurement indicator and guidance from a technical expert.
3. The job holder's knowledge level will be determined by a direct manager's diagnosis result.

Pros: This approach is easy to implement and very efficient; employees' previous learning and contribution are valued.

Cons: Skill mapping result's accuracy is too heavily based on the direct manager's judgment.

When all employees are assigned an appropriate knowledge level after the mapping process, they then need to start the learning journey within the learning period. In the meantime, the direct manager should monitor the employee's learning progress to ensure they are on the right track.

- How to maintain skills up-to-date?

A company will not be able to grow further if it does not change its technology level. Employees' skills reflects the company's requirements from a technology or growth point of view. So it is a must to re-visit the skill inventory on a regular basis to ensure it is aligned with the company's growth pace. How long should it be? That depends on the company's growing status, but at least once a year is necessary.

On the other hand, the job holder may be certified with a certain knowledge level, but that does not mean he/she mastered all skills as sharp as the date he/she was certified. It could happen that the job holder didn't have the opportunity to practice the skill due to job change or product limitation, and there is a high chance that the job holder may lose the skills gradually. In order to ensure the certification's value and reliability, it is recommended to renew the certification every 2 years by following the below guidance:

1. Define the core skills in each knowledge level.
2. Define the conditions for employees who need to join the certification renewal, such as, no exposure to the skill practice continuously over 6 months; technical upgrading.
3. Hold the skill refreshment test for employees who are in need; the test could be a paper test, an on-line test, a demonstration or an expert's interview.
4. Employees who failed the test will be assigned the specific skills learning item to re-start the learning process.

Outlook

Skill management is a relatively complex process, it includes too many steps and each step involves different people. If one of the project members doesn't commit to the process, then the whole project will not be able to be completed successfully. Although skill management has been well designed and implemented, it is normal practice that management will cut the training budget when faced with an economic downturn; this may then affect employees' motivation negatively as they don't see the company's commitment for employee development. This practice may harm the organization badly and the project owner should be prepared in the beginning and gain senior management's commitment or find alternatives due to budget constraints.

Just because the skill management process has been implemented for certain jobs, doesn't necessarily mean it will last forever. Both HR and the business team should revisit the listed skills and learning materials on a regular basis to ensure all skills are the most updated skills which can assist employees to deliver the best result. The same goes for learning content, which needs to be designed to match the changing market and product.

Regardless of how complex or difficult the skill management process may seem to be or become, it can certainly be considered as a great process to further strengthen both the organization and individual's learning and growth. Through component implementation it will enable the organization to be more competitive even when facing severe competition. Taking that view, there should be no hesitation for any company to engage in the process.

Do's

Create the Job Description

The skill management's basis is job description (JD), which needs to make sure all jobs have a complete job description which specifies all the Key Result Areas (KRA) the jobholder is required to deliver.

Develop Skill Profile Based on Job Description

Analyze what are the necessary skills are that a person needs to have in order to deliver the KRA.

Skill profiles also should differentiate between different levels of skills (e.g., “Basic,” “Advanced,” “Mastery”).

Analyze Skill Gaps

While skill profiles represent the demand side, the real skills of the job holder represent the supply side. Comparing demanded skills and the real skills of the job holder within the job family leads to the “Skill Gap.”

Build on Existing Basis

If, for example, in Compensation and Benefits or Talent Development there already exists a job family model, it is highly advisable to use the same model for defining skill profiles for these job families.

Discuss Certification

Define skill demands via skill profiles and then provide the appropriate learning solution to bring the jobholder’s skill up to the required level. An even stronger approach is to test if the employee really acquired the skills (as opposed to just attending the class!). Such a “Certification” obviously requires more administrative work, but pays off in terms of the higher effectiveness of the overall skill development process in the company.

Don’ts

Avoid Inflation of Skill Demands

When developing skill profiles in cooperation with experts on the subject matter from the respective departments, there is a risk that skill demands are exaggerated. The reason for this is that people are usually proud of what they are doing and tend to over-emphasize the difficulty of the job and hence the skill requirement. With all due respect to the subject-matter experts who help HR by creating skill profiles, HR should try to avoid such inflationary tendencies in the discussion with subject-matter experts. We highly recommend that all skills should be derived from the KRA, otherwise, it will not be considered.

Avoid Inflation of Job Families and Skill Types

Similar to the first point, the degree of differentiation between job families and skill types has to be managed by HR. Subject-matter experts like to differentiate because they know all the details. Still, HR should try to keep the number of job families and skill categories low. As always, a good constructive dialogue is advisable, exchanging the pros and cons of differentiation.

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2012 State of Industry, ASTD research: connecting research to performance; Figure 1–3: direct expenditure as a percentage of **payroll**

Training and Qualification: Developing a Competency Model to Assess Sales Leaders' Equity

14

Joël Le Bon

Contents

Abstract

Average sales managers might become excellent by developing specific forms of sales leader equity (SLE), namely, the additional value a sales manager brings to his or her function and role that benefits him or her and the organization. The sales manager competency model (SLE Competency Model) proposed in this study specifies SLE components, as well as how value can be added to a sales manager's function and role. Leveraging knowledge accumulated from diverse disciplines and data collected from companies in various nations, spanning different levels of engagement, the SLE Competency Model asserts that sales managers' management and leadership competency rely on their specific traits (personality traits, motives), character (self-concept, attitudes, values), skills (cognitive, social), and knowledge (business, functional, organizational) which engender sales managers' beneficial expertise and enduring likability. These detailed SLE components provide guidance for assessing and developing sales managers' competencies, which can have organizational and individual

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outcomes. By acknowledging the complexity of sales managers' responsibilities and different levels of their critical competencies, the SLE Competency Model can enhance organizations' sales performance through better management of sales managers' functions, roles, and talents.

Keywords
Sales managers • Sales leaders • Competency model • Sales leader equity • Human resources management • Sales management • Talent development

Introduction: Can You Sing Like Sinatra?

What is individual equity? To understand the concept, let's imagine you are listening to Frank Sinatra's famous 1969 rendition of "My Way." The song originally was inspired by Claude François's 1967 "Comme d'habitude," but the way Sinatra sang it magnified the meaning of "My Way" in the collective consciousness. The song has been performed by innumerable artists, but it never sounds quite like Sinatra's version. His personal qualities add value to the rendition of "My Way" in ways that no one else can match. That's individual equity: the additional value that an individual brings to a function and role because of the specific qualities that only he or she possesses.

In sales organizations, excellent sales managers possess specific qualities that separate them from average sales managers. Identifying those qualities and building relevant sales manager competency models is of paramount importance for both human resource managers and sales executives to ensure proper management of their sales managers' functions, roles, and talents, as well as to improve their organizations' sales performance.

Sales managers greatly influence organizations' sales performance through their supervision of the sales force that interacts directly with customers and drives revenues. Sales managers' competencies factor into salespeople's performance mainly through their sales management and sales leadership responsibilities. Sales management duties involve planning, organizing, implementing, supervising, and controlling salespeople and sales activities; sales leadership instead pertains to activities performed to influence the sales force to act in accordance with the organization's mission and goals (Ingram et al. 2005). As Ingram and colleagues (2005) put it, sales management pertains more to being efficient and "doing things right," whereas sales leadership refers to being effective and "doing the right things." Average sales managers become good ones by doing things right, but they become excellent leaders only if they can envision the right things to do.

To help organizations determine the competencies that enable sales managers to perform beyond average levels, this article identifies several sales management and sales leadership competencies rooted in their specific traits (personality traits, motives), character (self-concept, attitudes, values), skills (cognitive, social), and knowledge (business, functional, organizational) that need to be carefully assessed and overseen. The explanation of why these particular competencies matter offers an outline of how deficiencies in these elements induce suboptimal functioning by a sales organization and describes how sales leader equity (SLE) can help excellent sales managers earn desirable organizational and individual outcomes. Sales managers can take several positions within an organization – such as frontline sales managers who supervise salespeople and carry operational-related responsibilities, second-line sales managers who supervise the frontline sales managers and carry departmental or area-related responsibilities, and senior sales managers who supervise the whole sales organization and set the sales strategy and objectives – each requiring different sets of competencies. However, the notion of SLE proposed herein applies irrespective of the sales manager's position. Sales managers' SLE exists because they consistently achieve success, regardless of their assigned position, division, or region. Considering the critical importance of frontline sales managers for the proper execution of an organization's sales strategy though (Cron and DeCarlo 2009), the SLE Competency Model focuses primarily on this level.

The next section details the importance of competency models for human resource and sales management. After presenting the SLE Competency Model, this article identifies the abilities that sales managers need to possess and leverage to achieve superior sales management and leadership. The conclusion describes some important outcomes excellent sales managers can earn from their SLE.

Critical Importance of Competency Models for Human Resources and Sales Management

Global organizations operate in turbulent and changing environments that directly affect salespeople's and sales managers' jobs. In line with customers' growing expectations, the functions of sales professionals are evolving, from serving as territory or account managers to becoming highly competent advisors. The Internet also has empowered customers with easier access to supplier channels and information, leading to increased demand for even more skillful sales professionals. Inside sales operations also are replacing outside salespeople for transactional sales. Thus, the sales manager's job embodies multiple and complex facets and requires new sales, management, and leadership skills.

Frontline sales managers have a particularly challenging position. They have direct supervisory responsibilities over sales teams, manage field operations that involve salespeople and customers, serve as boundary spanners between upper management and salespeople who share and promote the sales strategy, implement organizational changes, and ensure connections between the field and upper management to facilitate intelligence dissemination that helps their organization remain competitive (Huy 2002; Ingram et al. 2005; Le Bon 2014). Moreover, sales departments are gaining influence over marketing departments, such that sales managers increasingly participate in strategic decisions about the strategic direction of the business unit, expansion into new geographic markets, new product development, distribution strategies, the design of customer service and support, or pricing (Homburg et al. 2015). Considering these growing roles and accountability, organizations need to develop sales manager competency models that reflect the transformations within their job environments.

A competency model specifies and structures the sets of knowledge, skills, abilities, and characteristics required for effective performance in a job or role (Lucia and Lepsinger 1999; Mansfield 1996). Competency models assume that individuals possess competences or underlying characteristics that can result in superior performance (Boyatzis 1982). A competence thus refers to some cluster of traits, motives, self-concepts, attitudes, values, cognitive or behavioral skills, and knowledge that can be measured to distinguish superior, average, and ineffective performers (Spencer and Spencer 1993). In combination, these predetermined characteristics influence each person's abilities, that is, the quality of being able to accomplish a task (Spencer and Spencer 1993). In sales management competency models, the identification of such characteristics should reveal how excellent sales managers fulfill their functions and roles to drive their sales teams' performance.

Accordingly, organizations need to develop sales management competency models for several reasons:

- To align the organization's core competence and strategy
- To protect the business's sustainability
- To ensure organizational transparency and clarity
- To align human resource policies
- To provide a competency benchmarking and gap analysis
- To train personnel and develop their talent

Competency model should reflect the organization's core competence and strategy. Because any organization's competitive advantage relies on its core competence, defined as its collective know-how, ability, and technologies to coordinate, integrate, leverage, and market its products and services (Prahalad and Hamel 1990), its employees' competences should match its own core competence and strategy. For example, Xerox's competitive advantage largely has relied on its sales organization's know-how and ability to attract new customers with the value proposition of its products and services. Therefore, Xerox considered training a critical asset in its sales strategy, which it used to attract and retain the right people to maintain the organization's core competence.

The competency model also should protect the business in terms of its sustainability. Remaining in business tomorrow matters more to a company than being in business today. Accordingly, a competency model should be future oriented and ensure the preservation of necessary competences that will allow the organization to remain in business. For example, companies operating in the oil field services and equipment industry, such as Halliburton or Schlumberger, must envision and integrate oil barrel price variations in their efforts, and they need a sales force that can manage changing interactions and negotiations with customers who expect significant price drops when purchasing their products and services.

Transparency and clarity with regard to what an organization expects from its employees, in terms of their skills and job performance, also are critical. By explicating and communicating, for each position level, the required competences (e.g., foundational, emerging, proficient, expert) and performance levels (e.g., below average, above average, successful, outstanding), an organization helps employees understand the level of effort they need to achieve to perform well in their current job, as well as what competences they need to gain to advance their careers. For example, frontline, second-line, and senior sales manager positions demand different sales management and sales leadership competencies, which a sales manager is aware of and can acquire to move up the corporate ladder.

The competency model also needs to align with the organization's human resources policy so each position manifests specific requirements for hiring, training, promotion, and compensation. At the organizational level, such alignment is critical to determine and apply appropriate human resources management strategies and rules. In very technical industries, for example, some companies prefer to promote sales managers internally, rather than hiring from outside, because of the skills required to perform the job and develop salespeople. Ecolab, the global leader and provider of water, hygiene, and energy technologies and services to the food, energy, healthcare, industrial, and hospitality industries, promotes frontline sales managers internally recognizing the specific competences they possess.

Benchmarking and gap analysis are central reasons to build competency models. That is, the primary objective of a competency assessment is to identify the traits, motives, self-concepts, attitudes, values, cognitive or behavioral skills, and knowledge that distinguish superior, average, and ineffective performers. Therefore, organizations can perform benchmarking and gap analyses to determine the competences that low performers lack compared with top performers. In doing so, organizations can appraise which competences top performers leverage most in their path to success; in turn, they can provide better direction to average performers who seek to increase their abilities. Competency gaps analysis is critical to identify deficiencies and suboptimal functioning of a sales organization. Reducing competency gaps between average and excellent sales managers is the first step in developing more sales managers' talent and moving the whole sales organization to higher standards of abilities and performance. For example, at the University of Houston's Sales Excellence Institute, several 360° competency assessments have helped organizations define their specific competency models and skill level requirements to achieve improved top sales management performance.

Finally, and related to the preceding elements, a competency model should be a tool for personnel training and talent development. When competency gaps have been identified for a specific pool of managers, the next step must be to build appropriate training and talent development programs to help them reach the level of skills they need to improve their performance. For example, if a company identifies retention of millennial employees as a critical challenge, sales managers who have difficulty interacting with, leading, and retaining staffers with this age profile can be trained and coached to gain a better understanding of how to manage Generation Y expectations within their sales team.

A sales strategy is only as good as sales managers' ability to execute it by leveraging the right sets of competencies. The following description of the SLE

Competency Model thus includes the abilities that excellent sales managers possess and exploit to ensure their success.

From Average to Excellent Sales Managers: The SLE Competency Model

A sales manager does not, metaphorically, need to sing "My Way" like Frank Sinatra to be successful and gain recognition. Yet research has identified some specific competencies that successful sales managers leverage "their way," which seem to produce better results and sales performance. Expanding on those findings, the SLE Competency Model indicates that excellent sales managers develop their own specific sales leader equity (SLE), namely, the additional value a sales manager brings to his or her function and role that benefits him or her and the organization. Therefore, SLE is *the differential impact of a sales manager's competencies on a salesperson and sales team's responses to his or her initiatives and decisions.*

This perspective on sales leader equity echoes the marketing literature on brand management where the concept of brand equity accounts for the additional value that a brand brings to a product (Aaker 1991; Keller 1993). According to Keller (1993), brand equity refers to the differential effect of brand knowledge on customers' responses to brand marketing compared with reactions to marketing initiatives for another product without the same brand. Thus a customer's positive response to a brand signals the equity that the brand possesses. The concept of equity attached to a brand has significantly improved understanding of customers' favorable reactions to and loyalty behavior toward branded products. For example, customers respond more positively to the marketing initiatives for iPhone, iPad, or MacBook because of Apple brand's equity. Similarly, excellent sales managers also possess forms of equity that drive favorable responses from salespeople and sales teams to their sales management and sales leadership initiatives and decisions. Such favorable responses occur when a salesperson and a sales team associate a sales manager's traits, character, skills, and knowledge with higher sales management and sales leadership competencies, which also enhance the sales manager's beneficial expertise and enduring likability within the organization. Favorable responses from salespeople and sales teams might include listening more closely to the sales manager's opinion and advice, better implementation of his or her instructions, and better acceptance of his or her decisions.

Accordingly, excellent sales managers become "person brands" and make a name for themselves through their competencies and commendable accomplishments within their organization and environment (McNally and Speak 2002). Because of their SLE, sales managers can influence people better and are likely to have more engaged and loyal followers.

The proposed SLE Competency Model describes the components of SLE and how they add value to a sales manager's function and role. The SLE Competency Model is rooted in four sources: (1) knowledge accumulated from diverse disciplines, including human resources, marketing, sales, and leadership;

(2) complementary data collected from senior, middle-level, and frontline sales managers, salespeople, and customers from several companies, representing different industries, across North America, Europe, and Asia; (3) validations through multiple executive programs, consulting projects, and coaching engagements conducted to help increase sales managers' effectiveness and performance; and (4) insights from executive programs, in which sales executives identified specific skills they would like to improve, using a behavioral change contract and personalized coaching program, such that the named skills revealed what sales managers believed they needed to develop to perform better in their function and role.

The SLE Competency Model thus asserts that sales managers' management and leadership competencies pertain to two areas: the sales management and the sales leadership domains. Those two domains content are *what* sales managers need to do (or "doing things right" from a sales management standpoint and "doing the right things" from a sales leadership perspective). Yet it is important to distinguish what those domains include to help sales managers fulfill them better. The sales management area constitutes a domain of functions, which refer to the set of activities and tasks sales managers need to execute efficiently. Alternatively, the sales leadership area is a domain of capabilities, which relate to the capacity and *savoir faire* that sales managers must deploy effectively.

The sales management area encompasses three main domains of application and functions, including *salespeople and sales teams management*, *market environment management*, and *the sales organization and administrative processes*. The sales leadership area entails six general domains of application and capabilities with regard to the *sales strategy execution*, *organizational culture and changes*, *salespeople and sales team motivation and engagement*, *salespeople and sales team development*, *coordination and relationship management*, and *priorities management and decision-making* (see Fig. 1).

Sales managers can excel in the domains of sales management and sales leadership only if they possess specific *traits* (personality traits, motives), *character* (self-concept, attitudes, values), *skills* (cognitive, social), and *knowledge* (business, functional, organizational) that require careful assessment and management (see Fig. 2).

All these traits, character, skills, and knowledge together define sales managers' abilities to perform their functions and deploy their capabilities. Abilities thus are the result of both genetic factors and learning; skills and knowledge instead refer to levels of proficiency developed through experience and training. The specific traits, character, skills, and knowledge relate to *why* sales managers perform well if they actually possess the underlying characteristics required for *what* they need to do.

The distinct SLE Competency Model levels and components are important because they provide guidance for assessing sales managers' competency and devising necessary training or talent development. Although some domains or abilities might vary across companies or industries, it is possible to identify significant ones, which all sales management competency models should recognize and assess. Therefore, the following discussion emphasizes these elements in bold font. The two competency areas, in which high-performing managers excel, reveal respective sales management functions and sales leadership capabilities.

Fig. 1 Sales management functions and sales leadership capabilities

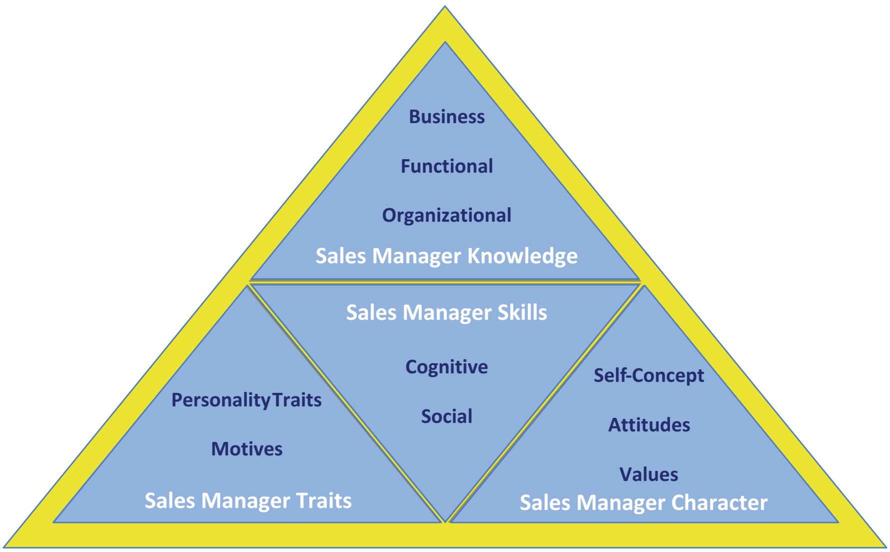

Fig. 2 Clusters and levels of sales managers' competencies

Sales management includes three main domains of application and functions:

(a) *Salespeople and sales teams management*, including (1) **selecting, interviewing, and hiring**, (2) **training**, (3) quotas and goals setting, (4) **pre-call and post-call account planning and analysis**, (5) **field coaching**, (6) **sales pipeline management**, (7) sales meeting preparation and conducting, (8) communication management, (9) **performance review and management**, and (10) **promoting, transferring, and terminating**
(b) *Market environment management*, which entails (1) **market and customer analysis and segmentation**, (2) **competitive analysis**, (3) territory design and account assignments, (4) **channel and customer management**, (5) **market and customer opportunity scouting**, (6) customer interactions and negotiations, and (7) channel and customer problem management
(c) *The sales organization and administrative processes*, including (1) **sales data analysis**, (2) **sales forecasting**, (3) sales data reporting, (4) resources and expenses management, and (5) budgeting and control

Sales leadership involves six general domains of application and capabilities:

(a) *Sales strategy execution*, which involves (1) **sharing the vision about the sales strategy and goals**, (2) supporting and promoting the sales strategy and goals, (3) **contributing internally and externally to sales strategy implementation**, and (4) identifying and diagnosing potential infringements of the sales strategy
(b) *Organizational culture and changes*, such as (1) **creating and consolidating the organizational culture and belief system supporting the vision**, (2) aligning the sales management and leadership approach with the organization's culture and goals, and (3) acknowledging, supporting, and facilitating organizational changes
(c) *Salespeople and sales teams motivation and engagement*, which refers to (1) **setting clear expectations**, (2) **creating and consolidating a teamwork spirit and environment**, (3) ensuring the right attitudes and behaviors, (4) diagnosing salespeople's and sales teams' needs and expectations, (5) **recognizing and rewarding salespeople's and sales teams' performance**, (6) **stimulating and renewing salespeople's engagement**, (7) **communicating and framing corporate messages**, and (8) identifying and managing conflicts
(d) *Salespeople and sales teams development*, which refers to (1) **identifying salespeople's areas for improvement**, (2) **developmental coaching and mentoring of salespeople**, and (3) empowering and delegating to salespeople
(e) *Coordination and relationships management*, including efforts in (1) **identifying and coordinating organizational resources**, (2) **managing networks and allies**, and (3) managing relationships with upper management
(f) *Priorities management and decision-making*, such as (1) **allocating the right resources to the right priorities**, (2) understanding and balancing challenges, (3) initiating appropriate decision-making processes, and (4) **making decisions and obtaining buy-in**

The competencies that excellent sales managers have in common enable them to address these activities and decisions, that is, *why* they perform well on *what* they need to do, as the next section details.

Leveraging the SLE Competency Model for Sales Management and Leadership Performance

The abilities of excellent sales managers rely on their specific traits (personality traits, motives), character (self-concept, attitudes, values), skills (cognitive, social), and knowledge (business, functional, organizational) (Ewen 2003; Shavelson et al. 1976; Spencer and Spencer 1993; Winter et al. 1998) (see Fig. 3).

Traits include both personality traits and motives. *Personality traits* are foundational, stable entities of a personality that make the person who she or he is. Excellent sales managers usually rate higher than average on (1) need for power and ascendency, (2) **agreeableness**, (3) **creativity**, (4) **analytical prone mind**, and (5) conscientiousness. *Motives* are motivational traits that can explain unstable or stable behaviors exhibited in the pursuit of personal goals. Excellent sales managers usually rate higher than average on (1) **need for achievement**, (2) **persistence**, (3) proactivity, and (4) self-motivation.

Character comprises self-concept, attitudes, and values. *Self-concept* is the person's own individual idea or image of the self in terms of his or her self-perception, self-awareness, self-knowledge, and self-esteem. Excellent sales managers usually rate higher than average on (1) **self-confidence**, (2) **emotional stability**, (3) **tolerance for uncertainty**, (4) **stress tolerance**, (5) flexibility, and (6) resilience. *Attitudes* refer to positive or negative mental states, ways of thinking, or feelings toward an attitude object. Excellent sales managers usually rate higher than average on (1) **people orientation**, (2) **customer orientation**, (3) positive thinking, (4) **openness to learning**, and (5) mental toughness. *Values* are personal principles and standards of behavior. Excellent sales managers usually rate higher than average on (1) **dependability**, (2) **authenticity**, (3) integrity, (4) honesty, (5) being considerate, and (6) neutrality.

Skills encompass cognitive and social forms. *Cognitive skills* are mental abilities used to acquire, process, manipulate, analyze, and leverage data, information, and knowledge to solve problems. Excellent sales managers usually rate higher than average on (1) strategic thinking, (2) **data analytics**, (3) **critical thinking**, (4) **problem solving**, (5) decision-making, (6) curiosity, and (7) **being sharp-eyed**. *Social skills* refer to an ability to interact and communicate with others. Excellent sales managers usually rate higher than average on (1) **inspirational leadership**, (2) **communication**, (3) **listening**, (4) **team management**, (5) **motivation**, (6) **interpersonal adaptability**, (7) negotiation, (8) **training**, (9) empowerment, (10) **developmental coaching**, (11) **emotional intelligence**, (12) **persuasiveness**, (13) **recruiting**, (14) conflict resolution, and (15) change facilitation.

Finally, *knowledge* includes three types: business, functional, and organizational. *Business knowledge* implies a thorough understanding of the elements, functions,

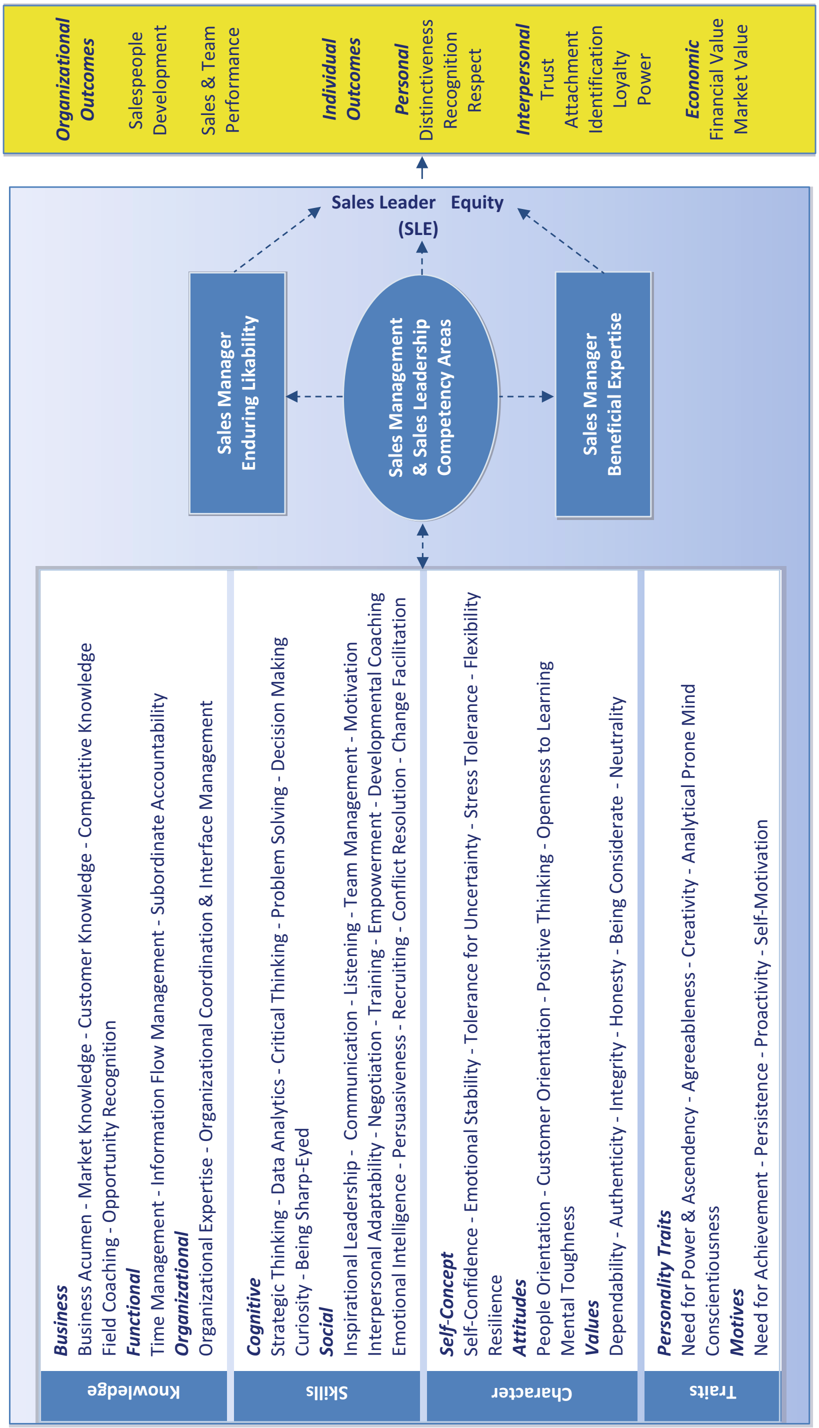

Fig. 3 Sales leader equity (*SLE*) competency model

tasks, and processes that create value for an organization in its environment. Excellent sales managers usually rate higher than average on (1) **business acumen**, (2) **market knowledge**, (3) **customer knowledge**, (4) **competitive knowledge**, (5) **field coaching**, and (6) **opportunity recognition**. *Functional knowledge* means a thorough understanding of what a function entails. Excellent sales managers usually rate higher than average on (1) **time management**, (2) information flow management, and (3) **subordinate accountability**. *Organizational knowledge* refers to a thorough understanding of the available resources in an organization to perform a task or accomplish an action. Excellent sales managers usually rate higher than average on (1) organizational expertise and (2) **organizational coordination and interface management**.

Sales managers have vast, complex, and challenging responsibilities. Hence, their abilities to complete them need to be carefully developed and supported. The SLE Competency Model distinguishes different levels of sales managers' competencies as fundamental qualities to drive excellence in sales management and sales leadership competency domains. It is important to note that sales managers' competencies are not created equal; rather, they operate at different levels (e.g., motives, attitudes, social, cognitive), from different perspectives (e.g., personal, interpersonal), and with different impacts, depending on their experience and learning process. Moreover, some competencies are downward oriented (i.e., managing subordinates), upward oriented (i.e., managing superiors), or environment oriented (i.e., managing customers). Some sales managers' traits and character are of greater interest during a selection and hiring process, whereas their other skills and knowledge can be improved through appropriate training and talent development programs. The extent to which frontline sales managers' competencies align with the organization's core competence, strategy, and human resources policies, such that they help protect the business's sustainability, thus requires thoughtful consideration.

Yet it is also worth noting that excellent frontline sales managers leverage a lot of skills, especially social ones, due to their boundary-spanning position and responsibility to interact with different types of stakeholders in their job environment (e.g., upper management, salespeople, customers). Also of growing importance are significant cognitive skills, which enable them to undertake data analytics, critical thinking, problem solving, and curiosity and directly affect their knowledge (e.g., business acumen, market knowledge, customer knowledge, competitive knowledge). Moreover, because they operate in information-rich environments, excellent frontline sales managers must mobilize these cognitive skills to take full advantage of customer relationship management systems and data (e.g., Salesforce.com) and thus engage in insightful conversations with their salespeople, supervisors, and customers.

Sales leadership competencies may be more critical than sales management ones for building SLE. This assertion is not to say that sales management domains and functions related to salespeople and sales teams management, market environment management, and the sales organization and administrative processes are not important. They represent necessary conditions and greatly affect a company's sales revenues and costs. However, sales management competencies are not sufficient;

they need to be leveraged further with sales leadership domains and capabilities pertaining to the sales strategy execution, organizational culture and changes, salespeople and sales teams motivation and engagement, salespeople and sales team development, coordination and relationship management, and priorities management and decision-making. Sales leadership capabilities are what truly distinguish excellent from average sales managers, especially when it comes to salespeople's willingness to follow directions and adhere to an organization's mission and goals.

Recalling the definition of SLE – *the differential impact of a sales manager's competencies on a salesperson and sales team responses to his or her initiatives and decisions* – the SLE Competency Model suggests that excellent sales managers' differential leverage also depends on their beneficial expertise and enduring likability, two critical constituents of their SLE.

Beneficial expertise refers to the valuable know-how that a sales manager leverages to help the salespeople with whom he or she works. Beneficial expertise enhances sales managers' contributions to the efficiency and effectiveness of sales organizations while increasing their credibility and reliability as leaders. It is critical for a sales manager to identify and calibrate the type of expertise the organization values. For example, some organizations operating in an information technology environment might expect their sales leaders to have strong data analytics and problem-solving skills along with significant creativity traits. Others, with matrix organizational structures in which employees have dual reporting relationships, might promote organization coordination and interface management knowledge along with communication and change facilitation skills. Therefore, sales leaders should develop and adjust their expertise in accordance with the requirements and culture of their business environment.

Enduring likability refers to the quality of inspiring sympathetic feelings over time to facilitate and preserve connectedness between people. Enduring likability is important for sales managers to maintain a lasting leadership because they sometimes have to deliver unpopular messages and explain or make difficult decisions. Moreover, it is important for a sales manager to remain connected in a positive way with the salespeople he or she manages despite the issues they might have. In the long run, salespeople are more likely to work harder for, and with, sales leaders they like.

Beneficial expertise and enduring likability matter a great deal to salespeople's willingness to respond favorably to a sales manager's opinion, advice, and instructions. Moreover, sales managers' expertise and likability enhance their capacity to interact with other internal and external stakeholders (e.g., upper management, customers), which facilitates their ability to do their job.

The SLE Competency Model offers a comprehensive framework that can be adapted and fine-tuned to specific organizational situations and sales strategies. A complete sales manager competencies assessment leads on average to a set of fifteen to twenty core competencies that can be managed, trained, and appraised (e.g., during performance reviews). The sales management and sales leadership areas and domains change from one company or industry to another, so this section has highlighted the most important ones, which all sales management competency models should recognize and assess. In doing so, human resource managers and sales executives can identify deficiencies and gaps in the elements that imply suboptimal functioning of a sales organization. Shrinking the competency gaps between average and excellent sales managers always increases sales managers' talent while moving the whole sales organization to higher standards of abilities and performance.

Conclusion: What SLE Can Earn You, Even If You Don't Sing Like Sinatra

If you were to run a business with a sales organization, would you rather have an average sales manager with excellent salespeople or an excellent sales manager with average salespeople? Great organizations choose the latter, investing more in hiring and developing excellent sales managers rather than excellent salespeople, because an excellent sales manager can raise the standards of a team of average salespeople, develop more talent, and drive more sales from their collective effort than an average sales manager can. In situations in which average sales managers supervise excellent salespeople, the latter usually become less engaged and demotivated and even might quit. Average sales managers represent huge opportunity costs for organizations because salespeople work not merely for organizations but rather for sales managers whom they are willing to follow – or not.

Accordingly, SLE represents the additional value a sales manager brings to his or her function and role that benefits him or her and the organization. Such value carries important outcomes that excellent sales managers earn along the way. They pertain to (1) organizational and (2) individual spheres.

The organizational sphere of SLE implies salesperson development and sales and team performance outcomes. First, sales leaders have a tremendous impact on developing their salespeople's talent. Great sales leaders even create new leaders, thus ensuring the organization's sustainability. Second, salespeople's talent enhances sales and teams' sustained performance, which secure an organization's revenues.

The individual sphere of SLE pertains to personal, interpersonal, and economic outcomes. Personal outcomes include distinctiveness, recognition, and respect. Distinctiveness refers to the unique position and enhanced visibility a sales manager enjoys because of his or her unique competencies. Recognition denotes the appreciation and commendation the sales manager earns through his or her performance. Respect pertains to a feeling of admiration for the sales manager.

The interpersonal sphere implies trust, attachment, identification, loyalty, and power. Trust refers to confidence placed in the sales manager, which creates assurance. Attachment involves a state of mind or emotional link that ties a person to another, implying closeness to the sales manager. In addition, SLE may create identification with the sales manager, which refers to a person's assimilation to another because of shared values or goals. Loyalty to the sales manager implies a strong feeling of support or devotion due to his or her impact on people's personal growth and the organization. Finally, the power that SLE induces for the sales manager is mostly legitimate power, based on his or her accomplishments, or referent power, which reflects his or her attractiveness to others. All of these factors represent significant reasons for salespeople to become engaged and motivated and decide not to quit.

The economic sphere includes financial value and market value. Financial value refers to the direct relationship between a sales manager's unique performance and worth, which factor into his or her ability to expand his or her earnings. Market value pertains to a sales manager's aptitude to transfer to other promising organizational positions, whether internally or externally.

For sales managers, earning these outcomes enhances the commitment to excellence offered by their sales teams. As a matter of both fact and research, strengthening sales managers' competencies and talents helps them move the sales needle and make a valuable difference.

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- ▶ Human Resources Marketing and Recruiting: Essentials of Executive Search
- ▶ Human Resources Marketing and Recruiting: Introduction and Overview
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Training and Qualification: Essentials of Training Management

15

Karen Hughey

Contents

Abstract

This chapter is written from the perspective of firsthand approaches to managing training organizations and training teams. There are references to published research and approaches; however, most suggestions in this chapter are a result of years of trial, error, and lessons learned. Hopefully you can take away suggestions that will help you lead your training organization. Remember, the intent is to always be a business partner with internal customers, the training requestors. If the two groups work together toward the common goal of ensuring associates have the tools and training effectively and efficiently do their jobs, everyone will stay focused on that end goal.

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The approaches in this chapter are designed to provide practical approaches to developing a solid working relationship with your team and customers. By ensuring that critical steps in the training development and delivery process are followed consistently and with some flexibility to meet customer needs, as a training manager you will become a key strategic partner to the leaders in your organization.

Introduction

Training and development and leadership development are evolving into a more holistic approach of talent development. This is evident by the American Society for Training and Development (ASTD) changes. In May 2014, ASTD changed its name to Association for Talent Development. The focus is evolving with the ever-changing needs from employers and the understanding of how to better manage delivery of effective training.

The Association of Talent Management website provides a wealth of information. Membership will benefit every training manager (http://www.astd.org/).

Servant Leadership

One approach that has been proven successful for leading a training organization or any organization is following the principles of servant leadership. This helps training managers, trainers, and instructional designers maintain a balance of following sound instructional design and training development and delivery processes while balancing needs of internal customers' (leadership in the organization requesting training) requests and needs that often don't allow for preferred lead time. This will be discussed later in this chapter.

Ten Principles of Servant Leadership by Robert Greenleaf at Butler University

1. **Listening** – Traditionally, leaders have been valued for their communication and decision-making skills. Servant-leaders must reinforce these important skills by making a deep commitment to listening intently to others. Servant-leaders seek to identify and clarify the will of a group. They seek to listen receptively to what is being said (and not said). Listening also encompasses getting in touch with one's inner voice and seeking to understand what one's body, spirit, and mind are communicating.
2. **Empathy** – Servant-leaders strive to understand and empathize with others. People need to be accepted and recognized for their special and unique spirit. One must assume the good intentions of coworkers and not reject them as people, even when forced to reject their behavior or performance.
3. **Healing** – Learning to heal is a powerful force for transformation and integration. One of the great strengths of servant leadership is the potential for healing

one's self and others. In "The Servant as Leader", Greenleaf writes, "There is something subtle communicated to one who is being served and led if, implicit in the compact between the servant-leader and led is the understanding that the search for wholeness is something that they have."

4. **Awareness** – General awareness, and especially self-awareness, strengthens the servant-leader. Making a commitment to foster awareness can be scary – one never knows that one may discover! As Greenleaf observed, "Awareness is not a giver of solace – it's just the opposite. It disturbed. They are not seekers of solace. They have their own inner security."
5. **Persuasion** – Servant-leaders rely on persuasion, rather than positional authority in making decisions. Servant-leaders seek to convince others, rather than coerce compliance. This particular element offers one of the clearest distinctions between the traditional authoritarian model and that of servant leadership. The servant-leader is effective at building consensus within groups.
6. **Conceptualization** – Servant-leaders seek to nurture their abilities to "dream great dreams." The ability to look at a problem (or an organization) from a conceptualizing perspective means that one must think beyond day-to-day realities. Servant-leaders must seek a delicate balance between conceptualization and day-to-day focus.
7. **Foresight** – Foresight is a characteristic that enables servant-leaders to understand lessons from the past, the realities of the present, and the likely consequence of a decision in the future. It is deeply rooted in the intuitive mind.
8. **Stewardship** – Robert Greenleaf's view of all institutions was one in which CEO's, staff, directors, and trustees all play significance roles in holding their institutions in trust for the great good of society.
9. **Commitment to the growth of people** – Servant-leaders believe that people have an intrinsic value beyond their tangible contributions as workers. As such, servant-leaders are deeply committed to a personal, professional, and spiritual growth of each and every individual within the organization.
10. **Building community** – Servant-leaders are aware that the shift from local communities to large institutions as the primary shaper of human lives has changed our perceptions and has caused a feeling of loss. Servant-leaders seek to identify a means for building community among those who work within a given institution.

For the purposes of this chapter, training management may include the following areas of training:

- Basic job skills training such as machinery operations or software programs.
- Basic supervisory skills training such as managing a team, hiring employees, performance management, payroll, and talent management/performance reviews. This type of training is particularly important for a newly promoted employee who is moving from a line position to his/her first supervisor role.
- Management training – Higher level skills such as communication and managing a team effectively.

- Leadership development – Empowering leaders and managers to motivate and engage employees to increase and realize higher levels of engagement, productivity, and employee job satisfaction (this helps retain high-performing employees and contain the high costs of employee turnover).
- Communications training – As four generations are now working together, this area of training has gained increased importance.

Managing the training programs has some unique considerations, which will be discussed. However, all have common characteristics:

1. All have people, cultural, and emotional considerations (going forward referred to as emotional) – How will people respond to training?
2. Economic perspective – Can a company afford training? Can it afford to not train?
3. Risk perspective – Compliance-related training that may be required by an industry governing body or general compliance training such as safety training. The risk area could also include other areas of risk to the organization that are realized as a result of either not conducting training or by conducting. This will be discussed further.
4. Operational perspective – Time and resource considerations. Often in organizations, they don't have time to do it (training) right the first time but have time to do it a second.

Several Perspectives on Managing Training Teams and Programs

As the work world has become more diverse and often more global, talent development moves beyond basic job functions to include holistic performance skills such as communication, leadership, management, and team work/team building.

Professionals who manage training programs need to be mindful that in some organizations managers/leaders have perceived training as a "fix" for an employee performance or behavior shortfall. Even the best training program cannot fix an underperforming colleague without management support and training managers following the suggested steps as described in this chapter.

Be careful of the leader/manager who approaches the training manager and says, "I have a performance problem and need an hour of training." The training manager needs to follow the approaches in this chapter to ensure the highest probability of training solution success!

Successful training and development and talent management initiatives are not onetime events such as one training class. Successful initiatives and solutions are an ongoing series of support methods that result in a change in behaviors supported by reinforcement until the new behaviors become unconsciously performed.

Training failures are like diet failures. Most people can relate to going on a diet where they lose weight and inevitably gain the weight and often more weight back again. The following is an analogy to relate a diet failure with a training failure.

The story of a leader named Joe who was told by others to change his behaviors.

Training event	Diet event
Through a 360 feedback survey, it is identified by Joe's boss that Joe does not communicate to his team effectively	At a routine physical, Joe's doctor tells him that he is 20 lb overweight and needs to lose weight
Joe's boss talks to the training manager and requests a communications class for Joe. The training manager just says, "okay," and finds a class to send Joe to	Joe talks to his friend and finds out about the latest fad diet
Joe goes to a 1-day effective communications class. He likes a couple of the concepts and thinks others could not be applicable to him	Joe starts on the latest fad diet and radically changes his eating habits. He even starts exercising
Joe goes back to work, puts the training manual on his bookshelf, and uses a couple of the class tips for a couple of days	Joe faithfully follows the diet and exercise program for 2 weeks and loses 5 lb
With no support or reinforcement of the training class concepts, Joe slips back into his old ineffective communication patterns	With such limited food options, Joe gets tired of the diet and starts eating a little of his old food choices. Within a week, he abandons the diet and exercise
Through another 360 feedback survey, Joe's boss learns that he is back to being an ineffective communicator with his team. Joe is fired	Like most people who start a diet, which is a temporary event, when Joe went back to his old eating and lack of exercise habits, he regained the 5 lb he lost and gained an additional 5 lb
Why did the training class "fix" fail? The training manager failed to include Joe's input and buy-in. It was also considered a onetime event, not a permanent change in the communication approach	Why did the diet "fix" fail? It was a onetime event that Joe didn't initiate, instead of a permanent lifestyle change that Joe initiated

Why did both the communications training "fix" and the diet fail?

In both situations, it wasn't Joe's idea to make the changes. His boss told him to communicate better and his doctor told him to lose weight. People are much more inclined to make changes when they have the "ah ha" moment and really understand and want to make changes. A significant emotional event also triggers people to want to make the changes. A key to success for training managers is to set up a scenario where the idea for change comes from the people making the change or at least have their input to secure buy-in.

Examples of a successful training intervention and diet experience for Joe.

Training event	Diet event
Joe notices that his subordinates are increasingly making errors and not following through on instructions he has provided	Joe realized that he was no longer fitting into his pants. He also noticed he gets tired easily even when walking relatively short distances and when playing with his 3-year-old son
Joe approaches his boss to discuss the situation and asks for suggestions to improve his subordinates' performance	Joe didn't want to buy all new pants, and he definitely needed to keep up with his son

(*continued*)

Training event	Diet event
Joe's boss offers to conduct a 360 feedback with Joe's subordinates to learn what they are experiencing to better determine the best approach to improve the situation. Joe agrees	Joe talked to friends about how they successfully lost weight and kept it off. He learned he needed to start working out and change his eating habits – permanently
Joe and his boss also talk to the training manager before conducting the 360 feedback to lay the groundwork and get suggestions from the training manager about what to expect. They agree to meet again with the findings to discuss possible solutions	Joe joined the gym where several of his friends belonged to. There, he hired a nutritionist and personal trainer to develop a new eating and exercise plan. He also asked his friends to work out with him so he would have accountability to go to the gym even when he didn't feel like it
Joe received the results and learned his subordinates find that he talks too fast resulting in them missing instructions, and his emails are too long and convoluted. Joe met with the training manager. Together they identified an online email writing class, and they decided coaching sessions with Joe providing instructions to the training manager who would critique and provide constructive feedback would be the best approach	Joe faithfully maintained the exercise and eating program. He began to have more energy and a couple of pairs of pants fit again. He found he actually enjoyed the camaraderie when working out with his friends. That motivated him to continue
Joe embraced the solutions, and 2 months later they conducted another 360 feedback. The feedback indicated Joe had improved significantly in all communications areas. The subordinates' performance also improved	Joe made it to his weight loss goal in the planned amount of time. His pants fit and he was keeping up with his son. He met with the nutritionist and personal trainer again to get a plan to maintain the weight loss
Six months later, the 360 feedback indicated Joe had maintained his improved communication. The performance metrics also indicated continued improvement	Six months later Joe had not gained any weight back. He decided to train with his friends for a 5K running race
	Three months later, Joe ran his first race and continued to maintain his weight

What was different with scenario two? In both situations, Joe realized he needed to make changes. He solicited help from others to make the changes to achieve his goals. He was part of the process to develop and sustain the changes.

Four perspectives with Joe's communications performance issue:

Emotional – It can be difficult for people to hear that they are not doing their job well (scenario 1). It can be difficult for people to have the "ah ha" moment and realize they aren't doing their job well. Even after the realization, it can be emotionally difficult to make changes, especially significant ones.

It can be difficult for other colleagues to be on the receiving end of ineffective performance (in this case ineffective communication). When instructions are not clear, especially when that occurs repeatedly, people become frustrated and may disengage or avoid the ineffective communicator.

Operational – It is costly and confusing to the colleagues in the organization when people don't communicate effectively. In this case, procedures may not have been completed timely or accurately. The required rework can result in a backlog of work needing to be completed.

Risk – There may be legal risks involved if a manager does not communicate clearly and effectively. In this case, Joe's subordinates may not have understood the proper timing to send required notices to customers, resulting in fines for violating proper and timely notification.

Economic – There is definitely an economic cost associated with ineffective communication. In this case, Joe's subordinates did not understand the instructions clearly. They weren't completing tasks properly or on time. That resulted in having to redo the work, which costs the company money to pay someone to do the work a second time.

Not all training managers or bosses are so lucky to have an employee come to the realization on his/her own that changes need to be made. However, training managers can ask leading questions that typically will successfully guide a person to realize changes need to be made. Leading questions that have proven to work include:

1. Do you want to make your job easier? (Everyone answers yes to this!)
2. Do you want to communicate/work better with your coworkers? (Typically people answer yes to this!)
3. What is keeping you from accomplishing your goal/task or doing your job well?
4. Are you willing to make small incremental changes to accomplish your goal/task or do your job better?
5. What can you do differently to get a better result?
6. What help can I give you to make the necessary changes?

After asking these types of questions, the person seeking help typically comes up with some ideas for a solution to fix the situation. Then, the training manager just needs to offer options and say, "From my experience this approach has proven to be an effective solution. Let's talk about how it will work for you." Then, follow the getting started steps detailed below.

Training managers and trainers need to think of their role as more than just providing traditional training and consider how to deliver effective learning opportunities that result in achieving the goals of the learning and behavior changes. Training that delivers results offers a far better way to educate employees, one that connects learning solutions with strategic business goals. Rather than being told what to teach, proactive designers collect data to define problems and develop training interventions. They need to use the following approach which is more of a consulting role to help create effective training solutions.

How to Get Started: Engage with Your Customers

1. Who is your customer? This is critical for training managers and their teams to understand. Their customers are anyone in the organization, usually other managers, directors, and VPs who run departments with employees who need training. Those managers are the ones who make training requests. They make the requests for many reasons. The reasons will surround a performance issue or shortfall the manager is having in his/her department. However, training may not always be the solution to the performance issues. It is the training manager's job to ensure an effective assessment is in place to work with the (training) requesting manager to what if any training solution will resolve the problem.
   Four perspectives of getting started – identify your customers:
   Emotional – Not realizing who your customers are and what their needs are can cause frustration for customers and training teams, reducing the effectiveness of the working relationship.
   Operational – Effective training solutions need to be identified and developed with input from customers to ensure the most effective training solutions are implemented.
   Risk – Not realizing who the customers are and their role can negatively impact training outcomes.
   Economic – It is consistent throughout the training development and delivery process that if effective training solutions are not implemented, employees will not be as effective at their jobs, performance lacks, which has a negative impact on the company. Conversely, when effective training solutions are consistently implemented, employees' performance increases, positively impacting the company's bottom line.
2. Managing customer requests. Depending on the size of the organization and the training team supporting the organization, it may be helpful to implement a formal training request process. This enables the training team to prioritize training requests, budget time and expenses, and plan for more effective training delivery. It is important to keep the request process short and simple. A complicated process requiring a lot of time or effort on the requestors' part will usually result in the requestor circumventing the process.

   At one company, the training team required their customers, the requestors, to complete a three-page form, submit it, and wait for a response to see if the training would be completed. The customers were not happy and often went straight to an instructional designer or trainer to ask for help. The training team had a difficult time managing requests. The solution was to revamp the request process, create a one page request form, and make it user friendly. Then, the customers used the process.

   It is also recommended that one person, such as a training administrator, track all requests and work with the training department leadership to manage the request, development, delivery processes, and follow-up monitoring. The administrator should also track metrics such as:

- Time required to develop training
- Time required to facilitate and complete training
- Training effectiveness
- Post-training effectiveness – 3 months, 6 months, and in some cases 1 year post training to ensure participants have maintained the learning provided at the training

See the attached training request checklist for training needs analysis form example. The form is used for the training request and analysis for training development. Feel free to tweak it to meet your organization's needs (see "Appendix").

Four perspectives of managing customer requests:

Emotional – Training managers and training teams need to manage the training request properly, so everyone has realistic expectations. By communicating expectations and updating periodically, everyone will be satisfied with the outcome.

Operational – Customers and training teams can manage their people and resources effectively through the training request process.

Risk – Just jumping into training delivery and not managing the customer request can result in the wrong training solution being implemented.

Economic – It is costly to the organization if a second training solution must be implemented. The cost is incurred both in the training development time and the lost time that training participants are still experiencing performance or behavior shortfalls.

3. Managing the talent development training solution process – after receiving the request.

Meeting with your customer – checklist and training need evaluation.

At this point, the request needs to be assigned to the training team member who conducts the training need evaluation. The purpose is to determine if there is a performance or behavior issue that can be corrected with training. This is often referred to as determining if there is a skill or will issue. If there is a skill issue, that can be corrected with training. If there is a will issue, the employee could perform well on the job, but something else is the root cause. There could be many causes for individuals such as poor job fit, uncertainty about the health of the company, and changing career interests.

It is critical for the training team member to accurately identify if there is a skill or will issue. If training is developed and delivered for a will issue, the training will not be successful.

A thorough training need assessment will include a job analysis based on the job description. The job description describes general information about:

- What a person does on a job.
- The conditions under which he or she works.

It is composed of a number of descriptions of job duties and responsibilities indicating what is essential to perform competently in a particular job. With this information, the necessary skills required to perform the job can be identified.

If there is no adequate training or if a person does not have the skills, but training can be developed to enhance the person's skills, training is likely the solution.

Use the attached training request checklist for training needs analysis form example. The form is used for the training request and analysis for training development. Feel free to tweak it to meet your organization's needs (see "Appendix").

Again, this is a critical step to ensure that effective training solutions are identified to effectively meet the training need. In the earlier example of the department manager, approaching the training manager and saying, "I have an employee with a performance problem and I need 2 h of training to fix it," may not resolve the issue. Proper performance shortfall identification and solutions need to be identified and developed or the performance shortfall likely will not be resolved, and company leadership will question the effectiveness of the training organization.

Four perspectives of managing the talent development training solution process are similar to managing customer requests:

Emotional – Training managers and training teams need to manage the customer request properly, so everyone has realistic expectations. By communicating expectations and updating periodically, everyone will be satisfied with the outcome.

Operational – Customers and training teams can manage their people and resources effectively through the training request process.

Risk – Just jumping into training delivery and not managing the customer request can result in the wrong training solution being implemented.

Economic – It is costly to the organization if a second training solution must be implemented. The cost is incurred both in the training development time and the lost time that training participants are still experiencing performance or behavior shortfalls.

4. Designing effective training/talent development solutions.

   After the needs analysis is completed and it is determined that training is the solution, the training team's instructional designers need to determine how to deliver the training. Several criteria need to be considered. Instructional designers need to have detailed conversations with the training requesters and ask questions:

   - How large of a group needs to be trained?
   - Is everyone in one geographic location?
   - When can people train? Can everyone be taken off the job to attend training, or does training need to be designed to accommodate different shifts, small groups, or individuals that can be taken off the job to train? This could increase the time required to complete training.
   - Is there a time-sensitive deadline such as starting with a new client and employees need support training?
   - What is the experience and background of the trainees? Is there a wide disparity of experience resulting in some needing basic skills training while others just need more advanced training?

- Will trainees need to demonstrate skills, such as working on a computer to complete an assignment or construct something?
- Does the in-house training and instructional design team have the expertise to develop and deliver a training program or does an outside provider need to be engaged?
- Of all the possible courses of action available to correct the performance or behavior shortfall, which is the most cost effective in terms of meeting the company's goals and objectives?
- Will the management support the training? If not, training management needs to work with leadership to gain support in order for the training to be successful.

When these questions along with the training request checklist and analysis questions are answered, the instructional designer needs to consider and be certain of the budget available for training development and delivery. Typically the training department has a budget. It may be possible for the requester to provide additional money if necessary. If additional money is needed, training managers and instructional designers should discuss the budget with the requester and be clear on expectations. If additional money is not available, the instructional designer needs to design a training solution that will meet the budget requirements.

When designing the training solutions, writing performance objectives to resolve the performance shortfall or train a new hire to meet performance expectations is important.

Write the performance objective for each training solution. A performance objective is a description of the performance you want the learner to be able to exhibit before you consider him or her competent. It describes the result or outcome of the training instruction rather than the process. The performance objective is a clear, concise, and measurable statement of:

Performance (what the learner is able to do)

Conditions (important conditions under which the performance is expected to occur, including necessary tools, equipment, and situations)

Criterion – the statement or level of performance that will be considered acceptable

Example for a process-oriented training:

Example of a poor performance objective:

- *Sue will be able to process more orders*.

Example of a good performance objective:

- *Sue will be able to process ten orders per hour with 98 % accuracy.*

Example for a leadership or communication-oriented training:

Example of a poor performance objective:

- *Managers will provide feedback to their employees*.

Example of a good performance objective:

- *Managers will provide performance improvement feedback to employees within 1 day of identifying a performance shortfall. In addition, managers will conduct performance feedback sessions with each employee at least once per month. Documentation of the performance discussion will be placed in the employee file and reviewed at the next monthly feedback session*.

There are many options today for **training delivery**. The performance objective will impact the training delivery options. All have advantages and disadvantages:

Traditional classroom training:

Advantages	Disadvantages
People are comfortable with traditional training format	Can be time consuming
With a good facilitator/trainer, allows for flexibility and adapts to trainee's needs	Can be difficult to schedule all participants at the same time
Allows for participant interaction, discussion, and questions/answers to be provided immediately	Requires a training room or facility
	Depending on the topics, can be costly
	Difficult to deliver to geographically dispersed training audiences

Traditional peer training with a subject matter expert (SME):

Advantages	Disadvantages
Easy to schedule	Inconsistent content delivery from one trainee to the next
Can be customized to meet the trainee's needs	Takes time away from the SME's time to do his/her job
Allows for participant interaction, discussion, and questions/answers to be provided immediately	It is harder to document if training criteria was completed

Online:

Advantages	Disadvantages
Easy to deliver to geographically dispersed training audiences	Participants need a computer and compatible technology to allow for the online delivery. Some companies have technology blocks
Typically inexpensive to deliver	The technology or delivery system can fail
Typically can be recorded and delivered multiple times	Can be expensive to develop
Becoming a much more common way to deliver training and trainees are becoming much more comfortable with this approach	It can be difficult to keep trainees engaged. They can easily multitask, check email, and work on other projects

Video:

Advantages	Disadvantages
Easy to deliver to geographically dispersed training audiences	Participants need a computer or iPad to view
Excellent way to demonstrate and show how to complete a task	Can be expensive to develop
Can be replayed and delivered multiple times	It can be difficult to keep trainees engaged. They can easily multitask, check email, and work on other projects
When designed properly, can shorten training time	

Mentoring can be formal or informal. It typically occurs over a longer time frame than other training delivery methods. Mentoring typically occurs over multiple sessions:

Advantages	Disadvantages
Typically occurs over an extended period of time providing reinforcement opportunities	Can take longer to see results and changes in skill or behavior
Typically occurs between people within the organization, but not always	If the mentor is an executive, there can be limited availability for his/her schedule
Flexible for mentor and mentee to schedule meetings as their calendars allow	Can be difficult to track results
Flexible methods to facilitate in person, over the phone, and Skype allowing for people to be in different geographic locations	

Coaching is usually recommended for a specific behavior or skill improvement with the coach being experienced or an expert in the area:

Advantages	Disadvantages
Typically occurs over an extended period of time	Can take longer to see results and changes in skill or behavior
Very individualized	Hiring a professional coach can be costly

The training manager should ensure the instructional designer follows instructional design principles and practices to design a training solution that will ensure the performance or behavior shortfalls are corrected. Regular meetings between the instructional designer, training team, and leadership requesting training should be incorporated in the training plan. While the training manager should receive regular updates, he/she should be able to delegate the management of the process to the project lead who should be the instructional designer or lead trainer.

The lead instructional designer should be responsible to keep the training development on schedule. Any problems that may cause a delay or missed deadline need to be brought to the training manager's attention immediately, so the team can determine options to get the project back on track to meet the deadlines.

5. Delivering effective training/talent development solutions.

Delivery of the training program should be managed by the assigned lead trainer who should have been kept updated during the training design phase of the project. There should be a formal hand-off meeting when the lead instructional designer hands off the project responsibility to the lead trainer.

An important, and often overlooked, activity that needs to be planned and flawlessly executed is a **training communication plan**. The learners who will be attending training need to be aware of the training as far in advance as possible. Extended lead time is even more important in situations where significant learning for a major change is occurring. Another way of saying this is how far out of the learner's comfort level will they be expected to move. A common example is a system change. The accounting department is implementing a new accounting software system. That is a considerable change for the accounting team who have been comfortable and competent with the current system, and they will be expected to learn a new system they may know nothing about.

An early communications campaign needs to be developed addressing the following:

Why is the new system being implemented? Most people who will be going through a significant change what and need to know they why behind it? They will be thinking, “the current system is fine, I know how to use it and like it, how different is the new system, how will I learn the new system and still be able to do my job?” In the communication plan, the why needs to be thoroughly explained. In this case, it could include, “the old system will no longer be supported by software company, or the old system can no longer process the larger amounts of data or information necessary as our company grows.”

Another important and also overlooked communication message is “WIIFM” or what’s in it for me? This is a fundamental question every employee and learner asks, and it must be addressed along with the why to ensure learner’s buy-in and engagement in the training. Examples of WIIFM in this case could include, “The new system will allow you to process your work in half the time, there is an easy to retrieve backup system, the user interface is significantly more user friendly and intuitive so your job will be easier.”

The third component of the communication must include the training and post-training plan. This relates to the WIIFM, and learners need to be confident that there is a solid training plan, a plan to support them after the system conversion and go live, and time to get up to speed on the system to get back to the same level of competency.

It is also advised that the training team communicate to the learners after the training and provide FAQs and updates on lessons learned once the go live is in progress. With nearly all system implementations, unexpected bugs and issues are identified. Learners need updated information on how to work through the issues. This will continue the learning process and enhance the credibility of the training team in that they are supporting learners even after the “official” training.

During the training delivery, the training manager should continue to be updated on the project progress. This should be managed by the training lead. Agreed-upon training dates and deliverables need to be met.

The lead trainer should be responsible to keep the training delivery on schedule. Any problems that may cause a delay or missed deadline need to be brought to the training manager’s attention immediately, so the team can determine options to get the project back on track to meet the deadlines.

At times, the training delay could be caused by the requester. If business needs change and the trainees cannot attend training, the training manager and trainer need to be flexible and work with requester to find alternative dates to deliver training. Training teams that are not flexible to adjust to business needs will soon find themselves without leadership/customers requesting training. The leadership will find other ways to get the training and those ways typically are not as effective.

Evaluating the Training Outcomes and Effectiveness

Post-training evaluation is important to ensure the learners can competently do their jobs. In the accounting system training example, this is important to ensure that the learners can complete their job assignments as effectively as they could prior to the system conversion. Often, however, this is an overlooked step in the training process with busy training departments. The training is completed and the training team is onto the next training assignment.

It is important to note that the training evaluation process really begins when the learning objectives are first being established. Initial plans for evaluation begin with the meetings between the training requestor and the instructional designer to ensure training design and delivery align with the learning objectives and that they can be evaluated for effectiveness.

Donald Kirkpatrick, professor emeritus at the University of Wisconsin and past president of the American Society for Training and Development (ASTD), first published his *Four-Level Training Evaluation Model* in 1959, in the US *Training and Development Journal.*

The model was then updated in 1975, and again in 1994, when he published his best-known work, *Evaluating Training Programs*. This is still a widely used approach for many training organizations. According to businessballs.com, the following specifies Kirkpatrick's approach in more detail.

The four levels of Kirkpatrick's evaluation model essentially measure:

- Reaction of student – What they thought and felt about the training
- Learning – The resulting increase in knowledge or capability
- Behavior – Extent of behavior and capability improvement and implementation/application
- Results – The effects on the business or environment resulting from the trainee's performance

A look at each level in greater detail.

Level 1: Reaction

This level measures how your trainees (the people being trained) reacted to the training. Obviously, you want them to feel that the training was a valuable experience, and you want them to feel good about the instructor, the topic, the material, its presentation, and the venue.

It's important to measure reaction, because it helps you understand how well the training was received by your audience. It also helps you improve the training for future trainees, including identifying important areas or topics that are missing from the training.

Level 2: Learning

At level 2, you measure what your trainees have learned. How much has their knowledge increased as a result of the training?

When you planned the training session, you hopefully started with a list of specific learning objectives: these should be the starting point for your measurement. Keep in mind that you can measure learning in different ways depending on these objectives and depending on whether you're interested in changes to knowledge, skills, or attitude.

It's important to measure this, because knowing what your trainees are learning and what they aren't will help you improve future training.

Level 3: Behavior

At this level, you evaluate how far your trainees have changed their behavior, based on the training they received. Specifically, this looks at how trainees **apply** the information.

It's important to realize that behavior can only change if conditions are favorable. For instance, imagine you've skipped measurement at the first two Kirkpatrick levels, and, when looking at your group's behavior, you determine that no behavior change has taken place. Therefore, you assume that your trainees haven't learned anything and that the training was ineffective.

However, just because behavior hasn't changed, it doesn't mean that trainees haven't learned anything. Perhaps their boss won't let them apply new knowledge. Or, maybe they've learned everything you taught, but they have no desire to apply the knowledge themselves.

Level 4: Results

At this level, you analyze the final results of your training. This includes outcomes that you or your organization has determined to be good for business, good for the employees, or good for the bottom line.

Four perspectives of delivering training/talent management solutions:

Emotional – Employees need and expect proper training. When they receive proper training, they are quickly able to meet performance objectives and feel confidence and job satisfaction.

Operational – Operations may not run smoothly and as effectively if trainees are not trained properly. Conversely, operations run efficiently and more smoothly when employees are trained properly.

Risk – The risk of not delivering effective training is if employees do not receive necessary training, they are unable to perform their jobs.

Economic – While there can be cost savings to not conducting training, insufficient training can result in inefficiently run operations. Inefficiently run operations cost the company more to operate.

6. Follow up and monitor the post-training effectiveness of the program.

It is critical that follow-up and evaluation is built into the training plan. This step is often overlooked or skipped as busy training teams check the training off the list as being completed and move onto the next project request.

Post-training effectiveness can be based on the performance or behavior shortfall and expectations that were identified in the initial training request and meetings. Performance monitoring and the post-training effectiveness should be evaluated at several intervals.

At the end of training, this can be evaluated with formal testing of concepts, participant demonstration, observation, and participant satisfaction surveys. Participant satisfaction surveys may provide input on aspects of the training that were beneficial from the participant's perspective; this data should not be a primary indicator of post-training effectiveness since it is subjective.

Three-month post-training evaluation is based on the same criteria as the end of training criteria. In addition, performance results can be considered and reviewed against expected performance goals.

This should be repeated again at 6 months post training.

Four perspectives of follow-up and monitoring the program:

Emotional – It is important to provide training attendees with follow-up feedback on the success of the training, so they will continue to practice the performance or behavior changes learned at the training. The feedback cannot be accurately determined without structured follow-up and monitoring.
It is also important to provide instructional designers and trainers with follow-up feedback on the success of the training. This allows them to continue to use successful approaches, discontinue, and adjust unsuccessful approaches. Again, the feedback cannot be accurately determined without structured follow-up and monitoring.

Operational – The monitoring and feedback allows the operation's leadership to evaluate performance improvements.

Risk – The risk of not following up and evaluating the training is if it is ineffective in improving the performance or behavior shortfall, there are no metrics to identify this. The ineffective training could continue to be used perpetuating the performance or behavior shortfall.

Economic – The economic risk to ineffective (or no) training can impact the company in many ways such as poor quality; necessary rework or having to complete the work again, sometimes on overtime; dissatisfied customers who leave; frustrated employees who are not properly trained to complete their jobs resign; and the company incurs the cost of hiring and training new employees.

7. Keeping your training and instructional design team engaged.

Training managers have an obligation to their teams to help keep them motivated and engaged. Often internal customers are demanding and do not give much lead time for training requests. There are many reasons sufficient training request lead time is not provided:

- Growing organizations tend to hire new employees who need new hire training.
- Current employees may need new or refresher training.

- New software implementation or new process introductions require training.

In these cases, instructional designers and trainers must scramble to design and deliver necessary training. Most instructional designers and trainers strive to provide excellent training programs. Less than ideal development and training time can result in stress on the team. The following are techniques that can elevate stress and help keep the team motivated and positive:

Communicate, communicate, and communicate! Keep the team updated on changes and progress. Communicate in various ways to ensure you reach all team members; email, texting, and short meetings can be effective. Have “stand-up meetings.” This is where the team meets, usually the first thing in the morning or at the end of the day. Everyone remains standing for the meeting to ensure no one gets too comfortable which lengthens the meeting. Everyone is given 1 min to update the others on their assignments. If they need help with something, others with experience or expertise can offer to help and they agree to talk off-line after the meeting. This is a great way to efficiently keep the team updated.

Recognizing the assigned project timeline may not be ideal. Get suggestions from the team on how to accomplish the assignment in the limited amount of time.

Allow for productive venting – give permission to vent frustration, and then move onto completing the project.

Recognition for the team is always important and even more important when under pressure of a tight turnaround project. There are many ways to recognize a team. Many are simple and not time consuming to facilitate. Some of the easiest are:

1. Recognition certificates – There are numerous PowerPoint templates that can be used and customized for each situation. Trainers have been known to post their certificates at their cubicles as a daily reminder of the appreciation of a job well done.
2. Peer recognition – This allows team members to nominate each other or recognize a job well done by their colleagues. The old fashion bulletin board has transformed into a dashboard that everyone can access and view comments and kudos, although training managers could still use a bulletin board if appropriate for the team and organization.
3. Email recognition with a quick thank-you is appreciated. It is quick and easy for a training manager to do. A note of caution to not use this method too often. It is somewhat impersonal.
4. Email recognition to next-level managers of the training team or to the leadership that requested the training is a great way to recognize individuals or the team. It also gives visibility to higher-level managers to understand the training team’s accomplishments and value they provide the organization.
5. Small monetary recognitions such as movie passes or gift cards are appreciated.
6. Extra paid time off is usually well received by employees. Training managers need to check with their managers or human resources to learn what the organization’s policies surrounding paid time off.

7. Larger monetary awards are always appreciated. Training managers need to be aware of their organization's policies surrounding bonuses and cash awards.

In summary, to keep team members engaged and motivated, it is critical for training managers to regularly recognize their teams' accomplishments that are above and beyond expectations.

It is also helpful to track recognition that is given. Training managers, directors, and VP's who have managers reporting to them can create a dashboard to track all managers' recognition. It provides a quick check for all to see if proper recognition is being given out.

Four Perspectives of Recognition

Emotional – Positive emotional impact is realized with recognition for accomplishments that are above and beyond expectations.

Negative emotional impact is realized if recognition is not provided. Team members begin to think managers don't realized when they go above and beyond, or they think managers just don't care.

Negative emotional impact can also be realized if too much recognition is provided. If team members are recognized for everything they do, the recognition loses its impact. There may be diminished performance if team members expect and only respond to consistent recognition. Managers do, however, need to be aware of and balance the generational differences in recognition expectations. Younger employees generally have experienced constant recognition and have a higher expectation of receiving recognition than older team members. Training managers need to be aware and customize recognition to individuals' needs.

Operational – Training managers should also, when possible, track the teams' performance improvements after giving recognition. Operational outcomes in terms of instructional design and training deliverables should improve as a result of recognition being provided. Tracking the performance outcomes can also be quantified and justify any economic cost to the company as well as operational gains.

Tracking examples:

- Days to complete a training design can be tracked to look for improvements in reducing instructional time needed to design a training class.
- Trainers can be assessed on training participants' competency/testing scores.
- Reduced time to deliver training while maintaining competency/testing scores.

Risk – See emotional perspectives.

Economic – The first four recognition suggestions do not cost a training manager anything more than the time necessary to create and present the recognition. The last three do have a cost to the company. Training managers should identify all the options available to them at their organizations and budget accordingly.

Final Comments and Outlook

Managing an instructional design and training team can be a very rewarding job. There is no other team in an organization that can have as much impact on the organization's employee performance. The training manager should regularly meet with senior leadership and report on the team's project accomplishments and show the performance improvements and training successes.

While some aspects of training and learning remain constant, training managers and their teams need to continually educate themselves on the variety of training solution and delivery options, especially with the use of technology, to ensure they are providing up-to-date and effective training solutions.

With effective communication and partnership, the training team can realize a prominent place in the organization as a key strategic partner within the organization.

Dos and Don'ts

- In dynamic organizations, **do** have periodic "temperature checks" need to be scheduled during the year. Quarterly is a good time to have a business strategy review with key leadership in all departments. The purpose of the temperature checks is to review the current performance enhancement training schedule and identify new business needs that may not have been identified due to changing business needs or goals. These new needs must be accommodated and alternative plans put into place to meet the needs. The training department cannot run the risk of alienating itself from business partners by being inflexible to alter training plans as needed.
- **Do** design a simple training request and delivery process. Internal business partners do not have time to become bogged down in complicated training request processes. A complicated and inflexible process will result in the training department being viewed as an obstacle to training performance improvement rather than a performance improvement partner.
- Do engage regularly with your customers.
- Do establish a yearly training plan with your customers.
- Do remain flexible. Training needs change and customer-focused training organizations realize this.
- Do allow enough time for trainers to be prepared for a class.
- Do create a class preparation checklist for consistency and efficiency.
- Do ensure instructional designers follow a consistent instructional design process.
- Do plan for yearly training and development for your instructional designers and trainers.
- Do ensure the training team researches new training technologies.
- Do analyze and make the best use of in-house trainers and instructional designers and external vendors who can supplement your team's skill gaps.
- Do have fun!

Don'ts

- Don't alienate your customers by not reaching out to them on a regular basis.
- Don't make the plan too rigid with no room to adjust.
- Don't get stuck trying to adhere to the training plan. Plans will change.
- Don't take shortcuts even if there doesn't seem to be enough time. Reprioritize and ensure key components are completed.
- Don't "wing it" for each class preparation. Something will inevitably be missed.
- Don't make the process so rigid there is no flexibility to adapt to each training development request requirement.
- Don't keep them from growing and developing their skills.

Training Request Checklist for Training Needs Analysis

Training Request Checklist for training needs analysis

Training requester:

Date:

Trainer/instructional designer conducting the analysis:

The job title of the position being analyzed is: ____

The experience level of the average job holder is:

___ 2 years or less ___ 3 – 5 years ___More than 5 years

Attach a job description if available.

List the major tasks and performance expectations of the job. Is the employee aware of this?

____

____

____

____

Why is the training being requested, what is the performance shortfall? ___________________________

____

Is the performance shortfall caused by a basic workplace skills problem? ___________________________

____

What behavior or performance changes does the requester want to see to improve the performance shortfall?

____

____

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Training and Qualification: Employee Training at Galaxy Entertainment Group

16

Soo May Cheng and Sandra Lunn

Contents

Abstract

What do companies do with employee training when their financial chips are down? The knee-jerk reaction is usually to cut the training budget, as training is often seen as an expense rather than an investment in the company's future. This chapter focuses on the case of a leading casino company in Macau and how its

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ongoing employee training efforts have not lost their momentum despite the recent downturn in gaming revenue. The sustainability of its training agenda rests on its unwavering focus on the service culture that is branded "World Class, Asian Heart."

The Galaxy Entertainment Group (GEG) attempts to differentiate itself in the intensely competitive gaming environment through strengthening this WCAH identity. It has tweaked its training programs, consolidating hundreds of disparate packages for different employees to a more systematic and comprehensive training of all employees in the critical corporate culture while separating skills training for different groups organized by function. In the tougher financial climate, the company will face further challenges to achieve its training objectives in the most cost-effective manner.

Keywords
Employee training • Casino gambling service culture • Macau • Asian Heart

Backdrop: Recent Setbacks in Macau's Casino Sector

What a difference a year makes. Macau's apparent unstoppable growth as the leading gaming hub of the world has shown signs of distress as the early 2015 figures reveal a continuing decline in gaming revenue, particularly in the VIP gaming sector. This was most dramatically demonstrated by Melco Crown's loss of 58 % of its GGR (gross gaming revenue) in 2014 and by an activist union's report that about 1,000 VIP room workers ranging from guest relations officers to cashiers and attendants have been laid off (*Macau Business Daily* 2015).

The entire sector has had an "adjustment" following the Beijing government's anti-corruption drive that targeted big spenders who bet heavily in Macau's casinos either in person or by proxy. While the number of mainland visitors to Macau has not declined, and they still make up more than 85 % of all visitors, the amount of revenue collected has dropped significantly as the high rollers are replaced by mass-market players. In 2015, the Chinese New Year holidays – traditionally the busiest weeks of the year in Macau's casinos – were particularly disappointing when players failed to show in the numbers expected. According to a Bloomberg survey of analysts, casino revenue dropped by 53.5 % in February (*Bloomberg Business* 2015).

Properties that targeted these mass-market visitors by offering a large range of entertainment, retail, and lifestyle services were relatively less vulnerable. The Sands China group, which owns the Venetian Resort, the largest number of gaming tables in Macau, a one million square foot exhibition-cum-retail mall, and three other related properties as well as a ferry service, announced financial results for the 2014 fiscal year in mid-February, reporting all-time highs in all three key performance indicators: net revenues, adjusted EBITDA (earnings before interest, taxes, depreciation, and amortization), and profit. Net revenues for 2014 increased by 6.7 % to USD 9,505 million (*Macau Daily Times* 2015). Similarly, the share value of the

Galaxy Entertainment Group Ltd. that attracts a broader Asian clientele as well as local customers with its cinema complex, international food outlets, and Asian-style hospitality rose to a 2-month high in Hong Kong trading. By mid-2015, Galaxy's share value had increased to 4.8 % to close at HKD65, its highest level since April 28, 2014 (*Macau Daily Times* 2014).

Profile of the Galaxy Entertainment Group (GEG)

The Galaxy Entertainment Group (GEG) is one of Macau's key casino-resort companies, having won one of six coveted operating licenses in 2002 when the gaming sector was liberalized. Despite poor performance across the industry for 15 straight months in 2014 and 2015, GEG announced "cautious optimism" that business would pick up later in the year (PRNews 2015).

Having opened its Phase II in March 2015 that included the Ritz-Carlton and Marriott hotels and a host of leisure and entertainment facilities, as well as the newly acquired, renamed, and refurbished Broadway Hotel, the GEG is now continuing to train its 25,000-strong workforce for the expected recovery and further expansion. New facilities are to be launched in early 2016 to augment its already successful properties, the StarWorld Macau and the Galaxy Macau Phase 1. The group's detailed profile can be found in this press release: http://www.galaxymacau.com/uploads/attachment/2015-01/6909954c5f5c7594dd.pdf (GEG Press Release 2015).

"World Class, Asian Heart" Service Culture

With such a large scale of operations across many complex areas of hospitality, entertainment, retail, and gaming, the training needs of the workforce are immense. At the root of the GEG's employee training is the "Asian Heart" service philosophy that has differentiated the group from its competitors that were heavily influenced by Macanese or American characteristics. GEG is owned by a Hong Kong Chinese family, managed at the top by the founder's son and a team of mostly Australian and Asian professionals. Its service employees come from all over Asia, and its main customer markets are mainland China and the entire Asia-Pacific region. Hence, it plays on the traditional hospitality of Asians toward guests. This "Asian Heart" service is promoted throughout the organization and is symbolically conveyed to visitors to Galaxy properties by hosts placing their right hands on their hearts in greeting. The service culture is now so pervasive that it is seen as the Macau equivalent of the better known Ritz-Carlton's gold standards and JW Marriott's core values (GEG Presentation of Phase 2 Plan 2012).

Putting the "Heart" into Training

An organization's service culture dictates how much importance the staff put on the needs of the customer and whether their work activities will revolve around this. A service culture can be communicated to its customers by various means: how employees interact with guests, their attitude in wanting to serve them, their product knowledge, employees' skill levels, uniform, and dress code.

The GEG's declared mission is to stand out from the competition as an Asian gaming company in Macau known for its exceptional Asian brand of guest service. GEG takes pride in being a guest service-oriented company that strives to provide the best guest service experiences to guests. The management has defined this culture through a common language that expresses their mission, vision, and values and clear expectations to follow (see box "GEG Mission, Vision, and Values" below). All frontline staff are assimilated into this culture when they join, and their performance is continually monitored and further developed though ongoing service quality training.

GEG Mission, Vision, and Values

Mission – Why does GEG exist?

To provide exceptional experiences to guests, instill pride in employees, and delight stakeholders.

Vision – What does GEG want to be?

To be the benchmark for delivering exceptional "game-day" experiences, with an Asian heart.

Values – What's important to the company?

- It anticipates customer needs and takes pride in delivering exceptional experiences at every Galaxy moment.
- It acts with deep personal respect for every individual that connects with Galaxy.
- It always does its best.
- It is prudent, is efficient, and acts with integrity and a sense of urgency (source: GEG official website).

Structure and Components of Employee Training Programs

The aim of employee training at GEG is that they all operate with an Asian Heart and create an exceptional customer journey.

An employee will typically undergo several rounds of training during his career with GEG. Initially, he will receive induction into the service culture through the WCAH (World Class, Asian Heart) Program. This is delivered by the training

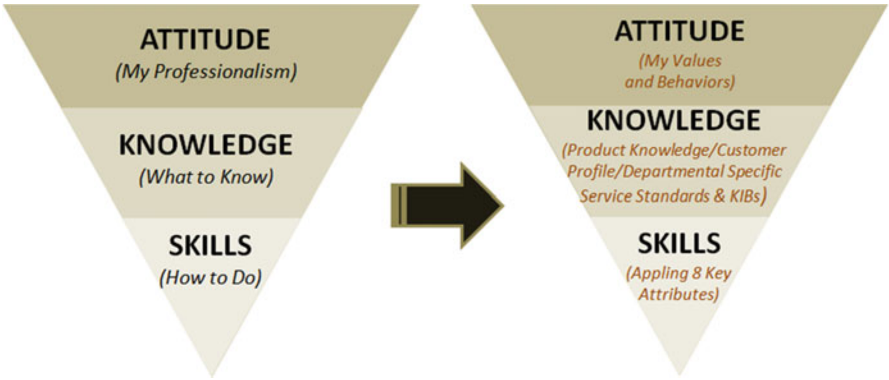

Fig. 1 ASKs

department and assisted by consultants specializing in hospitality culture. This program is contextualized to suit various department requirements.

The objectives are:

1. Understand GEG WCAH service philosophy.
2. Understand WCAH 8 key attributes and apply it through defined service standards.
3. Understand key impactful behavior (KIB) and demonstrate knowledge and skills to deliver exceptional guest services consistently.
4. Understand grooming standards and maintain a professional image.

GEG Service Philosophy

This section will reinforce the World Class, Asian Heart 8 key attributes; these intangible attributes are linked to tangible behaviors and explain the core of customer service (attitude/knowledge/skills) (Fig. 1).

Core Service (Attitude – My Professionalism)

This section will instill the pride from learners by linking the customer service with professionalism beyond the technical skills and show how attitude influences an individual's choice of actions and how they respond to challenges. The key message for this session for learners is: Your choice to become professional!

Core Service (Knowledge – What to Know)

This section will equip learners with necessary information to deliver customer services. It will cover product knowledge, customer profile, position-specific service standards, and KIBs.

Core Service (Skills – How to Do)

This section will demonstrate the skills to apply WCAH 8 key attributes to each service standard and allow sufficient time for learners to observe/practice/give feedback with other learners/facilitator.

Exceptional Customer Service (Beyond the Core)

This section requires learners to exhibit flexibility and sensible mind-set to provide WCAH service beyond the core requirement. It will include two sessions to further reinforce WCAH (source: Departmental WCAH Customer Experience Program).

WCAH 8 Attributes and Core Competencies

This program is designed to equip employees with the knowledge and skills to apply WCAH 8 attributes to a specific set of service standards in order to deliver exceptional service to guests aligning with the company's mission and vision. Employees are expected to be:

1. Attentive
2. Warm
3. Respectful
4. Sincere
5. Passionate
6. Anticipate
7. Serving from the heart
8. Culturally sensitive

These attributes may also be considered as desirable attitudinal qualities that form part of the competencies GEG wants its employees to have. These attributes and other competencies like knowledge, skills, behaviors, and capabilities are bundled into 12 core competencies, two examples of which are the following:

Core Competency: Operating with an Asian Heart

- Lives and promotes the mission, vision, and values
- Practices and leads with humility
- Creates opportunities for Galaxy by honoring and respecting all stakeholders
- Instills pride and respect in team members
- Brings passion, drive, and commitment to work

Core Competency: Creating an Exceptional Customer Journey

- Keeps customers as the focal point of all activities and decisions
- Strives to anticipate and exceed customer needs and expectations

- Strives always to outdistance the competition in customer satisfaction throughout the customer life cycle (approaching, acquiring, retaining, growing, exiting) (source: GEG Core Competencies)

Key Impactful Behaviors (KIBs) and Learning Journeys

In operational terms, training is translated into service behavior relevant to departmental functions. For example, the Food and Beverage Department would require a waiter to establish eye contact when interacting with guests and to discretely present bills and collect payment.

Each department defines its functions, levels of attainment within each function, the skills and knowledge required, and corresponding KIBs. Every employee embarks on a "training/learning journey" that consists of different levels of attainment. They are defined within the GEG core competency model and developed into programs such as leadership series and management skills program.

An example of a training/learning journey is:

Cook 1 → Cook 2 → Cook 3
↕ ↕ ↕
Tech Skills → Supervisory Skills → Management Skills
↕ ↕ ↕
Prepares meals → Trains junior cook → Prepares budget and menu

Some training journeys can even be more interesting, such as in the case of a concierge who moved up the ranks, winning the coveted golden keys that symbolize the achievement of excellence, only to leave her chosen function instead to become a trainer. Such cross-functional movement is rare, but the possibility of being allowed to do so is one reason among others for Galaxy staff to feel motivated.

Professional Image

In 2012, Galaxy Macau introduced "The Look of Galaxy," a grooming program that offers regular makeup and hairstyling training for team members. Since then, it has been promoted annually with a fashion show that features stylish uniforms, pragmatic footwear, and fresh made-up faces (Fig. 2). According to Galaxy Entertainment Group's Director of Human Resources and Administration, "The 'Look' means a world-class look. Grooming excellence is just one more area that Galaxy Macau aims to set the benchmark for Macau's hospitality industry as we seek to apply our 'World Class, Asian Heart' approach to every facet of our business. We will continue to invest a lot in training our team members and that includes classes on their professional appearance through this sustainable in-house grooming program"

Fig. 2 Annual fashion show (Source: GEG Press Release 2013)

(GEG Press Release 2013). Such emphasis on appearance is another representation of the "World Class, Asian Heart" culture.

Discussion: Employee Training Issues and Opportunities

The various training programs at GEG serve several objectives:

- Create and reinforce a unique GEG culture.
- Differentiate between average and above average team members.
- Define expectations and provide clarity around how all GEG team members should behave.
- Provide a framework for developing leaders from within.
- Provide a framework for sourcing and hiring the "best fit" candidates from the external market.
- Create a common language to evaluate team member capability and contribute to promotion and progression conversations.

This ambitious list of objectives indicates the competitive nature of the labor market in Macau. With the rapid development of the hotel resort sector, the shortage of trained labor for all functional areas has become critical. Employee training is often used as incentive to attract and retain suitable candidates. It is also an opportunity for the hiring organization to position itself as an employee-oriented employer. The ensuing discussion highlights a few opportunities and issues in this strategy.

Training as a Recruitment and Retention Strategy

In a tight labor market such as Macau, GEG's culture-driven training program is intended to attract and retain good employees. If done successfully, it would certainly draw candidates to the "World Class, Asian Heart" culture and position the GEG as a distinctive and desirable employer. However, training leads to expectations of reward and promotion, resulting in an escalation of labor costs and rapid promotions to discourage trained employees from leaving to join the competitors. Ultimately, it is the pay and benefits package that can really stem out high turnover among employees, which most of the hotel-casino properties in Macau have to grapple with. In competition with larger or more reputable competitors like the Sands Group or Wynn Resort, the GEG is relatively new to the casino-resort business and sometimes gets more bad press than its competitors. Its reward packages are often perceived as inferior to those of its competitors. Nevertheless, its resolute determination to stay the course and take on the big boys is winning admiration and support. Its latest partnership with Ritz-Carlton and Marriott in its Phase II development has put two feathers in the GEG cap.

Internal Promotion Through Employee Training

GEG developed an Accelerated Development Program (ADP) to assist in nurturing young talent. Both internal and external candidates can apply for a position. Internal applicants must have their managers' support and, if selected, go through training. Such training is preparation for managerial responsibility, which is in line with the Macau government's vision to see more local residents in management positions in the hotel-casino properties. In early 2015 when the program was launched, 150 employees were handpicked by their supervisors for the ADP, but by the middle of the year, only one-third of the trainees were enrolled. Reasons cited for lack of interest included employees' workload being too heavy for them to be released for training and employees' job-hopping to a competitor for higher pay and faster career progression than what the ADP could deliver. The impatience of young employees for quick promotion has created a situation where employees who are not fully confident and competent to perform their responsibilities are placed in managerial positions.

The ADP training program mitigates this risk to an extent, encouraging good employees to stay with the company and ensuring that only trained managers are entrusted with delivering GEG's exceptional customer service down the line. However, managing the trainees' expectations may also be challenging given that few employees see its long-term benefits to themselves, and not all trainees will progress at the same rate despite the training.

Management Trainee Program (MTP) for Whole-Company Experience

Trainees who show potential for leadership are recruited directly from universities or from within the GEG ranks. Upon admission into the MTP, they are rotated within a department or across several departments so they gain exposure to various roles and experience different responsibilities. Each trainee is assigned a mentor and has access to top management. At the end of the program, their career path within GEG will be decided based on their experience and consultation with their mentors and department heads they have worked. While this opportunity seems attractive to young people with a long-term career goal in management, it takes between 18 and 24 months to complete the MTP, a period that many young graduates in Macau feel is too long. Given the tight talent market in Macau and the government labor policies that make entry difficult for foreigners, local graduates can job-hop into managerial positions quickly, sometimes within a year. The salary given during the MTP is usually much lower than salaries earned in non-managerial positions. Hence the MTP is seen as carrying high opportunity costs and fails to attract candidates with the greatest potential.

Consolidation of Employee Training

The GEG has expanded rapidly from 15,000 employees a year ago to about 25,000 in May 2015 with the opening of its Phase II and newly acquired and renamed Broadway Hotel next door. Its need for employee training will be greater than ever. While it still grapples with the challenges of the Macau government's labor policies, intense competition for talent, and the attitudes of the local workforce, the GEG is consolidating its training function for optimal effectiveness. Since 2014, it has strategically scaled-down its training from more than 200 programs to about 120 programs that are active, popular, and aligned to the company's WCAH mission. Some programs, like the ADP, may be open to non-local employees to equip them for the management of the company's growing array of properties and services.

The structure of the training function has also been reviewed and revised (see Figs. 3 and 4). In order to take the pressure off the line departments that are struggling with heavy operational workloads, training in line duties is now moved to a specialist Organizational Development Training (ODT) unit located within the Human Resource Management Department. Trainers within the ODT specialize in different functions such as rooms, food and beverage, and so on. The ODT is an important unit with its own hierarchical structure of training managers and trainers, headed by a vice-president who is part of the senior management at the GEG. This ODT provides the important linkage between the top management, down through the ranks, and to the frontline employees. It also coordinates all training activities from the vantage point of the HRM Department which handles all personnel affairs and maintains all personnel records, thus linking training to recruitment, performance management, and rewards policies.

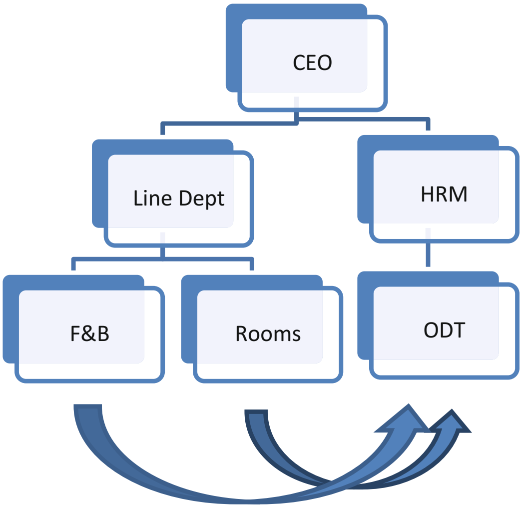

Fig. 3 Simplified structure of GEG's training function. Specialist line trainers are located within the ODT

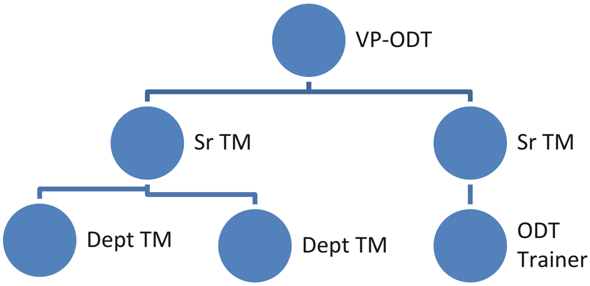

Fig. 4 Hierarchy of ODT department

Employee training at GEG can now look forward to a more strategic and sustainable future.

Lessons from this Case: People, Economic, and Risk Perspectives

What the GEG experience has illustrated is that training can be sustainable, even vital, regardless of the economic climate. What GEG has done right seems to be:

1. It has gauged the employee training needs well ahead of the launch of its Phase 2 extension and committed to strengthening the service culture of "World Class, Asian Heart."
2. It has tied in employee training with recruitment, retention, and career progression and attempted through its various programs to build a strong sense of identity with the company.
3. Desired outcomes of the training programs are clearly spelled out in terms of the corporate mission to be known for its unique Asian guest service.

4. Its training program has the support of top management, right through the current financial downturn.

What needs to be monitored and controlled to ensure employee training continues to deliver the performance outcomes that GEG wants to achieve would include the following:

1. The cost-effectiveness of each training component must be achieved, both in terms of direct costs and indirect costs through employee or management attrition, which is likely if the financial crunch continues.
2. The culture-based training is packaged around the hype of the company's service culture, which may lead to other aspects of training being overlooked, such as back-room operational skills enhancement.
3. Overpromising training-related rewards such as salary increments and promotions may need to be reined in, as expectations should be managed in line with the company's lower revenues in the past year.

Final Comments

By most measures, the GEG's track record in employee training has been exemplary. It has increased spending on training in conjunction with its business expansion plans. It has identified a unifying theme of "Asian Heart" service that anchors all its training. So, if it can carefully monitor the challenges of the current economic downturn, the outlook remains bright for the continuing achievement of its mission to win the hearts and minds of both employees and customers in Macau's gambling industry.

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Training and Qualification: Essentials of Leadership Development

17

John van Dijk

Contents

Abstract

- **Can leadership be learned**? That is the question. Looking at the number of leadership training courses and development programs, the answer probably is "yes." However, not every person wants to be or can be a leader. Furthermore, there are more and less talented potential leaders. The less talented have to put in more effort to obtain the same result.
- The market for leadership development is enormous, because (**the lack of real**) **leadership is a hot topic**.
- For companies and organizations, it is of tremendous importance **to fill their leadership pipeline**. On the basis of thorough analysis of the present and

Excellence is an art won by training and habituation. We do not act rightly because we have virtue or excellence, but we rather have those because we have acted rightly. We are what we repeatedly do. Excellence, then, is not an act, but a habit. (Aristotle, 384–322 B.C.)

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future leadership needs, a development program should to be designed, conducted, and evaluated.

- **The development of leadership takes time**. It cannot be done in a week or so. Or as Filipino Senator Miriam Defensor Santiago wrote: "Leaders are not born; it takes practice to develop the qualities of a leader" (Santiago 2014).
- **Involvement of the C-level management is a must**. People want their leaders to point out the direction in which to go, to create a safe and secure environment to work and live in, to listen, to care, and if necessary to sacrifice themselves.
- **Investing in a descent leadership development program** is cost efficient and effective and **diminishes the risk of mismatches and noncompliance**.

Keywords
Leadership • Training • Development • Knowledge • Skills • Motivation • Leadership pipe-line • Mandela • Mother Teresa • Gandhi • Luther King • Values • Vision • Complexity

Introduction and Overview

- There are people who believe that with the passing away of Nelson Mandela on December 2013, the last great leader left our world. Whenever we ask people to tell us, when we show them about 80 pictures of generally well-known people, whom they consider to be great leaders, the names of Martin Luther King, Mother Teresa, Mahatma Gandhi, and Nelson Mandela are most likely to come up. So, let us call them the "BIG FOUR." Why are these four individuals perceived by many as great leaders? Trying to categorize the answers to this question within the four dimensions (www.innergie.nl) of professional behavior (i.e., knowledge, skills, core qualities, and motivation), it shows that most of the answers fit into the categories "core qualities" (being) and "skills" (doing). It seems that what matters most to people in their judgment of somebody to be a great leader is what kind of a person he or she is and what he or she actually did do. Apparently those "big four" showed us that (personal) values like justice, sacrifice, and forgiveness are highly appreciated and admired. And furthermore, they took responsibility; they walked the talk, and they made some pretty uneasy choices. Doing so, they influenced millions of other people. Furthermore, they showed us that one person can make a difference. That one person could be you or me. But let us be realistic. We will not all become a Gandhi, a King, a Mandela, or a Mother Teresa. We have to be grateful for the examples they gave us, and some of us might even try to follow in their footsteps in our own environment. But it proves to be hard to live up to the high standard they set, and a lot of lip service is given to their ideals. Their examples are also often used in leadership and other training courses. What can we learn from those examples? What can we learn from other leadership present in the world? Is it possible to learn how to become a leader?

- Looking at the numerous offers for one day, two days, one week, two weeks, and so on leadership seminars, courses, and training sessions, the question seems to deserve an affirmative answer. Thousands of teachers, trainers, and preachers earn a living by creating future leaders. Yet at the same time many sources notice a lack of real leadership in the world. Apparently we do have to **make a distinction between self-styled or would-be leadership and real leadership**.
- If talent would be of great importance in leadership, we probably already long time ago would have established a system of **leadership talent scouting**, starting in elementary schools, **comparable to the scouting of talents in sports and music**. As far as I know such a system **does not exist**, although in resumes extracurricular activities of students seem to be a pro when applying for leading positions in later life.
- Since Lombardo and Eichinger (Lombardo and Eichinger 1996), we know that only 10 % of being a leader can be learned in formal education. The rest comes from talking to and sparring with colleagues and peers (20 %) as well as from the daily hardship of doing the job (70 %). Due to the use of modern communication technology among generation Y/Z, the percentage of 20 is likely to increase at the cost of the 70 %, and also the percentage of 10 will increase because of the possibilities to gather knowledge the Internet offers. In the model of Lombardo and Eichinger, there is no place for leadership talent and that might as well be a weak point of the model, because undoubtedly there are more and less talented leaders. However, like in sports, **less talent can be compensated by hard work**.
- Being a leader, being the alpha is not for free. It comes at a cost. That cost is time and energy (Sinek 2014). **We only voluntarily follow people**, leaders, who do not sacrifice us but **who are prepared to sacrifice themselves** and take the lead in neutralizing what threatens our businesses, our jobs, our countries, our families, and our existence. Leadership is impossible without followers. And real leadership also is impossible without a vision, without objectives, and without a dream that is communicated, shared, and supported and that, ultimately, we are even prepared to fight and die for. History shows us that those visions and dreams should be constantly questioned and not followed blindly. Machiavelli already described how leaders use power, intimidation (fear), and violence to attain their goals.
- Developing a vision requires some maturity and wisdom; **becoming a leader** thus also **takes time. Leadership cannot be learned in the beforementioned courses**, **seminars, and trainings**. Those might contribute to the exchange of experiences with colleagues (the 20 % of Lombardo and Eichinger). The real development of leadership skills and coaching/mentoring of leaders takes more time than a few days or weeks. It takes years, **because leadership is complex**.
- **Complexity however is not popular nowadays. There is a strong tendency in our society to simplify complex matters**. And this tendency also affects the discussions about leaders and leadership. Who is a leader? What is leadership in one sentence? What are the three most important qualities, or even the one most important quality, of a real leader? One-liners and bullet points are warp and weft. And thus we create the myth of the complete leader (Ancona et al. 2007). Leaders

are never complete, and they are more likely to be competent when they know they are not. And apart from not being complete, they also are different. Some show emotions (Aristotle: pathos); some do not (Seneca: stoical).

- In a discussion started on "LinkedIn" (March 2014) with the question: "What is the single most important quality for a leader to have?" More than 140 (!) different qualities were mentioned by over 15,000 people who participated in that discussion. And, like so often, also the answers here have a strong self-revealing component, telling us a lot about the respondent and little about real leadership. The popularity of this kind of discussions on social media even more underscores the initial statement that complexity is not popular. And at the same time this dislike of complexity is the starting point for lots of seminars, courses, and trainings like "the authentic leader, the five Ps of leadership skills, charismatic leadership, inspiring leadership, excellent leadership, transformational leadership, samurai leadership, the three C's, three I's, three S's of leadership," and so on. Their contribution to the development of real leadership can and should be seriously doubted.
- **Leading people is a profession**, like doctor, engineer, plumber, carpenter, and mason. Not every skilled professional will automatically be a good manager or leader. Not every good basketball or soccer player is automatically a good coach or team manager. Not every doctor is automatically a good hospital manager. The main task for leaders is to make sure that they create optimal circumstances in which professionals can do their job. No more, no less. Leadership is not about being the best kid in the class and knowing everything better!

In the following we will look at the development of leadership from four different perspectives, list some dos and don'ts, and have a short outlook into the future of leaders and leadership (Zeuch 2014).

People Perspective

- **Neuroscience shows us more and more that human behavior is determined by intentions and circumstances**. So it is important to assess people's intentions as soon as possible and also create favorable circumstances for personal and leadership development.
- **Leadership starts with leading yourself**, **followed by leading others**, **possibly culminating in leading an organization or company**. From the people's perspective opportunities and chances for personal development are important engagement/retention factors.
- **The assessment of leadership talent should begin early** and with a possibility to participate for everyone who wants to participate.
- The focus of leadership development should over time **shift from personal development to how a real leader contributes to group and organizational development**, because good leadership finally is not only about the person of the leader but also and probably even mainly about the well-being, the self-

confidence, the safety, the security, and the performance of the people that together form the organization/company.

- Thus **emotional intelligence (EI) is very important for a leader**. Whether a person can become a good leader highly depends on how that person relates to the followers without whom leadership does not exist and how he or she relates to the power that comes with being a leader.
- People are not born as leaders. In an article on www.inc.com, Jeff Haden summarized this in one sentence: "**No one cares how much you know until they first know how much you care about them**" (Haden 2012).

Economic Perspective

- The scouting of leadership talent inside as well as outside of the organization/company costs without any doubt money. **Well-established leadership programs however will turn out to be good investments rather than costs**.
- How many companies really evaluate the return of existing leadership development programs (if they have them)? How many companies really have an insight in the costs of failing leadership? **At present a lot of money is wasted on** not working (at least not for the company/organization) **leadership training programs that train leaders in a one-size-fits-all manner**. The real added value of leadership development comes, however, from the embedding of the learning process in the participants' real-life leadership practice.
- **As a consequence of insufficient internal leadership development**, **a lot of money also is spent for hiring head-hunting agencies**.
- Investing in a full leadership pipeline in the end will prove to be very cost efficient and effective.

Risk Perspective

- Some recent developments in China and the Middle East (pharmaceutical industry, accountancy, building/construction sectors) again clearly show **the risks of failing leadership. The existence of the company might even be at stake when leaders fail to comply with anti-bribery regulations**, **accept or even drive wrongful accounting practices**, **and put personal advantage above company benefit or similar wrongful/irresponsible behavior**.
- Leaders need to be clear about policy and values of the company as well as about the behavior that is expected of managers and employees. They need to read the signs the continuously developing world is giving. **Quite a few companies only give lip service to their values**. They look nice at their websites, and besides, you need to have them. **But whenever values are not translated into tangible expected behavior and people are not held accountable for that behavior**, **there is a risk of noncompliance**.

Operational Perspective

- From an operational point of view for every company or organization, it is **an absolute necessity to assess the present and future leadership needs and to establish programs to fulfill them**.
- The human resources department has to play its role and needs to be staffed with people who can establish and manage a leadership development program.
- **Involvement of the C-level management is an absolute must** when designing and conducting the program.
- Especially in small- and middle-sized businesses, the HR department has to be very critical and selective regarding the outsourcing of development programs.

Dos and Don'ts

Dos

- **Assess present and future leadership needs thoroughly.**
  Make sure you have a clear picture of the companies/organizations present and future leadership needs at all levels. Thorough analysis should be the basis for your leadership development program.

  Use the "ADDIE" model, originally developed for the military by Florida State University (see Fig. 1).
- **Target all (potential) leaders/make the reservoir to fish in as big as possible**!
  Leadership training commonly focuses on middle- and top management. However, in recent years, the selection and training of entry-level leaders gained more attention, because this specifically targets people who, for the first time in their careers, are going to take over formal leadership responsibilities. Furthermore, it enlarges your chances for discovering in-company talent and fills up your leadership pipeline.

  A good example for this approach is Hewlett Packard.

  On the company's website we can read: "The ability to think and act as a leader is crucial for every HP employee, regardless of role. All employees have the opportunity to complete a self-assessment against the HP leadership standards and develop leadership skills through performance feedback, learning and training resources, or working with a coach or mentor. HP's Executive and Leadership Development team designs and implements leadership and management training for leaders at all levels. In 2011, we increased the scale and reach of training. During the year, 7,500 employees participated in various leadership training sessions, including the HP Key Talent and Executive Leadership Excellence programs. Focus areas addressed business challenges, strategic thinking and planning, financial acumen, and team leadership. Leaders developing leaders continues to be part of our strategic approach. In 2011, approximately 400 HP leaders directly supported our leadership development programs and more than 12,000 employees attended our monthly Leading Ideas webcast series, during

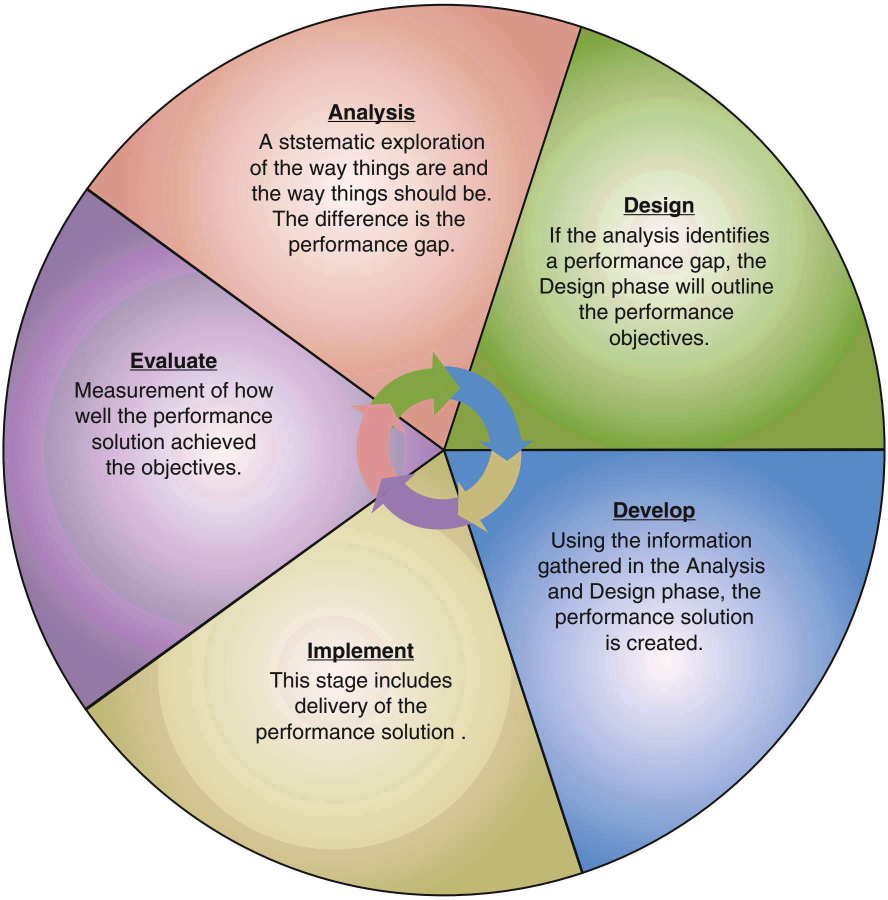

Fig. 1 ADDIE model

which senior leaders provide insights on leadership topics, share helpful tips and best practices, and link to resources for HP employees. Also in 2011, HP launched Leadership Development Central (LDC) as a resource to search and source opportunities for self and team development. LDC rapidly rose to the top 10 list of sites on the @HP employee portal. The new Leadership Learning in a Box series is the most recent addition to LDC through which team leaders conduct 1-h discussion sessions focusing on skill building, managing, and motivating teams. We also help leaders enhance their skills while supporting social innovation initiatives in communities. In 2011, as part of HP's intensive Key Talent program, individual teams of 5 or 6 HP vice-presidents brought their expertise and knowledge to 10 San Francisco Bay Area nonprofits in a 12-week social impact business challenge. They provided pro bono recommendations to address the organizations' most significant business challenges."

- **Translate your company values in tangible desired behavior at all levels.**
  It is not enough to formulate values and communicate them to employees and the outside world. Values have to be translated in expected, concrete, and tangible behavior at all levels. Only the consequent repetition of certain behavior in the end creates desired attitudes. It is a misunderstanding that attitude changes behavior. Already Aristotle knew this!
- **Mind the sequence**: **leading yourself**, **leading others**, **leading a company/ organization.**
  Entry-level leaders, for the first time in their careers, take over leadership responsibilities. It is one of the major lessons for this target group that even though they personally might feel unchanged, their team members see them differently now. They have expectations toward the new leader; they observe/interpret/comment on their new leader. Entry-level leadership development deals with this role change.
- **Mix teaching and training with experiential learning.**
  Leadership development should be a mix of training (skills), coaching, and/or mentoring as well as experience-based learning, helping participants to gain an understanding of what it means to lead themselves, other people, and organizations in daily practice and to acquire knowledge about and develop skills in major leadership instruments (e.g., planning, organizing, communicating, decision-making, motivating). Use coaching and mentoring as instruments to support participants.
- **Include new developments.**
  Leadership development should address the changes in society as well as the corporate landscape and organization. Examples are:
  - Intercultural leadership
  - Increasing emphasis on sustainability
  - Leading virtual teams
  - Leading in the matrix
  - Leading without hierarchical power (e.g., for project managers)
  - Leading change
- **Do prefer several modules.**
  Opposed to many other training topics which can be taught and practiced in one or two days, learning leadership is a development process over time. It is highly advisable to have a group of (future) leaders go through a sequence of experiences together, always over several months, in order to reflect and apply what has been learned during the module and determine eventual training needs. Such groups will develop mutual trust which is necessary to share uncertainties and concerns regarding their own leadership role.

Don'ts

- **Don't mix up teaching**, **training, and coaching/mentoring.**
  Knowledge is taught and learned; necessary skills have to be determined and constantly trained to gain excellence. Desired behavior has to be constantly

repeated to become an attitude. Many activities that are called training in fact are not training but rather learning.

- **Don't engage "trainers" who preach.**
  Charismatic leadership "trainers" who "preach" about leadership are entertaining and often have good points about certain specific aspects of leadership behavior. The effect of such "training" courses, however, is limited because the topics are not transferred into the participants' real-life environment. In order to be effective, leadership development has to break down the barrier between classroom and work, bring in real-life examples of the participants, and help them take their lessons learned back into their work environment. This requires coaches who have a comprehensive view on leadership, practice "active listening," and are differentiated when they give advice.
- **Don't spend money on easy-to-get training programs** of which you are not 100 % sure that the people who will attend really need them to improve their leadership ability and the company performance. Especially for smaller HR departments in small- and medium-sized companies, it is tempting and easy to fill the yearly leadership development program with nice-to-have activities that anticipate trends and fads.

Final Comments and Outlook

Most of the time people who really do the work are the professionals. They are responsible for the biggest portion of revenues. Of course we know that and we also realized that there are too many management layers, so we started to create flatter organizations in an attempt to eliminate some management levels. Self-steering teams, a lot of meetings and talking. And still a lot of managers and so-called leaders don't really know what their professionals think. Simply because they don't ask them, they don't listen, and they know better. At least that is what they think, because they became leaders.

And there is one other thing. Many managers believe they are automatically leaders because they were given the power to decide. Universities make their students believe that they will be the ones who are the future leaders, who will change their communities, their country, and maybe even the world and that they will inspire others, only because they visited that particular university. However, it is not that easy to become a leader, although you can become a leader in many spheres.

It would be appropriate to make a distinction between people who believe they are leaders and people who really are leaders, a distinction between so-called or imaginary leadership and real leadership. Not everybody who is called "boss" is a real leader.

What are the traits of imaginary and real leaders?

We often hear that leaders have a vision. That is true. Real leaders have an idea about how to make this world a better place for all of us. So-called leaders mainly try to make it a better place for their business, country, themselves, their relatives, and sycophants. Real leaders aim at justice and are prepared to sacrifice themselves and forgive others. So-called leaders place themselves above the law, sacrifice their people, and are sowing hatred. Real leaders really put clients, customers, and people in the first place, because they care about them and want them to feel safe and valued. They try to add value to society and to the world community, or as Pope Francis' said, “Real power is service.” So-called leaders take power even when they are given it; real leaders take power to give it back to the people they empower. So-called leaders use force to stay in power, whereas real leaders are given more and more power, and they keep giving it back.

Most likely we will see a change in leadership paradigm. The planet and people will get more emphasized, and a bigger part of profits will be used to increase equality and sustainability. We better prepare our future leaders to play their part in that development. They will need a big vision on how their communities, companies, organizations, and countries can contribute to a sustainable economy, a sustainable world, and on how we protect democracy against being undermined by increasing inequality. Our world has always been and still is desperately in need of wise leadership.

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Training and Qualification: Intercultural Leadership and Team Performance in a Professional Soccer Team

18

John van Dijk

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Abstract

From August 1995 until the end of 1999, John worked as general and HR manager of a professional soccer club in the Netherlands. One day the trainer/ coach of the club told him that he experienced different reactions from players when he was training and coaching them and that he did not quite understand where those came from. At the time, the club had players of eight different nationalities in its first team. Could John help the coach? The question initiated his first steps on the path of intercultural management.

Keywords

Culture • Intercultural management • Power distance • Masculinity • Femininity • Uncertainty • Long-term orientation, individualism • Collectivism • Geert Hofstede

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Introduction

In the second half of the 1990s, the club had contracted players from the Netherlands, Belgium, Poland, Hungary, Denmark, Nigeria, Italy, and Greece. Players from different cultural backgrounds living and working in the Netherlands where confronted with Dutch culture and a Dutch trainer/coach, who was confronted with reactions from different cultural backgrounds to his statements. Let's have a closer look at an example.

Analyzing the next game's opponent, the trainer would address different players to explain how their personal adversaries most likely were going to play and to tell them how they should cope with that. A Belgian player would not say anything, just listen to the coach, go on the pitch, and do what he was told.

A Dutch player, on the contrary, would challenge the trainer's arguments by for instance asking him whether he saw this or that match in which the referred player acted differently.

Flemish speaking Belgians and Dutch almost speak the same language, so the obstacle of a language barrier – an additional problem with the others, even when some soccer insiders will tell you there is something like an international soccer language – did not exist. But even speaking the same language does not mean that people have the same cultural background.

On his search for possibilities to help the trainer/coach on this topic, John discovered Geert Hofstede and his 5-D model (Hofstede 2001), which meanwhile has developed into a 6-D model.

Hofstede's theory is a framework for cross-cultural communication. It describes the effects of a society's culture on the values of its members and how these values relate to their behavior. The theory has been widely used in international management and cross-cultural communication.

The original theory proposed four dimensions along which cultural values could be analyzed: individualism-collectivism; uncertainty avoidance; power distance; and masculinity-femininity. In 1991, Hofstede added a fifth dimension to his model: long-term orientation versus short-term orientation. In the 2010 edition of his standard work "Cultures and Organizations: Software of the Mind," he added a sixth dimension: indulgence versus self-restraint. However, in John's time with the club there were only five.

1. **Power distance index (PDI)**:
   "Power distance is the extent to which the less powerful members of organizations and institutions (like the family) accept and expect that power is distributed unequally." Cultures that endorse low power distance expect and accept power relations that are more consultative or democratic. People relate to one another more as equals regardless of formal positions.

   Subordinates are more comfortable with and demand the right to contribute to and critique the decision-making of those in power. In high power distance countries, less powerful accept power relations that are more autocratic and paternalistic. Subordinates acknowledge the power of others simply based on where they are situated in certain formal hierarchical positions. As such, the power distance index does not reflect an objective difference in power distribution, but rather the way people perceive power differences.

2. **Individualism versus collectivism (IDV)**:
   In individualistic societies, the stress is put on personal achievements and individual rights. People are expected to stand up for themselves and their immediate family and to choose their own affiliations. In contrast, in collectivist societies, individuals act predominantly regarded as members of a lifelong and cohesive group or organization. People have large extended families, which are used as a protection in exchange for unquestioning loyalty.
3. **Uncertainty avoidance index (UAI)**:
   This dimension reflects the extent to which members of a society attempt to cope with anxiety by minimizing uncertainty. People in cultures with high uncertainty avoidance tend to be more emotional. They try to minimize the occurrence of unknown and unusual circumstances and to proceed with careful changes step by step by planning and by implementing rules, laws, and regulations. In contrast, low uncertainty avoidance cultures accept and feel comfortable in unstructured situations or changeable environments and try to have as few rules as possible. People in these cultures tend to be more pragmatic, and they are also more tolerant of change.
4. **Masculinity (MAS) versus femininity**:
   Masculine cultures' values are competitiveness, materialism, ambition, and power, whereas feminine cultures place more value on relationships and quality of life. In masculine cultures, the differences between gender roles are more dramatic and less fluid than in feminine cultures where men and women have the same values emphasizing modesty and caring.
5. **Long-term orientation**:
   Long-term oriented societies attach more importance to the future. They foster pragmatic values oriented towards rewards, including persistence, saving, and capacity for adaptation. In short-term oriented societies, values promoted are related to the past and the present, including steadiness, respect for tradition, preservation of one's face, reciprocation, and fulfilling social obligations.

Practical Application

John introduced the Hofstede concept to the trainer of the soccer team. The first reaction of the trainer was that the concept seemed rather theoretical and he was asking John how this could really help explaining or even improving the leadership situation.

Hence, John started explaining the concept with relating real-life experiences to the statistical findings of Hofstede. John discussed the experience of different reactions of Dutch vs. Belgian players to the trainers' instructions.

The first and most important was the comparison of "Power Distance":

The Netherlands score in the power distance index 38 (of 100) while Belgium score with 65 significantly higher.

John explained to the trainer the details of Hofstede's findings regarding those two indexes:

According to Hofstede, the Netherlands score low on power distance (score of 38) which means that the following characterizes the Dutch style: Being independent, hierarchy for convenience only, equal rights, superiors accessible, coaching leader, management facilitates, and empowers. Power is decentralized and managers count on the experience of their team members. Employees expect to be consulted. Control is disliked and attitude towards managers are informal and on first name basis. Communication is direct and participative.

One the other hand, the high power distance of Belgium indicates that Belgians tend to accept inequalities. Hierarchy is needed if not existential. The superiors have privileges and are often inaccessible. The power is centralized in Belgium. In management, the attitude towards managers is more formal and on family name basis (at least, in the first contact). The information flow is hierarchical. The way information is controlled is associated with power, therefore unequally distributed. Control is normal, and even expected, but considered as formal and not key for efficiency.

The trainer could clearly see that the behavior he observed was in line with the findings of Hofstede.

Another relevant index to explain this type of behavior is the degree of individualism, where the Netherlands score only slightly higher with 80 versus Belgium 75.

The Netherlands, with a score of 80, is an individualistic society. This means there is a high preference for a loosely-knit social framework in which individuals are expected to take care of themselves and their immediate families only. In individualistic societies, offense causes guilt and a loss of self-esteem, the employer-employee relationship is a contract based on mutual advantage, hiring and promotion decisions are supposed to be based on merit only, and management is the management of individuals.

Belgium also scores high on the individualistic index. This means that the Belgians favor individual and private opinions, taking care of themselves and immediate family rather than belonging to a group. In the work environment, the relationship with work is contract based, the focus is on the task, and autonomy is favored. The management is the management of individuals and the recognition of one's work is expected. People can voice their opinion, but towards power holders, a less direct style is preferred than amongst peers.

John explained to the trainer that with a much higher power distance index of Belgium vs. Netherland and a slightly lower individualism index of Belgium vs. Netherlands, the reactions of the players were in line with Hofstede's findings.

An additional interpretation was that the high individualism of Belgians indicates that probably they also had clear own ideas what would be good strategies in the game, but due to the high power distance they refrained from articulating these.

As a next step, the question was if now also players from the other countries (Poland, Hungary, Denmark, Nigeria, Italy, and Greece) should be analyzed based on their respective cultural background and if their behavior also is in line with the essence of Hofstede's indicators. In this case, the results were not as clear as they were regarding the Belgians and Dutch. John and the trainer discussed why this is the case. It became clear that because the root team came either from Belgium or Netherlands, these were the both cultures dominating the team. Individual players coming from other national backgrounds did either identify with the one (Dutch) or other (Belgian) type of behavior. They recognized that there are not only national cultures but that also a team can develop its own culture and that a trainer can also influence this:

- If the trainer would rather penalize those players who questioned his instructions, the team culture would rather develop towards the high power distance, meaning that the other players would rather be incentivized to follow the "Belgian" approach of doing what the coach instructed them to do.
- If on the other hand, the trainer would publicly appreciate the ideas and input of the Dutch players, the other players would rather follow the "Dutch" approach.

The trainer and John agreed that both behavioral tendencies, the disciplined behavior of the Belgians and the rather debating style of the Dutch, had their pros and cons:

The disciplined Belgian style led to an aligned strategy on the field but probably the trainer did not get all good ideas which were in the mind of the players.

Rather debating a Dutch style gave the trainer some good new impulses for his strategy but especially when the game was already running led to lengthy discussions and a lack of clear direction for all.

As a conclusion, the trainer and John agreed that it is a good strategy to provide positive feedback to those players who came up with good ideas during the initial discussion in order to incentivize all players to do so but to also demand discipline once the trainer made a final decision on the strategy. This way the best of "both cultural worlds" would be integrated.

Final Remark

The findings of Geert Hofstede helped John to help his trainer in understanding and actively influencing the culture development within an international team. While the indicators help to identify certain cultural tendencies, they should not be used to stereotype individuals! As could be seen in the case of the players from other nations, their behavior was rather influenced by the team. This means that the model should be used to better see and manage cultural differences but not to predict individual behavior and not to judge people based on their cultural background.

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Training and Qualification: Essentials of New Learning

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Hartmut Scholl and Andrea Baldus

Contents

Abstract

In an environment where the only constant is change, learning has become absolutely essential to every organization's competitiveness. The rise of learning has precipitated a dramatic change in exactly what learning means in an organizational context.

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Digital media play a pivotal role in this transformation. They enable necessary changes – not only to how people learn within organizations but also to how organizations themselves can become much-heralded “learning organizations.”

Demand is growing fast for new learning approaches that support performance and can be initiated and accessed on the fly from the workplace. Supply, on the other hand, has not kept up. This is largely because learners, and the professionals who initiate learning, lack sufficient experience in integrating modern media, particularly Web 2.0 tools, into learning processes.

Against this backdrop, it has become essential to fundamentally redesign training programs with respect to media integration. This chapter focuses on Blended Learning 2.0 programs. In section “Introduction: New Learning: A Key Strategic Field for HR Managers”, it identifies the main forces shaping the development of learning and debunks common myths surrounding the use of (Web 2.0) media in organizational learning. Next, section “What is New Learning?” highlights the changes at seven concrete levels – from the shift to more informal learning right up to new target groups for business learning – and provides an overview of important formats and tools.

Section “How New Learning Programs Come About” presents a key piece for the rest of its argumentation: a framework for developing Blended Learning 2.0 programs that fit in with the new learning philosophy. The development process is then explored – from the requirements analysis to blueprints and miniatures to the detailed plan for a new training program. The section concludes by going “outside the box” of formal education programs and looking at high schools and universities.

Section “Leveraging the Opportunities of New Learning: Four Management Perspectives” analyzes the context from four perspectives that play an important role in the innovation/change process – from analyzing culture and emotions to evaluating risks and obstacles. Section “Final Comments and Outlook” presents concluding remarks, looks ahead to the future, and encourages further thought and discussion.

Keywords
E-learning • Course centric • Blended learning • Web 2.0 • Informal learning • Social learning • Performance management

Introduction: New Learning – A Key Strategic Field for HR Managers

New approaches to training and people development – which this section groups under the term “new learning” – represent an important field of endeavor for every HR manager. These innovations have refined or revolutionized complementary concepts and technologies and opened up new, relevant options for a wide range of people and organizational development processes.

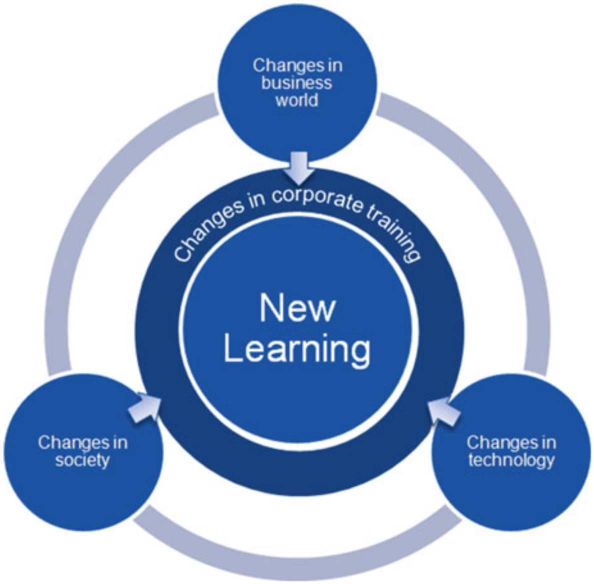


Fig. 1 Changes that affect corporate training

This introduction explains why new learning has gained so much importance in recent years, evolving into a field in which every HR manager has to stay current. The following section also describes the reasons for the recent revolution and future changes in learning and argues that HR managers should assume a special role in this emerging field.

Corporate training has been completely transformed in the past two decades, mainly due to changes in three areas (see Fig. 1):

– Business world
– Technology
– Society

In today's **business world**, nimbleness has become an essential survival skill for organizations. The ability to adapt to new circumstances – new competitors, new technologies, new markets, and new customer needs – is a, if not *the,* critical competitive edge. It is determined by the pace and depth of change across all organizational levels. These two factors – pace and depth – are particularly strong in organizations that have found efficient, effective tools and methods for organizational learning. This is a key competitive advantage that can be unlocked by acquiring the capabilities of a learning organization. That raises the stakes for corporate training immensely.

Technology has undergone a dramatic transformation since the 1990s. The revolutionary new possibilities created by Internet technologies and successor innovations such as increasingly powerful, connected, and ubiquitous mobile devices have permanently changed the way people learn, train, and work in organizations.

They grant access to a virtually limitless pool of knowledge, manage and track use, and provide a wide range of communication possibilities. Combining these capabilities with Web 2.0 technologies allows the emergence of a new type of organization: Enterprise 2.0. By using these tools and approaches for internal and external communication and collaboration, the enterprise and its teams develop entirely new abilities to manage core processes and innovations.

Alongside the technology revolution, **society** is undergoing dramatic changes that will alter the face of future corporate training programs. Plummeting birth rates in Western industrialized countries will intensify the already fierce war for talent in the years to come. The remaining skilled professionals, for their part, will take a very different view of organizations and their personal development programs. Innovative training and development programs have become integral to employer branding. New and future workforce entrants will take web-based education and communication tools for granted.

These changes affect the goals and expectations of **corporate training**. This key business function has to respond to needs faster and adapt to new organizational realities, such as the existence of a global workforce. In addition, learning enables two different activities: talent management, i.e., developing talent within an organization to meet specific goals, and performance management, i.e., supporting the continuous improvement of individual and organizational performance. These changes, along with vocal demands for learning programs that are better, more personalized, and more tailored to specific positions, have greatly encouraged the use of web-based technology in corporate training.

These factors drove the first wave of e-learning activities – i.e., the use of Internet- or intranet-based learning programs – around the turn of the millennium. The programs were progressively integrated into a comprehensive blended learning system at varying paces, depending on enterprise maturity. E-learning units were combined with instructor-led classes in a way that maximized the benefits of each method.

The initial, rather sobering experiences with e-learning or blended learning programs coincided with major changes in educational theories and ultimately led to a search for new possibilities. The more personal development professionals look at contemporary web-based training programs, the more they come to question educational models such as self-study through e-learning under two aspects:

Instead of encouraging debate and reflection on the material individually or in groups, many web-based training programs thrust learners into the role of a passive recipient, following nineteenth-century paradigms and ignoring modern educational models such as constructivism. Web 2.0 tools can help tremendously by integrating social and constructivist moments into learning processes and thus making them more open, agile, and effective. This results in Blended Learning 2.0 processes, whose development and key success factors are detailed in this article.

The second aspect is equally relevant: Typical corporate development and training programs are completely course centric. They rely on formal processes for covering prepared material in technology-based and classroom settings. However, individuals tend to learn the most from interacting with coworkers, experts, or customers at work, not from completing e-learning programs or instructor-led seminars. So how does this fact affect what HR units do and what requirements they are expected to meet? The new technologies offer an opportunity to reach out to learning employees outside the virtual or physical classroom and to develop new ways to support workplace performance management.

The new learning approaches presented in this section provide an interesting perspective on these issues for the corporate education professional.

When it comes to supporting informal on-the-job learning, however, relatively few proven tools do exist.

Luckily, real-life experiences with Blended Learning 2.0 processes provide a valuable insight: When incorporating Web 2.0 tools into formal training programs and thus teaching students how to use them effectively, education professionals are indirectly promoting the parallel development of informal learning processes that benefit greatly from these tools. That is why this article advocates the inclusion of Web 2.0 tools in training programs as much as possible. It strengthens users' media literacy and enables HR managers and learners to design and manage informal learning processes more consciously.

Clearly, various factors are changing the face of corporate training and will continue to do so in the years to come. One of these factors is new technology, since it allows training programs to acquire a heretofore unknown degree of quality and reach. First, programs will become less tied to a particular location and encourage more interaction with others. Second, they will target the individual's needs more specifically but still be available more quickly than conventional training products. Third, they will be integrated in formal learning processes but remain flexible, customizable, and tightly integrated with work and knowledge processes.

HR managers will take on an important new role in this process: They will be responsible for launching and refining these processes. They will have to apply their skills as advisors and process enablers in order to develop these training programs. To help the stakeholders understand the challenges ahead, the following section will debunk several myths surrounding new learning and its use in an organizational context, based on observed best practices from the business world:

- **Myth 1: New learning is all about the company's technical infrastructure.** Most technologies – including those described in this article – can be used online and require nothing more than a standard browser. Organizations can also subscribe to technology via a software as a service (SaaS) program, eliminating the need for in-house installation or hosting. It is, however, absolutely essential to have IT professionals on board, particularly in the first several sub-projects. Even if there are very few instances where technical infrastructure would be a show-stopper, integration requirements and security standards should – and can – still be adequately considered.
- **Myth 2: It takes a lot of time and money to get started with new learning.** The external start-up costs for new learning depend heavily on the program design. This is described in more detail in part 4 of this section. It is possible to start a new learning program on a modest budget as long as you take small steps and use SaaS process infrastructure as well as software tools to generate content

and modules yourself. This is particularly true if you compare new learning to other training models. Electronic delivery is not only more efficient but – if done properly (see part 3 of this section) – also more effective. This does not, however, mean that the internal costs are negligible, particularly for initial projects. It should be remembered, though, that most of this investment goes toward developing valuable skills for the HR manager of the future.

- **Myth 3: New learning only makes sense for companies with more than 1,000 employees.**
  Many companies successfully use new learning despite having far fewer employees. Between the flexible solutions, countless sources for off-the-shelf content, and access to (inexpensive) Web 2.0 tools, it is possible to provide cost-effective new learning programs for relatively small teams and organizations. Ultimately, company size is less important than the drivers described above. Head count is a misleading metric anyway since new learning programs are often ideal tools for developing market partners and customers outside of traditional organizational boundary lines.
- **Myth 4: New learning is only for white-collar workers.**
  There are once again countless real-life examples to disprove this myth. Nevertheless, the content and learning process must still be adapted to employees who have less experience learning and using technology. The first step in developing a new training program is thus to analyze the target group and their study skills and media literacy. Once this is done, it is certainly possible to develop successful training programs for blue-collar workers.

  The following section of this article looks more closely at new learning and clarifies several key terms used in current discussions. Then, it provides an overview of the huge variety of available approaches and tools by presenting brief profiles of key tools.

What is New Learning?

Formal Training Programs Compatible with New Learning: The Evolution of E-Learning into Blended Learning 2.0

Learning has changed dramatically in the last two decades. Educational software was introduced in the late 1980s but was completely revolutionized by the advent of Internet technology (see Fig. 2). Now, training programs can be published on the Internet or corporate intranet in order to give all employees worldwide access to the same content. Homework or test results can be uploaded to a central server to track student progress and grade the learners' work. The efficiency gains are enormous. However, many organizations are still reluctant to use e-learning or have only just begun to consider adopting it.

The evolution of learning platforms has enabled successful e-learning adopters to refine their training programs. They can now integrate curricula or learning pathways into their learning platform in order to build a learning process out of different

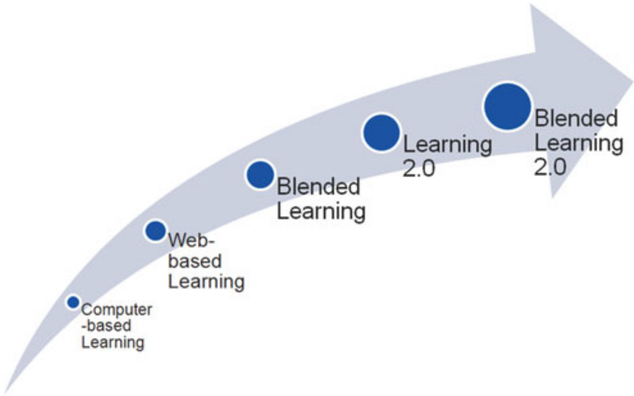


Fig. 2 The evolution of digitally supported learning in courses

educational software programs, online quizzes, and instructor-led classes. Students navigate the learning process by meeting certain conditions and gradually unlocking modules to create a partially customized training program. This combination of online training and instructor-led learning is known as "blended learning." Training professionals quickly learned that blended learning processes can be made more sophisticated by incorporating modules such as completing documents, meeting with managers, or attending face-to-face events such as workshops.

This trend continued as the adoption of Web 2.0 tools took off. More and more wikis, blogs, or forums are being incorporated into learning platforms as part of a training program. After using these technologies as mere Learning 2.0 communication tools, many training professionals are now looking for process ideas in order to incorporate them into specific tasks in the blended learning process. This type of scenario is referred to as Blended Learning 2.0.

A practical question: "If I want to adopt new learning at my company, do I have to go through each stage in its evolution one by one or can I just start with Blended Learning 2.0?"

There is no rule saying that you have to complete the e-learning and blended learning stages before adopting Blended Learning 2.0 at your company. It may even make more sense to start out with the latest adaptable, personalized training program that is social even in the online phase. For example, participatory learning is often preferred over conventional, cognitively oriented classes, especially for training related to change processes. Also, a Blended Learning 2.0 program makes it easier to credibly identify skills that must be acquired before an organization can make the strategic shift to Enterprise 2.0. The adoption of new training methods, however, is a change that affects learners, their coworkers, instructors, and HR managers. After all, Blended Learning 2.0 programs require students to have advanced self-organization and self-study skills, managers to support their employees, and instructors to moderate the learning processes.

Beyond Course-Centric Learning: New Learning and Informal Learning

Learning will obviously continue to evolve. As mentioned in the first section, there is much debate about expanding the learning concept to include informal, non-course-centric learning. Despite all its flexibility, decentralization, and social features, Blended Learning 2.0 extends very little, if at all, into our work context. Bearing in mind, once more, the goal of facilitating enterprise-wide performance management, one cannot avoid the question how learning – in the context of individual performance delivery – can be supported.

New learning embodies this more expansive vision: It incorporates formal training programs, including Blended Learning 2.0 processes, but also integrates non-course-centric learning processes. Skillfully managing the first aspect is the best preparation for successfully designing processes in the second category.

New Learning: The Field Today

New learning can best be defined by presenting the most important development directions that currently shape new learning and training programs. They are summarized in Fig. 3.

From Formal to Informal Learning

Organizing formal learning takes up most of the attention in corporate training departments. Formal learning comprises all training activities conducted in a structured, organized fashion (defined training programs with formulated learning

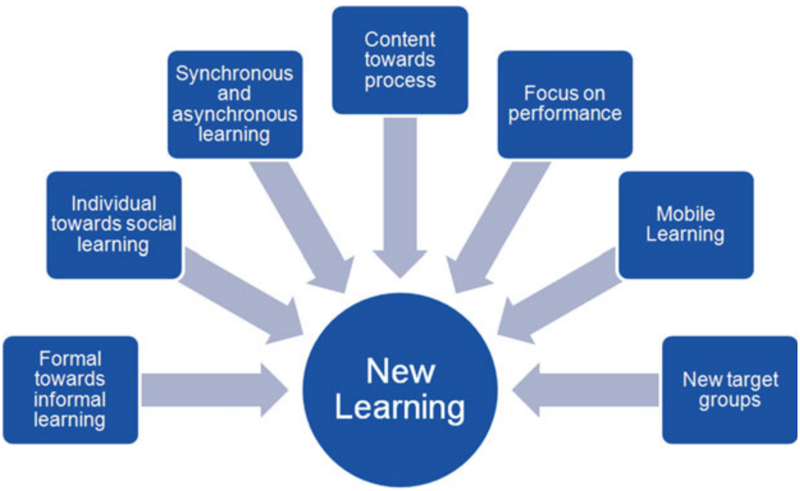


Fig. 3 Central development directions that shape new learning

objectives) and obviously designed to achieve certain goals. Informal learning, by contrast, comprises learning processes that occur as part of an ordinary workday and are often rather casual or at least are not deliberately chosen for their educational quality. Typical informal learning processes include using new technologies such as a tablet PC or attending an industry event.

The growing importance of informal learning processes in the corporate training industry has much to do with the 70/20/10 model. It states that 90 % of knowledge and skill acquisition comes from informal learning processes – with 70 % acquired from one's job and 20 % from interacting with others – and only 10 % from formal learning. This assumption, based on studies conducted by McCall, Lombardo, and Eichinger (Lombardo and Eichinger 1996), suggests that training professionals have to examine their possible and perceived roles with respect to learning processes outside of classrooms and class catalogs. There are several important questions to answer: How can education professionals support and optimize on-the-job learning with our current processes, tools, and methodologies? How can HR managers apply their insights from today's highly class- and instructor-centric learning to informal knowledge acquisition and transfer processes?

Even if our jobs as HR managers – like this article – revolve mainly around designing formal training programs, these programs hold many lessons for informal learning as well. Being experts in learning processes, HR managers are perfectly positioned to optimize existing processes and tools for informal learning or to develop entirely new ones.

So how does this apply to your new learning agenda? Bring your core training programs in line with the latest Blended Learning 2.0 approach, gain experience with more agile, technology-supported learning methodologies, seek out the current state of the art in informal learning and tackle challenges of relevance to you. Then, in the next several rounds, you can become a driver of good ideas and an advocate of a practicable quality concept.

Individual Versus Social Learning

As learning technologies evolve, it becomes increasingly possible to personalize learning processes and programs. Content and learning programs can be chosen and delivered to users based on their test scores, previous knowledge, or learning platform activities. This produces individual learning processes that are even more targeted and effective than ever before.

Learning programs built around web-based tools were long focused on individual learning – i.e., self-study – even though the importance of social learning was and remains clear to all teachers and education researchers. Now, blended learning has gradually reopened training programs to social learning by combining material covered in self-study with instructor-led classes. There is a growing, widespread trend to allot more space to social learning in formal training programs, including online phases. Many good reasons are behind this trend:

First, an abstract consideration: In an era where an organization's actions are driven by a shared understanding and assessment of reality, interactions between organization members help strengthen their ability to act cohesively. In times of rapidly accelerating change, students' knowledge and potential recent experiences can complement formal lessons on existing content that are captured in documents or taught by instructors.

In addition, social media and tools such as weblogs, microblogs, discussion forums, and wikis, though asynchronous and location independent, also enable students to interact closely and socially in training programs and retain significantly more material over the long term, as the application of Blended Learning 2.0 processes has shown.

So how does this apply to your new learning agenda? Make sure to give social learning enough space in your training products and combine it with the highly efficient, flexible method of individual e-learning.

Synchronous Versus Asynchronous Learning

There are two types of training programs: synchronous programs that students attend simultaneously and asynchronous programs that students complete at their own pace.

Initial e-learning programs provided enormous efficiency gains based on their inherent asynchronicity. Even today, this is part of the charm of material that can be learned through self-study. Incorporating social learning moments into these programs, however, makes it increasingly difficult to work through material asynchronously because students end up waiting for others to complete upstream tasks first. One typical example is discussion forums where students ask questions and wait for other students to answer them. Nothing is more demotivating than sitting around several days for an answer.

This problem can be resolved by integrating more synchronous learning experiences into training programs. Virtual classrooms and other technologies allow synchronous modules to be completed remotely. Conventional instructor-led classes or workshops are still perfectly legitimate parts of the learning process, but their focus will shift from teaching new material – which is covered by other modules in the blended learning process – to completing assignments and participating in discussions.

So how does this apply to your new learning agenda? When staging your course, make sure to strike a sound, complementary balance between synchronous and asynchronous experiences. Provide enough space for simultaneity in social learning. Use the powerful, flexible tool of virtual classrooms.

Content Versus Process

Since the advent of Blended Learning 2.0 – i.e., multiphase learning processes that use Web 2.0 tools – the focus has shifted from the course material to the learning process itself.

In past e-learning productions, much of the effort went toward developing multimedia course content. While the resulting content may have been well presented, it proved to be an inefficient use of resources since the chosen teaching method – self-study – was limited in its usefulness and applicability to a busy workday. The high-end content turned out to be impractical, too, as training professionals realized that it was complicated and time consuming to modify and maintain.

Blended learning processes have ushered in a procedural paradigm that relies on powerful infrastructure. As such, program designers have shifted their focus from content to the process: Instead of generating shiny course material, they are more interested in productive workshops in virtual classrooms or surprisingly enlightening WebQuests. This also leads to a renaissance of pragmatically prepared content such as well-structured documents embedded as links or video clips selected from a recorded webinar.

Another outgrowth of this trend is game-based learning, also known to developers as gamification. Games create a special relationship between content and the process, although the gaming elements generally come from a cleverly designed process, not from the content. This genre includes learning apps in which users compete with themselves or others to answer test questions and obtain certain scores.

As such, when this article looks at developing a Blended Learning 2.0 process, it deliberately focuses on the development of the learning process, not the course material.

So how does this apply to your new learning agenda?

First, invest time in the overall learning process and possibly the transfer process. Once you have rid yourself of delusions of producing overly polished content, take a look at the current crop of media production tools and start to develop your own skills in highly focused experiments and pilot projects.

From Learning to Focusing on Performance and Development

Another factor coloring the new learning debate is the growing focus of learning activities on development and performance. In many organizations, learning and development (L&D) professionals have successfully established themselves as business partners who carefully tailor their programs to meet the business' needs and to deliver services that improve performance. New learning programs must be designed to achieve the same goal. Performance orientation thus dovetails with the current renaissance in the promotion and tracking of knowledge application in e-learning.

Performance should be understood very broadly, though. Instead of only using short-term operational indicators to define targets and measure performance, the targets should include long-term dimensions such as adaptability or learning skills as well. In any event, performance support – which generally proves its value in day-to-day operations – will gain even more importance in the years to come and be a driving force in new learning projects.

So how does this apply to your new learning agenda? The difference between application and performance is very real. In a way, it represents a paradigm shift from a course-centric view to an array of flexible strategies for supporting day-to-day operations. Invest in experience so that your activities will directly impact day-to-day operations. There are many fantastic ways to drive the evolution of training programs so they penetrate the work environment more deeply.

Expanding Learning Interactions and Learning Venues: The Significance of Mobile Learning

Mobile learning, also known as “m-learning”, refers to all educational activities performed on mobile devices such as smartphones or tablets. These fabulously successful devices – approx. two-thirds of the population use them to go online in Western industrialized nations, and many more people join them every day – represent an entirely new touch point to learners.

Mobile access holds untold opportunities for new learning. There are many advantages compared to PC-based learning. For one, mobile devices are highly available. They are often taken into meetings or on business trips and are always online and connected to the current knowledge base and the latest community communications. That makes them an ideal tool for learning in a work environment. Also, they can be used to deliver short reminders or content. These “push messages” can support a variety of goals such as the application of knowledge. For example, students can be sent learning nuggets that briefly summarize lessons and suggest specific ways to apply them at work in later stages of a blended learning process. This supports the transfer of knowledge from the classroom to the workplace.

In addition, mobile devices also provide fast, easy access to social tools that students can use to interact with other learners or team members, communities of practice, and even the instructor. They also come with many extra features such as cameras for photos and videos, calendars, and localization. These functions make it much simpler to evaluate content or invite comments on a picture from the learning community than on a PC. This is where mobile devices can help drive the evolution of informal learning processes.

A look ahead to the future will reveal even more promising innovations on the horizon. First, learning programs on mobile devices have yet to discover many existing smartphone functions (e.g., heart rate monitor, cameras, shake to shuffle). Also, the Internet of things will bring forth a host of new devices – from smartwatches to digital wallpapers – that will support the implementation of new learning ideas.

So how does this apply to your new learning agenda? Reexamine how you use mobile devices. Join the innovators if you haven’t already. Make abundant use of these exciting web-based services yourself. Give small teams – particularly those made up of young digital natives – the freedom to conduct experiments and pilot projects. Encourage them to reflect on their experiences and keep this issue on the radar of your stakeholders, especially if they are clients in functional departments or senior management.

New Target Groups

Learning and learning processes have never been restricted to the HR and educational domains. Other functions such as sales or marketing have always been interested in ways to inform and empower customers, suppliers, or market partners.

Customer-focused learning – i.e., training programs that target customers and rely on interactive, multimedia learning software or a large catalog of webinars to educate buyers on the proper use and maintenance of products – is an integral part of the standard customer loyalty toolkit at many companies.

HR and education professionals can position themselves as business partners and consultants for this entirely new discipline in learning and development. At a minimum, they can contribute to the development and support of training programs as mentors and process facilitators in order to identify synergies and establish feasible quality standards.

So how does this apply to your new learning agenda? Once you have learned to see beyond the still-dominant course-centric view, you will spot opportunities to use your skill set that are attractive for reasons other than the allocated budgets. To have an impact, you will have to retain intellectual leadership regarding the conceptually and technologically innovative possibilities opened up by new learning.

Other Trends that Will Shape the Debate in the Near Future

New issues join the debate every day, partly due to technological change and partly due to their ties to other issues. The following section will highlight four additional aspects to complete our review of new learning and provide further inspiration to readers from the L&D field.

First and foremost is “learning analytics.” It is a logical consequence of technological progress but has radical educational implications as well. These implications have little to do with individualized tracking, which has very little chance of establishing itself, especially in continental Europe. Rather, data analysis can help identify points where learners abandon the learning process or appear particularly motivated and potentially correlate these points with certain performance characteristics. These insights can be extremely valuable for improving training programs.

The second aspect is the “learning leader.” Managers have traditionally initiated change processes. Now, though, they are also increasingly being perceived as the designers, developers, and supporters of learning processes. This change has been spearheaded by a new generation of leaders but is also driven by access to simpler tools. Proper use of these tools and thus their effective application in day-to-day management is presented as a new leadership skill in Roland Deiser’s article “Six social-media skills every leader needs” (2013).

Another fundamental change in learning comes from the shift from “push” to “pull” learning. As mentioned in our description of the transition from formal to informal learning processes, learners will no longer be assigned material to learn (push), but will rather seek it out themselves and integrate it into their personal learning environment (pull). This shift is driven in part by changing employee expectations, particularly among high potentials who demand programs that support their development and effectiveness.

Finally, education professionals may in the future experience additional changes to the elements and substance of learning processes. Instead of jumping on overly hyped bandwagons such as gamification, HR managers should look at new approaches to collecting and curating various knowledge and process nuggets – approaches that may be fueled by new interface standards such as the Tin Can API (Experience API or xAPI).

Conclusion

New learning programs can be applied in a space whose dimensions have and will continue to change in response to the shifts in the underlying aspects described above.

For new learning to succeed, it must be fully integrated in the surrounding context. This also means integrating:

- Work associates. New learning programs should provide ways to include managers or coworkers in the learning process. For example, an assignment in a Blended Learning 2.0 environment may require students to collect information from their work associates. This sets the stage for a far more effective transfer of knowledge from the classroom to the workplace, sensitizes managers and coworkers to the current training process, and lays the groundwork for informal learning.
- Other people or organizational development initiatives. New learning programs should address or reference current people or organizational development initiatives. Is a change process under way in an organizational unit? If so, one assignment in the learning process can be: "How has the change affected the issue we are studying?" Are the results in from a recent leadership feedback survey? If so, they should dictate the practice scenarios used in class by selecting examples that embody those leadership skills that received less than optimal scores overall. Additionally, the results can be used to set up a personal learning portfolio. The programs thus build on each other in order to form a cohesive, coherent vision for participating students, teams, and departments.

Why has this level of integration not been achieved? The most likely explanation is a lack of involvement by stakeholders who have enough experience with the issues and methods to serve as guides. These people must come from within the company since this task cannot be fully outsourced. In addition, there is often a general unwillingness to take on the responsibility for orchestration.

Much can be accomplished by simply getting to know the toolkit better. For that reason, the next section provides a brief, structured overview of proven tools.

New Learning Tools: An Overview

The catalog of tools and functions that support new learning is very wide and has been broadened further by the inclusion of Web 2.0 technologies. It can be hard to make sense of all the options, especially for beginners unfamiliar with the tools and terminology. To make matters even more confusing, there are no generally accepted definitions of the terms or clean boundaries between them.

This section provides a hands-on overview of the various tools and what they can do. It also contains quality criteria on the use and design of each tool.

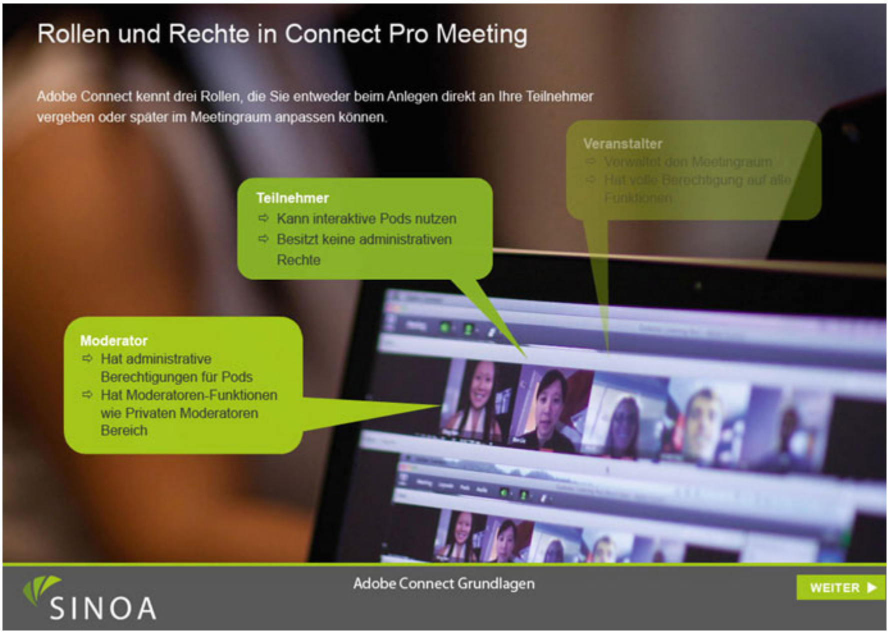


Fig. 4 Example for a web-based training

Web-Based Training

Abbr. WBT, also: online training, online tutorial, and e-training (Fig. 4)

Ideal for beginners, self-study, content that rarely changes, and recurrent training

Brief Description

- Tutorials are accessed and completed over the intranet or Internet.
- Material is prepared by an instructor or subject matter expert and then converted to a multimedia format, usually with an authoring software.
- Pages contain text, charts, pictures, videos, screen recordings, voice-overs, interactive animations, exercises or questions, attached documents, or reference links.

Applications

- Information and knowledge transfer
- Software training courses
- Certification (e.g., compliance, occupational safety, and health)
- Self-study
- Especially for frequently recurring material or material for large classes

Quality Criteria

- Interactivity to stimulate students
- Design, content, and aids devised to support the application of material
- Elegant implementation that permits localization and new compliations of content
- Compatibility with common standards

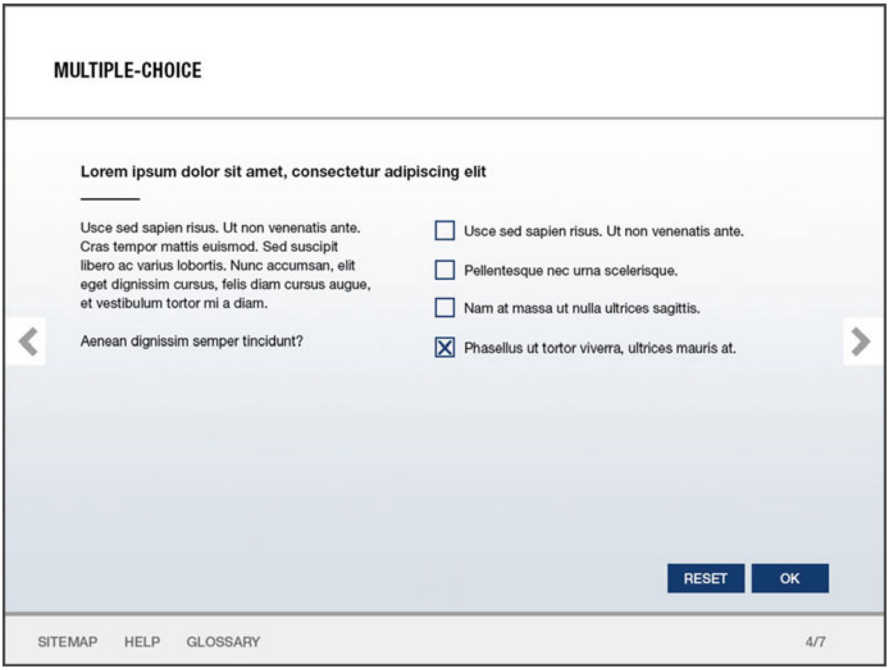


Fig. 5 Example for an online test

Trends

- Small learning nuggets
- Mobile
- Integration with social media
- Video
- Gamification

Online Test

Also: test, quiz, and assessment (Fig. 5)

Ideal for beginners, verifying training effectiveness, and placing students

Brief Description

- Set of questions to be answered by students for testing purposes.
- Created using an authoring software, which usually comes with a fixed set of question types and which can be complemented with some technical skill.
- Student receives feedback immediately after answering a question or at the end of the test.
- Cumulative score and pass/fail grade.

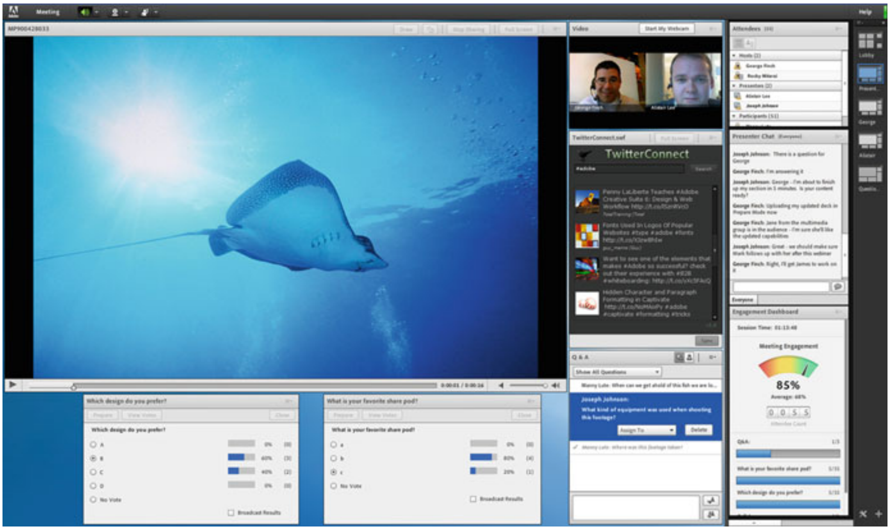


Fig. 6 Example view for a virtual classroom

Applications

- Assessment: advance evaluation of skills or knowledge, e.g., to provide recommendations for subsequent stages in the learning process
- Online tests: follow-up achievement tests to verify students' retention of covered material

Quality Criteria

- Assignment variability and conformity with learning objectives
- Flexibility of assessment and feedback
- Appropriate complexity: randomization of answers and questions, question pools

Trends

- Mobile
- Gamification

Integration of multimedia content and new assignment types

Virtual Classroom

Abbr. VC, also: webinar, e-seminar, web conference, and web meeting (Fig. 6)

Ideal for beginners, group learning, ad hoc learning, and synchronous learning within a blended learning process

Brief Description

- Virtual interface (meeting room) where participants meet and collaborate synchronously

- Audio and video functionality (with computer telephony integration or integrated telephone conference capabilities)
- Presentation (such as screen sharing, presentation) and collaboration (such as whiteboard, chat, voting) tools
- Instructor moderated and instructor controlled

Applications

- Work meetings in the learning process (e.g., kickoff meeting)
- Knowledge and information transfer (max. 90 min)
- Support for applying knowledge
- Individual consultation with coach or instructor (e.g., homework feedback) Small group meetings for Learning 2.0 assignments

Quality Criteria

- Easy introduction for participants; requires no installation or technical knowledge
- Many different ways to interact
- Design variety (different media and views)
- Recording function (with post-editing and export options)

Trends

- Mobile participation
- From webinar to web workshop
- Effective for formal scenarios but even better at vitalizing informal learning
- Technically integrated service instead of a separate event in a parallel system

Web 2.0 Tools: Wiki, Blog, Discussion Forum, Profiles, and Community

Ideal for advanced learners, group learning, and social learning in a blended learning process (Fig. 7.)

Brief Description

- Different tools with different modes of operation
- Student-generated content (posts, questions, uploaded pictures, videos, links to Internet content or websites)
- Feedback from other students through ratings, comments, or answers

Applications

- Sharing in a group or with the instructor/moderator.
- Completion of social learning tasks.
- Blog: learning diary to reflect on own progress.
- Wiki: create a technical glossary or process description.

Profiles: learn more about other group members and their skills – can also be used for networking outside the learning process.

Fig. 7 Example for a Web 2.0 task (WebQuest)

Quality Criteria

- Ease of use
- Smooth integration with the curriculum (tasks in the process)
- Adequate problem sets that actually rely on social learning
- Evaluation and control tools and mechanisms for moderators and tutors

Trends

- Open the tools in the formal learning process to team members, managers, and graduates who are not attending the class.
- Transition to learning communities beyond formal learning processes.
- Use analytics based on automatisms.

Learning Management System to Control the Learning Process

Abbr. LMS, also: learning platform and training platform (Fig. 8)

Ideal for blended learning processes and controlling learning processes

Brief Description

- Password-protected platform with student accounts
- Students can access class material and learning processes
- Combines blended learning modules into a curriculum supported by process control
- Automatic e-mail notifications
- Tracks student progress and results of web-based trainings, online tests and other training elements
- Reports on progress and test results for administrators and authorized functional departments

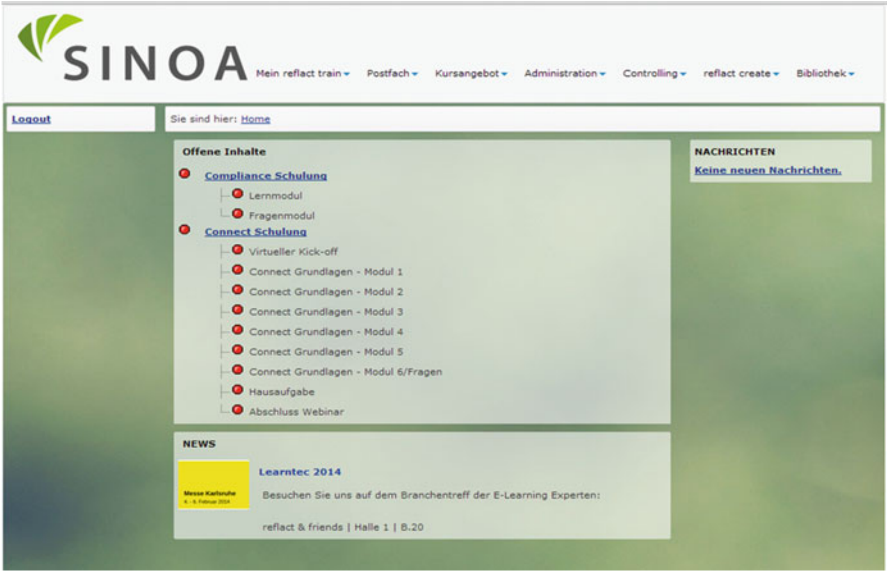


Fig. 8 Example view of a personal learning account in a learning management system

Applications

- Provision of blended learning processes
- Single point of access to all learning tools and material
- Controlling student progress and test results (e.g., as part of certification processes including documentation)

Quality Criteria

- Motivating student experience
- Ability to design complex learning processes including conditions and notifications
- Correct structuring, timing, and staging of individual modules in the processes
- Flexible role and permission model
- Personalized learning portfolio
- Student guidance system to steer students through complex learning processes

Trends

- Mobile access and offline learning
- Learning analytics
- Evolution of LMS into suites consisting of real-time and Learning 2.0 components

New Classroom

Ideal for blended learning processes and advanced users

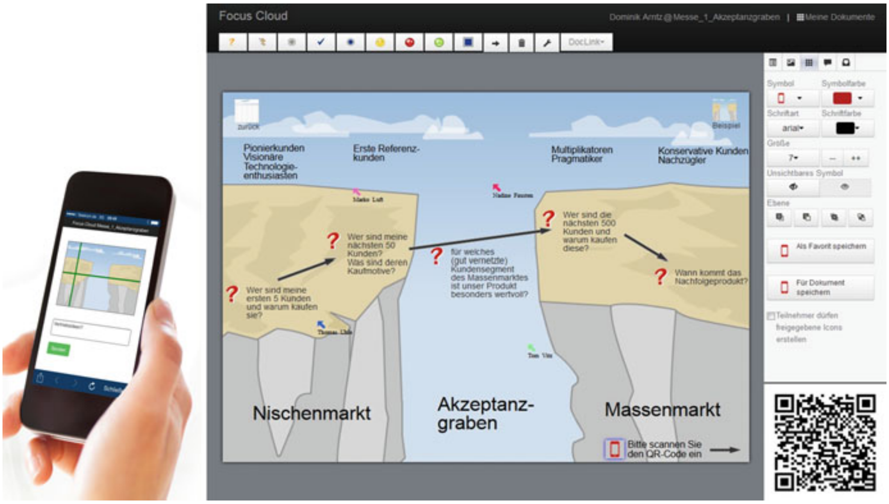


Fig. 9 Example for a digital moderation including smartphone usage

Brief Description

- Instructor-led activities such as classes or workshops that use new media.
- Refer to material from the learning platform during the activity, e.g., discuss group findings.
- Use the learning platform to complete and document certain tasks during the instructor-led phase, e.g., document personal application goals in the platform or the student's learning diary.

Applications

Combines instructor-led and online phases into a blended learning process

Quality Criteria

- Highlight in an integrated learning process
- No longer offline but linked with online activities
- Use of tablets or smartphones

Trends

- Expert on demand
- Hybrid event
- Digitally supported moderation (Fig. 9)

Conclusion

One thing is clear: This is a large range of tools that may overwhelm a beginner. Merely choosing a particular tool does not make an effective learning process, however. The tool must fit the learning objective. Lest detractors say that "A fool with a tool is still a fool", the next section draws the reader's attention to ideas and approaches for developing compelling new learning programs.

How New Learning Programs Come About

After this look at the dimensions that describe new learning and the tools that can be applied in it, this third section explains how to design and implement compelling new learning programs.

All the examples in this section are based on the state of the art in designing formal training programs: Blended Learning 2.0. This kind of multistage blended learning process will use not only web-based and instructor-led classes but Web 2.0 elements as well. Obviously, the following conceptual design process can also be used for less complex learning programs. The basic principles transfer readily to informal learning, too.

The framework shown in the chart below summarizes how to develop and launch a new learning program.

Development Framework for New Learning Programs

Before taking a closer look at the core development process, the key elements of the framework (Fig. 10) will be introduced.

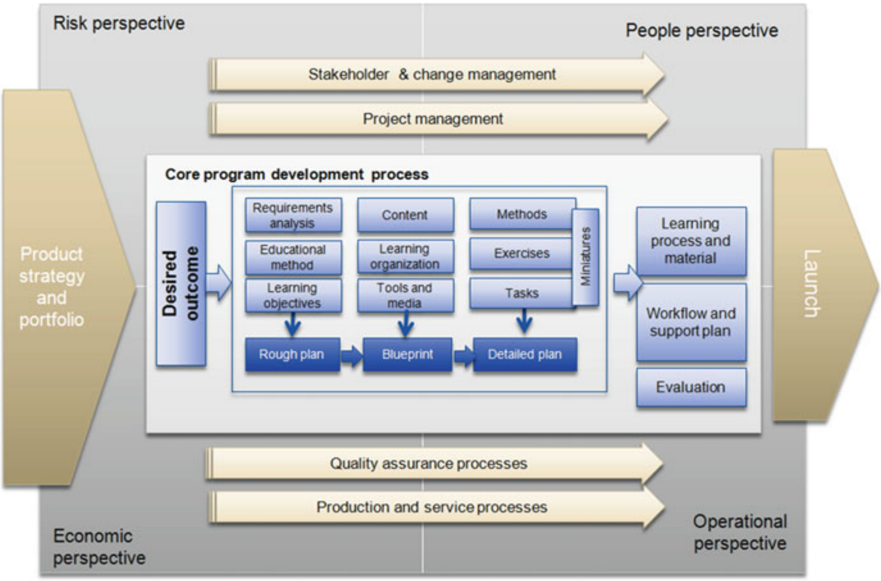


Fig. 10 Framework

- **Product strategy and portfolio**
  The development of a new learning program – which, in our example, is a Blended Learning 2.0 project – begins by positioning it within the overall strategy and educational product portfolio. The development team will have a significant head start if they know:
  - What learning and development programs are required by the organization
  - What possibilities are afforded by modern training approaches

  These two aspects inform the development of suitable training products for the organization.
- **Input: desired outcome**
  For the actual program development, it is important to define the desired outcome of the training program early on (e.g., improvement of "recognition of performance/appreciation" scores in an employee survey as the desired outcome of a manager development program).

  The desired outcome strengthens the performance focus of the learning program, provides a foundation for the remaining program development process, and serves as a starting point for future evaluations.
- **Core program development process**
  The new learning program is developed in order to achieve the desired outcome. The blueprint is the core module – the workflow of the blended learning process. It provides a foundation for developing the detailed plan, which in turn serves as a framework for individual learning modules.

  The following section discusses the steps: from the desired outcome to the blueprint to the detailed plan.
- **Learning process and material, workflow and support plan, and evaluation**
  Program development produces the following elements:
  - Learning process and material: implemented in the form of documents, tutorials, and task descriptions in Web 2.0 tools and implemented on a learning platform that not only controls the blended learning process but also enables it with supportive functions
  - Workflow and support plan: guide for tutors and instructors with instructions on completing lesson modules, including what to communicate and when, as well as tips on supporting students throughout the learning process

  Evaluation: questionnaires and other testing tools to verify students' retention and application of the material and to achieve the desired outcome.
- **Launch**
  The new training product can be launched as soon as the learning process and its constituent modules are implemented. If the training program is not mandatory, the launch should be supported by marketing and communication campaigns that target students, their managers, and potential participants.
- **Economic perspective, people and organizational development perspective, risk perspective, and operational perspective**
  The development of a new learning program is generally embedded in a larger context that can be viewed from various perspectives:
  - Economic perspective

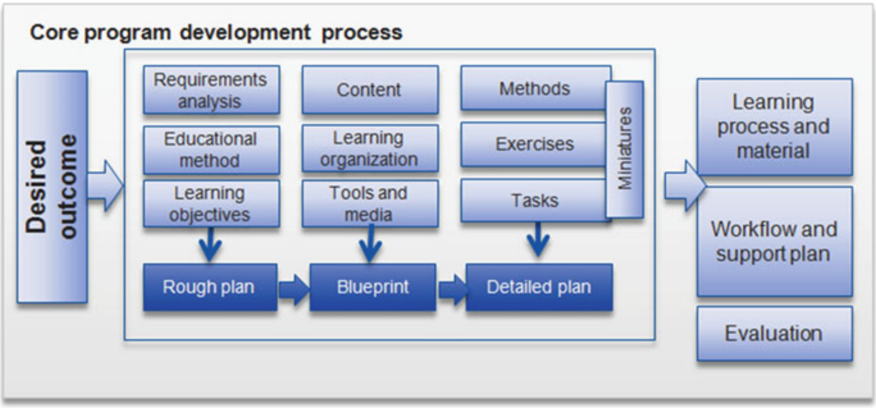


Fig. 11 Core program development process

- People and organizational development perspective
- Risk perspective
- Operational perspective

The fourth section takes a closer look at these perspectives, the resulting consequences, and recommended actions.

Detailed Look: Development of a New Learning Program

This section describes the development of a new learning program. It defines the ideal approach for a development process and makes certain recommendations.

As Figure 11 shows, the development process comprises three phases with three deliverables.

In the first phase, the team carefully analyzes the general conditions and develops a basic outline of the educational methods and learning objectives. These two aspects form a rough plan that guides the rest of the development process. The individual steps are described in more detail below.

In the second phase, the content is organized into a specific sequence in the learning process using learning objectives and available material. The sequence is combined with considerations regarding learning organization, tools, and media in order to make the first workflow map, also known as a blueprint.

In the final phase, the blueprint is used to develop suitable methods, assignments, and tasks in detail. This process produces a detailed plan, which provides a framework for developing the course content and mapping the blended learning process.

The next several sections describe the individual steps in detail.

Requirements Analysis

First, the program developer systematically captures and evaluates the requirements for the new learning program. Many requirements are often apparent from the product strategy or desired outcome.

A requirements analysis typically includes the following definitions:

- Target group (media literacy, relevant prior knowledge, language(s), etc.)
- Time frame and course duration
- Basic organizational conditions (e.g., tying the learning program into other people or organizational development initiatives)
- Available resources (e.g., tutors)
- Preexisting materials (e.g., from previous classes) that can be used later on in the development process
- Extent of the evaluation, i.e., at which levels should training effectiveness be evaluated (e.g., based on Kirkpatrick's categories of reaction, learning, behavior, and results) (Kirkpatrick 2012)
- Other contextual conditions

It is fairly easy to produce requirements analysis templates or checklists that work in all development processes. While they can make a requirements analysis a very brief affair, they do not make it unnecessary. Moreover, the discussions between program development stakeholders (e.g., HR, instructor, functional department) often identify issues that need to be clarified and discussed at this early stage. Otherwise, the underlying assumptions of the project may prove to be incorrect later on, resulting in an even greater need for debate, discussion, and change.

Educational Method

Apart from the general requirements, this first phase should also establish the educational model underlying the learning process. A detailed description of the various educational models used in web-based learning would go beyond the scope of this section. However, two basic trends can be distinguished:

- Instructional design models. These models are based on behavioral or cognitive learning theories. Learners cover the material according to a predefined plan with detailed learning objectives and clear work instructions. The models rely more on mechanistic educational paradigms but can be implemented easily and effectively.
- Contextual design models. These models are rooted in constructivist (learning) theories and therefore tend to pursue a strategy of empowerment. They provide programs where learners can experience the material in a self-organized, unstructured manner and construct the knowledge or skills themselves. In these approaches, material is not presented in a fixed structure, but can be accessed in different ways. Experience has shown that learners must possess some self-organization and self-study skills in order to be successful in this paradigm.

Complex new learning programs that use Web 2.0 tools and are designed as blended learning processes tend to follow contextual design models while still integrating "conventional" instructional design. As such, these trends should be viewed as being complementary, not mutually exclusive.

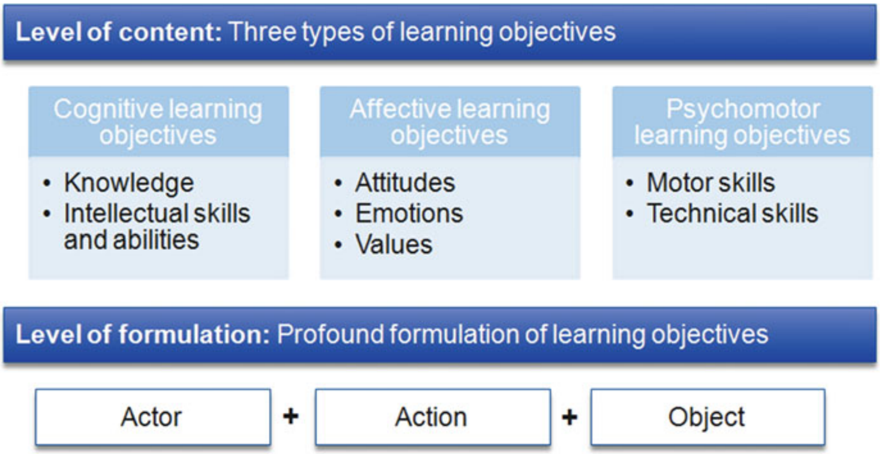


Fig. 12 Design recommendations for learning objectives

Learning Objectives

Next, the learning objectives have to be formulated. This is a crucial step for the rest of the development process and should be performed with due care. Program developers can obtain concrete and – in some cases – detailed recommendations on developing learning objectives from various models and support tools, including Bloom's Taxonomy of Educational Objectives (1956) and other models based on it.

The next section describes the two most important tips for formulating learning objectives (Fig. 12):

First, experience has shown that it helps to define specific learning objectives for each learning domain:

- Cognitive learning objectives: acquisition of knowledge or intellectual skills and abilities
  Example: The learner knows the feedback rules.
- Affective learning objectives: learning certain attitudes, emotions, and values
  Example: Learners have a positive attitude toward feedback meetings with their employees.
- Psychomotor learning objectives: acquisition of new technical or motor skills
  Example: Learners use appropriate body language during the conversation.

The advantage of these domains is that they include attitudes (through the affective learning objectives) instead of being restricted to knowledge and actions.

These learning domains can be used as a starting point in developing the learning objectives. Ideally, program developers will formulate no fewer than 3 and no more than 5 learning objectives per domain. For large training programs this can be a

Table 1 Examples for learning objectives

Actor	Action	Object
The learner	Applies	The feedback rules
The learner	Conducts	Employee critiques constructively but honestly
The learner	Adapts	His or her communication style to the situation

challenge. However, experience has shown that catalogs of more than 15 learning objectives are often too unwieldy to manage in the course of the conceptual design process.

Second, learning objectives should always be formulated in terms of the actor, action, and object. Learning objectives for a communication class for managers could, for example, be expressed as follows (see Table 1).

It may take practice to learn how to design effective learning objectives, but they are essential for the rest of the development process and can be applied in any other form of educational or development program.

Rough Plan

The rough plan is much like an initial project sketch. It summarizes the key points and framework conditions in a requirements analysis and preliminary educational considerations and presents the essence of the program in the form of learning objectives.

The rough plan should be discussed and agreed with everyone involved in developing the new learning program. As with any construction project, any modifications made to the rough plan at a later phase of the project will require extensive changes to the entire structure.

Content

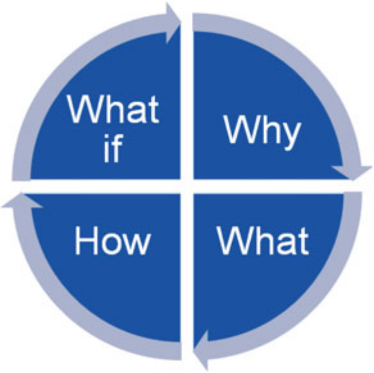
The next phase begins by specifying the course content, learning organization, and tools and media. First, existing materials are compiled, reviewed, and assessed for their relevance to the course content. The learning objectives can be used to organize the content into an initial structure. They form the overall framework. The 4MAT method has proven extremely helpful in structuring and classifying content.

The original 4MAT method, very well known especially in the United States and United Kingdom, assumes that learners can be classified into four different categories. Content should be presented to each category from a different perspective. These perspectives – which have parallels in other educational models – provide a good framework for compiling content.

Figure 13 summarizes the 4MAT perspectives:

The perspectives may have to be adapted to various sub-aspects if the new learning program covers a lot of content.

One practical approach to the 4MAT method involves collecting content keywords for each perspective and, where necessary, supplementing them with references to relevant materials or existing implementation ideas.



Perspective	Content
Why	Why is the course content important to the target group? (Relevance of topic) → Primarily addresses affective learning objectives
What	What exactly is the topic about? →Primarily addresses cognitive learning objectives
How	How can learners apply what they have learned? →Primarily addresses psychomotor learning objectives
What if	What if learners apply the lessons exactly how they were learned? →Primarily addresses affective learning objectives

Fig. 13 Summary of the 4MAT method

A practical question: "Does the challenge of offering content mean that we need to constantly develop new web-based training courses? What are the other types of content?"
Course content can be integrated into the learning process even if it is not a web-based training course produced by an external or in-house team. Educational professionals can adopt the same approach as a "curated" website that integrates content from other platforms, links to other websites, and even comments on the integrated information. The content can be sourced internally or externally.

Typical internal sources for good content:

- Training materials (self-study modules, training videos, presentations and materials for instructor-led classes, handouts)
- Existing process descriptions, manuals, checklists, etc.
- Presentations or other content from functional departments
- Marketing materials, e.g., videos

Typical external sources for good content:

- Trade journals and communities of practice
- Video platforms
- Industry blogs

Copyright laws must be respected when integrating external content.

This open approach to content offers two advantages. First, actively searching for materials often uncovers previously hidden treasures. Second, it makes it much easier to carry out the learning process in the future since it eliminates the time-consuming step of content preparation. This greatly accelerates the time to market of your training program.

Learning Organization

While structuring the course content, the program developer also has to select a learning organization for presenting the content. The learning organization is the setting in which learning takes place. Learning organizations can be defined along different dimensions, but blended learning processes generally use two dimensions (see also Kerres 2013):

- When and how long – the time dimension: timing of the learning process, duration of the individual phases, synchronous versus asynchronous, etc.
- How – the social dimension: individual, teams of two, small group (shared goal or assignment), and learning community

Tools and Media

Next, the program developer starts collecting ideas for tools and media (e.g., video, documents, web-based training). Section "What is New Learning" presents the main tools used to design blended learning processes.

Blueprint

The content, learning organization, tools, and methods are used to develop a "blueprint" – the basic workflow for the learning process. The blueprint essentially embeds the compiled, structured content within a process that uses various tools and methods. The steps, tools, and methods should be chosen based on their ability to support each learning objective.

Program developers may wish to use the chart shown below as a guide when creating the initial process outline. It relates typical phases of the learning process to the various objectives, perspectives, and implementations.

As shown in Table 2, some tools or task archetypes generally work better than others in certain phases but will nonetheless have to be checked for relevance when developing each specific blueprint. Learning phases may also repeat several times in more complex training programs such as a management development course that lasts several months.

One proven moderation method used in blueprint development utilizes a standardized template to organize the course content.

It is based on a time line with two different levels:

- Synchronous elements
- Asynchronous elements
  - Individual
  - Social

Table 2 Objectives, perspectives, and typical implementations for each phase

	Start	Acquisition	Discussion and reinforcement	Transfer to workplace
Objective	Motivation Orientation	Knowledge acquisition in self-study Or Problem orientation: individual or group work on the material	Exercise Application to other contexts Reflection "What if"	Application Answering questions Sharing experience
Main perspective 4MAT	Why	What and how	How and what if	What if
Typical implementation	Virtual kickoff in the virtual classroom	Web-based training Self-study module Social learning task, e.g., on a blog	Instructor-led seminar or workshop Virtual classroom	Virtual classroom Learning diary within a blog

Texts or icons representing the various modules in the learning process are positioned on this background. The first run-through of a blueprint design process can, for example, produce the following learning process (Fig. 14):

This moderation and conceptual design method works well because it consistently generates an abstract, discussable, and understandable view of the entire learning process. It quickly reveals dependencies and imbalances, e.g., between synchronous and asynchronous phases.

The method lends itself to suitably prepared pinboards, to standard software such as Microsoft PowerPoint, or to special moderation software such as "let's focus."

When the blueprint is finished, the program developer will have a workflow that connects course content to tools and learning organization types on a time line. It generally does not yet contain tasks, transitions, or deliverables.

From Blueprint to Detailed Plan

The blueprint is converted to a detailed plan by fleshing out the methods, exercises, and tasks in the individual stages of the learning process. In the process, the program developer answers the following questions based on the conditions laid out in the blueprint (e.g., synchronous stage):

- What method should be used? Methods vary with the tools, just as in instructor-led classes. In the classroom, flip charts can be used for presenting a topic or brainstorming. Likewise, virtual classroom chats can be used to collect ideas or to allow each student to give one or two sentences of feedback.
- What tasks and exercises do the learners have to complete? The blueprint may, for example, call for content to be generated and/or shared by a group in a discussion forum. The detailed plan will define the exact assignment.

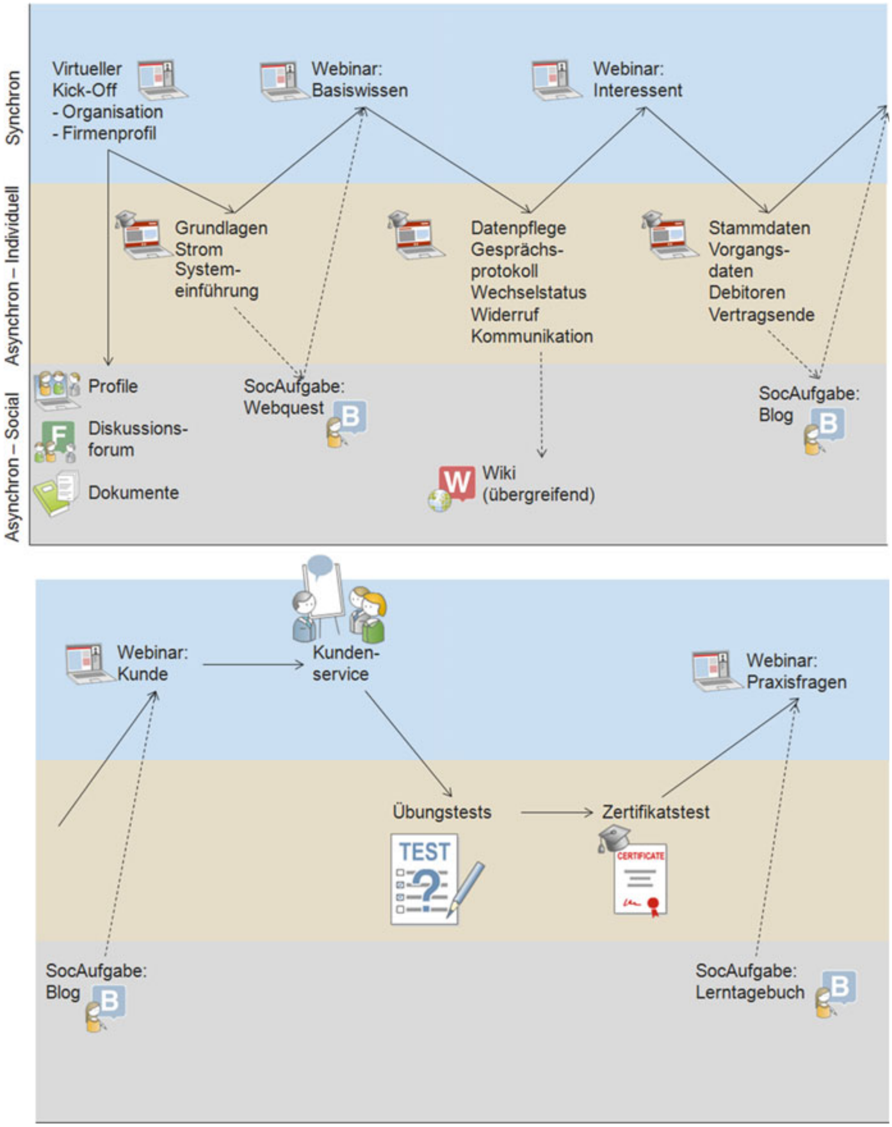


Fig. 14 View of a blueprint

These levels and the blueprint model can be supplemented by another concept: miniatures. Miniatures are self-contained, archetypical series of tasks in the detailed plan that help students achieve a specific learning objective.

They combine a task with a content and one or more tools. All kinds of tasks can be chosen, but this section focuses on social learning tasks since they generally pose the greatest development challenges:

Miniatures lend themselves to a basic principle of cooperative learning known as the "Think-Pair-Share" method. It consists of three phases:

1. Think: Learners are given a task that they must complete by themselves. For example, they may have to read a text or write down their observations. At the end of this (timed) phase, the learners should be able to present their answers to another person.
2. Pair: Next, learners pair up and discuss the results of the first task with their partners. At the end of this second phase, both learners should be able to present their partner's answers to a group.
3. Share: The results are presented and debated in small groups or with the entire class.

This approach can be used with multistep miniatures. For example:

- WebQuest: In a WebQuest, students are sent on a "treasure hunt." They are tasked with compiling information, examples, or artifacts on a certain subject. The Think-Pair-Share method can be used to analyze the findings in more detail with another student and then to present and discuss them with the entire group.
- Film review with sequencing and perspective change: At the start, students are assigned different perspectives (e.g., employee, manager, executive) from which to view the film. Then, they answer concrete questions and share their answers with the entire class in a second or third step. Longer videos can be broken up into different sections, and the students can change perspectives as needed between sections.
- Learning diary: Unlike the first two miniatures, which are more suitable for introducing a new topic and starting a learning process, students keep learning diaries during the entire course until they enter the application phase at the end of the program. Diaries help students capture new insights and implementation ideas in many different ways. Time can even be set aside during class for students to update their diaries. The ideas, insights, and reflections in the students' diary entries support the application phase in a very special way: They are regularly sent to learners as text message or e-mail reminders. To enhance the coaching effect, it is possible to automatically integrate specific questions and include "counterparts" such as fellow students, instructors, or managers. Since these individuals can see, evaluate, and comment on the answers, reflections, and practical questions, the miniature not only helps the learners reflect on their knowledge but also enables managers, the supervisor or the trainer to actively support students in the application phase.

Miniatures can be integrated in the blueprint at suitable junctures.

As the development process continues, the program developer should review and update the blueprint with regard to certain aspects. Among other things, the review should focus on the three key success factors of change processes:

- Lower barriers: How can I lower entry barriers to the process by providing clear explanations or improving user friendliness?

- Boost attractiveness: How can I make participation more attractive by offering more value at various levels and increasing participant motivation?
- Gentle push: How can I subtly encourage attendance by providing advance information or exerting indirect peer pressure?

Using the above principles, program developers can look more closely at three issues that often harbor room for improvement:

- Staging: The entire learning process must be systematically staged with corresponding climaxes. While the staging can be based on the 4MAT method, it should not be overly analytical, but should follow storytelling or similar approaches instead. Staging is also important for individual modules such as a virtual classroom.
- Force fields: These should be double-checked and actively planned into the blueprint in order to keep students engaged in every phase. Essential force fields include the conclusion of upcoming tests and the defining moment when students first meet each other and their instructor face-to-face. Even work associates, if integrated intelligently, can provide energy and momentum for the learning process.
- Transitions: These are the interfaces between steps in the blueprint. They are critical junctures where students often struggle or fail to proceed. For that reason, it helps to specifically map out and integrate transitions in the course of the conceptual design process. For example, all the students can collect questions at the end of a web-based training module and present them in the next learning module, e.g., a virtual classroom.

This analysis can identify missing modules and suboptimal transitions in the blueprint. This is also a good point to create a support plan and work up initial concepts for individual learning modules (e.g., workflow and materials for the virtual classroom).

Next, the program developer begins to work on content and materials for the web-based training course, instructor-led seminar, or other programs. This process is more collection and curation than creation, though. In new learning, content is more like an intelligently composed news broadcast than an elaborately produced movie. Continuity must be maintained, but different contents from within the organization should be deliberately and actively included.

A practical question: "What should you do if you want to create web-based training courses and online tests in-house?"
First, choose the right authoring tool. Some tools, including several with a global footprint, offer ready-made templates for exercises and interactions in order to greatly simplify content creation. Other tools integrate preexisting materials such as Microsoft PowerPoint slides and supplement them with interactive elements. Most modern-day tools have a very short learning curve and can be easily used by authors and subject matter experts.

Be careful: You may be distracted by the interactivity features and lose sight of your primary goal of optimally achieving the learning objectives, especially if you are new to authoring tools. To ensure content quality and training effectiveness, make sure to select exercises that support the learning objective. It pays to invest in continuous skill building, optimization, and good experience. In the best-case scenario, you will acquire a canon of templates – perhaps initially with extensive outside training and support and later only asking for help with special questions – that will make it increasingly easy to work with course content.

Next, the program developer begins to work on content and materials for the web-based training course, instructor-led seminar, or other programs. This process is more collection and curation than creation, though. In Blended Learning 2.0, content is more like an intelligently composed news broadcast than an elaborately produced movie. Continuity must be maintained, but different content from within the organization should be deliberately and actively included.

This systematic development process ensures that learning objectives are achieved. However, it also drives the acquisition of media literacy, particularly when it comes to using 2.0 tools in a business context. It thus serves as an important bridge to the fascinating, hotly debated world of informal learning in organizations.

New Learning: Bridging the Gap from Formal Training Programs to Informal Learning

The above remarks on the development of Blended Learning 2.0 programs refer to formal education programs and how to integrate more open, informal learning elements into them.

Blended Learning 2.0 processes embody many characteristics of informal learning: a powerful social experience, a more open learning process, and openness to students' work associates. All these factors, together with other properties of a well-designed Blended Learning 2.0 program, can have many positive implications for informal learning beyond the official training catalog.

For example, the organization is prepared for the significance of informal learning in day-to-day operations, and not just in formal training programs.

This process depends heavily on the experience that education professionals accumulate over time. In short, well-designed Blended Learning 2.0 processes are inherently conducive to interesting informal learning applications. Furthermore, they offer an excellent opportunity for the HR department to help build Enterprise 2.0 capabilities.

Outside the Box: A Look at High Schools and Universities

To wrap up this section and provide further inspiration, it helps to discuss two exciting approaches used at high schools and universities. They show how new technologies can literally turn traditional training approaches upside down. At the same time, they raise interesting issues of relevance to corporate new learning programs.

A Look at High Schools: Flipped Classroom

A "flipped classroom" (also *flip teaching* or *inverted teaching*) is a term used in high school education. It describes an integrated learning method that "flips" the instruction and homework phases: Students learn the material at home and then apply and practice what they have learned in the classroom. Flipped classrooms often use digital course material or cover the material in a virtual classroom.

The core idea is this: Exercising and applying newly acquired knowledge in a classroom setting makes better use of the benefits of social learning – that is, model learning and feedback from others – than a mere knowledge transfer phase.

While this teaching method was only a trendy buzzword in the United States a few years ago, many European universities and schools are now experimenting with it. It is very similar to the traditional Blended Learning 1.0 process in which the self-study phase consists of instruction, while the instructor-led phase focuses on practicing the material through role-playing and case studies.

Conclusion: While it may be revolutionary for high school students to acquire knowledge asynchronously and apply it synchronously, it is not rare in blended learning scenarios. Indeed, it is far less radical than another trend that has attracted enormous attention and sparked considerable debate, especially at universities: massive open online courses. In these courses, not only is the material taught online, but learners also work on the content online, often together with other learners.

A Look at Universities: MOOCs

Massive open online courses (MOOCs) provide even more inspiration on how new technologies can give rise to new educational products. There may be many different types of MOOCs, but all of them combine more or less traditional teaching methods based on videos, readings, and problems that are discussed and examined in a community comprising learners and teachers, e.g., in discussion forums. Since MOOCs address basically everyone interested in a university education, they open up previously inaccessible programs, including those at Ivy League schools, to people worldwide. Ivy League knowledge is now available to everyone – a very radical concept indeed. The large number of learners could not have been supported effectively without web-based tools. Despite significant dropout rates – which are deliberately factored into the equation – the MOOC approach has been a resounding global success.

The MOOC approach has long been accepted outside the university world. It is thus no surprise that many organizations are already trying to use MOOCs for their training programs. The idea certainly has merit as long as organizations do not attempt to hastily and unproductively integrate university MOOCs as is.

For example, companies could launch in-house MOOCs on internal topics. Since virtually everyone now has the tools to introduce content to the process – from simple comments to a brief video statement or screen recording – this approach harbors plenty of potential for managing skills and knowledge.

Conclusion: MOOCs show how technology can be used to design location-independent learning programs that still contain synchronous and social learning experiences. Even if MOOCs experience high dropout rates due to their initially most attractive feature – openness – the underlying idea still provides many valuable insights and will continue to inform the evolution of corporate training.

Leveraging the Opportunities of New Learning: Four Management Perspectives

It is easier to leverage the benefits of new learning and effectively manage the desirable and less desirable consequences if you distinguish between four dimensions:

- People perspective: effects on motivation, emotion, and culture
- Economic perspective: value drivers and costs
- Operative perspective: administrative consequences
- Risk perspective: risks, potential obstacles, and possible countermeasures

These four perspectives mark the boundaries of the framework presented in section "How New Learning Programs Come About" (Fig. 15).

In addition, this section ends with a short but comprehensive list of dos and don'ts for a successful start with new learning.

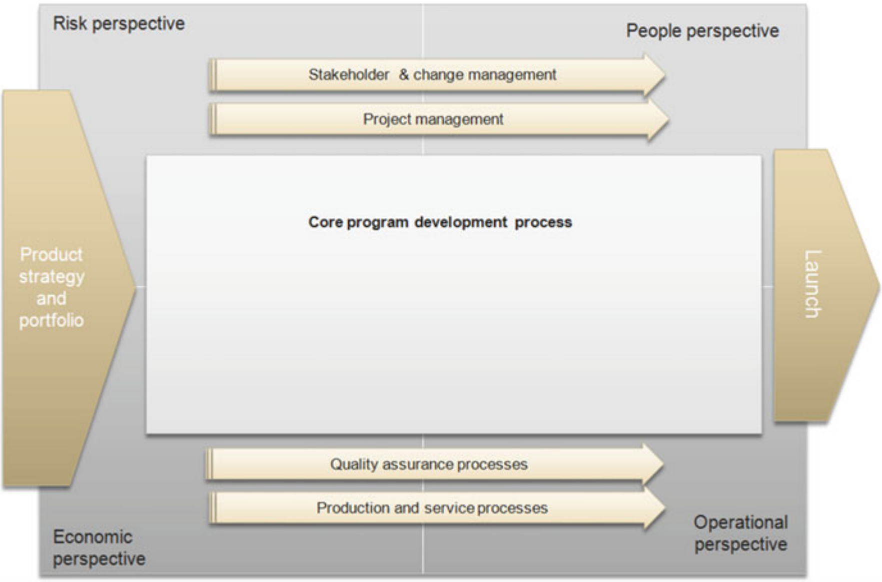


Fig. 15 The four perspectives in the framework

People Perspective

There are two sides to this perspective. First, training programs based on the new methodological model have to be launched in a way that is appropriate for the organization's culture. Second, the use of new learning methods can support strategically necessary organizational changes. Both dimensions are analyzed below.

The introduction of new learning programs is a major change project that, like any transformation initiative, requires appropriate support. The initial learning methods must line up with the company's current learning culture and capabilities. Program developers commonly ask, "Is it better to start out with first-generation web tools (Blended Learning 1.0) or can I begin with a more advanced approach right away?" The answer is simple: Organizations with an open communication culture and appropriate experience may be able to start with Blended Learning 2.0 processes. Thanks to its fixed elements, the course framework provides enough structure and guidance to support social, self-organized informal learning. Without this kind of learning culture and experience, however, it is less promising to, say, invest in a social intranet and expect self-organized informal learning to blossom. Once a particular learning method has been chosen, its development and launch has to be carefully and continuously supported, preferably with the early involvement of key stakeholders such as managers, employee representatives, or instructors. The support communication should always highlight benefits, identify parallels and intersections with other processes and tools, and address and convincingly dispel concerns.

Switching to the new methodological model opens up entirely new opportunities for the organization.

Varied, attractively staged, high-impact training processes motivate students, instructors, support staff, and managers alike.

As self-organized learning processes begin to crystallize in the organization, they also drive the development of skills needed for informal learning in work processes. Employees start to develop their own strategies for structuring knowledge or using Web 2.0 tools to generate and discuss new knowledge. In short, they learn how to learn. These successful activities support the transformation of the learning and information culture and propel the enterprise toward the learning organization paradigm.

Learning thus becomes an increasingly important part of major change processes. Once an organization has developed the ability to use educational and Web 2.0 tools effectively, it can apply this ability to organizational development processes as well. Change Management 2.0 has proven to be a much sought-after but strangely elusive goal. However, this approach may be used to support future change programs in synchronous web workshops or through asynchronous discussions and assignments in blogs, wikis, or video tutorials.

Economic Perspective

New learning projects offer a rapid ROI because, as described above, they benefit the entire enterprise and can unleash considerable untapped efficiency reserves.

Costs are hard to evaluate, however, since the learning technology market remains highly opaque without standard prices. Newcomers can be misled by allegedly low start-up costs – e.g., for license-free open-source learning platforms – only to be stunned at the high adaptation and implementation costs.

The internal costs can be considerable, too. All project phases require input and, at times, significant involvement from experts at various departments. In the implementation phase, students in a new learning program require constant support from instructors – not just in instructor-led classes, but in remote stages as well. Finally, companies that launch extensive new learning programs should consider establishing their own new learning team to handle design, management, support, and student communication for all their courses.

These not insignificant costs are offset by compelling value drivers:

- Long-lasting learning outcomes that benefit students and, in most cases, their organizations
- The opportunity for the HR department to help transform the entire company into an Enterprise 2.0 and learning organization based on new conceptual and technological tools in and outside official training programs
- Modern training programs that are proven to attract better employees, retain them longer, and enhance the employer brand

Operational Perspective

The key players have to tackle new operational tasks, establish new workflows, and make significant changes to current processes in every phase:

- Plan (development and design of the change process)
- Build (establishment of infrastructure and development of content – from conventional course content to social learning tasks)
- Run (ongoing student support and continuous refinement of the learning process)

As described above in the economic perspective, it may be beneficial to assign the normal administrative work to internal resources once the training programs reach a certain size.

Outside assistance is absolutely essential when performing some of these tasks for the first time, especially in the plan and build phases. Internal resources should handle all subsequent iterations and the actual execution, though.

Process manuals have proven to be indispensable in practice. A manual can be created by simply defining and documenting the processes associated with the first new learning program. It explicitly defines the various roles and tasks in development and describes and documents the steps involved in processes such as the creation of a new training program.

Risk Perspective

Developing and launching new learning programs entails risk, as indicated in previous sections. Newcomers may have dabbled in e-learning and possibly new learning but rejected them after some initial attempts. Even more individuals may have been disappointed by the outcomes.

Analyzing the core concepts in the preceding sections will already improve new learning initiatives' chances for success significantly. Nonetheless, the following table describes concrete countermeasures for the most important risks:

Exploding External Costs During Buildup

Possible Countermeasure:

- Roll out adoption in phases.
- Rent infrastructure via a software as a service model.
- Select service providers based on their attitude, capabilities, and strategic fit; always talk to reference clients.
- Devote attention to every phase of the project.
- Draft clearly worded contracts and manage them carefully.

Inadequate Support from Employee Representatives

Possible Countermeasure:

- Involve them early on.
- Clear up critical issues – e.g., who can see the test results and how far can they drill down – and codify them in the process manual.
- Make data privacy agreements with internal stakeholders and, if appropriate, external providers.

Poor Student Acceptance

Possible Countermeasure:

- Adapt the training programs to the organization's learning culture.
- Start with simple target groups.
- Conduct pilot projects to help identify obstacles to acceptance.
- Issue policies on learning times learning times, learning environment and access to learning results e.g. for the supervisor as needed.

Poor Instructor Support

Possible Countermeasure:

- You have to meet the requirements for intellectual leadership, e.g., understanding the possibilities, aligning yourself with senior management, possessing resources, and thinking through processes.

- Then, involve and empower instructors at the right point in time. Win them over with a clean SWOT analysis, an intelligent proposal for action, and a campaign to show and explain how the new approach feels.
- Identify unexpressed conflicts with instructors' interests in advance. Have answers to questions such as "What am I going to lose?" or "How much work will I have to do in order to set up the course initially and support my students over the long term?"

Too Much Effort Required to Design and Manage Courses
Possible Countermeasure:

- Think in terms of smart content (recycle, curate, pragmatically produce) instead of elaborate WBT projects.
- Develop a toolkit of ready-made templates and sample procedures as quickly as possible.
- Define good, self-sustaining tasks that require minimal instructor involvement.

Technical Issues During Implementation
Possible Countermeasure:

- Consult the IT department when selecting technologies.
- Perform sufficient test runs in pilot projects.
- Support process (user help desk and help pages).

Dos and Don'ts

In addition to the risks listed above, the following list of dos and don'ts will help HR and L&D professionals to get started.

Dos:

- Manage your stakeholders actively (see risks and countermeasures above).
- Start with a clear set of software tools, although these might not solve all upcoming questions in the future.
- Excite your learners with an inspiring learning experience.
- Gain experiences first, e.g., by renting software as a service, and then decide on long-term investments (e.g., buying a learning management system).

Don'ts:

- Do not try to decide on every question that might come up within the first years, instead of getting started.
- Do not confront your stakeholders, e.g., instructors and employee representatives, with final concepts or solutions.

- Do not ignore technical trends, e.g., mobile learning which implies major technical implications.
- Do not underestimate the resources in means of time and personnel needed to implement a successful new learning offering.
- Do not invest in a complete software solution without knowing which tools and processes fit your learning culture.

Final Comments and Outlook

This article aimed to explore the creative tension between dramatically changing expectations for organizational learning and the real-life need for a robust process.

Formal Blended Learning 2.0 programs serve as an important bridge in this regard. One of the article's main goals was to provide concrete guidance on what tools to select, how to design learning processes, and how to manage the change process associated with the implementation of new learning.

It is clear overall that HR and L&D professionals now have significantly greater freedom to create and innovate despite differences in the pace of change and in individual dimensions of new learning at their organizations.

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Training and Qualification: Online Leadership Training in Crisis 20

Laurence Baltzer

Contents

Abstract

In 2009 a multinational automotive company implemented cost-saving rules to face the worldwide crisis. These rules included a severe reduction of travel expenditures. Until then, leadership training used to bring internationally mixed groups of leaders together for a traditional, 3–5 day leadership seminar. In order to be able to further offer learning and development, the traditional seminars were transformed into pure virtual seminars that would take place in phone conferences. A 3-day face-to-face seminar would transform into a 12-week development process. The experiment using simple, accessible, and cheap technology turned to be such a success that even though these cost restrictions are over, virtual and blended leadership trainings have become an integral part of the company's training portfolio.

Keywords

Virtual learning • Virtual training • Distance learning • E-learning • Leadership development

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Introduction

For many years it has been a given that training that concentrates of behavioral development like leadership training should take place face-to-face to be successful. The worldwide crisis in 2009 and the cost-saving rules that were implemented in many organizations led to new creativity in the training area and led to surprising positive results.

What Was the Challenge?

In 2009 the crises hit many organizations in the business world. At the beginning of April 2009, the Board of Management of a multinational automotive company announced a cost-reduction program, including a 90 % cut of travel expenditures. At that point of the year, more than 10 % had already been spent, so it was clear that there would be absolutely no traveling until end of the year 2009.

For the department in charge of management training in Europe, which worked for more than 40 small- to middle-sized organizations in 22 European countries, this situation was a real challenge. Until then effort was put into the development of programs, which would create a feeling of belonging to a large organization and generate learning along the same leadership models and theories, disregarding in which country the leaders work.

Overnight it became clear that:

– No leader would be allowed to travel to attend a European leadership training.
– No trainer would be allowed to travel to deliver a leadership training.
– No critical mass would allow for local training.
– No money would be spent to send individuals to external training providers.

Even though the company had a retention issue in several European countries, management training was perceived as a key element of motivation by the young leaders.

What Was Our Plan on Mastering the Challenge?

It was a matter of a few minutes to make the following decision:

The team in charge decided to redesign the existing seminars and deliver them as full virtual seminars. To do so, they would use “normal”, easily accessible technology and would generate no further cost. They also decided to come up with the first fully virtual leadership seminar within 6 weeks.

The decision was made to work by phone. The experience with videoconferences and other IT systems was so far not convincing: The connections were unstable, especially when connecting with several countries at a time, and the risk was that trainers and participants would spend too much time struggling with technology.

Furthermore, not all countries had the equipment, and the videoconference rooms would be hard to book in these times.

In order to keep the phone costs low, a callback system was put in place with the help of the company's switchboard, so that the connections would be paid for centrally according to negotiated low rate contracts.

The team in charge chose an existing easy-to-use and cheap IT platform and reduced the possible features to a minimum including:

- A pinboard
- A file management application in which facilitators and participants could upload and download files
- A chat room for synchronous communication
- A forum for asynchronous communication
- A calendar

Then "the elephant was cut into slices": a 3-day face-to-face seminar became a 12-week virtual seminar. Each week would be dedicated to one topic.

Each session lasted for 2 h on the phone. It included very short inputs, interaction in the big group, interaction in half groups, and individual reflection. The 2-h sessions would be as interactive as possible, as research has proven that humans can concentrate for an absolute maximum of 7 min on the phone.

The event managers put together groups of 12 participants (they later reduced the groups to ten after having gained more insight into the importance of interaction). It was important to ensure that each participant was involved in interaction, without exception. It took quite some effort to create this feeling of belonging and commitment.

The trainers systematically asked for homework (individually or in virtual small groups) in between the modules.

What Was the Real Outcome?

Within 3 months, four face-to-face seminars were transformed into virtual seminars with greater success than expected. Even though the participants missed the warmth of a face-to-face setting, most of them told the trainers that they learned a lot and even felt like "knowing each other." The transformation that included a change from a one timer (3 days in a row) to a process (3 months together as a learning group) made it possible for the participants to learn about one topic per week and then to put the learning into practice. Reflecting the experience with the group 1 week later helped transferring learning into daily life.

The trainers themselves had to change their way of training. This kind of setting needs a strict facilitation as well as very clear "rules of communicating." They always used the first 2-h session of the seminars to explain how they would work together to the new group of participants and to try it out.

Surprisingly enough the team realized that the fact of not seeing each other can generate a greater openness and closeness. Apparently it is sometimes easier to speak things out, when participants don't look into faces.

What Are the Lessons Learned?

Although virtual seminars had been an idea for years, they hadn't been realized at least in "behavioral topics" in that company until that crisis.

What seemed to be a contingency plan turned out to be an extremely interesting and surprising adventure: Participants were not away from their position for several days to attend leadership training and could better integrate learning and daily work. Furthermore, the 12-week process allowed for better integration of the learning and more exchange between the participants. It helped create long-lasting alumni networks.

Even though employees were allowed to travel again in 2010, the decision was made to continue with the great virtual experience and to combine virtual and face-to-face into blended seminars.

Furthermore, the decision was made to explore other options, like virtual worlds, to see if learning as well as a stronger feeling of belonging and closeness can be generated through the use of avatars.

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Training and Qualification: Social Workplace Learning

21

Christiana Scholz

Contents

Abstract

Increasingly complex competitive situations are forcing companies to implement lasting adaptations and innovations. Technological progress accelerates not only our life and our work but also our learning. At the same time, knowledge is no longer permanent, becoming obsolete relatively quickly. For that reason, it is far from sufficient today to simply acquire a set of skills. Rather, the ability to face new challenges creatively, quickly, and above all professionally moves to the forefront. The focus of all efforts with regard to human resources development must therefore be the attainment of competency objectives derived from the business objectives.

Because of this, companies need professional internal competency management that can create flexible and decentralized conditions and enable individual learning at the workplace, both together with colleagues and also with external experts.

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In the future, those responsible for vocational training will have to face these new challenges. But watch out: the future is already here! It is high time to grapple with the learning system of the future, in which collaborative learning and cooperative working merge, and to distill from that the new in-house learning concept.

In the future, organizations that are already working to build up an integrated learning system will surely have an uncatchable lead over companies that hesitate.

Keywords
Vocational learning • Personnel development • Competencies • Competency development • Competency management • Social learning • Workplace learning • Social workplace learning • Knowledge management • Learning organization

Introduction and Overview/Human Resources Development in Transition

The most important competitive advantage is generated when personnel are enabled to master the constantly increasing and increasingly complex challenges of everyday working life self-organized, creatively and quickly, and thus to work competently. The permanently increasing demands on in-house training lead to demand up-to-date, quickly implementable, and directly need-oriented learning concepts. This "just-in-time approach" that originally comes from the production branch is now receiving more and more attention in human resources work as well, due to today's fast pace of life. Working and learning processes are increasingly merging. Capacity building, both in the work process and in the Internet, is of increasing importance.

Who of those working today did not attend schools with concrete learning goals, the testing of that knowledge, and the following valley of forgetting? Besides the huge efforts while learning, the tension, and the stress before and during tests, it was also hard to believe parents when they said one learned for life and not for school, the teacher, or a good report card. Hardly any of the hard-earned knowledge could be directly applied in life. This pattern is often continued in company training concepts – in the form of courses, seminars, and training programs with very general curricula – that is, cookie-cutter training.

The question is how such learning concepts can prepare personnel for sudden and completely new challenges – ready-made educational measures naturally lag a few steps behind the educational needs of the economy and can therefore not guarantee any targeted, individual expertise development. Hence these still widespread "push principle" educational methods do almost nothing to help personnel manage current business demands quickly and successfully.

Kirkpatrick and Kirkpatrick (2006) postulate that only 7–8 % of what is heard in seminars is later used in work. Seventy percent of the learning that is used in practice takes place directly on the job, and 20 % is collaborative, that is, through personal interaction. In this regard, the advice to human resource managers would have to be, "Stop sending your employees to seminars!"

Specific educational measures are needed to meet the necessary individual competency-oriented learning goals appropriate to the attainment of business objectives. To organize this as effectively and efficiently as possible, it is necessary to place them as closely as possible to the pulse of the current professional challenges – daily work. Unlike the externally controlled learning processes in school, employees must per se be self-directed and self-organized in implementing learning and skill acquisition. The responsibility for learning success is transferred to the learner, which brings a not insignificant rethinking process for both education managers and learners and employees. The push principle in vocational training is replaced by the so-called pull principle, which orients itself to the current needs of the employees. In this way, the just-in-time approach is introduced to the world of competitive and competence-oriented human resources development.

The buzzwords "fast," "effective," and "cost-efficient" are of growing importance in human resources development too. While some companies are still organizing their in-house austerity packages in this area and are inflexible, others realized long ago that this is where the key to innovation and competitiveness lies. Social workplace learning – obviously the most economical and efficient method of skills acquisition – focuses on fields of learning from everyday practice, consideration, and initiation of informal learning processes, collaborative learning, and feedback loops. It is precisely this social aspect – the cooperative further development, learning with and from each other, and the result that learning goals and progress are made binding – that is the key to in-company competence development and more than measures up to the just-in-time approach in a modern human resources development strategy.

From Simple Data to Effective Expertise

Data consist of a sequence of characters that add up to something meaningful. They only have significance and become information when they are contextually related to a challenge and can provide expedient input (Reinmann-Rothmeier et al. 2001). A person perceives the available data and recognizes its information content by means of active thought processes. He evaluates its relevance for himself on the basis of his previous experiences, his available knowledge, and his current needs. If the perceived information is relevant for the current situation, the person connects it with his existing knowledge to generate new knowledge (Hasler Roumois 2007). Knowledge, therefore, is clearly distinct from information and data and takes shape individually on the basis of the current situation and on the basis of a person's practical knowledge (see Fig. 1).

Roth (2011) states that knowledge cannot be simply transferred, but must rather be created anew in the brain of every learner. Knowledge can therefore not be "imparted" or simply transmitted, as it is so often formulated. Consequently, knowledge can only be constructed by the self-organized learners themselves.

Skills are characterized by the fact that they only become visible in action (Hasler Roumois 2007). They are not transmitted genetically, but are, rather, based on the self-organized thought and action processes of the individual.

Fig. 1 Data–information–knowledge (Reinmann-Rothmeier et al. 2001)

Skills can be viewed as the ability to cope with new challenges that have high complexity, great uncertainty, and uncertain outcome, by means of creative actions (Erpenbeck and Sauter 2007). This would not be possible solely by means of qualifications, abilities, and knowledge, but they are to be viewed as fundamental prerequisites for competent action (Erpenbeck and Heyse 2007). In the scope of competent actions, existing knowledge bases and abilities are applied to complete complex actions involving noncognitive elements (Strauch et al. 2009), which manifest themselves in rules, norms, and values and therefore represent the heart of competencies (Erpenbeck and Sauter 2007).

Only the practical application, that is, the use of knowledge in personal practice, as well as the evaluation by means of regular feedback loops of whether the kinds of actions taken were actually "correct" or expedient, leads to a continuous development of skills.

This skill development process is accompanied and characterized by emotions and values of the individual, as well as the organizational environment and company norms. In addition, the general conditions created by the organization influence the effectiveness of intended and incidental competence development processes (see Fig. 2) (Sauter and Scholz 2015a).

Knowledge Alone Is Worthless . . . Competent Action Is Necessary!

Highly complex work demands mean that employees can no longer rely solely on earlier knowledge reserves, but must instead develop individual solutions. Thus, daily work does not consist merely of the performance of tasks, but rather constitutes a permanent learning process. Support for the application and augmentation of personal knowledge takes place via real or virtual interaction processes in networks. Knowledge is therefore researched by employees "on demand" in a self-directed manner and integrated in the working and learning process (Pabel 2005).

The subsequent application of knowledge as part of the work process leads to the acquisition of practical knowledge and thereby gradually to competent routines of action and the development of competencies (Hasler Roumois 2007). Consequently,

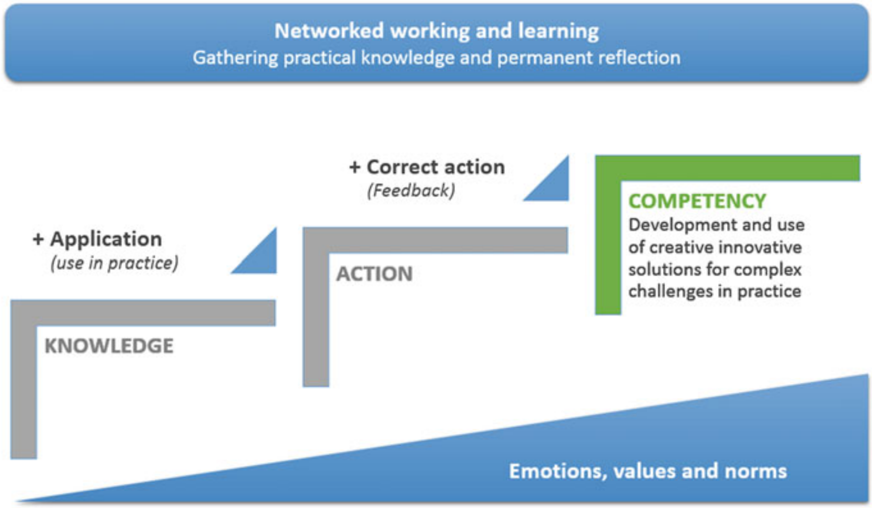

Fig. 2 From knowledge to competency

there will be no clear line in the future between learning and work processes, because work tasks will become learning tasks and work itself will transform into knowledge work (Pabel 2005).

Besides, no problem resembles another today, because the underlying conditions are constantly changing and the possible solutions constantly offer new opportunities with regard to technical options or legal conditions. “The world is changing!” – permanently and inexorably.

This makes the skill of self-organization of learning processes and knowledge work on the part of personnel an important factor for the success of organizations. Companies are therefore well advised to focus the organization and design of their information technology infrastructure accordingly.

From Classic Human Resources Development to Strategy-Oriented Competency Management

Classic personnel development measures will suffer a gradual and significant decline in favor of competency development measures, because organized competency development promises greater accuracy in terms of individual education and competency needs than do traditional vocational training measures. Seminars and learning concepts with high information content will in the future only be relevant within the scope of compliance, legal information and updates, certain norms, etc. A human resources development concept that is dedicated to competence development, however, must necessarily require a strategic focus throughout the company, a corporate culture that recognizes competencies and the identification of the key competencies relevant for the organization as an essential foundation (Scholz 2014).

With regard to future competitive demands, relevant competencies are defined from a strategic point of view, and individual competency targets are derived from them. Besides the individual and very personal consideration of employee competencies, it is interesting for the organization itself to know which competencies are available to be accessed within the company. Existing competencies among personnel often lie idle because managers or coworkers are not aware of them. The job of strategy-oriented competency management is therefore to render transparent the expertise and competencies of employees in such a way that experts within the organization can be identified and used accordingly. To do justice to this "new approach," it is absolutely necessary for those responsible for education and vocational training and/or managers to design the work arrangements and work processes accordingly and engage themselves in the course of their own role with the necessary process of change.

Workplace Learning

Competency development in the course of practical experience is always related to real actions and is therefore referred to as "activity-based learning." Learning takes place in the work process and in the area of social communication (Erpenbeck and Sauter 2007). It must be clearly emphasized that these experiences are inseparably linked to the individual, subjective experience of the learner and the resulting experiences of value and together with the real action and communication processes make a significant contribution to competence development. This plainly practical interaction with the material to be learned constitutes the basic principle of subjective experiential and discovered learning, as well as self-directed or self-organized learning (Bauer et al. 2004). Since vocational training may no longer concentrate exclusively on specialist training, jobs and operating processes must be designed so that learning on the job is possible (Dybowski-Johannson 1996).

New Theories of Learning: Social Learning

More and more learners consciously initiate informal learning processes, in order to acquire knowledge or develop their skills further. In doing so, they make increased use of new media and the resulting possibility to learn networks with other people. These new demands on learning environments find consideration in the learning theoretical model connectivism (Erpenbeck and Sauter 2007). The concept "connectivism" was coined by Siemens (2005) and subsumes learning in a network. The connectivist approach initiates a capacity development cycle in learners and even makes it possible in the first place.

In the process, the individual knowledge of many learners is made available to a network. The sum of all knowledge contributions supports the mutual learning process and the enhancement of existing knowledge, which in turn is available to all network members. Applied in practice, the new knowledge leads yet again to an

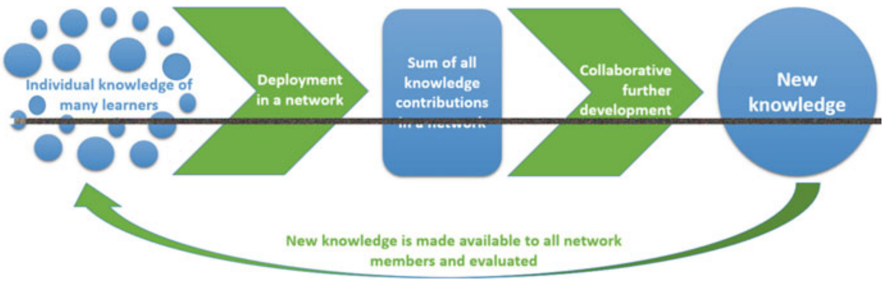

Fig. 3 Connectivist cycle of competence development

increased capacity to act (see Fig. 3). *Social learning* refers to social learning in a network (Sauter and Sauter 2013). It enriches workplace learning additionally through the integration of personal networks into the daily work process (Hart 2013). Social learning in a workplace context initiates collaborative working and learning processes and thereby significantly supports the individual competency development of personnel.

Competency Development: The Emergence of Social Learning at the Workplace

Competency development is to be understood as a process of the expansion, restructuring, and updating of a person's professional, methodical, social, and personal scope of action (Erpenbeck and Sauer 2001). It rests simultaneously on the interiorization of values and the accumulation of knowledge (Erpenbeck and Sauter 2007). Competencies, however, cannot be conveyed, but instead only developed in the form of emotional destabilization (Siebert 2008). Such processes are possible only in real-life situations (Sauter 2012). Therefore, the only possible way to initiate and support competency development lies in the creation of the best possible conditions. Competency-centered human resources management aims to control and optimize immanent competency development processes during daily work (Erpenbeck and Sauter 2007). Although competency development happens wherever interaction takes place (Bauer et al. 2004), it requires certain underlying conditions in the workplace context.

In order to consciously use the emergent effect of social learning processes in the work environment with regard to competency development, from an operational point of view, it is necessary to manifest the topic in the strategic orientation of the organization. Based on this, the functional area of personnel and organizational development must integrate the learning processes into the work processes. The goal here is to base the learning processes on real operational processes and communication processes, as well as on complex decision-making situations and problems. The resulting benefit should be made transparent with trendsetters and role models.

In addition, it is essential to identify individual and organizational potentials and use them and make them accessible within the framework of a social network. For this purpose, technical solutions in the form of social learning platforms would be an appropriate support. The necessary media competency associated with this should be developed systematically. For the intrinsic motivation of employees to continue to develop themselves constantly, it is important that the goal of their personal employability is paramount. This also greatly facilitates the self-guidance and individual responsibility of personnel regarding their personal development. In this regard, the employees or learners are to be enabled to design their learning goals and learning processes individually. They should be provided with learning partners, learning coaches, or technical experts as necessary.

Within an internal network, collaborative solutions can be developed for current real-life challenges across departments. Besides this, the use of external networks to find solutions to problems should also be considered useful. In practice, explicit knowledge is often provided by the company, but external sources are also often consulted for learners' own considerations and to find solutions to current problems. The difference, however, lies in the type of reference. Instead of the "push principle" known from school, where course contents are provided at the discretion of teachers, the "pull principle" is increasingly used, according to which the necessary knowledge, thanks to the ubiquitous existence of the Internet, is organized in a self-directed way and precisely when it is needed. In order to meet these demands, it is necessary to create new working systems characterized by a high level of flexibility and decentralization. Regular processes of self-reflection and debriefing in the learning and work process support emotionality and thereby the development of individual values. The intended destabilization situations this triggers create dissonances among personnel, which leads to a restaging of the individual value system and thereby contributes substantially to personal competency development. These competency development processes can be supported by technology in the form of learning platforms. In addition, actively used social learning platforms can also be priceless documentation tools and search engines for collaboratively developed organizational knowledge and so also serve the demands of modern knowledge management (see Fig. 4).

Change Management in the Implementation Process

The implementation of social workplace learning demands a strategy-oriented focus and a setting that enables personnel not only to share available knowledge but also to achieve personal competency goals.

Action recommendations for the implementation of social workplace learning:

- Lend importance to competence orientation in your company by embedding it in the corporate strategy, making it transparent, and consistently living it.

Fig. 4 Competency development: emergence of social learning at the workplace

- Make it possible for your employees to define their competency goals themselves, on the basis of the competency profile and competency assessment, in close cooperation with managers.
- Arrange for a company-wide competence assessment and competence transparency in order to make it possible to find and approach knowledge holders.
- When organizing the company learning approach, always consider the learning approach of connectivism.
- Provide new media for the collaborative development of practical knowledge.
- Build up the metacompetency of your personnel for the formation of networks in a setting of informal connections and support their media competency in order to guarantee a self-confident and self-organized handling of media and information in the company.
- Support collaborative working and learning in and with the Internet and networks and reinforce thereby a promising company culture with regard to knowledge, mistakes, learning, and communication.
- Provide e-learning and blended learning solutions, podcasts, instructional videos, etc. along with free access to external sources to build up the necessary formal knowledge as a basis for competency development.
- Create incentives that have an effect on the intrinsic motivation of personnel to overcome barriers to self-organized collaborative learning in the work process.
- Design the project to implement social workplace learning as a project of change.

Erpenbeck and Sauter (2013) recommend starting by gathering initial experiences with innovative learning management systems in a pilot project. In the process, the benefit should be quickly demonstrated in a positive setting and with a pilot group that is eager to learn and prepared to take risks. At the same time, a future basis for decision-making for further projects as well as material for the internal communication in this respect would be generated. The parallel inclusion of the experiences of a competent consultant would be advisable insofar as it would help avoid initial stumbling blocks and thereby increase the acceptance by personnel from the very beginning. In addition, every step in the direction of a “learning organization” in the sense of the competitiveness of an organization is to be allowed and supported.

Final Comments and Outlook

Classical personnel development is at the beginning of a revolution, in the course of which the spheres of learning and working in the form of collaborative working and cooperative learning will merge with one another inseparably and be supported by social media (Sauter and Scholz 2015b).

Within consistently applied social workplace learning in a company, the development of knowledge and competencies is marked by self-organization and personal responsibility of the learner. Permanent feedback loops within the social networks in both real and virtual spaces enable reflection and thereby a constant evaluation of the personal framework of values, which is essential for competency development. The integration of the learning process with the work processes is made possible by binding cooperation and ubiquitously applicable technical solutions (see Fig. 5).

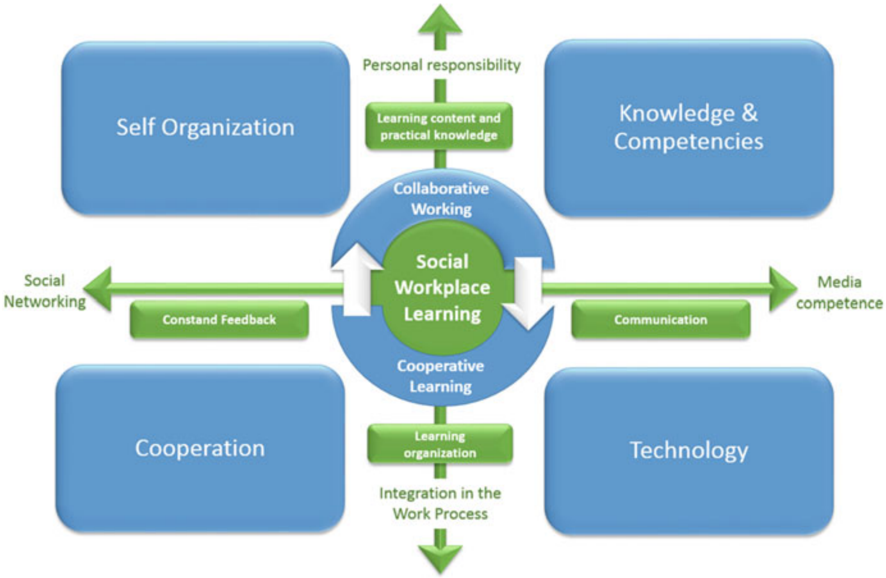

Fig. 5 Social workplace learning

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Training and Qualification: Essentials of Team Development

22

Katrin Koch

Contents

Abstract

This chapter deals with ways to develop teams to be more effective. Economically systematic development of teams plays a large role, as it has a direct impact on productivity of an organization. Different kinds of teams need different interventions; that is why the chapter starts out with looking at different types of team constellations and their specific requirements. It plays a big role if a team is located in one place and belonging to one organization or if it is distributed in several sites, maybe homed in different organizations and on top of that

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interculturally diverse. In the following models for describing team dynamics and constellations are used as a basis to derive measures for developing teams. A clear process and each step is described for developing teams systematically and sustainably. Tools and interventions to successfully implement team development are elaborated on. Especially the different phases of team socialization are looked at and differentiated measures are offered. The author gives an evaluation on the effectiveness of tools and interventions also related to the phase that the team is in. In several practical examples, the application of these interventions is illustrated.

Keywords

Teams • Development stages of a team • Team analysis • Effective teams • Virtual teams • Intercultural teams • Distributed teams • Productivity of teams • Methods for team development • Increasing team performance • Team models • Team dynamics • Tools and interventions for team development

Introduction and Overview

As tasks become increasingly complex and it is mostly impossible for individuals to achieve targeted results on their own, work in teams is becoming increasingly important. More and more effectiveness of team cooperation determines the productivity of organizations. Successful team development is seen as one of the key elements to increase productivity. An organization usually consists of teams in different sizes and of different types which needs to be taken into consideration. Additionally teams go through different stages of development. Each stage has its recognizable behaviors and challenges. The target of team development is to successfully navigate the different types of teams through these stages. The less productive phases should be left behind as quickly as possible and the highly productive phase kept as long as possible.

As teams consist of individuals with their own preferences, motivations, and feelings, it is imperative to take this into consideration for team development to enable the team to be more than the sum of its parts. After having selected the right people and skills to be on a team, building a motivating environment, paying attention to individual needs, and driving group dynamic processes are a foundation of healthy teams and therefore need to be considered in team development processes.

The chapter gives you an overview of different aspects that need to be taken into consideration for effective and sustainable team development (different types of teams, team phases, team staffing). Different tools are introduced for team development processes, and a framework is given to develop successful team development processes. Finally case studies are introduced showcasing different types of teams and different team situations and their development. Basis for the chapter are the most popular and relevant theories and research results as well as experiences by the author of practical work with teams.

What Is Team Development?

Team development focuses on allowing a group of people to be more than the sum of its parts. In the different team constellations, team development focuses on making teams more effective and unleashing the full potential. Important elements are good leadership, social processes in teams, clarity of goals, a good distribution of roles and responsibilities, and development of the skills of individuals as well as the team as a whole. Team development takes these different aspects into account and systematically addresses the different issues.

People Perspective

Types of Teams

Definition of "Team"

What differentiates a team to a group of people? The main difference is that a team is driven by one common target. Members are a part of this team as long as they are working for this team target. In Table 1 the main differences between a working group, a team, and a department are named.

Successful teams are more than the sum of its parts; in an ideal case it is the multiplication. This has two implications: (1) Team work does not always have an advantage (see Table 2), and (2) when badly implemented the opposite of the desired result is the outcome. In order to determine whether setting up a team has more advantages than drawbacks, this formula is used:

Resulting team performance = potential performance + process gains – losses (the process losses should always be smaller than the process gains).

In the case of (2), this depends on good team management and systematically developing a team.

In the following different types of teams are characterized.

Table 1 What is a team vs. a group?

Characteristics of a group	Characteristics of a team
Focus is on individual contribution	Focus is on collective effort
Performance is the sum of individual contributions	Performance is greater than the sum of the individual contributions
Lack of cohesive values leads to requirement for strong leadership	The sharing of values and goals allows the leader to apply light steering pressure
Accountability is on an individual basis with no overall responsibility for performance	There is individual and mutual accountability for the overall performance of the team
Low level of interaction between individuals	There is a high level of interaction between members

Table 2 Process gains and losses through teamwork

Process gains	Process losses
Complementary skills	Communication problems
Productivity through work sharing	Challenges for aligning
Feeling of community	Individual thinking
Passion	Social laziness
Integrating force for the organization	Destructive forces in the organizations

Line Team
A line team is a team that is part of a line organization and all members belong to the same organization. The members are all associated with the same superior. A line team is the simplest form and the least complex to manage.

Project Team
In project teams there are usually members from different departments representing different functions and expertise. Project teams can be found in different environments; they can be characterized by having a specific result as a target (e.g., the development of a product, the construction of a building, the development of a marketing campaign, etc.). Project teams usually have very clear boundary conditions, such as a clear target, an associated budget, a clear timeline, and available resources to achieve the targets. Members are associated with the team on a temporary basis until they have fulfilled their task. After completion of the project, the team is dissolved.

Team in a Matrix
Matrix teams can be found in larger, complex organizations. This can be organizations, for example, that are organized by functions on the one side and by countries or regions on the other side (see Fig. 1 for an example of a matrix organization). These kinds of teams can be found in larger companies where there are tasks that need to be aligned across the matrix. Task forces or teams that are developing international products (needing to integrate functions as well as regions) are typical examples of this kind of teams. The challenge for these teams is often that a common manager is very high up in the hierarchy (e.g., in the case of escalation), as well as different parts of the matrix having different priorities. It is often difficult to escalate issues and authority is not given but has to be earned. In matrix teams motivation is key for the members to fight for a common cause.

Intercultural Teams
In intercultural teams the members come from different countries and have different cultural backgrounds. Intercultural teams can be found in all categories of teams, be it that the members have different cultural backgrounds and sometimes are additionally located in different countries. The challenge for intercultural teams is that on top of the complex group dynamics there are cultural aspects that can escalate the

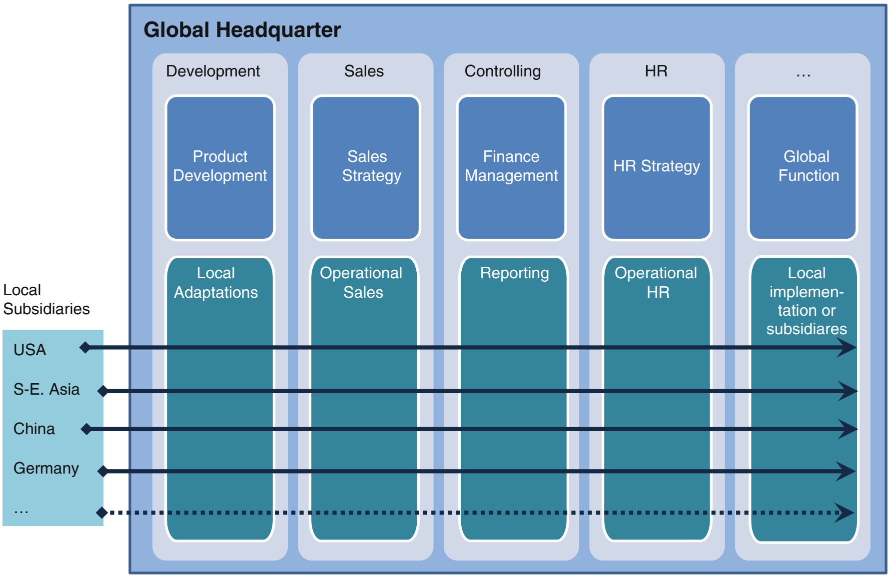

Fig. 1 Example of a matrix organization

negative dynamics. However, experience shows that in some environments the team members are very aware of this additional challenge and therefore more careful about their own actions. The effect is then the opposite, team dynamics become easier. Therefore, it is recommendable to train people working in intercultural teams to be more alert and respectful due to the cultural differences.

Distributed Teams

Distributed teams are distributed over several sites. Often these teams are spread over several continents and in different time zones. The main challenge of distributed teams is that face to face communication is very rare. Communication is very challenging for distributed teams. Therefore, it is very important to have special communication tools for virtual teams or any kind of distributed teams. Several categories of such tools are available:

- Online meeting tools, e.g., Vitero (Tandler et al. 2014). They provide the team members with effective platforms that simulate presence meetings with moderation tools. It is not only possible to talk to each other (if bandwidth permits to see each other) but also to have digital moderation tools that support brainstorming processes, surveys and opinion collection, etc.
- Informal communication tools that allow team members to also communicate on an informal level. Examples for this would be chat tools, virtual rooms, Facebook, WeChat, etc.

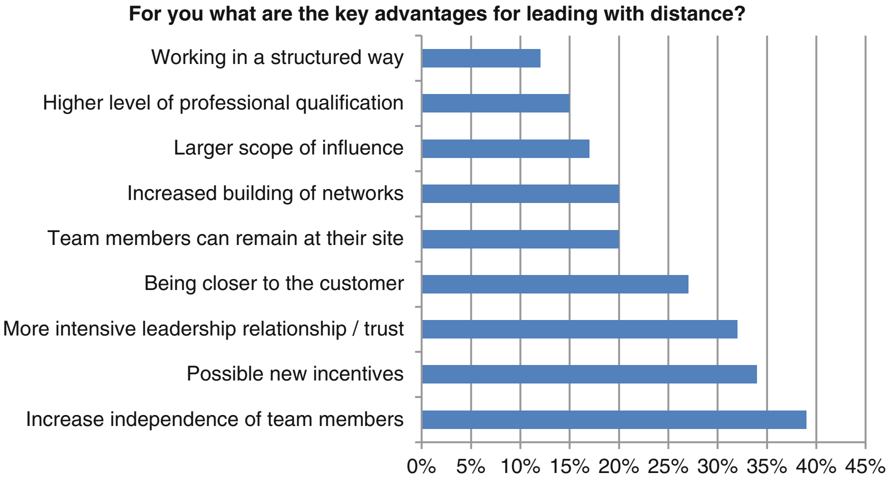

Fig. 2 Advantages of virtual teams

IT tools can support greatly in the communication process of distributed teams, and research shows that relationships can also be built in teams that only communicate via IT (Walther 1992), only that the process of the team bonding is much slower than when there are face to face meetings. In Meier (2006) it is suggested that the optimal face to face frequency of a distributed team should be twice a year, if it is not possible to meet more often.

Seen from another angle, team members of distributed teams need additional skills to be able to work in this environment. They need to be more independent, take more responsibility, and be more flexible than team members of traditional teams. Leaders of such teams need to lead from a distance, which is quite different than leading face to face. They need to carefully choose which media to use in which situation (Pribilla et al. 1996).

Distributed teams have distinct advantages (see Fig. 2 (Remdisch and Utsch 2006)). In this figure the result of a survey among leaders that are leading by distance is illustrated.

Virtual Teams

In virtual teams the members are usually also distributed over several sites; in addition the members come from very different parts of an organization or even from different companies/organizations. So in terms of leading virtual team, it is also a matter of influencing team members to be motivated toward the same target, as there is no common supervisor for the members that can solve conflicts and ensure that the team members are all briefed in the same direction. Virtual teams represent the more complex form of teams. In case that the members come from different companies, there is the additional challenge that team members have different IT environments and they need to find a common basis.

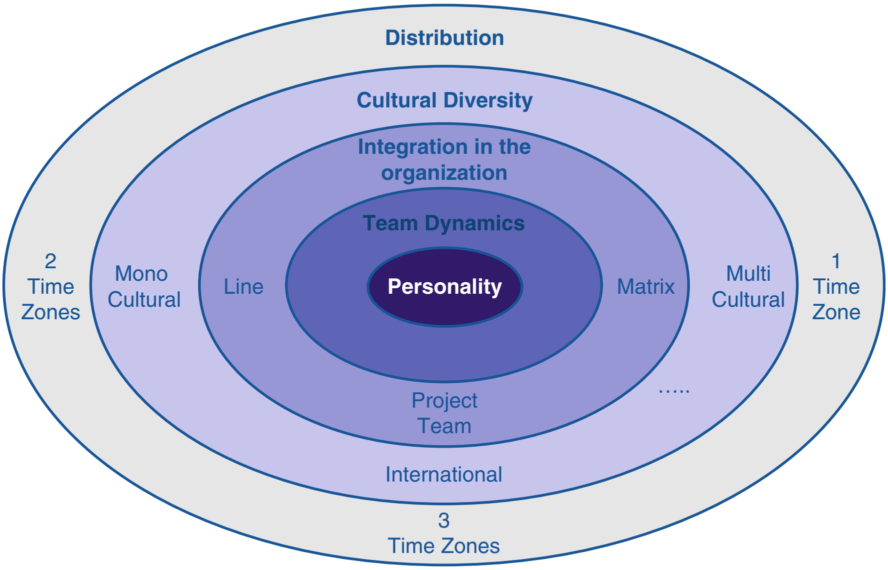

Fig. 3 Team layer model illustrating the complexity of different teams

The Team Layer Model

In Fig. 3 the complexity of the different team types is illustrated in a layer model illustrating the different degrees of complexity of teams. The two rings in the center illustrate attributes that all teams have. The more we go to the outside, the more complex the team structure is. For each of the team categories above, one can pick the different attributes that apply to that type of team. The first two rings are inherent for all teams as you always find individual personalities of the individual team members and group dynamics between the members. For team development it is of high importance to respect these different layers of complexity and to take care of them when choosing interventions for team development.

Team Models: Social Processes in Teams

Teams are dynamic and the social processes in teams can be predicted. There are a number of team models around. In the following some major models are being introduced as they are an important basis when considering team development.

Team Phases by Tuckman

One of the most popular models is Tuckman's stages model (Tuckman 1965; Wikipedia 2014). It describes dynamics in a team in four phases. According to Tuckman teams start off in the **forming stage** where team members get to know each other. This phase is characterized by curiosity about the other team members and the team goals. In this phase it is important to supply the team with information and to give the members a platform to get to know each other. Defining roles, rules, and frame conditions at this stage is also vital.

After this phase comes the **storming stage** where the team members try to find their places in the group and targets are clarified. This phase tends to be quite emotional as it is about setting up a power structure in the team. Many conflicts can arise in this phase and it is important to deal with and solve these conflicts; otherwise the team can get stuck in this phase. Many team development activities kick in here when the team is not able to advance without external help. The need for leadership in this phase is the highest; it can be very helpful to reference the agreements that have been taken at the beginning of the process.

When the team manages to leave the storming phase, the **norming stage** comes next. In this phase the team members set up implicit or explicit rules about how they will achieve their goal. Order is somewhat reestablished. This stage is characterized by reviews, questioning, and agreement. Identifying strengths and weaknesses and defining measures to deal with them are important now. In this phase the role of the team leader is to direct this process of finding a working mode and making sure that it conforms to the original target.

Finally the team hopefully reaches the **performing stage**; not all teams make it up to here. This phase is characterized by motivation, creativity, focus on results, flexible relationships, pride, confidence, continuous learning, success, etc. As one can tell this is the phase where one hopes a team to be most of the time. In this stage it is important for the team leader to foster a continuous motivating environment, taking care that rules are respected and that the team work is characterized by fairness. In other cases the team might fall back into the storming stage, and productivity, i.e., potential team performance, is lost.

Later Tuckman and Jensen added the **adjournment stage**; this is the phase after the task of the team ends, and it is the period of disbanding (Tuckman and Jensen 1977).

This team phase model is very useful for team development as different interventions are necessary for different team phases. In the norming stage it is important to have a team kickoff, where the targets, roles, and rules of the team are defined initially as well as getting to know each other (better). In case of a team being in the storming phase, taking care of the conflicts and reiterating rules and roles should be in the center. For a team that is in the initial storming phase, there is a high need for good leadership and addressing the conflicts and other issues. Many times it can be observed that teams get stuck in this phase for a longer time. In this case more deep interventions are necessary. In the practical examples later on in this chapter, one such team is described. In the norming phase it is important to support the team in striving for practical rules and good quality. In this phase moderating the process can be helpful. In case a team has reached the performing phase, the target is to stay there as long as possible. The task of the leader is to foster a motivating environment, to clarify irritations that come up, and to avoid that the team falls back into the storming phase. In Fig. 4 it is indicated that teams go through the last three phases in cycles which is usually the case. It is up to the team leader as well as the team to enable a long duration of the performing phase. Regularly reviewing team performance, the

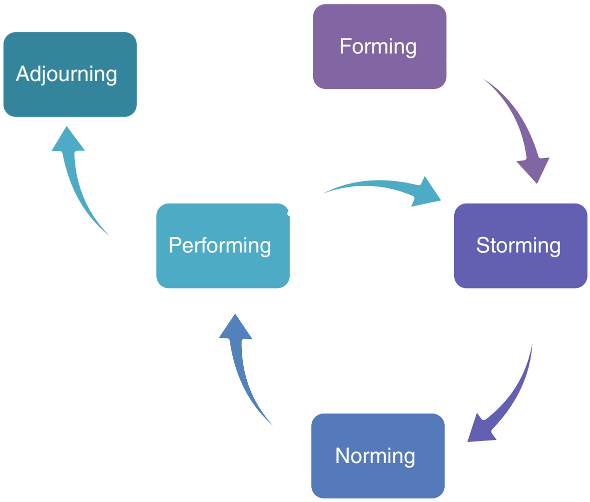

Fig. 4 The team stages by Tuckman

strategy, as well as defined roles and rules can anticipate the falling back into storming mode and therefore (partially) avoiding it.

Similar models are described in the Tubbs' System model (Tubbs 1995) and Fisher's theory of decision and emergence in groups (Fisher 1970).

What Makes Good Teams?

Elements of Good Teams

The different elements of setting up a solid basis for a high-performance team are shown in fig. 5. Apart from the right skills, knowledge, experience, and competencies, it is interpersonal skills paired with decision-making and problem-solving skills that are important elements that team members should bring with them. A collection of high-performance individuals does not automatically make a high-performing team.

Another aspect is the ideal size of teams. Looking into the literature, there are many different views around. It seems to be somewhat of a consensus that teams with 6–12 members are a good size. Evidence can be found in the following quote by Hall (1979):

> Fortunately, something is known both empirically and scientifically about the influence exerted by size on groups and the effect of size on how the groups perform. Research with business groups, athletic teams, and even armies around the world has revealed there is an ideal size for a working group. This ideal size is between eight and twelve individuals. This is natural, because man evolved as a primate while living in small groups. . .Eight to 12 persons can know each other well enough to maximize their talents. In groups beyond this size, the possible combinations of communication between individuals get too complex to handle; people are lumped into categories and begin the process of ceasing to exist as

Fig. 5 Elements of good teams

individuals. Tasks than can't be handled by a group of eight to 12 are probably too complex and should be broken down further. Participation and commitment fall off in larger groups – mobility suffers; leadership doesn't develop naturally but is manipulative and political.

High-Performance Teams

The target of systematic team development usually is to become a high-performance team. In the following several aspects of high-performance teams are introduced. Team development needs to take into consideration the different aspects that are necessary for achieving high-performance teams. In this chapter you will get an overview of the different elements that are necessary for high-performance teams. Before this is introduced a definition of high-performance team is given as it is described in Wikipedia (Wikipedia high performance teams 2014):

- Participative leadership – using a democratic leadership style that involves and engages team members.
- Effective decision-making – using a blend of rational and intuitive decision-making methods, depending on that nature of the decision task.
- Open and clear communication – ensuring that the team mutually constructs shared meaning, using effective communication methods and channels.

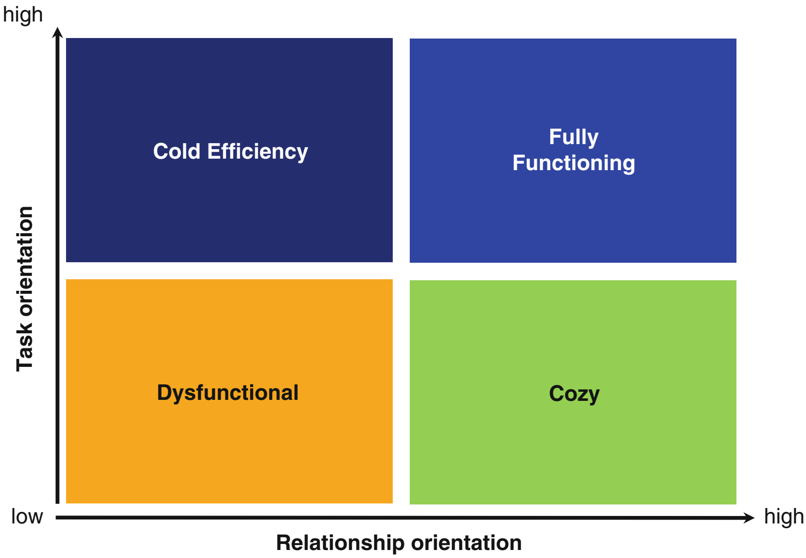

Fig. 6 Different orientations of teams (Source: based on Stock (2002))

- Valued diversity – valuing a diversity of experience and background in team, contributing to a diversity of viewpoints, leading to better decision-making and solutions.
- Mutual trust – trusting in other team members and trusting in the team as an entity.
- Managing conflict – dealing with conflict openly and transparently and not allowing grudges to build up and destroy team morale.
- Clear goals – goals that are developed using SMART criteria; also each goal must have personal meaning and resonance for each team member, building commitment and engagement.
- Defined roles and responsibilities – each team member understands what they must do (and what they must not do) to demonstrate their commitment to the team and to support team success.
- Coordinative relationship – the bonds between the team members allow them to seamlessly coordinate their work to achieve both efficiency and effectiveness.
- Positive atmosphere – an overall team culture that is open, transparent, positive, future focused, and able to deliver success.

Observed from another angle, team performance can also be heavily influenced by the orientation that a team has; is it more relationship oriented or more task oriented? Too much of either one can harm the results of the team (see Fig. 6).

A team that is focused too much on the people and the relationships in the team risks to put too little focus on the task which will result in inattention to the results of the team. The consequence is a so-called cozy team; the team members feel good about being in the team, but the results are poor. On the other hand, a team that is focused too much on the task will neglect people issues leading to a cold efficiency team. Motivation tends to be lower in such teams, and members are not as willing to go the extra mile to reach the target. Efficiency might be high in such kind of teams, but often effectiveness is not as desired. Teams that are focused neither on the task nor on the people are dysfunctional and will have very low or no output. On the opposite side teams that balance their focus on people and task are fully functioning teams and will reach a high level of performance eventually.

The characteristics of high-performance teams can be reached by different methods, and there are a number of elements that need to be considered:

- Informal roles in a team
- The influence of individual personalities in teams
- Leadership in a team and the environment of a team

In the following these elements are looked at more closely and related models are introduced.

Roles in a Team

In order for a team to be successful, several elements are important to cover the different aspects of high-quality results:

- Planning strategy
- Coordinating/communicating
- Getting things done
- Creative problem-solving
- Staying or getting on target
- Establishing/maintaining harmony
- Integrating the team

People have different personalities and these are more or less adept to fill the different roles necessary in a team. That is why it is necessary to have diversity in a team to be able to cover different aspects needed to be successful. In successful teams all of these aspects are usually present. They do not necessarily have to be filled by one person one role but one person can fill several roles. When setting up a team, it is important to ensure that the breadth of the team roles is filled and that all aspects for successful team results are covered. It is important that the role(s) that an individual team member covers is in synch with the own personality; otherwise the quality of the role fulfillment could suffer.

> A team is not a bunch of people with job titles, but a congregation of individuals, each of whom has a role which is understood by other members. Members of a team seek out certain roles and they perform most effectively in the ones that are most natural to them. (Dr. R. M. Belbin)

In the following you find an introduction to the different roles defined by Dr. Belbin (1981).

Plants are creative, unorthodox, and generators of ideas. If an innovative solution to a problem is needed, a plant is a good person to ask. A good plant will be bright and free thinking. Plants can tend to ignore incidentals and refrain from getting bogged down in detail. The plant bears a strong resemblance to the popular caricature of the absent-minded professor/inventor and often has a hard time communicating ideas to others. Multiple plants in a team can lead to misunderstandings, as many ideas are generated without sufficient discernment or the impetus to follow the ideas through action. Plants can also create problems with the timing of their ideas. The fact that the team has decided on a valid way forward and is now in the implementation stage will not stop the plant from coming up with new solutions and disrupting the implementation process.

The **resource investigator** gives a team a rush of enthusiasm at the start of the project by vigorously pursuing contacts and opportunities. He or she is focused outside the team and has a finger firmly on the pulse of the outside world. Where a plant creates new ideas, a resource investigator will quite happily appropriate them from other companies or people. A good resource investigator is a maker of possibilities and an excellent networker, but has a tendency to lose momentum towards the end of a project and to forget small details.

A **coordinator** is a likely candidate for the chairperson of a team, since they have a talent for stepping back to see the big picture. Coordinators are confident, stable, and mature, and because they recognize abilities in others, they are very good at delegating tasks to the right person for the job. The coordinator clarifies decisions, helping everyone else focus on their tasks. Coordinators are sometimes perceived to be manipulative and will tend to delegate all work, leaving nothing but the delegating for them to do.

The **shaper** is a task-focused individual who pursues objectives with vigor and who is driven by tremendous energy and the need to achieve. For the shaper, winning is the name of the game. The shaper provides the necessary drive to ensure that the team is kept moving and does not lose focus or momentum. Shapers are people who challenge the team to improve. They are dynamic and usually extroverted people who enjoy stimulating others, questioning norms, and finding the best approaches for solving problems. The shaper is the one who shakes things up to make sure that all possibilities are considered and that the team does not become complacent. Shapers could risk becoming aggressive and bad humored in their attempts to get things done. Shapers often see obstacles as exciting challenges, and they tend to have the courage to push on when others feel like quitting.

Monitor evaluators are fair and logical observers and judges of what is going on in the team. Since they are good at detaching themselves from bias, they are often the ones to see all available options with the greatest clarity and impartiality. They take a broad view when problem-solving and, by moving slowly and analytically, will almost always come to the right decision. However, they can become very critical, damping enthusiasm for anything without logical grounds, and they have a hard time inspiring themselves or others to be passionate about their work.

A **teamworker** is the oil between the cogs that keeps the machine that is the team running smoothly. They are good listeners and diplomats, talented at smoothing over conflicts and helping parties understand one another without becoming confrontational. Since the role can be a low-profile one, the beneficial effect of a teamworker can go unnoticed and unappreciated until they are absent, when the team begins to argue, and small but important things cease to happen. Because of an unwillingness to take sides, a teamworker may not be able to take decisive action when it is needed.

The **implementer** takes their colleagues' suggestions and ideas and turns them into positive action. They are efficient and self-disciplined and can always be relied on to deliver on time. They are motivated by their loyalty to the team or company, which means that they will often take on jobs everyone else avoids or dislikes. However, they may be seen as closed minded and inflexible since they will often have difficulty deviating from their own well-thought-out plans, especially if such a deviation compromises efficiency or threatens well-established practices.

The **finisher** is a perfectionist and will often go the extra mile to make sure everything is "just right," and the things he or she delivers can be trusted to have been double checked and then checked again. The finisher has a strong inward sense of the need for accuracy and sets his or her own high standards rather than working on the encouragement of others. They may frustrate their teammates by worrying excessively about minor details and by refusing to delegate tasks that they do not trust anyone else to perform.

Specialists are passionate about learning in their own particular field. As a result, they are likely to be a fountain of knowledge and will enjoy imparting this knowledge to others. They also strive to improve and build upon their expertise. If there is anything they do not know the answer to, they will happily go and find out. Specialists bring a high level of concentration, ability, and skill in their discipline to the team, but can only contribute on that specialism and will tend to be uninterested in anything which lies outside its narrow confines.

Comparing Behavioral Models and the Belbin Roles

It is possible to map attributes of these different roles to behavioral or personality profiles (e.g., DISC (dominant, influential, steady, conscientious), HBDI (Herrmann Brain Dominance Instrument), MBTI (Myers-Briggs Type Indicator), etc.). This can be a valid tool when setting up a team to figure out if the different roles can be filled. As an example we relate to DISC here (see Table 3). The four DISC styles (dominant, influential, steady, and conscientious) give a simple categorization of people's preferences, and the 15 classic profiles give a more exact description (DISC 2014). In the following matrix, an impression is given on how this could work. This gives an indication of which DISC styles are related to which Belbin roles; however, it would be necessary to look at the (potential) team members in detail to understand how well the roles are filled.

Resilient Teams

Resilient teams are teams that have an inner strength and resilience to overcome difficult situations and learn from them. A degree to which a team is resilient determines the sustainability and stability of a team and its capability to develop further. A resilient team is able to adapt to new challenges and changes in the environment and to deal with challenges and crisis effectively.

Table 3 Belbin roles and DISC styles

	DISC style			
Belbin role	Dominant	Influence	Steady	Conscientious
Plant		X	X	
Resource investigator	X	X		
Coordinator	X		X	
Shaper	X	X		X
Monitor evaluator				X
Teamworker			X	
Implementer			X	X
Finisher				X
Specialists			X	X

The model of "The Five Dysfunctions of a Team" (Lencioni 2002, 2005) describes what is necessary to get to a resilient team. In this model five barriers are identified to a high-performance resilient team:

- Missing trust
- Avoidance of conflict
- Missing commitment
- Accountability
- Inattention to results

In "The Five Dysfunctions of a Team, a Leadership Fable" (Lencioni 2002) based on a real example, the author describes the mentioned five dysfunctions. The team development over 2 years is described including the interventions that were taken to transform this fully dysfunctional team into a resilient high-performance team. When reading the book or listening to the audio book, one gets an impression how much work sound and sustainable team development is. Superficial teambuilding activities do not do the job!

In the model of the Five Dysfunctions of a Team, **trust** is the foundation. Without trust there can be no successful team work. Trust is about vulnerability, and it is about revealing things about oneself and others giving insight to their thoughts and feelings. If there is trust people accept to be vulnerable. Trust can be built through common experiences, going through challenges together, by getting to know each other better, and leaving the comfort zone. Building trust takes time, but this process can be accelerated by the right team development interventions. Just like in a relationship, trust needs to be maintained over time.

Mastering conflict is the next step in the model. It is about constructive conflict and unfiltered passionate debate around issues. Allowing these leads to better solutions and lets a team bond more deeply. Conflict can at times be uncomfortable; therefore, there is a necessity to have clear conflict norms. It is imperative that the fear of personal conflict does not prevent productive debate. One can sense that a prerequisite for getting into conflict in a team is trust in the team. The ability to deal with conflict bases on trust.

Achieving commitment is the next level on the pyramid. It is about having buy-in, honest, emotional support and clarity without assumptions and ambiguity. So in this stage it is about the clarity of the team goal and ensuring that the entire team is pursuing one goal. Commitment is not necessarily about all team members agreeing to the goal. There can be a passionate debate about the target before it is decided (ability to deal with conflict). Important is that the team members have been heard and their objections/opinions have been taken into consideration. The decisions lay with the team leader in the end. Commitment is about committing to the target even if somebody did not agree to it.

The next layer is about **embracing accountability**. This is where many teams fail. Not holding each other accountable to living up to the best possible standard of the group. Again in this step it is important to have ground rules. Feedback is the core of accountability. For team members it is important not to push back or be defensive. Receiving feedback means to listen actively, even taking notes and asking questions about the meaning. For the feedback it is important that it is constructive and that it focuses on observations and consequences and not emotions. It should be timely and specific. In summary it is peer pressure and distaste of letting down colleagues that will motivate a team player more than the fear of punishment or rebuke. As often the team leader needs to be a role model in especially this respect as he or she needs to demonstrate willingness to confront difficult issues. In this way things come to the surface and are not toxically remaining under the surface.

Last but not least there is the **focus on results**, i.e., the right priorities, the collective results of the team, and not letting distractors get in the way. What are the main distractors of teams? Number one on the list is the ego of each individual: career development, money, and the own department (when we are speaking about teams spanning different departments). This part is about unity in the team and the team members being motivated to fight for the team target.

Systematically developing these five levels gives a good basis for having high-performance resilient teams.

Self-Learning Teams

The idea of teams as a closed system that organizes itself independently is an idea coming from Niklas Luhmann (1984). The potential of a self-learning and self-organizing team is created by networking and combining the diversity in a team stemming from different knowledge and different approaches to doing things. For this it is necessary to create a social and communicative framework for the team that there is voluntary willingness to share knowledge and skills to produce new knowledge and skills in a team. This process of self-management will play an increasing role in the professional environment. This kind of teams create, independent of new knowledge input, new ideas by itself, and it is capable of developing new special knowledge.

Economic Perspective

Team performance has direct impact on the bottom line of organizations. Productivity and effectivity make are the most important indicators of team performance – the productivity being the "how" and the effectiveness being the "what." Translating this into systematic team development measures, it is about direction and working together in a team that has a direct impact on business results. Developing teams has the purpose that the team results are more than the sum of its parts. In badly managed teams, performance even subtracts itself. Team members are being held back by rumors, conflicts, and other distractions which keep them from their work and lower the motivational level. On the other hand, when goals and tasks are clear and well distributed, paired with a good spirit and good cooperation in the team, tasks are being handled more efficiently and with better results. This has a clear impact on the bottom line.

In today's world tasks are becoming more and more complex and can only tackled by teams instead of individuals. Especially in complex environments, e.g., distributed, virtual, and/or intercultural teams, the quality of the work result is highly depending on the quality of cooperation in a team.

Risk Perspective

When implementing team development, it is important that the measures are consistent with the culture in the organization as well as the general messages being sent. The team members can become cynical and be demotivated about the measures being taken. Even though the measures are being meant to increase motivation and improve the spirit, the opposite can happen depending on the message that is being conveyed. It is therefore of utmost importance that team development measures are well anchored in an organization (consistent messages) and supported by the organization. Another aspect is that team development measure should serve the entire team and not only parts of it or individuals. This can lead to an imbalance of the team and work against the targets that are aimed at.

On the other hand, if team development measures are defined but not followed through, the entire team can develop an aversion against team development activities. These are then being perceived as creating extra work for the team, but not allowing for any benefits. Especially after team off sites, where actions are defined and not followed through, an initial positive momentum can turn into a negative one. This can lead to negative productivity gains and decreasing team performance.

From another angle, teams that focus too much on team development and too little on the work, productivity can also go down instead of up. In this case a team turns to the quadrant "cozy team" in Fig. 6. It is more focused on the happiness of the team than on the work results.

Operational Perspective

Process for Developing a Team

For developing teams it is necessary to proceed in steps as illustrated in Fig. 7:

For sustainable team development, this usually goes in cycles and can accompany a team for its entire life cycle. Knowing where the team stands and what is necessary to bring the team forward is the heart of the team development process. Interventions can apply to the entire team for parts of the team or individuals. Creating a team roadmap can be a good tool to anchor a long-term team development. Such a roadmap can preplan the necessary steps for team development in terms of:

- Group dynamics and development
- Individual skills
- Team skills
- Staffing
- Team events
- Strategy development
- Others

Team Surveys

For analyzing the team situation, different methods can be used. The team leader and the team members have a view on how cooperation and working in the team is functioning. These views will not necessarily be synchronous. Through **interviews** by a team external person, who can be from the same company or an external consultant, the different views can be assessed and a holistic picture generated. These interviews should usually be implemented with all team members or a representative selection of diverse team members. The questions for the interviews should be targeted to the current situation to find out which emphasis should be pursued in the planned interventions. Interviewing team members on an anonymous basis (i.e., nobody is sited individually) has great advantages, as the interviewed people will tend to be more open and sometimes also more honest. After the interviews a summary should be given of the findings.

Another method for analysis is a **team survey**. This is usually more efficient than interviews, but does not give you information between the lines. Team surveys can be implemented with differing targets. Two examples for team surveys are:

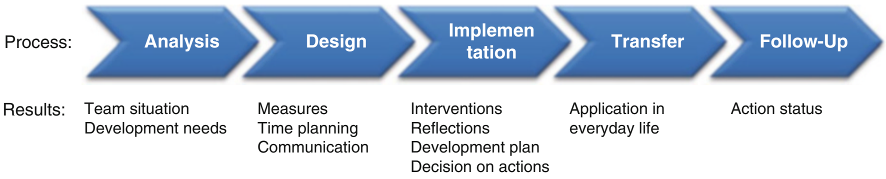

Fig. 7 The team development process

Table 4 Comparing different approaches to team assessment

	Team survey	Interviews
Honest and open input	++	0
Information between the lines	–	++
Uncovering hidden issues	0	++
Time efficiency	++	–
Large team	++	–
Small team	–	+

- Finding out where the team stands in terms of role coverage and which characteristics a team has (Belbin 2014)
- Understanding how resilient a team is in the sense of the Five Dysfunctions of a Team (Wiley 2014)

Team surveys usually are filled in anonymously by all team members and the result should show the situation of the team as it is. As we are working with averages here, there is the danger that some aspects get lost. Usually the results of these kinds of surveys give interesting knowledge about where the team stands and where the shortcomings are. In case of the survey for the Five Dysfunctions of a Team, this one is suited to carry it out on a regular basis, e.g., once or twice per year. This gives insights on changes that are happening and also how well the chosen interventions are showing effect in daily team work and over time.

Team surveys can also be custom made. It is important that the participants can fill it in an anonymous way. In Table 4 you can find a comparison of advantages and disadvantages of the two different approaches to team assessments.

As both methods have distinct advantages and disadvantages, in some situations it can make sense to do both, implementing a team survey and additionally doing interviews with some key team members.

The result of the team analysis should be the basis for designing a team roadmap and planning interventions and measures for the team and individuals to develop the team to a high-performance team.

Behavioral/Personality Profiles

Behavioral or personality profiles can serve several purposes in a team context:

1. Understanding if there is a sufficient degree of diversity in the team in terms of personal styles (compared with the Belbin roles)
2. Reflecting about the different personal styles and putting it into the team context
3. Making team members more self-aware of their own style and preferences

Regarding 1, a profile that goes into detail might be the choice, e.g., the Myers-Briggs Type Indicator (MBTI 2014) or similar. It is also possible to evaluate this based on DISC (2014) profiles. In this case it is necessary to look into detail at the profile, as was illustrated in Table 3; there are several styles that are involved for the Belbin roles. Also the Belbin profile (Belbin 2014) can be used for this purpose).

The requirements and the timing for such profiles can be different if used in the different situations. The type of profile should be chosen according to the target pursued.

For 2, a more simple way of looking at things can be beneficial as it is not about understanding oneself in detail but it is about understanding the others apart from oneself and putting it into the context of the experienced team dynamics and personal preferences. In this case DISC or the Herrmann Brain Dominance Instrument (HBDI 2014) can be among other good tools as they are quite simple in the application, but interesting regarding the findings.

In case of 3, any behavioral or personality profile can support this. In this case it is helpful to support the respective addressee by a coaching conversation to be able to better understand the content of the profile and at the same time reflect about the meaning for oneself and in the team context.

Team Interventions

As illustrated up to now, there are many aspects that a high-performance team needs to realize. This does not happen by itself, but it is the result of systematic team development.

The field of team interventions is very wide, and the focus will be laid on which kind of interventions can be helpful in which kind of team situation. As already mentioned in section "What Makes Good Teams?", first comes the staffing of the team then systematic team development. Apart from creating a good foundation for the team, the target of team development is also to close gaps in the team staffing and to attenuate shortcomings in the team constellation as far as possible. To achieve a solid foundation, it is necessary that interventions for team development are well chosen and thought out, associated with the targets they need to fulfill. The structure chosen is based on the four team phases (Tuckman 1965).

Forming Phase

In the forming phase it is about getting to know each other, aligning the target, and agreeing on norms. A mixed format of working on the topics and teambuilding exercises can be the means of choice. Depending on the team, on the scope of the target (mid-/long term vs. short term), and the available resources (time and money), a 1- or 2-day workshop on or off-site is planned. In smaller scopes a half-day kickoff event can also be beneficial.

In preparation of a team kickoff event, it is usually not necessary to do a deep analysis of the situation, as the team is just being set up. An interview with the team leader and, if available, one or two key stakeholders should be sufficient to understand the scope and be able to design a suitable activity.

In the ideal case for a larger scope project or team target, a 2-day off-site should be planned with the participants doing a behavioral profile (DISC, HBDI, etc.) beforehand. The workshop starts with activities to break the ice between the participants. In the following the target(s) of the team is discussed and aligned. This is followed by the team (divided in groups) coming up with a team mission statement. After lunch a teambuilding activity is scheduled, ideally in the outdoors.

The facilitator debriefs the activity with the target to have the team members reflect on how they cooperated and what they liked and disliked. This leads to a working session on the team norms; the participants formulate by which rules they want to work together. Experience has shown that heading this session with “rules” instead of “norms” creates reluctance with the participants, as it sounds too binding.

Storming Phase

This phase requires most intense interventions. It is critical for the future of the team. It is the target to overcome the phase as fast as possible without leaving out important steps in the social development of the team. In case it is the initial time that the team is going through the storming phase, then it is usually sufficient that the team leaders are alert, take up the sources for irritation, and facilitate the team to constructively solve the issues without parts being unclarified and remainders of conflicts lingering in the background. Planning a team workshop (ideally off-site) once the storming phase has clearly surfaced can help to accelerate the team going through this phase. The workshop should give room to clarify controversial topics, to reiterate norms and targets, and for team activities to build further trust. Open conflicts should be addressed and moved out of the way. In preparation of the workshop, interviews and/or a team survey should be carried out in order to also catch hidden points and to be able to evaluate the real team situation.

For the case that a team got stuck in the storming phase (i.e., even after a long time was not able to leave this stage), the situation is probably more complex. In this case it is important to look more deeply into the team constellation and to find out the causes for the irritations. Obviously what is happening goes beyond the normal flow of group dynamics. The reason for the ongoing conflicts can be rooted, e.g., in individuals disturbing the team, in leadership deficits, in organizational environment, and in conflicts that were not solved. According to the causes identified, it is necessary to define interventions that can solve all the issues. This can be a long process and the issues need to be tackled one by one. In the practical cases, there is one example of a team that got stuck in the storming phase. There were three main causes: unresolved conflicts, leadership deficits, and one main individual disturbing the group. It took three workshops and individual coaching for four team members over a period of 4 months to get the team back into working mode. Over a period of another 6 months and continuous follow-up and coaching, the team turned to be a high-performance team. This status was maintained over a period of more than 3 years, even though the team was faced with many changes. Continuously developing the team and keeping up the norms as well as the desired team culture made this possible.

In the case of a team returning from the performing or norming phase to the storming phase, it is of high importance that the cause is found and measures are identified to smooth this out. In this case it can be changes coming from outside, new conflicts that are not resolved, or the dynamic group processes being ignored, etc. This needs to be dealt with. Sometimes things just need to be caught up; at times the damage can be deeper. This needs to be carefully analyzed and specific measures need to be taken.

Norming Phase

The norming phase is a phase where the flow of setting up ways of working and achieving high-quality results needs to supported and given a platform. The team members need to have the chance to communicate with each other, and there needs to be a chance to voice and debate different opinions. Setting aside time for this process, e.g., in the regular team meetings, or setting up special meetings is usually sufficient in this phase. In very complex situations, it can make sense to organize an off-site workshop, with the focus being on work and setting up the desired frame. The leader of the team should moderate the process and ensure that all team members get the chance to contribute and voice their opinions.

Performing

In this phase the focus is on keeping the team in this phase. It is important to ensure that the sense of direction is maintained; changes are addressed and taken into consideration. Arising conflicts should be sorted out when they start and not allowed to linger on too long. In this phase the leader needs to be alert on irritations coming up and to maintain the general sense of directions as well as dealing with changes. In this phase not many interventions need to take place. The focus is on maintenance and further development. Organizing a 1-day off-site with the team once a year can do the job. The focus of this workshop is on the review of the team progress and the team strategy, as well as setting up a team plan for the following 12 months. This can be paired with teambuilding activities, targeted at reviewing behaviors in the team that might not be working so well yet.

Methods and Interventions

For team development measures, it is important to choose methods and interventions that relate to the current team situation and fulfill the targets that are defined. In the previous sections, some examples have been illustrated in the different phases of teams. Each intervention that is chosen needs to have its purpose. On the other hand, the flow of measures (e.g., workshops) needs to be in a way that practical reference is given and transfer to daily life is enabled. Practical team activities should have a learning aspect that relates to the current team challenges. For example, a team that has communication issues should do activities that bring these issues to the surface. Rope Square (2014) could be an example demonstrating communication habits and leadership behavior in a team. A good public domain source for finding activities is “Businessballs” (2014). The most important part of these activities is the reflection of the team and the debriefing by the facilitator. This is where the team draws learning experience and can derive actions to take in order to improve the team behavior. It is essential that this phase is well prepared and enough time is assigned to it.

In terms of mixing activities with working sessions, the emphasis needs to be decided according to the targets of a measure and the phase where a team is in. In the forming phase there might be more activities to get to know each other; in the storming phase the focus can still be on activities but the target here is to make behaviors of the team transparent and coming up with measures how to improve.

In the norming and performing phase, the focus can be more on the working content and there will be less activities.

Conflict Resolution

Conflicts are a key barrier to high-performance team. This does not mean that conflicts should be avoided, but it needs to be dealt with and cleared out, in order that underlying problems are not barriers to team performance. The best way to deal with conflicts is to address them as soon as they surface. As conflicts are often hidden, there is a need to be alert and sense when things are going wrong.

Once a conflict has escalated, it is usually difficult to rely on the involved parties to solve the conflict by themselves. External help will probably be needed. This can be a professional mediator but also a person from inside or outside the team that is not involved in the conflict, neutral, and will not take sides.

When there are conflicts that go through the entire team, it is sometimes helpful to do a systemic business constellation for the team to uncover deeper issues and to find an intuitive basis for decisions. A special training is necessary to implement these kinds of business constellations. In the German-speaking world, this method, which originates from family therapy, has become more and more popular in the business context; dissemination to other countries is happening slowly (Systemic Constellations 2014; Organisationsaufstellungen 2014).

Exemplary Development of Teams in Different Stages

Forming

A team in a large global company was newly formed. The 12 members were coming from inside and outside of this company. The location of this team is China. Several targets were defined:

- Align the targets
- Have a common approach to the work
- Decide group norms
- Get to know each other

Short interviews with all members that had been onboard for more than 3 months were implemented. From the findings an approach was defined. A series of three workshops over a period of 12 months was designed to support the forming phase and in expectation of the storming phase (this could be clearly felt in the second workshop that took place 5 months later)

Workshop 1 (1 day):

This was a classical workshop for a team in the norming stage. The following topics were tackled:

- Getting to know each other and our common values
  Warm-up exercise exploring personal values

- Strategic direction of the team
  - Presentation of the team leader
  - Interpretation what this means to the team members
  - Deriving a team mission statement
- Team activity exploring communication and leadership
  Rope Square
  Reflection and debriefing about observed behaviors in terms of: team strategy, approach to the task, leadership in the team, and communication
  Conclusions for cooperation in the team
- Defining common team norms based on experience and the previous activity
- Activity for bringing the targets to life

After this workshop the team had found a common understanding and a clear model of cooperation.

Workshop 2 (WS 2) focused on consolidating the results of workshop 1. The team had not had much chance to finalize the mission in the meantime. This happened in WS 2. In addition a competitive activity to build a tower was implemented which clearly showed that the team was in competitive mode at that time. This was addressed and dealt with in the reflection of the activity. A way forward to deal with each other with respect and constructively was agreed. There were no specific conflicts in this stage which go beyond the normal level of the storming phase.

In a third workshop (6 months later), the basis was laid to move the team closer to the performing stage, as in the meantime they had left the storming phase and were well into the norming phase. DISC was used as a tool to find an additional language apart from the professional language, which is very technical as all members of the team are engineers.

The first part of the workshop focused on DISC:

- An introduction to the DISC model
- Understanding the own DISC profile
- Learning about the behavioral preferences of the other team members
- Knowing the impact that personal preferences have on communication
- Finding ways to adapt the own behavior to communicate more effectively with other team members

In the second half of the day, a team activity was implemented in which the team needed to solve a complex task. They were working in sub-teams and had limited time to communicate between the sub-teams. This activity made some team issues transparent that had not been dealt with yet. From these findings the team decided actions how to deal with them effectively.

As a final activity, the participants had the chance to give each other feedback. This was combined with a short unit on a feedback culture and how to give feedback constructively.

This series of team development workshops, paired with a good follow-up between the workshops and action management, allowed the team to develop to a very productive unit and gave a good basis to master the challenges that the team was and is facing.

Storming

The team that is described in this case study is an intercultural innovation team in a large corporation (the members coming from different European countries including Germany, France, Denmark, Finland, different Asian countries, and one from the USA). One year had passed since the team was founded. It consists of many technical specialists. A large part of the team members are assigned to the team on a part-time basis (8 members full time 20 members part time). Their line organizations, i.e., their bosses, are different ones than that of the team. The team had had a very good start and in little time it was very productive. Many low hanging fruits were harvested and success kicked in quickly. Once the first successes were over, life became harder and conflicts between the team members surface. The easy success had covered the uneasy parts of the storming phase, and the conflicts were not dealt with. This led to the storming phase hitting the team even harder; the members were not used to deal with these issues; therefore it was ignored and worsened. Within 2 months the team went from being very productive to virtually no output. The members felt very unhappy in the team and the motivation to work on a common target had disappeared. It was at this point that a team development measure was decided.

Interviews were implemented with all core team members (16) and a very diverse picture formed itself:

- There was not trust between the team members; some opposing groups had formed.
- Some members were very dominant in nature and were trying to dominate the others (one team member was leaving as he opposed to the behavior of especially one other member).
- One member of the team was irreplaceable at the time, he had key skills and knowledge for the task of the team. He was imposing his behavior on the others, which lead to big irritations in the team and barriers establishing themselves between different parts of the team.
- Some members were feeling suppressed and feeling unable to realize their targets.
- The leader was focusing on the knowledge and experience of the members but was disregarding the social aspects and processes.

The first target of the measure was to rebuild a certain level of trust to be able to step back into constructive communication. In a 2-day workshop, several activities with reflections and debriefing about the team behavior were implemented. The team also defined its mission statement, the team norms, and the desired team culture. This process had not taken place during the forming stage, and it was important to make this up now to create a solid basis for team cooperation.

When the workshop started, there was big irritation already onboard. The location was off-site and the team had arrived together in a bus. One team member (the same that was imposing his behavior on the team) arrived 45 min late, and the rest of the team was very angry at him. On the first day the activities that were run showed exactly the behavior of the team in real life, and it became very transparent to the team what was happening. The results of the team exercises were just as poor as they were in real life. Through the reflections, it was possible for the team to view itself from the outside and to identify their main barriers. By the second day the quality of the team results had already improved quite considerably. The activities were mostly focused on the communication behavior of the team and on the trust level between the members.

Defining the team norms was quite a challenging process, and it took quite a while that the team got an agreement. This laid the basis for all future cooperation.

After the first workshop, it was clear that the underlying conflicts could not be solved at this occasion; this was targeted for a second workshop of 1 day with a very small circle (eight key team members) 1 month later. In this workshop a platform was given to voice conflicts that were under the surface. Even though several team members were quite reluctant to point out lingering conflicts, in a trustful atmosphere and in the very small circle, things came to the surface. Now things lay open on the table and it was possible to discuss them. Several conflicts were removed during this workshop; others still existed but were known now.

A very powerful experience in this workshop was the systemic constellation which was set up. In this case it was chosen to not set up figures or representatives but the real persons. This proved to be very powerful and emotional. The constellation of the team including the confrontations became very transparent. In a first round the team leader set up the team the way that he saw the constellation. The members were asked if they agreed; in the end a common view of the current constellation was found. In a next step the setup was changed to the way that it was desired. The team then defined measures that are necessary to bring the team from the current constellation to the desired setup.

A third workshop took place with the same participants as workshop one, where the results of workshop two were consolidated. The team now changed its view from the past to the future. This workshop was about future plans and some additional measures to help the group dynamic processes. The disturber in the team had attenuated the destructive behavior, and the leader was focusing more on his role as a leader, navigating the team through the group dynamics.

In parallel to the workshops, individual coaching was taking place for a number of individuals in the team (see Fig. 8). The leader was coached to fill his role more from the social aspects of the team. The "disturber" asked to be coached to be more integrated in the team. There were three other cases of individual coaching with the target to be stronger members of the team and to be heard more in the team (as they had a more quiet character, which was not being heard in the team).

The next workshop followed after another 6 months; at this time the team was being close to the performing stage, and in the next team survey in the company, this

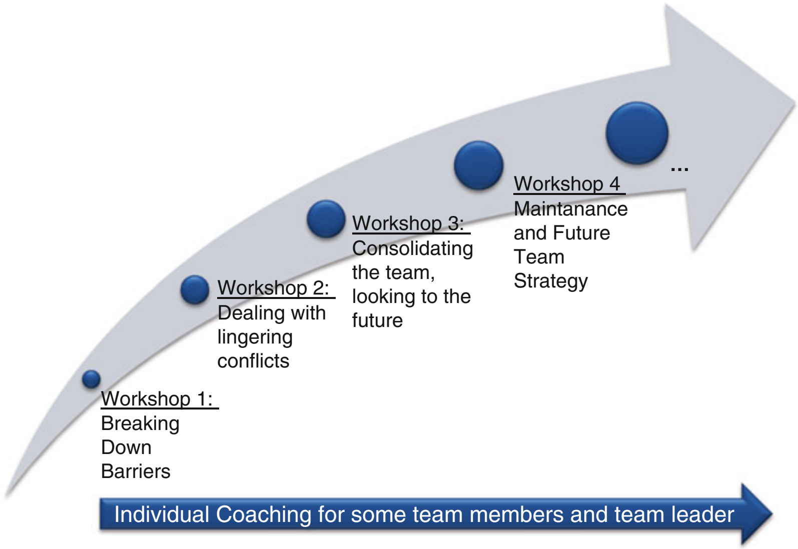

Fig. 8 Team development process storming phase

team had moved from being one of the worst teams to being the best liked by the team members in the organization.

Over the years the team has continued to maintain a continuous team development process, with strategy and positioning workshops taking place once a year. The team has become very successful again and is much respected in the organization for its excellent results.

Do's

From an HR perspective, supporting systematic team development processes is an important aspect of productivity in an organization. Offering a systematic frame for the functional departments as well as tools for systematic team development gives a solid platform to increase productivity of teams.

Elements of offering such a frame:

- Leadership principles
- Company values
- Expectation to teams
- Exemplary team development process
- Defining the roles and responsibilities of teams in the organization
- Consulting for team leaders
- Facilitators to support systematic team development including a role definition

Potential Tools:

- Team assessments
- Behavioral assessments
- Conflict profiles
- Development measures (skills, interpersonal, etc.)
- Feedback tools (appraisal, feedback to supervisor, etc.)
- Employee survey
- Others

Another aspect is the consistency of messages (or at least noncontradictions) of messages across the organization. This means that role models in and outside of teams should be consistent with each other and displaying behaviors which are expected of the teams and their members.

Don'ts

Team development measures are frequently about defining measures and implementing them. Not delivering to promise or agreement is a clear violation of trust in a team. This can lead to loss of motivation and unwillingness to invest into team development measures in the future. Not supporting functions to be able to realize what has been agreed is clearly a "don't."

The foundation of a team is trust. Any violation of that trust is a clear setback for a team. Especially not respecting confidentiality of things that are happening inside of the team and carrying this to the outside can damage trust severely. From an HR perspective, not allowing this confidentiality is a clear no go.

Another aspect of the "don'ts" is not treating the team members in the same way. This does not mean everybody has to be dealt with exactly the same as every individual is quite unique, but it means that the team members have to feel that they are treated fairly and by the same guiding principles. This means being inconsistent in messages to the different team members should be avoided. This is especially true for individual development measures, when team members have the feeling they are not being developed with the same rationale.

Final Commentary and Outlook

In this chapter the systematic development of different types of teams was described, it showed how important team development is to foster productivity, motivation, and well-being of teams. For effectively developing teams, it is essential to take into consideration in which situation the team is, the environment, and the nature of the team in question. Taking into consideration the right steps when defining and staffing a team is an important first step. This should be followed by systematic team development measures taking into consideration the respective team situation and group dynamic processes. Taking care of social and professional needs of the team in this context is the key to team success.

In the future the complexity of tasks will rise continuously; therefore, the importance of teams in organizations increases. Fostering well-developed teams in terms of cooperation and skills becomes even more important. Offering the right tools and process for this will become an even more important task of HR and OE departments.

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23 Training and Qualification: Team Development at a Flexible Packaging Factory

Raul Schweinitz

Contents

Abstract

How to get ideas from your employee and how the employee shares those with his/ her employer are questions that always come up in many businesses around the world. Getting ideas from your employees is one of the strongest power and differentiation factors for a company/plant/factory. The employees are dealing day by day with your production machines, processes, and procedures, as well as they have a frequent contact toward the customers. They know after some time

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what the problems are. How to gain the benefit is depending on how the idea management is structured and organised.

The case study will compare two different ways of idea management; one way as a standalone idea management concept and another way as an integrated approach, which is included in the day to day work. It will be shown how to get from a bureaucratic, highly administrative way of idea evaluation and implementation to a teamwork approach with better employee engagement and transparent evaluation process of an idea.

Keywords
Idea management system • Total productive maintenance • Reward and recognition • Teamwork • Change process • Preventive maintenance • Autonomous maintenance

Introduction

How to get ideas from your employee and how the employee shares his/her ideas with his/her employer are questions that always come up in many businesses around the world. The direct manager, the supervisor, the shift leader, and in some cases the second manager in a matrix organization are confronted with the employee, having an idea to improve the current process, step, and/or procedure not only in his/her direct working environment but sometimes in a department next door.

The dilemma starts here: how to evaluate the value of the idea, is it worthwhile to implement and even to spend money to implement the idea, is a compensation/benefit needed to be paid, and a lot of more of this type of questions.

Further problems will come up, when an idea is coming from a person who is not working in the department. The responsible one in this department may have felt "guilty" not having found this solution, and maybe the department manager feels the pressure dealing with the idea.

Therefore, companies have developed an individual, company-related management system to handle the ideas. The structure, procedures, rules, and guidelines are described in this tool and are highly dependent on the legal environment in which the company is working.

This case study is based on a production company, in the packaging industry, located in a German working environment. Due to this, some specific legal aspects come into account. The important one is codetermination right of the workers' council.

Excursus Work Council and codetermination (short, Germany only):

A ***workers' council*** *is an elected committee representing the blue- and white-collar organization. They do not represent the top management workforce. The number of members in the workers' council depends on the size of the company/plant/factory. In Germany it applies to all capital companies*, *including public* *companies, cooperatives, private limited companies, and partnerships. The workers' council can also be formed in companies where neither the employer nor the employees are organized.*

In Germany the general labor agreements are made at the national level, mainly by national unions and the national employer associations. After the agreement, the company/plant/factory will meet with the workers' council to adjust these national agreements to local circumstances.

Codetermination *is a practice whereby the employees have a role in the management of a company/plant/factory. As mentioned before, the rights are different in different legal environments and countries. The main task of the codetermination is to handle management labor conflicts. Furthermore to involve the workers' council in critical decision-making when it will have a negative impact on employee's side, all of these is to get a better understanding on both sides of the table.*

The management of ideas, development, and implementation of a procedure and/or Web-based tool in Germany needs the participation of the workers' council. Furthermore, the workers' council is involved, when it comes to a benefit system in relation to the idea management solution implemented.

Description of the Practice Case

As it is known in most of the German companies, the management of ideas is defined in a so-called employer/works council agreement (Betriebsvereinbarung). It might be so that in other countries and locations, a similar approach is applied to this topic, or there is no need to have this in place.

In the following lines, this agreement will be described in more details and on a more or less general way. Company specifics are taken out to avoid misunderstanding and confusion. This is to get a better understanding when it comes to problem solving and lessons learned.

In the agreement the following parts were regulated:

- What is the idea to be considered?
- How does the employee apply to the system?
- Who decides about the idea?
- How to evaluate the value of the idea?
- How is a benefit applied to the idea?

What Is the Idea to be Considered?

The idea will improve a current established process and/or procedure. The idea needs to be described in detail, meaning what type of improvement can be achieved and, if possible, the impact that can be calculated in terms of financial numbers.

Examples of improvements due to an idea are:

- The productivity improvement in the production environment (e.g., increase the machine capacity, reduce the setup time of a machine)
- The reduction of complexity in working procedures (e.g., taking out steps to make the process more efficient in a time perspective)
- The reduction of waste, the reduction of quality defects, and the reduction of cost by less consumption of raw material
- The improvement of safety protection systems
- The improvement of work environment (e.g., noise emission reduction)
- The improvement on environmental affair topics

Ideas related to improvements which are clearly linked to ongoing maintenance activities, repairs, and/or legal requirements are not part of this agreement and not judged as an idea developed by the employee. It is important that legal requirements are taken out of this agreement; this is a clear mandate for the company/plant/factory to cope with the right implementation.

How Does the Employee Apply to the System?

The employees need to fill in a format which had the following content:

- His/her name, related personal details, and working place. In this section the employees have the right to define if the application will be treated further personally or anonymously (the last solution to provide later an objective evaluation of the idea sent in to avoid conflicts).
- A short description of the current process and/or procedure where the idea is applicable for.
- A brief description of the new way, the idea, on how the process/procedure will look like later (in this section pictures, drawings, etc. can be used).

The employees can get help from the chairman of the idea management committee to get the format filled in.

Who Decides About the Idea?

In most company/plant/factories, an idea management committee is implemented. In this case the committee is built out of three people/employees who are elected by the workers' council and three people/employees elected by the company management. The chairman and his deputy of this committee are appointed by the company management. This last point needs to be debated and agreed with the workers' council.

The idea committee needs to meet once per month, based on the amount of sent ideas. The main tasks for the committee are the following:

- Decision-making on ideas which will not be implemented and are not valid for a benefit
- Decision-making on the payment/benefit not exceeding a defined value (in this case around 500€) for an idea which is/will be implemented
- Recommendation to the company management for a compensation/benefit exceeding the defined value for an idea which is/will be implemented
- Final decision-making on an appeal made by the employee on a decision done earlier

Decision-making is made by simple majority. In the case of equality of vote, the chairman has a further vote.

For a solid decision-making process, the committee will get expertise.

It is important to know that the chairman, besides leading the idea committee meeting, needs to fulfill further administrative tasks. These are the following:

- Be available for questions regarding the idea management system.
- Register the incoming ideas and write a short acceptance note to the employee who has applied.
- Get the experts' opinion (expertise) and ask them to complete a further document, for the evaluation of the need of the idea, the improvement value, and the financial impact.
- Prepare a statistical overview.
- Write a protocol of each idea management committee meeting.
- Send out a note to employee indicating the positive or negative vote of his/her idea (in the case of a positive vote, the employee gets an information regarding the benefit he/she will get).
- Send an overview to the HR department and make the votes in a generic form public.

How to Evaluate the Value of the Idea?

As described previously, the base for the decision-making process is the expertises. The expertises are created by people in the organization, which have the necessary skills and are educated in the specific needed field (e.g., supervisors, shift leaders, engineers, and department managers). The responsibility to choose an expert is on behalf of the chairman.

The experts need to prepare a clear statement to the idea sent in. The time frame to come back to the committee is in this case 4 weeks. During this time the expert needs to understand the new way, what it means to implement the solution, what it will cost, and how much the saving will be in a financial point of view. In all these points, the expert needs to give a clear answer. Based on the expertise, the decision will be made to implement the idea or not.

The expert needs to come back to the chairman if more time is needed, due to some external support in getting clear numbers for evaluation and/or if there is a need to get a better explanation of the idea. In the last point, the chairman needs to get the permission of the employee who has sent in the idea so that his/her name will be provided to the expert for further clarification.

How Is a Benefit Applied to the Idea?

There are two possible groups of ideas which can occur:

On the first group, the impact coming from the implementation of the idea can be calculated and can be evaluated based on facts and figures. Based on this calculation, 10 % of the saving will be taken into account and will be further multiplied with a factor built out of several components:

- The skill level (e.g., an unskilled person will get 1.0, but an engineer will only get 0.4)
- The working place the idea is related to (e.g., 0.3 if it is a different working place)
- Environmental impact (e.g., low impact 1.0 or high impact 0.2)

On the second group, the impact coming from the implementation of the idea cannot be calculated. For this second group, a decision matrix was built. The content of this decision matrix is as follows:

1. Evaluation of the value for the company (high 10–15, medium 5–10, or low 1–4) in the areas of safety, workplace improvement, workflow improvement, quality improvement, reduction of raw material, environmental impact, and productivity improvement
2. Evaluation of the novelty of the idea (not new 0.5 – absolutely new solution 2.0)
3. How quick the idea can be implemented (further investigation is needed 0.5 – could be installed directly 1.0)
4. The skill level (e.g., an unskilled person will get 1.0, but an engineer will only get 0.4)
5. The working place the idea is related to (e.g., 0.3 if it is a different working place)

The product out of these numbers will be multiplied with a financial value, in this case 10 €.

What Were the Problems/Challenges?

The big challenge of this installed idea management system is the bureaucratic, highly administrative way of evaluating ideas and getting them implemented. But let us look step by step into it.

Due to very generic description of what can be considered as an idea, a lot of simple ideas regarding daily work were sent in as a new solution (e.g., installation of an air condition could improve the moral of the employees in this department). The ideas which were clearly linked to the employees' working environment and the task they need to fulfill were sent in as well. In some cases it happened that an "old" idea, with some small adjustments, was sent in again, even if that was evaluated negatively previously.

The way of getting an idea into the system was a challenge for some employees as well. They need to fill in a format and they need to explain in written form what the new way of working the idea will improve. This especially created concerns on the employee's side, because they felt forced to write down the idea, instead of explaining the it verbally. Furthermore it happened that the expert needed to talk to the employee, and this created some kind of conflicts, because the employee wanted to stay anonymous.

By that, a lot of good ideas were not sent in due to the fact that either the employee needed to describe his/her idea in a written form or refused to get public, and by that the idea was taken out. In some cases, it happened that an employee talked about his/her idea in a team meeting and a colleague took the chance to apply it into the system.

There was a support installed for filling in the format, but not often utilized or the availability was not given due to the workload the chairman has at that time. Some employees felt forced by the colleagues and/or direct manager when applying an idea to the system and when asking for support in filling in the document.

The further challenge was seen in the structure of the idea management committee. The involvement of such a big group of people is needed on a regular basis. If the dedicated people were not available, the meeting was postponed and in these cases the decision-making as well. The consequence was that the implementation of an idea and the feedback to the employee lasted many weeks. Based on this the motivation to send in an idea went down.

It was agreed to have for each member a deputy in place, but this ended up in a further problem. The new involved committee members needed extra time to get an understanding about the tasks/ideas which were on the agenda for decision-making and created further time losses.

The chairman, who was taking this job in addition to his/her current role, was faced with a high workload, often ending in a bad and unprepared meeting; in some cases, the needed expertise was not sent back right on time, and in the worst case, his/her current job was impacted negatively as well.

The evaluation of the ideas was based on expertise. To create this expertise, time is needed, especially when further investment were taken into account to get the idea implemented. As this expertise is developed during normal work, overload was seen as well in some cases. As a consequence, further time was lost to implement the ideas. In some cases, it was seen that the evaluation was made very generic. This was related to the fact that the provided description on the idea was too simple and not good enough and the expert did not take the time to judge this seriously; also the time frame to send back the document forced him/her to answer generically. In this example another round of expertise was needed to get a clear judgment.

As an employee expecting reward and recognition for his/her daily work, he/she is expecting a compensation/benefit for sending in ideas to the company. As a consequence an idea management system needs to cover this part, and if this includes the payment of a benefit, the procedure must be transparent, fair, and easy to understand. The shown way of compensation in this case study clearly indicates how difficult it is to get a fair and appropriate benefit, especially when no facts and figures are involved. Even when a solution is in place to evaluate a value for a benefit, an explanation is always needed on how the judgment was made to come to the calculation factor. This area creates misunderstanding and dissatisfaction, especially when an idea was judged as not valid for implementation and no benefit was paid for.

What Was Our Plan on Solving the Problem or Mastering the Challenge?

As mentioned before, the installed idea management system was a bureaucratic, highly administrative way of evaluating ideas and getting them implemented. The company/plant/factory looked for a solution, in which an implementation of an idea could be part of the daily work, an idea development could be done in a teamwork approach, and to create an idea could be a kind of mind-set of continuous improvement thinking. They wanted to create an environment in which the dedicated department leader, supervisor, and shift leader take the responsibility to create a lot of ideas in his/her dedicated working place and motivate the employees to share their thoughts and ideas with the team they are working in.

Rewarding and recognition need to be done via a measurement of key performance indicator for the department based on the overall performance indicator of the company/plant/factory. Due to this, the individual evaluation of an idea, just for the reason to get a benefit for, will become obsolete. The aim was to make clear that the success of the team and the achievement of the key performance indicators are clearly linked to getting ideas implemented. The rewarding will come later via the evaluation of achievement on the key performance indicator.

As the company/plant/factory has set this goal, they have searched for a management system, a tool helping to achieve the ambition. They have chosen to use a kind of total productive maintenance/management approach.

The approach was to combine the three main elements of the total productive maintenance, which are autonomous maintenance, preventive maintenance, and engineering/early management in a team led by a manager. This dedicated group was mentioned as process team.

The following lines will describe briefly the approach behind each individual element:

Autonomous Maintenance

The main task is to make the employee feel responsible for his/her working environment and, in the case of production, for his/her machine. The aim is to make the operator understand that the machine he/she is working with is like his/her private car. The approach is to create an understanding of feeling responsible to keep it clean and running, to achieve the best quality and to improve the process and/or working conditions.

Therefore the employees received training on how they are going to clean a machine, and by doing so, they got the understanding of seeking for defects and missing parts. They also received training from the maintenance department to fix smaller issues, like a missing bolt, to inspect the machine, and to lubricate the machine if needed, just like it is their own car.

To cover this approach over each shift, the shift leader is appointed as autonomous maintenance team leader. His responsibility is to make the communication flow between each shift via his/her colleagues. They have to document the autonomous maintenance activities (cleaning, inspection, lubrication), shortstops, and most importantly the upcoming ideas for improvements due to the inspection process.

The team leaders/supervisors/department managers play an important role. They needed to support the employee/operator in order to fulfill the above mentioned task. They needed to give time for inspection and cleaning. They needed to check if the task has been fulfilled. They needed to engage the employee to take care of the tasks and to seek for further solutions.

Preventive Maintenance

The main task is to bring the employees in this department to a specialist level. They need to become the expert of the machine, the technology to which they have been dedicated. They need to become a trainer for the basic maintenance work. This is to support/train the machine people how they can clean, how they can inspect, and how they can fix smaller items or repair the machine by themselves.

The challenge in this approach is that the employee needs to be confident and feel that they are important and that they are not losing their jobs by training an operator to be able to do the basic maintenance work. It is more about them now having the time to be trained in special cases and getting expert knowledge on how to improve their dedicated machines.

To cover this approach over each shift, the shift leader is appointed as preventive maintenance team leader. His responsibility is to make the communication flow between each shift via his/her colleagues and to change experiences with the autonomous maintenance team leaders. Especially the last part is important to get communication done over boundaries. They have to document the repairs, the breakdown, and most importantly the upcoming ideas for improvements due to the communication/training process with the autonomous group.

The team leaders/supervisors/department managers need to support the employees in order to fulfill the mentioned task. They have to convince the maintenance people that they play an important role by entering the expert level. They need to treat the people accordingly, to engage them, and to utilize their expert knowledge as much as possible.

Engineering/Early Management

The main task is to focus on the continuos optimization/improvement of the dedicated machine, processes, procedures and build up further knowledge in the process team, by that to educate the machine operator. This group of employees has to be the "brain" of the combined team. They have to take the responsibility of generating, together with the involved people out of the autonomous maintenance and preventive maintenance group, enough ideas to improve the current machine performance, the processes, and/or the procedures. One important element in daily work is the joined shop floor meeting with the day shift people in both autonomous and preventive maintenance department.

The challenge for the company/plant/factory is to get the right people who are smart enough to accept ideas from non-engineers. A special focus on getting the right people is needed by the HR department.

This group of people works mainly on day shift. Out of this group, one employee is appointed to lead the dedicated process team.

The department managers have to engage the employees to take over the responsibility, to lead smaller sub-teams based on the ideas created and decided to be followed, and to lead the process instead of thinking always about the one and only solution.

Process Team Structure

Besides the leader of the process team and the other engineers, the current day shift autonomous maintenance team leader and preventive maintenance team leader are part of the process team. If needed, further team members of autonomous and preventive department are invited to participate in the regular scheduled team meetings.

The main task of this team is to structure/analyze the findings, the needed improvements, and the ideas collected by the different groups of people. This analysis is then linked to the needed key performance indicator. Based on this approach, a clear feedback could be given back to all involved employees in each department and shift.

The idea was that the dedicated teams by each main department take over what has been done so far by the idea committee. Therefore, the way of thinking was to spread the responsibility over more shoulders and have a continuous feedback loop to the employees.

The New Approach for Idea Management

Each year the company/plant/factory needed to set their targets for the upcoming year. They defined the key performance indicator on the company/plant/factory level and worked together with the different department managers to get clear targets for the different departments. This can be done through a known budget process.

Based on this outcome, the department manager has to work together with the process team to define the needed improvement steps to achieve the key performance indicator. The prepared analysis by the process team will then be linked to this outcome. With this approach, it will be possible to clearly evaluate which of the ideas, improvements, and investments are needed. Due to linking of the ideas, improvements, and investments to the key performance indicator, it will be better possible to explain to each employee why an idea will be implemented or not. The acceptance will be much higher because the employees are participating during the whole process and will be supported by the fact that a benefit is paid on the achievement of the key performance indicator.

The company/plant/factory only needed to get an employer/work council agreement on how the benefit will look like in terms of key performance indicator achievements. For this field a lot of known systems are available and can be adapted to the specific needs in each company/plant/factory.

What Was the Real Outcome?

The described structure of the three main groups, autonomous maintenance, preventive maintenance, and engineering/early management, has been implemented successfully, as well as the process team structure. The challenge in getting to this point is the change process and the change of mind-set related to the new approach.

It is clear that this change process needs time; therefore, this needs very strong leadership, not only by the related department managers but much more importantly by the company/plant/factory top management. It is necessary that the top management stand behind this approach and support it whenever possible.

It became clear that the process team members had to be at the shop floor on a regular basis. All meetings, including the process team meeting, were scheduled later to take place at a conference room close to the shop floor. With this approach it was possible for operators to join and listen. Due to this the acceptance on decisions made, even when they were negative on idea implementation, was much higher than with the previous solution.

The installed audit system, to control the implementation, was again too complex and time consuming. It was felt to be controlled and observed. It is good to have such kind of audit system in place, especially during the change process. But it is necessary to reduce and keep it smart and simple. As an example, take a flip chart and place it beside the machine. Note the findings from the audit/observation and find an agreement on due date and responsibility. For inspection routines, make a short check list, so every employee will be able to fulfill the task and so it can be used as a reference during an audit.

It becomes as well clear that the supporting areas, like quality assurance, supply chain and logistic, and shipping department, just to mention only a few, needed a similar approach, or better needed to be involved. The company/plant/factory has decided to go ahead with the new management system. The total productive maintenance/management philosophy can help as well in these areas. You will find some helpful examples in the reference list.

Due to the needed time of implementation of the new structure, the understanding together with the workers' council to stop the old idea management was not possible. The workers' council still saw the need and wanted to keep it in place as long as possible, mainly for the supporting departments. Therefore, an adjustment was needed. An agreement was found that only ideas which are coming from the supporting departments need to follow the "old" process.

What Are the Lessons Learned?

Getting ideas from your employees is one of the strongest power and differentiation factors for a company/plant/factory. The employees are dealing day by day with your production machines, processes, and procedures, as well as they have a frequent contact toward the customers. They know after some time what the problems are, e.g., customer relationship issues, machine issues, procedure losses/waiting time, etc.

Companies/plants/factories all over the world are looking for a solution on this side. Not always are the installed or planned-to-be-installed idea management systems the appropriate ones. Meaning, when the idea management system is created as a single solution, like to get ideas into a system (manually by filling in a format or electronic via intranet) just for the reason of collecting and in addition evaluating them due to a committee, it could end up in a very complex, bureaucratic, highly administrative way of evaluating ideas and getting them implemented. And it will happen quite often that ideas will not be applied and that they will be hidden; therefore, the company/plant/factory will lose the opportunity to improve quicker and faster.

A much smarter way should be to make the employees become part of the improvement process, not in a top-down approach, more in the way that they feel responsible for the work they are doing and therefore for the result they are delivering. Following this way, the idea management should be part of the daily work and should be built in the company/plant/factory in that way that an idea development will be done in a teamwork approach, and to create an idea should be a kind of mind-set of continuous improvement thinking.

For this, the implementation of the total productive maintenance/management philosophy is building up a possible ground. The employees will be part of the improvement process, will be recognized for the improvements/ideas they have brought into the scope, and will get responsibility and take the responsibility for the work result and the related equipment/tools they are using. As said before, take the responsibility, as it is your own car.

From a management point of view, this approach will give as well advantages, like the delegation of responsibility, the improvement of shop floor communication, the buildup of a better relationship with the shop floor, and getting of the ownership for the results, just to mention a few. To get a workforce who like the job they do is paying off at the end, because the company/plant/factory will get better and quicker results.

This approach is a mind-set change and is a change process which lasts for a long time. There are no shortcuts to get through; it is a process where the whole company/plant/factory needs to believe in, and if there are doubts, it will not work (1 % doubt on management side will create 10 % doubt on the employee side).

One of the biggest learnings was seen in the field of reward and recognition. To link the single idea to a rewarding/benefit system will create on the one hand again a complex, bureaucratic, highly administrative management system. And on the other hand, it will create frustration on the employee's side, when the expected reward/benefit is not meeting the expectation of the employee.

It was more than clear that reward and recognition, as well as benefits, need to be separated from the single idea. It will be much better to have an overall performance management system in place, based on the measurement of key performance indicators. It needs to be obvious that without ideas, their creation and implementation, the improvement of the department and at the end the improvement of the key performance indicator, and the benefit of each and every employee will not be met.

Cross-References

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- ▶ Engagement and Retention: Essentials of Rewards and Recognition
- ▶ Training and Qualification: Essentials of Leadership Development
- ▶ Training and Qualification: Essentials of Skill Management
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Training and Qualification: Recommendations for Virtual Team Development

24

Andrea Griesinger and Thomas Schmitt

Contents

Abstract

Development of virtual teams is challenging and ambitious because the typical setup hinders the possibilities of personal encounter. In order to increase the team's performance and collaboration capabilities virtual team leaders continuously need to invest in virtual team development. In the presented approach, team leaders are recommended to understand team development as a continuous learning journey considering containing different steps in preparing and defining training loops together with the team. Which team skills have to be developed and what could be effective formats are decisive factors for the training setup. Thus, in addition to their leadership role, team leaders are the head coaches for the virtual team development.

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Introduction

Building up a strong, performing virtual team and continuously improving its collaboration is a challenging task.

This chapter is based upon the following situation setting: A globally distributed team is supposed to jointly deliver a specific service. The ten team members are situated in the USA (2), Germany (2), Spain (1), the UK (1), India (2), and Singapore (2). The Indian team members belong to a third party provider and thus not all team members are part of the same company's organization (see Fig. 1).

The team is collaborating as a so-called virtual team, using technological support such as teleconferences, web meetings, instant messaging, and e-mail. They never meet in person as a team – occasionally individual team members travel to other sites but the day-to-day collaboration takes place on the screen.

Effective virtual collaboration for this team means to be able to close the various gaps there might be between the team members, e.g., different locations, time zones, languages, cultures, company borders, and even reporting lines (Griesinger 2014).

In addition, virtual teams are often under extraordinary pressure: Shortly after set up they are supposed to become productive very quickly and deliver their first results as soon as possible.

Based on the challenges described above, seven recommendations come into focus that will make this team work more successfully. The underlying basic assumption is that team development is a transformation process with the intention to either build from scratch or to strengthen capabilities within the team.

Agree on Team Mission, Ambition, and Purpose

In the first place, there needs to be a joint understanding of the team members' common mission and purpose. Very often though the common ground is not yet established or understood, neither are the joint goals the team aims to achieve.

Fig. 1 Distribution of the virtual team and challenges

Even when a team has been collaborating for quite some time, it might be distracted by daily business from its original purpose. The common ground for this team comprises all components that help to fulfill the purpose.

In the example, the common ground is jointly defined by the team and contains:

- Clear description of the team's mission with regard to the service they are providing
- Clear understanding of measurable business goals that the team aims to achieve
- Joint understanding of team success: Being able to finish the sentence "in one year from now on we will have been successful, when..."

These topics should be prepared as discussion points and workshop topics by the team lead. They should use the virtual working environment to set up a workshop to interactively align the above described topics. Interaction between all team members is key to gaining a joint result. Virtual workshops need to focus even more on the usually unspoken level of team communication.

Value the Team's Background and Assets

Apart from being clear about the ambitions it has proven as an accelerator even to know what assets the team already possesses. These assets will form the foundation and are some or all of the following

– Virtual collaboration experience
– Degree of working experience
– Individual team member expertise

Valuing the team's background and assets means having a clear idea about what each team member "throws into the pot." Adding up and combining these assets are the joint strength of the team – the treasure that already exists and needs to be taken care of.

In the example assets could contain:

- 4 out of 10 team members have more than 5 years of professional experience within the service provided
- 5 team members have significant up-to-date certifications that will be useful to improve the service quality
- 5 team members have already successfully collaborated in past assignments
- All team members have been working in English for more than 5 years.

Having a common view of the strength of the team is a boost to self-confidence and increases the shared value of each team member. The assets can be collected by the team lead using a template to ask the team members. The common view towards the treasure should be aligned in an interactive virtual session.

Share Your Attitudes and Motives Regarding the Team's Virtual Collaboration

The attitude towards virtual collaboration forms the way team members are willing to embrace the possibilities provided by this way of working. Virtual collaboration differs in significant ways from the way we collaborate in an on-site-setting. Virtual collaboration also provides a variety of opportunities (such as 24/7) that without the technical possibility would not exist. The basic underlying attitude towards this specific way of working means embracing the possibilities provided and not focusing on habits that only work in an on-site working environment.

To be specific about the differences the overview below shows examples of different perceptive channels in virtual and on-site working environments (see Fig. 2):

Collaborating in a virtual environment also means that many of the typical culture-influencing elements of daily work are not part of the working experience: meeting in a coffee corner, chatting on the way to a meeting room, lunch-meetings, or other informal get-togethers.

Having spotted the differences between virtual and on-site collaboration, it needs to be stated that the findings regarding team development (Tuckman 1977) are also valid in the virtual working environment. The typical phases forming, storming, norming, performing, and adjourning happen in virtual teams as well and the team leader should actively manage this process.

The virtual team especially needs to develop processes on how to detect and deal with conflicts. As one can easily imagine, a re-connection during conflict situation in a virtual environment is much more difficult than in an on-site environment where you cannot prevent seeing or meeting each other.

In order to mitigate this specific risk, it is recommended to establish regular feedback cycles, e.g., include a question regarding the team atmosphere in each team call ("on a scale from "warm" to "cold", how do you feel today with regard to our team working atmosphere?"). The following graphic shows an example on how such a quick collaborative check could look like when used in a web meeting: The 10 team members all check mark their individually perceived position on a "temperature" curve (see Fig. 3):

Agree on Results of the Upcoming 12 Months of Team Work

"Which results do we want to achieve in our team work?" Based on the ambitions and the joint idea of success from recommendation 2 this is the lead question to agree upon the three most important team results. Normally these are results which influence the effectiveness and performance of the team work For instance the team might aim to:

- Deliver faster more substantiated results or proposals *or*
- Communicate more with one voice towards stakeholders about results and team status *or*

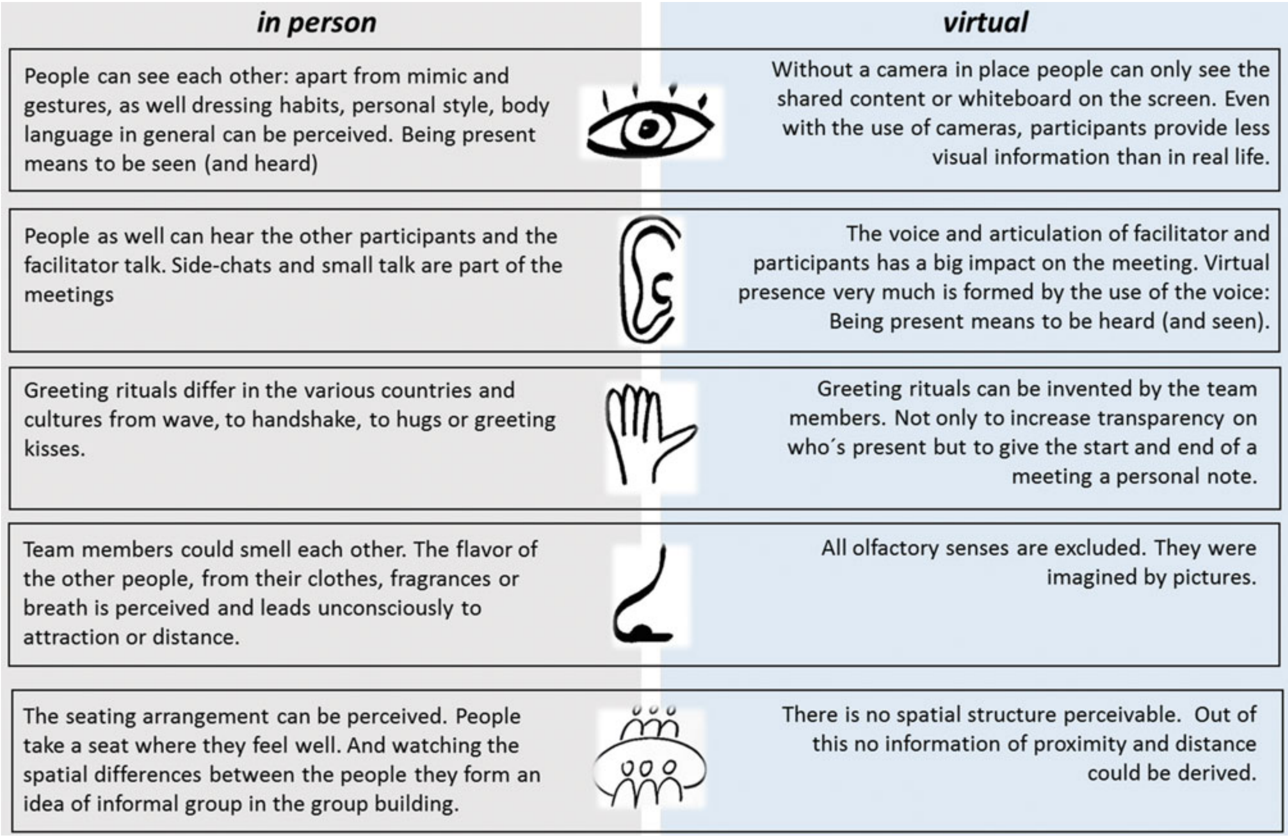

Fig. 2 Differences of perceptive channels in virtual and in person working environments

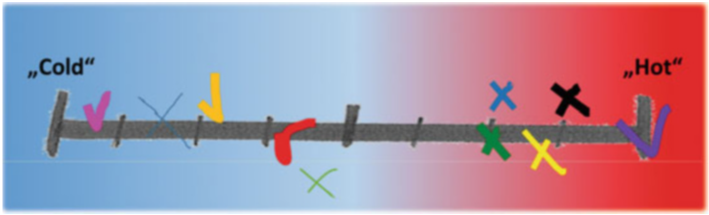

Fig. 3 Perceived team atmosphere

– Fulfill a challenging job with less expense or with time remaining for improvement loops (not as today as last minute completions)

These possible results should be achievable by the team in a manageable period (e.g., 12 months - depending on the lifetime of the team). In addition all the team members should have the same agreed idea of the target state.

Identify the Capabilities needed to Achieve the Team's Results

A key point is now to identify the new capabilities the team needs to develop in order to achieve the results above, or the more challenging question is: what does the team need to learn or "un-learn" – what do they need to let go? This last point is often more ambitious than vice versa. Who should do what less, more, or better in order to improve the team performance?

These could be cooperation skills, the ability to live specific roles, for example, as a subproject leader or in addition leadership or facilitation skills.

Considering the results mentioned in recommendation 4, the following capabilities could be relevant:

– The team members should be able to feedback their expertise more openly, directly, and in a more challenging way *or*
– To develop a more positive and affirmative attitude to the work of the team *or*
– To increase the facilitator skills of the team leader to moderate the meetings with greater focus or to state more openly and clearly their position

The last point is rather demanding: Virtual meetings require more detailed and thorough preparation. Leaders of virtual teams should anticipate possible fall backs and should ensure their availability. Often they need to develop additional capabilities to tackle the virtual environment and take advantage of its inherent benefits.

Align the Means of Developing These Capabilities

In the previous steps, the team members clarified *what* they intend to achieve. In the following phase, the focus is on *how* the development (or the learning process) of the defined capabilities can be realized.

At first the levers are identified that could stimulate learning. Such triggers can be found in people, structures, processes, systems, rules, and values.

Referring to the examples in recommendation 5 one lever could *be to learn and subsequently apply new methods of effective teamwork for specific situations*, to enlarge the portfolio of methods and the team member's know-how, and to apply them in the right meeting situation (the championing of which should lead to more useful feedback).

Often an effective lever to develop the capability of virtual collaboration is *to establish a well-running "social operating system."* This lever comprises all meetings to synchronize information, to solve problems, to agree upon targets, to meet decisions, to improve the way of working, etc.

The ambition is to create spaces and conditions with an output as high as possible of individual and collective energy and performance combined with a happy environment. For virtual meetings a clear and familiar meeting structure is needed with an alternating specific focus. The challenge is to design the daily business collaboration routine according to the team's needs.

In the example these routines could consist of:

- Align the objective, frequency, and duration of meetings, e.g.
  - Weekly virtual team meetings, carried out as 1-h info session for updates relevant to all
  - Regular (virtual) 1:1 meetings between team lead and team members as well as between team members jointly working on one topic
  - Regular virtual workshops to jointly create a new solution or service
- Align the use of e-mail as communication tool, e.g.
  - Be specific in subject and list of recipients
  - Only put those in cc that really need the information
  - Discuss "reply-to-all"-behavior
- Align do's and don'ts for instant messaging, e.g.
  - Avoid distraction: always set availability status on "do not disturb" when in a call/web meeting
  - Create transparency on availability: login instant messaging during working hours
  - Respect status settings when contacting colleagues – be specific, keep it short, and simple.
- Align the knowledge management and document management policies, such as
  - Define document names and version control
  - Align on topics of interest that should be shared on a regular basis
  - Make sure all team members – third party members included – can easily participate

Commit to an Aligned Training Roadmap for the Team's Development

Learning in teams always entails covering a common distance: After a know-how input, or a recharging sequence, the new will be tried and new experiences will be gained. These steps are very important because repearted experiences have a significant impact on underlying attitudes which furthermore shape the behaviours and thus create new experiences. This circle of change with regard to attitudes through experiences is one key element of the learning process. It illustrates that learning is not linear but rather a circular process with loops consisting of trying, experiencing, and internalizing (Hüther 2006).

Considering these aspects of learning, the design of a training plan for the virtual team is recommended. To follow the example of step 6, a first exercising loop could be designed with the application and training of two new methods "peer to peer challenging" and "peer to peer case work" (as two examples for effective methods for virtual teams) for the next four team meetings. Two team members take over the role of a method owner. They present the two methods to the team and prepare, together with the team leader, the application in the following virtual meetings. The method owners take care of sufficient feedback with a focus on the target capability of the virtual team. In the next loop of the training plan, the methods will be refined and all the team members become more and more familiar with the application of these methods. Other pairs will take over the ownership of other methods.

This training plan could be added with the learning process of the second lever. The ownership of the different meeting types could be taken over by the team leader. They could start presenting a short concept with frequency and structure of the meetings and directly try to realize it. So during the first loop, the application of different formats and new methods of collaboration (the learning process above) would be tried. The experiences will be continuously evaluated, with short feedback elements. Especially with the features of the conference system, it is rather easy to make quick and useful polls (Schmitt 2014).

The complete training roadmap should be completed with dates and team member responsibilities and approved by all team members.

These learnng cycles could become a turbo of the virtual team development. An example for the above described training plan is illustrated in Fig. 4.

Conclusion

Team development does not run like clockwork – especially not in virtual teams. It is worthwhile investing in team development because it definitely influences effectiveness of virtual team work and the individual motivation of the team members as well. Team development is one of the challenges the virtual team leader is constantly faced with. They should actively manage and create this process. Helpful for them is the role as head coach of the team development (Jens Peter Abresch 2015). This is a very useful metaphor to complete the leadership role by increasing the consciousness of how to train their team and which learning spaces they make available in order for the team to unfold their capabilities to their fullest. Ultimately, the team leader develops their competence as a head coach of new capabilities in addition, the following attitude for the leader of a virtual team is crucial to successful virtual team collaboration: "Taking the opportunities instead of overcoming the barriers."

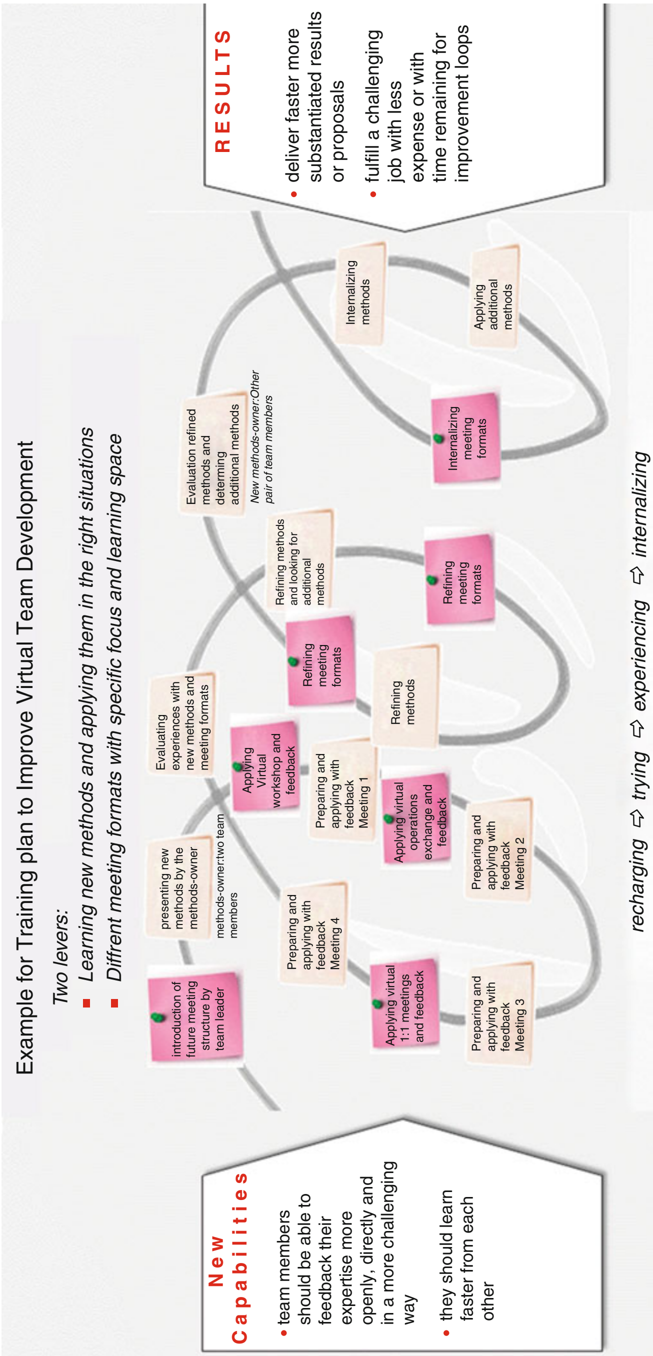

Fig. 4 Example of a training plan

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Part III

Performance and Talent

Performance and Talent: Introduction and Overview

25

Nora Binder

Contents

Abstract

Today's markets constantly challenge companies and organizations, while multiple factors determine the competitive advantage of a company: financial capital, innovations, and technologies.

But there is only one sustained and not easily replicated factor: talent and how it is managed.

Activities in talent and performance management have the goal of always having the right people in the right positions: today, tomorrow, and in the long term.

Business is increasingly global, volatile, and influenced by a lot of worldwide challenges – securing growth and future success will depend significantly on how talent is managed while aligning all initiatives in these areas to an overall business strategy.

A lot of variations exist in how the term "talent" is defined in a business context. Nowadays, it is generally accepted that talents are those individuals that do not only contribute to organizational performance but make a valuable

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difference to it. Their potential and way of contribution is essential to achieve the defined business goals and future strategic position of an organization. These interpretations underline the importance of recognizing that it is not sufficient simply to attract individuals with high potential. Developing, managing, and retaining talent as an organizationally embedded culture target the whole workforce.

The talent and performance management framework constitutes an integrated approach to many areas, such as recruiting, development planning and learning, succession planning, mentoring, coaching, and compensation. All these components are essential to reach sustainable and desired results and provide a context for employees to perform at their best.

The topical chapters provide insight to these components and their challenges in today's business environment from various perspectives.

This overview chapter provides aspects of the people, economic, risk, and operational perspectives of contemporary organizations' approach to talent and performance management, exploring needs and expectations of both the organizations and the individuals working for them.

Keywords

Talent • Development • Strategic alignment • High performance workforce • Organizational goals • Individual development plan • Retention • Talent strategy • Succession planning • Career management • Competencies • Loyalty to profession • Goals worth achieving • Performance management system • Performance appraisal • Talent mind-set • Retaining top talent • Feedback • Career planning • Talent mind-set • Talent review process • Competency

Introduction/Overview

Both talent and performance management are disciplines within an organizational system to integrate multiple human resources initiatives. They all contribute to achieve business results and are critical to every business strategy.

Talent development focuses on the individual and his or her career progression within the company. Talent development has the perspective of "looking back" at past performance and "looking forward" to future assignments. To achieve this, a talent management plan needs to be closely aligned with the company's strategic goals and business needs – goal alignment clarifies job roles and demonstrates ongoing values of the employee to the organization. By creating employee ownership in the company's success and high employee commitment, talents are supported to reach the desired high levels of job performance. Organizations that are able to clarify their specific talent requirements and then measure and engage them will effectively achieve organizational objectives.

Employee performance management combines and integrates many parts of people management. It is a process for establishing a shared understanding about what is to be achieved at an organizational level. It is also about aligning the organizational objectives with the individuals' agreed measures, skills, competencies and requirements, development plans, and delivery of results. The emphasis is on individual and team improvement, learning, and development in order to achieve the overall business strategy and to create a high-performance workforce.

Effective performance management aligns efforts of supervisors and employees with departmental and organizational goals and motivates all employees to perform at their best. It should provide consistency while committed to enhance and reward excellence performance.

Further, performance management has an important effect on retention – effective performance management processes in place contribute to improved employment retention. As a basis, performance management needs to be set up as a comprehensive system where performance can be measured in consistent, reliable, and objective ways. It needs to integrate reward components like compensation, employee benefits, learning and development paths, and succession possibilities.

If all these components and processes are looked at as an integrated system to evaluate the individual's performance, employees recognize their value of contribution to the organization. In this way, the talent is not only rewarded but also nurtured.

The challenges in the areas of talent and performance management are manifold. The world economic situation has changed over the past years in a way no one could have predicted. Relatively high unemployment rates on the one hand contrast with labor shortages in many industries on the other hand. Employees stay less time in their jobs than in the past. This situation adds to talent constraints which cause pressure for organizations to maintain growth and profitability goals.

At the same time, the organization's talent, its employees, is a major factor influencing the extent to which the performance potential of any organization will be realized. It has therefore become more important than ever to emphasize the role and definition of talent and performance management – how it is embedded into a company's culture and what is the definition of its practices and processes.

Organizations often struggle to define in a meaningful way what they mean by talents. Not only people with talent for upper management are "talents." Talents are engaged, high-performing people who add significant value to a company, as reliable experts in accounting, as diligent and creative minds in innovation centers, or as entrepreneurial and inspiring leaders in upper management positions among others.

Views on talent or performance differ in approach: a more narrow approach is to look at talent in terms of professional and technical skills, knowledge or competences, and performance in terms of productivity.

Nowadays, it has become essential to adapt a much broader approach. Talent and performance need to be viewed as an essential contribution to a wide range of factors, for example, company culture, vision, customer satisfaction, and quality of contribution to working in teams. In this respect it is important to have the human resources goals – comprising all activities, processes, and projects in this area – aligned with the business strategies of an organization.

The following graph visualizes that talent and performance management are a set of organizational processes, emphasizing the link with performance management, a coherent approach to succession planning and development, described in detail in

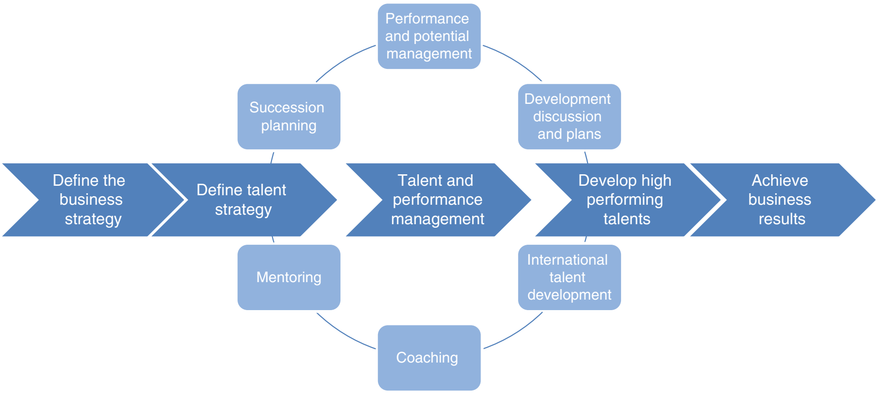

Fig. 1 Organizational processes of talent and performance management

▶ Chaps. 26, "Performance and Talent: Essentials of Performance and Potential Management," ▶ 28, "Performance and Talent: Essentials of Development Discussions and Plans," ▶ 29, "Performance and Talent: Essentials of Talent Development Programs and Groups," ▶ 30, "Performance and Talent: Essentials of International Talent Development," ▶ 31, "Performance and Talent: Essentials of Coaching," and ▶ 35, "Performance and Talent: Essentials of Succession Planning" (Fig. 1).

In this talent and performance management framework, there are several components which are key to successful implementation:

- A clear understanding of the organization's business strategies, now and in the future, together with clear corporate goals that support the business strategy and a culture of employee development
- An inventory of competencies and qualifications in order to define the talent pools needed but also to identify key gaps between the current situation of talents and the future needs to enhance business success
- Based on this inventory, a thorough employee development plan designed to close the talent gaps and to prepare to progress in the organization
- An ongoing dialogue between line managers and employees to connect individual, team, and corporate goals as well as to provide clear expectations and feedback on performance
- A clearly defined hiring, succession, and promotion strategy and accurate decision-taking
- A development of talent strategy to face challenges in the current position as well as preparation for the next level
- An information system to support and integrate workflows of progress tracking, succession planning, learning and development measures, as well as performance management.

In addition, successful talent and performance management require a balance and integration of all these abovementioned processes. All processes have to create transparency for the management and the employees, both about the performance and the potential across the organization. To reach this, processes should never be a onetime initiative but be embedded in business routines. For example, identified potentials should be assessed on a regular basis according to clearly defined criteria, involving management groups for cross functional development and transparency.

This means that part of the organizational culture has to be full acceptance and support from the top management. Management needs to have no doubt about the fact that recognizing and promoting talent are fundamental to success while establishing fair and valid processes lived at all levels. Top management is responsible for building trust in all talent and performance management initiatives, willing to invest the necessary amount of time and effort. All these efforts need to mirror reliability by fair, equal, and predictable processes and performance rewards. These principles also sustain organizational structures that manage talent independent from company politics, able to base decision on objective assessments rather than on individual opinions.

Information systems add to create transparency in talent and performance management. Nowadays, there are many information systems to support talent management. The right system support for all these integrated processes and workflows can ensure a more efficient handling as well as a reduction in the administrative effort. Necessary data about employees, managers, and functions at any time can be provided. Ideally, the system is able to store all relevant organizational and employee data supporting core functions such as recruiting, succession planning, learning, performance, and compensation.

People Perspective

Although there seems to be no shortage of definition for talent and performance management, the main perspective is about people: ensuring to have the quantity and quality of people in place to meet current and future business needs. Organizations are made up of people: people creating value through innovation, customer service, sales, and many other business activities.

Defining talent is fundamental to any organization – the challenge lies in linking the talent definition to a business strategy and therefore constitutes a specific and underlying requirement for any company.

Skills and behaviors required to achieve outstanding performance at all stages in the business cycle need to be clearly defined and understood. Further, adapting to constant changes is the core of the people perspective in talent and performance management and should shape all activities in these areas.

The key elements of any talent strategy cover the definition and identification of talent, recruitment and resourcing, performance management and reward, learning and development, succession planning, and career management (Fig. 2).

Talent and performance management have a complex position within an organization. Strategic talent and performance management derive from the organization's goals, mission, vision, and values. This helps every employee to see his or her place

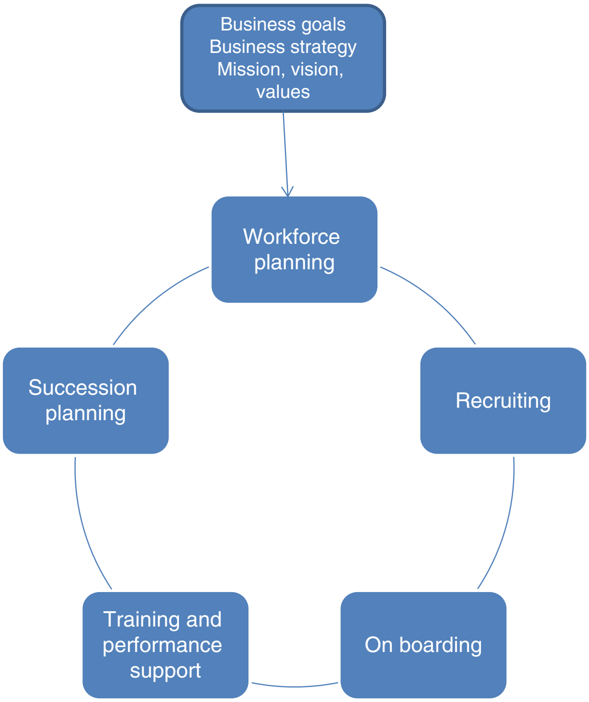

Fig. 2 Key elements of talent strategy

within the organization. At the same time, it enables and requires the employees to participate in the overall direction of the company.

Thus, an effective talent and performance management system allows the employees to look beyond their current job empowering them to feel they are part of a big and complex system. Also, employees at all levels need to be actively engaged in talent practices to support, reach, and excel an organization's performance.

Nowadays, the business environment. is changing rapidly, so employees have to change as well. For today's workforce it is becoming a priority to have challenging and meaningful work, employees are also more prepared to take ownership of their careers. Another challenge for organizations is that people are becoming more loyal to their profession rather than to a company. Authorities do not have the same status anymore; also the concern about work-life balance is a fact impossible to ignore any longer by organizations.

Alongside, the world is facing a growing importance of social media. One of the multiple benefits for organizations is the usage to address and engage current and future employees. This will be especially important with the younger workforce having entered the employment market over the past years and will do so in the coming years – the so-called Millennials or Generation Y.

This generation will make up the majority of the workforce in the coming decade. It is a generation that is more technologically minded than any before. They are characterized by being confident, liberal and self-expressive, and at the same time open and receptive and, in a work context, demanding new ways of working and communicating. Hence, for talent and performance management, it is vital to rethink how to engage the employees and how to include new elements of social media in management, human resources, and communication strategies.

In this context it has become even more important to ensure that employees are committed to the goals of the organization; they have to feel that goals are worth achieving. Efficient talent and performance management are crucial in making people feel they are playing a significant role in reaching these goals.

To address the people perspective within the talent and performance management framework, organizations need to constantly review the following questions:

- What impacts are to be expected in the future? How does the market influence the organization – is growth or downturn to be expected? How does this influence the kind of leadership needed?
- What are the key roles in the organization and in the departments which are substantial for the business value? These roles are not only the leadership roles; depending on the nature of the business, these roles have to be identified throughout the organization. Retirement ages have to be considered and successors identified with considerable time ahead.
- What are the requirements of these key roles, both technical and behavioral? What specific experiences are needed?
- Who are the talents for key roles? How can talents and potential successors be identified?
- What is the organization's succession strategy? Are the decisions on how to replace and fill key roles objective? Are retirement plans known and are potential talents continuously identified? What should be the balance between internal and external recruiting?
- What are the organizational and individual career paths? How can the necessary requirements be obtained?
- How are the career paths being implemented? Talent and performance management have to be linked through a clear, transparent link for the employees. Through this link, the career development process as well as succession planning can be supported. In addition, regular discussion and feedback provide opportunities for both line managers and employees to coach talent, to ensure ongoing development in line with organizational strategies and goals.
- How are the managers held accountable? People ownership has to be ensured throughout the whole talent and performance management process.

Economic Perspective

Employees are any organization's greatest asset but also the greatest expense – it is therefore crucial to optimize the economic perspective.

Talent and performance management have become part of the most important items on the business agendas; however, it remains difficult with designing and implementing strategies in these areas to build a sustainable business case based only on quantitative information.

For investments in any process of the talent and performance management system, always two types of potential costs and values have to be taken into account:

- Tangibles
- Intangibles

Tangible values are relatively easy to measure and can be expressed in monetary terms. These can be expenses like the implementation of an information system to support talent and performance management processes or cost reductions like decreasing delivery costs of training.

Another tangible value is the cost of turnover. Turnover is measured in terms of the proportion of separation to the total number of employees. Costs associated with turnover occur in the following areas: separation, replacement, and opportunity costs. Separation costs may include severance pay, outplacement fees, litigation costs, or the time invested in exit interviews. Replacement costs are all costs associated with hiring new staff, for example, sourcing expenses; process costs of interviewing and assessing candidates, in addition to the time spent by all managers involved in the interview process; and relocation expenses or training costs. Opportunity costs might be productivity losses while the position is not filled. These can be lost sales and customers. Opportunity costs are much more difficult to measure and also include intangible components like the loss of specific know-how. Also, if a team is successfully established, turnover can lead to negative disintegration of this team and hence to a significant loss of productivity.

Intangibles are mostly about the results of all initiatives, projects, and processes and are difficult to capture in numbers.

The current economic situation requires a close look on those, as initiatives in talent and performance management still seem to be mostly supported in profitable times but are neglected or considered additional cost in difficult economic conditions.

The validation of the importance of talent and performance management has become a critical issue in economic downturns as operational and effective talent and performance management in place have broad areas of payback.

There are many intangibles that optimize the performance of human capital management:

- Developing a leadership pool
  Succession planning and leadership development have proven to be essential for organizations to have the right people in decisive leadership positions, able to give the company new directions in economic downturns.
- Performance management

Without a thorough way of measuring performance, it is impossible to promote the right people in the right positions and, equally important, motivate them for the business objectives of growth and development.

- Recruitment gains significance
  Recruitment practices determine organizational effectiveness, have a direct impact on the cost structure, and contribute to building an employer brand essential in tight labor markets.
- Time to productivity
  Moving talents is always associated with productivity losses. New hires require training; internal hires require a lot less time to produce and increase output. A faster time to productivity also means a shorter time to higher revenues and reduced costs. Revenue increase might be a result of higher employee performance, while the use of internal sourcing reduces spending on sourcing external candidates.
- Employee engagement
  Career development and internal career opportunities are key components for strengthening employee engagement. High engagement has a significant impact on the performance of the employees, their productivity, and the turnover.

In difficult economic times, the pressure on every function in the business to demonstrate a positive impact on performance and reaching goals in terms of business results is high. For certain initiatives in talent and performance management, the return of investment (ROI) is still an important value to express the ratio of money earned or lost on an investment relative to the amount of money invested. Again, it can be difficult to establish a business case in the area of talent and performance management, but there are investments that can be expressed in numbers, and an ROI can be calculated over a specified period of time.

One such business case is the purchase of software to support talent and performance management. A system significantly improves administrative processes, ensuring an efficient management of human resources processes. As a result, employees can refocus their productive time. They, for example, spent a lot of time handling administrative issues around a manual performance management process.

The investment in a central database further supports to:

- Minimize time and hence costs to manage all administrative tasks involved in talent and performance management
- Optimize time on reviews, goal setting, compensation, and succession planning
- Increase competitiveness by ensuring through comprehensive and valid data that compensation and performance are aligned.

Key performance indicators (KPIs) are another form of measuring performance.

There are many different KPIs that can help understand the business impact of any initiative in talent and performance management.

When establishing KPIs in an organization, it is important to define the strategic objective of each indicator a company wants to introduce and what questions need to be answered.

Examples
For the following questions certain KPIs can be defined:

- Do compensation policies for top performers impact retention?
  KPIs defined:
  - Percentage of high performers
  - Percentage of turnover
  - Percentage of total compensation depending on performance
- How does the time needed to fill vacant positions impact the company performance?
  KPIs defined:
  - Number of average open time of positions
  - Percentage of new hire retention
  - Percentage of vacancies filled internally.

  KPIs can be expressed in numbers, percentages, and correlations or even through survey results:

- Employee retention
  This KPI is best measured by first dividing employees in several groups that an organization might want to have a closer look at. In general it is calculated by taking the number of identified talents leaving during a period of time by the number of talents at the beginning of the set time period.
- Talent performance
  A performance management system provides performance scores for the employees. These scores can be looked at over various time periods and indicate if identified talents are developed in such way that their performance score improves.
- Time needed to hire for critical roles
  This KPI can also help support internal succession planning as critical roles can usually be filled quicker within an organization – if in line with strategic objectives.
- Change in skill gap
  To see how the skill gap of the employees is changing, the talent gap at the beginning and at the end of the year can be measured. For this, individual assessments have to be carried out.
- Employee engagement
  This is a KPI measured through surveys, by identifying the engagement levels of the employees.
- Employee comparison
  This indicator supports the value of terminating employees who are underperforming over a period of time. A comparison of performance can be done between the new and the replaced employee.

- Correlation KPIs
  Correlation shows statistical relationships. This could be demonstrated by an increased usage of a tool and an increase in productivity or revenue. Or, if the average spending on sales training goes up a certain percentage, sales increase by another demonstrated percentage.
- Contrast KPIs
  This KPI can be used to identify effectiveness of programs targeting performance. For example, executive coaching can be introduced to individuals or teams of high performers. The performance can be assessed before being assigned the executive coach and after a certain period of time.
  Contrast KPIs can also be measured if new talent or performance initiatives are not applied to an entire team, but only to part of it, like a group of sales employees within a larger sales team. The impact of such program can be demonstrated through comparing results between the selected group and the other part of the team. For instance, one part of the sales team participates in an extensive sales training program – their sales increase over the next defined period of time is compared to the sales figures of the people who did not participate in the training.

The role of the human resources business partner is adopting an important financial aspect, both concerning tangible and intangible results. Although all talent and performance management initiatives and programs should be directly supported by the top management of an organization, it is important for the human resources professionals to become real business partners. There are many acceptable indicators – especially in these areas not always purely financial – to measure program performances and revenue impacts. For human resources professionals to have an inventory of talent management activities and how they relate to a business strategy ready at any time makes them true business partners. They need to understand what is happening under their direction and understand their customers – that is, not only the talents but the executive management – and provide them with this inventory to show the contribution to business.

Risk Perspective

Talent and performance management – attracting, retaining, developing, promoting, and measuring talent – are critical capabilities that will distinguish a successful organization both now and in the future.

With an effective management in place, organizations will achieve many significant advantages, among others:

- The competency gap between required competencies by the organization and available competencies reduces significantly.
- An organization's effectiveness and efficiency can improve continuously.
- Business goals are achieved through superior performance.

- The organization's overall culture and work climate is improved and people are more satisfied.
- The retention of talent improves; hence, the overall turnover is reduced.

Nonetheless, talent and performance management involve risks, such as whether an individual will fit in and perform at his/her best in the job or whether talented people will be retained long enough to yield a return on their recruitment. Further, a not properly managed talent and performance management may lead to open and not easily filled positions in the leadership pipeline as well as to difficulties due to impending retirement of key employees.

A lot of different factors like time constraints, not well-defined criteria in personnel processes, or insufficient experience can all lead to costly consequences. Talents might not be recognized during a selection process and get rejected. Hired staff may behave differently than they did during the selection process, and employees might not develop as expected.

Performance management systems bear risks like the one that only line managers impose their view and feedback on the employee. The result is a one-sided communication without input or possibilities for feedback from the employees. Individuals can be identified as outstanding performers and put as successors to certain positions, but personal interests from employees are overseen or not considered which might lead to poor performance in the new assignment. The workforce loses interest in poorly managed performance management processes, and the period of doing the performance appraisals becomes a dreaded time every year – a great risk in the process of creating a performance-driven culture.

Many organizations rank the people risk among the top potential risks to their success, together with the concern of having the necessary key skills available among their employees.

In the talent management area, the following factors are critical in order to avoid these risks:

- Development of a talent mind-set in the organization
  Talent and performance management are an important part of corporate culture. The human resources department can create necessary processes and systems, but the support and constant development has to come from all leaders and senior managers throughout the organization.

  A talent management mind-set in senior managers is important to actively engage the employees. By benchmarking the organization against competitors, managers learn how insufficient or ineffective management of talents can affect the business. If talents leave the company, exit interviews can provide useful insight about talent and performance management aspects to be improved. At the same time, poor performers need to be identified as their low productivity can affect the one, as well as the morale, of high-performing colleagues.
- Alignment of business and people strategies

Sustained growth and organizational goals can only be achieved if the organization identifies exactly which skills, competencies, and roles are required to deliver the business strategy.

- Adjustment to demographic changes
  Birth rates in developed countries are falling which leads to smaller pools of talents. Other demographic changes such as an aging population add to an even increased need for organizations to identify and develop their employees. Internal succession planning needs to be enforced, but also recruitment plans of broader geographical areas need to be made use of, in order to approach a wider talent network as external recruiting is facing an increasingly tougher competition.
- Adjustment to motivational factors of workforce
  Also, as mentioned in section "People Perspective," today's emerging talents are motivated by different factors: financial reward is still a key motivator, but other factors are becoming increasingly important to this generation. A better work-life balance or the organization's corporate social responsibility, together with a good company reputation as well as exceptional career development expectations, might be critical deciding factors for new applicants.
- Retention of top talents
  Investing in the individual is a key issue to actively retain top talents, losing them to the competition bears high costs.

  Especially the first months of employment can be a very critical and decisive time for newly hired – a method of achieving high-level engagement is to have ongoing interviews, performance reviews, and mentoring and coaching programs in place, providing a basis for taking the necessary steps to address any issues that might arise.

  Throughout their career with the organization, top talent needs to be offered the necessary challenges as well as development perspectives in order to stay motivated and thus retained.
- Adjustment of skill set to changing business requirements
  Business conditions are changing rapidly nowadays and require the workforce to continuously enhance and acquire new skills. Individual skill gaps need to be detected, developed, and evaluated in an ongoing process.

  The role of performance management is more important than ever before as organizations are required to operate more effectively and efficiently and stay competitive. But also in this area, organizations might face multiple risks – time constraints to constantly develop the process, poor quality of feedback, unclear measures, or the absence of ongoing observations might all lead to unreliable performance reports or not well-defined process owners or lead to misinterpretations and underappreciation of its benefits. Employees may consider the process an appraisal or a review, rather than part of an ongoing year-round dialogue.

  This ongoing dialogue is also essential as a onetime annual process will not adequately alert line managers if there is a problem to solve about an individual or a team.

Inconsistent evaluation criteria and rewards can lead to mistrust and lower productivity. If performance is not clearly evaluated and rewarded and especially top performers see no differentiation in performance ratings, opportunities, and compensation, talent is not managed effectively and can have manifold consequences.

Transparency about performance management is more important than ever – results need to be accurately documented, visible, and accessible.

If performance information is partially unavailable or difficult to access, decisions on training and development or a job assignment might not be made in the company's or the individual's interests. Further, a lack of proper documentation related to performance may result in legal issues.

An effective process needs to enable managers to evaluate individual performance and at the same time increase productivity by developing an effective performance management system based on:

- Leadership involvement for optimum performance management
  Managers and leaders need to understand the vision, values, and organizational goals. Leadership programs to teach how to articulate these mentoring and coaching components for both management and their employees will support the understanding of what they are trying to achieve in a performance management process.
- Alignment of individual tasks and projects with strategic business objectives:
  A strict process for goal setting has to be defined which has to be followed by the entire management. Sometimes, organizations let their employees define the goals for themselves, with the consequence that these goals tend to be weak, easy to reach, and not contributing to business strategy.
  Employees want to feel successful, do well at their job, feel they are making a valuable contribution, and, eventually, get rewarded. For this to put into reality, individual goals need to be clearly understood, also in the bigger context of how these goals fit into the organization.
- Accountability of performance
  Holding people accountable for their performance is a necessary process for achieving business success. Effective performance management systems are constantly monitored, including regular feedback sessions and performance results that are communicated clearly and consistently. Employees need to understand their strengths and weaknesses; efforts need to be appreciated with a transparent and fair reward system.
- Transparent and ongoing communication
  In order to make performance management efficient and effective, a clear and transparent process has to be set up. Easy to follow processes will increase the acceptance among the workforce and hence constructive participation. Ongoing communication of the purpose, value, and goals of the process is essential for a continuing process. Adequate training for line managers is necessary to equip

them with the necessary knowledge concerning tools, processes, and goals used in an organization's performance management system.

- Management of performance expectations
  The communication of clear expectations throughout the performance process helps all employees to achieve objectives. Through precisely communicating expectations and through providing visibility, accountable, productive, and meaningful work is done.
  It is also important to celebrate accomplishments once the expectations are successfully met.
  Recognition puts emphasis on the objectives of a process and communicates the objectives of the company.
- Extensive documentation
  A precise and easily accessible documentation is required to follow individual performance and support all decisions concerning compensation, development, and career planning decisions.
  As the performance management process is an ongoing process and based on many sources, all information should be gathered from there. This can be information from, for example, feedback session as well as project accomplishments, coaching outcomes, or training participations. The more documentation is available, the better a decision process regarding compensation, position assignment, or career development is supported as objective reviews from a number of sources are provided. If legal issues should arise, a precise documentation is the basis for further action.
- Integration with other talent management processes
  The basis for integration of all components of the talent and performance management system is a common and consistent competency catalogue. Technological support, especially if organizations are growing, is essential to interlink all initiatives in this area.
  There are many interfaces like linking the performance process to skill development, learning programs, compensation and benefits, or succession planning – it is therefore crucial to connect all these not only as a process but in a reliable system.
  To put all these components into practice requires a lot of time and effort. On the other hand, the benefits for organizations are high as the performance management system is a system that affects every employee and supports the achievement of business goals and maintains or works toward a desired culture. Employees need to understand how they are contributing to a company's goals and how, through their current and future contribution, growth and development are adding value to the business.

Operational Perspective

The operational objective of talent management is to ensure that the company has the right personnel at the right time.

In order to compete in the business world, successful organizations need to have a process to respond to its needs for talented people.

Talent management, performance management, and all its components need to interact as a fully integrated system in which all parts are interactive with each other.

At the same time, all these practices need to show the following for a competitive business:

(a) Full support by senior leaders.
(b) All processes have to support the organizational goals.

Effective and future-oriented talent and performance management are not initiated by simply changing, adding, or enhancing human resources processes – the system needs leaders and managers at all levels and throughout the organization who all embrace and practice a talent mind-set.

The mind-set is only operational if it is a top priority among this group of people – a substantial amount of time, thoughts, and energy need to be dedicated, internalizing the responsibility of the management of the talent pool as part of their job.

Managers' responsibilities for a smooth operational process comprise:

- Setting standards for the employees
  Every line manager's job is to set high standards for the team and to strengthen the talents by multiple actions. The manager has to assess the performance and potential of his/her team members and follow an ongoing and open communication about the individual's performance. Employees want to know where they stand; a constructive and encouraging feedback on strengths and weaknesses, together with possibilities to improve, will help grow the performance of the whole team.
- Managing the time dedicated on talent and performance management
  It often happens that a lot of time is dedicated to employees performing poorly in their jobs. Managers need to dedicate most of the time on strong performers, follow up on new challenges and responsibilities assigned to them, and coach and energize them.
- Continuously looking out and attracting talents
  On the one hand, it is important to constantly network in and outside of the organization in order to look out for talented people; on the other hand, a supporting yet demanding and trusting management style, providing exciting challenges, will attract potential talents.
- Putting in place an effective talent review process
  Organizations with an operational and effective talent review process in place have paved a direct way to build a strong talent pool within the company. Furthermore, it contributes to a common practice of having regular conversations and making decisions about people. Leaders are directly engaged in discussions to set the current and future talent standard.
- Setting talent and performance management objectives

Managers are always held accountable for financial objectives but seldom for talent and performance management objectives. To include talent-strengthening objectives in review processes will broaden the accountability to talent management and contribute to the discussion and delivery of building a talent pool, setting standards for talent management, and managing the performance process.

All of the above actions contribute to implementing a talent mind-set in leaders and managers throughout the organization.

Once this framework is set, all operational aspects of talent and performance management can be put into practice:

- Entry of new employees – recruitment of required talents
  A talent management process starts with attracting the right and required people to achieve organizational goals. Once the mission, vision, values, strategy, and goals are defined, job descriptions including the specific competencies are created. Recruiting activities are manifold: choosing recruiting channels and publishing job opening and interview design. The latter is important on the one hand to include all the managers involved in choosing the right candidate for the job and on the other hand make sure the content of the interview is appropriate according to the organization and position. For some positions, for example, a competency-based interview, for other assessment centers, works best.
- Development of employees – establishment of career plans, learning opportunities, and succession planning
  Development is a very big part of talent management. It is not only about an individual's growth and needs; it is for the organization to meet the business goals by preparing the employees for future needs and challenges. This said, a company cannot guarantee a particular job through development but can still make the person eligible among a post of talents for a certain job that might open up as a vacancy in the future. Prior to any development initiative, the employee's competency profile has to be assessed and regularly revised. Competencies include knowledge, skills, behavior, and attitude; matching competency and requirement profiles detect if there are any gaps between the actual and the desired performance as well as gaps between current competencies and future needs. Developing professional skills yields results in increased workplace productivity and greater job satisfaction. Any training should be linked to strategic needs of the organization and into the performance management system.
  The establishment of a career plan is a joint and necessary effort between the company, the manager, and the employee once they are onboard. A career plan can create a lot of opportunities for development like cross functional exposure; vertical and horizontal promotions, including rotational and/or international assignments; mentoring and coaching; or work on special projects in different teams.
- Staff retention
  Retaining talent starts with the first point of contact with the candidate. The operational objectives are to provide the necessary environment for employees to

be productive and feel committed. A transparent, honest, and fair culture, together with congruity in values between the organization and the employee, will influence the individual's commitment to the company.

Usually, the most important relationship for an employee is the one with the immediate manager. For operational goals to be achieved, it has to be ensured that managers possess the right skills to lead, guide, and develop their team members and, as mentioned previously, set the right standards for the entire team.

Final Comments and Outlook

Nowadays, talent and performance management are part of our corporate world. A knowledge-based economy is based on a successful talent management strategy which includes more than just the top talents in an organization. A well-defined strategy and implementing it require time and effort and face many challenges, but if ignored or not implemented effectively, performance and sustainability goals might not be reached.

It is by far not anymore an initiative by the human resources department; it is imperative that talent management be integrated into the overall business strategy and become a responsibility of all parties within and outside the organization.

The global economy has become more and more volatile which makes it difficult for organizations to establish and maintain an effective and also affordable attraction, retention, and engagement strategy. Other concerns for companies are cost challenges in today's economy, changes in the talent markets and in the workforce demographics. Economies in the last decade have moved faster than ever before in history, with it the availability for the right employees and their demands.

The current economic situation not only challenges the organizations in their talent and performance management but also employees that may face enormous pressure in their work environment. The pace and with its high level of stress are increasing, and, with these growing challenges, employees also turn increasingly risk-averse and security minded.

For what performance management is concerned, trends include shorter cycles of reviews, enhanced simplicity of the process, as well as an increased importance on learning objectives. Further, the value of performance coaching is being increasingly recognized as is the link of the talent and performance management to the overall business strategy.

It has become essential for organizations to look at attracting, engaging, and retaining talent as a strategic business priority as well as an important factor contributing to long-term organizational success and to the competitive advantage.

Together with this, a business strategy has to be clearly communicated to the employees. Furthermore, employees need to know their role they are playing in executing that strategy.

For the managers it is important to have a clear understanding of what defines the values in the organization, what and how employees are motivated, and how to achieve growth. Through performance management systems, managers are held accountable for creating opportunities and the retention within their team.

Talent and performance management have a timely function with emphasis on the “forward looking.” It should improve the organization’s flexibility and performance and provide the information and tools to plan for growth and change and to initiate new products and services.

Cross-References

► Performance and Talent: Coaching International Leaders
► Performance and Talent: Essentials of Coaching
► Performance and Talent: Essentials of Development Discussions and Plans
► Performance and Talent: Essentials of International Talent Development
► Performance and Talent: Essentials of Performance and Potential Management
► Performance and Talent: Essentials of Succession Planning
► Performance and Talent: Essentials of Talent Development Programs and Groups

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Abstract

This chapter provides an overview of the design and the organization of performance and potential management with a focus on the aspects of human resources development. Related topics such as performance-based remuneration are mentioned as a component of performance and potential management. A more detailed description of the design of such remuneration systems is described in this chapter.

This chapter illustrates the relevance of structuring performance and potential management for the employees and supervisors involved, as well as viewing their expectations (people perspective). The section regarding the economic perspective describes the company’s outlook on performance and potential management, its added value, the necessary investment, the importance for company culture, and, last but not least, the success of the company. The section regarding the risk perspective provides an overview of the risks which accompany these opportunities. The section on the operational perspective offers advice regarding the processes and required infrastructure for successful performance and potential management.

Keywords

Performance and potential management • Target achievement • Target agreement • More eyes principle

Introduction and Overview

Introduction

Performance and potential management is one of the key areas in HR management. It aims to analyze, steer, and develop the performance and the potential of a company’s human resources. This transparency and the active use and development of human resources are of particular interest for a company in order to make best use of the expensive and precious resource: employees (see section "Economical Perspective"). But performance and potential management also matters to the employees themselves, who are interested in fair treatment and their own personal and professional development (see section "People Perspective").

Performance and potential management reflects – more than any other area of HR – a company's culture and the leadership philosophy. The establishment of such a framework requires a sound discussion and commitment of top management and the company as a whole to the fundamentals of company culture, leadership, and cooperation. By establishing such a common foundation, performance and potential management can serve as a powerful tool to foster integration of all parts of the company – across national borders and cultures.

The establishment of a structured performance and potential management system requires a significant investment – in processes, in IT support, and especially in work hours of all participants involved. Implementing such a structured analysis and evaluation process creates considerable transparency about highly sensitive personal employee-related information as well as about decision-making processes on the company side. At the same time, expectations will be raised, especially on the employee's side. The outstanding opportunities which are inherent to the systematic development of human resources are also accompanied by some risks. These challenges have to be taken into consideration when deciding whether and how to implement performance and potential management in a company (see section "Risk Perspective").

There is a variety of methods and tools for the design of a performance and potential management system (see section "Operational Perspective"). The key aspects to be considered and decided upon are:

- Definition of criteria for performance and potential evaluation
- Definition of quality standards to ensure comparability of evaluation results
- Definition of the method for evaluation (criteria based vs. experience based)
- Definition of decision-making process: who should be involved and who makes the final decision
- Link to remuneration system
- Link to training and development programs

People Perspective

Performance and Potential Management: The Employee's Perspective

The success of great companies is strongly dependent on the contribution of its employees. Only highly committed employees can be a solid basis for a well-functioning and therefore truly great organization. However, in order to be a highly committed employee, employees need to identify themselves with the organization and value the organization as a great employer.

So how does an organization become a great employer? Studies in this field suggest that factors such as performance-related payment, job security, and diversified tasks are crucial when highly committed employees are to be attracted.

In order for these structures to be in place and to be successful, employees need to know what is expected from them and how they are measured up to expectations.

Here, it is not sufficient to know the status of own performance on the expected tasks, but employees also need to know how their performance can be improved. Also, in order to ensure the diversity of one's work and continuous growth and development, employees need to have the possibility to grow into different roles and to take over new responsibilities. Furthermore, not employees but also supervisors can profit from a well-structured performance and potential management process by being guided through the process and with this be able to identify and develop potentials in their organization.

Well-structured performance and potential management can be a great tool in order to ensure all of the abovenamed factors and to provide an attractive and inspiring workplace for employees and their supervisors.

Transparency and Consistency of the Process

Employees expect their supervisor to take their responsibility as superior seriously and expect them to be competent in setting and applying the performance and potential management process. But what does this mean exactly?

First of all, employees would like to understand the direction the organization is heading to and which targets have been set to be achieved.

It is important not only for motivational aspects to understand the relevance of the own work in the overall picture but also for the organization that each member understands the own impact on performance of the company. Hence, employees should understand where the organization is heading to and whether the commonly agreed goals are reached and whether their personal contribution to the company's success was met.

This can only be achieved in a meaningful target agreement process between the employee and the respective manager.

Also, employees would like to receive feedback on their performance and their possibility to receive a bonus or a raise, on a regular basis.

Fairness and Consistency of the Process

Additionally, the employee expects that the performance and potential management process does not only take place once a year but that it is a well-structured process that takes place on a regular basis. Employees wish that the organization is actively taking an interest in their personal performance and potential. Here, a structured and transparent process can help to ensure that the employees develop and keep the feeling of being valued.

Supervisors play a very important role to make a performance and potential management system work by being a visionary leader, ensuring a continuous appraisal and feedback culture, and allowing employees to give them feedback as well.

The performance and potential management process needs to provide support on questions such as:

How do I give feedback? On what basis do I judge the performance of an employee? How can I place an employee on another task? How do I include the employee in a new process?

Supervisors are challenged to explain and to break down the targets to their employees. The targets need to be relevant to the individual work area and agreed in a common target agreement. Only which such an established process the demand of employees to be judged based on comprehensible standards can be achieved.

Supervisors also have the possibility to discuss their employees' performance and development possibilities and can introduce their employees beyond their own team, in regular discussion meetings with other superiors. Here, it is important to include the employee's opinion, since it does not only include vertical but also horizontal possibilities of professional development, and not every employee is interested in taking on more responsibility or to be promoted. The results of these discussions should then always be provided to the employee in open and well-structured feedback sessions. This will ensure transparency on personal development possibilities (also beyond the current team) and on personal performance in comparison to others. Furthermore, this will create awareness of the personal contribution and responsibility in regard to the success of the organization and the achievement of its goals. Because of this input, the employee does not feel overlooked and can comprehend why he or she is (not) promoted, receiving a salary increase, if the performance was sufficient to achieve personal goals or what further actions are necessary in order to achieve them.

The performance and potential management process needs hence to be trained; supervisors need supporting guidelines and clear process rules to be able to perform up to the company's desired standards. The performance and potential management system can only be as good as it is performed by supervisor, employee, and HR.

Employees can be chosen and developed systematically, based on the philosophy of the company with the help of a well-structured performance and potential management system. A continuous, well-structured, and comprehensible process is an important basis when looking at topics like performance and potential within an organization.

With the help of a performance and potential management system, the supervisor, who acts as appraiser (and will be appraised) at the same time, can be sure that he or she has support from an existing system and that he or she can orientate himself or herself on common methods and standards that are part of the performance and potential management.

Commitment and Transparency on Development

Even more important than monetary expectations may be the question of personnel development.

Employees would like to know how they perform and what their possibilities of development in the organization are available and achievable. The support of the supervisor to lead and also to coach employees in their development is essential for motivational aspects and engagement.

Both aspects, a meaningful work environment by clear target agreements and development opportunities, need to be discuss jointly. It is crucial that employees play an active role in their work and development to ensure high motivation and engagement but also to take the right placement decisions.

Employees want to be able to discuss their personal career path with the supervisor and expect that the process that is agreed upon is followed. In this context, the comparison of self-perception and how performance is perceived by others can be helpful for the employees in order to be able to judge and classify better the own performance. The employee can thus learn where he or she still has potential for further development.

Employees do not want to have the feeling that they are only judged, they also want to have the possibility to give feedback. They do not only want to be seen as a person to be talked about and appraised but as a valued partner. Therefore, the feedback from the employees to their supervisor is also a crucial part in a good performance and potential management system.

All of the abovenamed helps to enhance the motivation of willing employees, since the employees see how their performance and potential are appraised in regard to other tasks. In addition, they know how they could develop within the organization, and at the same time they have the feeling of being a valued and important member of the organization. Conclusively, it can be argued that a stable and well-implemented performance and potential management system ensures a working environment that is based on respect and fairness and thereby creates transparency on performance and possibilities of development for employees.

Economical Perspective

Target-Oriented Mind-set

Implementing and living a true performance and potential management process shows a target-oriented mind-set and culture of an organization.

Performance is measured to ensure on all levels that first of all company targets are set and regularly reviewed to ensure the organization is on track to achieve the set measures and cope with challenges ahead to be successful in the market.

Additionally organizations are looking for over-average performance by detecting talent and potential in their organization, but also do not lose sight on mediocre or even underperformance and to foresee recruiting needs, e.g., special skills are required.

Organizations achieve through a well-established performance and potential management process a transparent and comprehensive view of their human resource potential in their organization.

The danger of organizations without setting targets on all levels for their managers and employees is to lose the overview of where the organization is heading to. Usually targets are communicated top down and interpreted and adjusted based on the individual work.

One might say a job description provides already sufficient orientation but how to react and reflect on changing market demands?

Also the resource management of an organization requires a good sight on the people portfolio available in the organization to detect risks in succession pipelines and quality of leadership.

Organizations define their own company culture and behavior statements which should be reflected strongly in the implemented evaluation system. Besides regular feedback, the performance and potential evaluation system is the one instrument to recognize and to reward or to even sanction behavior shown by its employees. A proper installed performance and potential management system drives the culture of the organization as employees and managers will be consistently also rated by the behavior shown and requested by the organization. Already installing a performance and potential management system shows that the organization sees the instrument as cultural aspect to embed the desired cultural understanding in the organization.

It is more important for job seeker today to learn about the culture of an organization before joining or even sending an application. Employer branding is a strong driver to reach out to rare talents in the markets. As one source for employer attractiveness, it is meanwhile common for companies to conduct employee satisfaction surveys and to be rated in the market against other employers. In those surveys, employees are asked to rate their work environment in regard to opportunities, fairness, atmosphere, remuneration, etc. These ratings are valid sources for a first glance if a job seeker is interested to apply for a job at this specific organization.

Furthermore, a performance and potential management system does not only track if targets are met and to what degree but must also reflects on how the targets are achieved. The targets should be based on value criteria set by the organization to ensure values are followed up and lived. These can be behaviors and values with different kinds of focus points like leadership behavior and customer relationship management, to enhance a mind-set of diversity, integrity, strategic mind-set, teamwork, and so forth. The defined values and behaviors are set top down and followed up on all levels to ensure a consistent mind-set throughout the organization.

The performance and potential management system should additionally enable views on different development dimensions. Besides looking into high-performance areas and fields for potential and promotion realization, also horizontal development fields need to be taken into account. Not all employees are able or even aiming for a career in management areas or certain management levels have been achieved, and no further potential is seen from an organizational perspective or based on individual ambitions. Also a performance and potential system needs to enable stability as well as perspectives to ensure experienced people are staying in one position as long as needed, whereas it should be avoided to stay too long in a position to avoid blind spots by staying too long in one job.

A good performance and potential management system helps the organization to ensure a healthy balance between stability and rotations, promotions, and same level development. Additionally the process supports high quality in succession planning and supports to identify the right people for the right positions in time to avoid halfhearted placement decisions or even longtime vacancies in critical positions.

The different ways and chosen measures for development should be tracked by a development plan which is then again linked to the development offerings in regard to horizontal or vertical development.

It becomes already obvious that installing a successful performance and potential management process in the organization requires a consistent effort of all parties involved. This means not only the investments in installing an IT system. It requires strong commitment by the management and people of the organization. Time and effort need to be taken on a consistent basis to check upon targets and development and keep track on the course the organization decided for.

Overall, the performance and potential management system should drive for better performance, detect talent, and support the management in setting and communicating targets within the organization. The process should enable a healthy feedback and performance culture which should be consistently challenged and requested by both supervisors and employees. Implemented in the right way, the process supports a solid work atmosphere and drive to excellence. This links immediately to the insight and outside view of the organization as an employer of choice.

Challenges of International Organizations

International organizations are facing the challenge to steer the company strategy across borders and to translate into usually several local entities. Hence, it is crucial to install first of all a structured process, supported by a user-friendly system, and to set up a strong communication about targets, key performance indicators, and desired behaviors cross country and cross culture.

The organization and management of such a complex process require strong management commitment and process owner (supervisor, HR, and employees) supporting the performance and potential management cycle.

Such a process supports additional visibility and hence career opportunities cross borders. The organization can target focus groups or individuals worldwide. This also supports the development of special target groups (e.g., diversity, young talent, etc.), local, non-headquarter managers, and employees.

It is essential for more complex company structures to keep sight of the performance situation, talent and potential portfolio, and succession planning risks. Without a performance and potential management process, this transparency cannot be reached and hence installed measures and drivers of the company not tracked to achieve the desired success.

Key Success Factors of Performance and Potential Management

Key for a successful performance and potential management is the engagement of executives in the process. Therefore, it is essential to embed the process not only as a process but to live it as part of the company culture.

A consequently followed and well-embedded performance and potential management process also continuously improves the management quality of an organization.

Managers need to be trained in their role how to set targets, review, and provide feedback to their employees. A solid knowledge of their people enables also the right placement decisions.

Employees themselves should be invited and also ask themselves for a proper process to be treated fairly in their evaluation according to set targets and to challenge their supervisors to support their development.

HR needs to ensure that managers and emerging managers receive training and regular updates in the performance and potential management process. Additionally, HR needs to steer the overall process; communicate timelines, changes, etc.; and last but not least consult the management in evaluating the team.

Without a successful performance and potential management process, the organization will be challenged to achieve the set targets and strategy as their most important driver, their people portfolio, will not reflect and feedback to the needs. Placement decisions might be taken too shortsighted, talent shortage for important markets and positions is not early enough reacted on, investment in training and development is made on general assumptions, and so forth.

Ideal Picture: Best Fit from Organizational and Individual Perspective

Ideally the direction the company is taking also matches and attracts people who would like to invest with their knowledge, resources, and engagement into their workplace in the same way. In such a win-win situation, provided that performance is up to the expectations, the organization is driving to achieve its targets as well as the individual. However, a performance and potential management process should also detect where misfits are existing. This can be from both views.

There can be different reasons why the organization or the individual is seeking for a change.

Organizational perspective, e.g.,:

– The knowledge and experience is required at a different position, location, etc.
– Investment in the individual requires a move into another responsibility.
– The incumbent risks to stay too long in the position (business blind).
– Restructuring.
– The performance is no longer seen as sufficient.

Individual perspective, e.g.,:

– Own development is stagnating.
– Seeking for career opportunities.
– Changes of work scope are not fitting to their own view.
– Over- or under-challenge.
– Personal reasons.

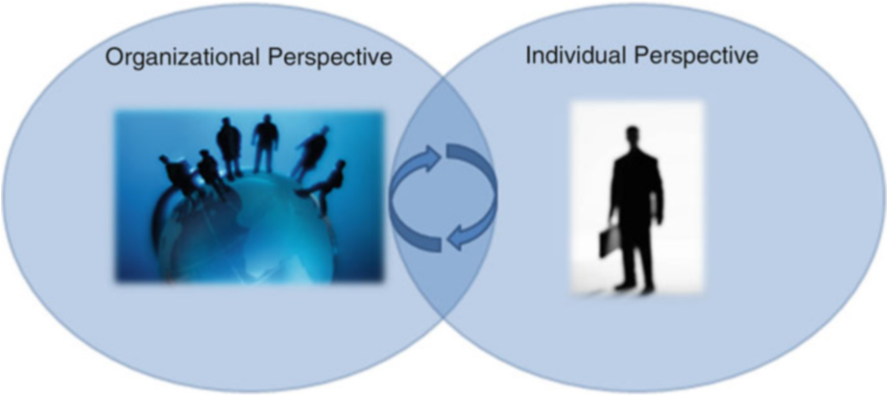

Fig. 1 Organizational and individual perspective (Source: Pirkko Erichsen, 2014)

From economical view, it is important to understand if the ideal fit is no longer given to avoid investment into the wrong area. If one side decides that the fit is no longer given, it all falls back again on a stable and healthy value understanding and culture of the organization how to change the situation. This can mean to rotate a person to another position, level, etc. or even to separate from the organization if no solution can be found (Fig. 1).

More Eyes Principle

In order to validate one supervisor's individual view, a more eyes principle evaluation process is highly recommended.

This means that employees and managers are evaluated in a first step by the direct supervisor but in a second step by the next larger decision-making group, e.g., the head of department together with the team leaders. Such kind of system ensures that besides the individual view of the direct supervisor, the ratings are set in comparison with others outside the responsibility of the direct supervisor. The process limits "playing favorites" and enables a more objective view on individuals to increase fairness. This of course requires that people evaluated are also known in the organization, which is especially in multinational companies and internationally working departments not easy to be realized.

Furthermore, an additional advantage of the more eyes principle is to avoid blind spots in the evaluation and talent management process, as more eyes can also highlight different aspects of the person being discussed.

The management team develops a common understanding of evaluation standards which will be applied during the process. Managers are challenged in such a process to prove their own leadership qualities and are challenged by their peers and supervisor.

It is obvious that the supervisor carries out the most active role in the performance and potential management process. The integration in a more eyes principle process ensures balance.

HR is driving the process as moderator, usually in a neutral position, but however, if necessary, also supporting as consultant and ensuring governance.

The organization of a setting (mainly conference style) to perform a more eyes principle approach requires planning ahead by management and HR. HR is setting the frame of the conference and moderating through the day. Preparation talks, reports, and analysis are required to provide a profound resource analysis of the people portfolio.

Steering Model and Budgets

To avoid playing favorites and to ensure that performance and potential is comparable, a validation system is attached to the individual rating. Usually organizations also install regulators such as a certain budget that cannot be exceeded or certain KPIs (key performance indicators) to steer into the desired directions.

Such an overall budget installed can on the one side regulate the costs of bonus or merit increase payments (and other performance-related benefits) for the company and on the other side ensures a distribution in the group to be evaluated. The budget forces supervisors to make differences between high performance, solid performance, and low performance.

Besides looking into enhancing value-based performance and supporting different aspects of development of talent in an organization, a performance management system will only be effective if it is linked to compensation and benefits in an organization.

As long as performance management system is “only” linked to feedback but has no monetary effect, the true impact of the process and system will not be reached.

Usually organizations install a mixed target achievement which is based on company and individual performance. Depending on the risk appetite and culture of an organization, the components are set up.

Investment in Development

It is highly important to attach the talent management, development, and succession management process to the performance and potential management process.

With this process, the organization creates transparency about short candidate pipelines, especially for critical replacement positions, e.g., management positions, highly specialist positions, emerging market positions, etc.

Organizations with a comprehensive overview of their people resources can ensure to invest in the right training and development measures to balance their needs in regard not only to placements but also to special focus groups, like emerging leaders, rare expert knowledge or diversity groups.

Hence, it is of outmost importance to link the performance and potential management process to reach the full effect.

Risk Perspective

Well-implemented and organized performance and potential management can be an important factor in ensuring the growth of the company and the development of employees. However, actively operating performance and potential management also bears risks. What kind of risks are these? In order to be able to grasp the complexity of these risks, it is important to shine through the risks of performance and potential management from both the employer's perspective and the employee's perspective, although they influence each other and are closely linked to each other.

Expectations

Expectation Management

Expectation management in general is one of the most crucial topics within a company. When expectations are met, it can have a very positive effect on motivation and thereby on performance. However, if expectations are not met, this may result in disappointment, frustration, dissatisfaction, and in the worst case scenario, mental resignation. One goal of a well-functioning performance and potential management is to establish transparency regarding individual performance and potential, development opportunities, personal contribution to the company goals, etc. (please see sections "People Perspective" and "Economical Perspective"). With increased transparency, the company raises expectations with regard to development opportunities, higher salary, etc. which cannot always be fulfilled. Hence, when giving feedback or discussing opportunities, it is crucial to do this realistically while considering the company's preconditions. Therefore, also target agreements need to be set accordingly.

Retention Risk

One of the most important pillars of performance and potential management is, as mentioned before, transparency. Due to the established transparency, the employees can now see their development opportunities as well as what the company expects and offers. This can be very positive and motivating for the employees. However, if the employees' desired development opportunities and salaries do not correspond with what the company has to offer, the knowledge of the company's limits can be very de-motivating. The employee is thus now aware of the limits of the system and knows which positions could be filled, which salary increase could be discussed, etc. If employees do not see their desired potential within the organization, they might leave the company and a risk of retention arises. Also, due to the forced transparency of the system, employees will learn how they are perceived by others. If there is a difference between one's own self-perception and the perception of others, it can be difficult for an individual to accept this different view and also frustrating at times. All of the above aspects could lead to mental resignation and possibly to a notice of withdrawal.

Visibility

Performance and potential management offers visibility to potentials and can help the employees to develop within the opportunities of the company. Yet, visibility is not always an advantage and can bring with undesirable effects such as high expectations toward a quick career within the company.

Continuous Performance and Potential Appraisal

Performance and potential candidates are observed and assessed constantly. Although it could be very beneficial that the organization "knows" all about one's performance, not all high potentials could wish that their data are stored. This could result into data protection issues.

Discipline

Comprehensive Follow-Up of Results

Transparency does not only have an impact on expectations but also introduces the necessity to follow the performance and potential management system consequently. Results of the regular performance and potential management process need to be treated confidentially and considered seriously for succession and development planning, and agreements to actively follow and track the performance and potential management process need to be made. A potential risk could be that the agreements are not followed and tracked seriously.

Unclear Rating System

In their role as supervisor, employees want to rely on comprehensive and fair standards and want to be sure that all of their staff is treated and appraised based on a common understanding. Unclear standards or varying ratings could increase uncertainty when assessing own staff.

Routine

The implemented performance and potential management standards and processes have to be followed in a conscious and serious way. However, a process with similar process steps, contents, and strict rules could lead to an unwanted routine which does not allow any spontaneity, but brings along that supervisors consider the performance and potential appraisal of their staff as nasty job to be done.

Leadership

Misleading Supervisor Rating

Even a well-implemented performance and potential management could allow supervisors to hide behind the system. This means they follow the rules given and use the standards of the system but not taking responsibility for their own decisions.

For example, averages of performance and potential ratings can be used as an argument why employees cannot be rated as good as they are expected to be rated. Thus, the supervisor does not take on leadership responsibility because he does not provide the employees with clear and honest feedback.

Additionally, when supervisors want to appraise the performance of their own employees, they could use higher ratings than usually. The underlying reasons could be that they believe that other supervisors would also give better ratings and that they would like to avoid discussions with their employees. As a consequence, the system that was originally implemented in order to provide universal and fair standards is now providing false and misleading information. Furthermore, "playing favorites" is possible within the context of the performance and potential management system, since favorites can receive better ratings than their colleagues. The rules and standards of the system can then be used to hide the fact of "playing favorites." This suggests that performance and potential management could be used to support subjective appraisal.

Hence, it is crucial to have a common understanding of what the respective rating stands for, how to measure results, and how to appraise performance and potential. Therefore, it is very important to live common standards that are based on a common and comprehensive understanding but also try to avoid bureaucracy and too strict formalism. Performance and potential management should be based on objectivity, reliability, and validity. However, performance and potential management is a tool which in general helps to avoid "playing favorites."

Costs

Increase of Costs and Resources

The regular performance and potential management process is very time and capacity consuming. Not only HR is deeply involved by facilitating performance and potential management. Also supervisors are asked to support the process comprehensively as part of their leadership responsibility, and the employees use their time and resources to benefit from performance and potential management, while at the same time trying to make performance and potential management beneficial for the company. An IT system could help to ease this process.

Additionally the implementation of a performance and potential management system creates costs. So if a company decides to implement performance and potential management, all members of the company have to be committed to use the system in the long run.

Consequences of the abovementioned risks (if used in the wrong way) could be increasing turnover, damaged relationships, job dissatisfaction, or even decreasing of motivation when people feel treated unfair but also either lowered self-esteem or decrease of motivation to perform well. Employees could feel disoriented, are de-motivated, and in the worst case refuse to work. Influencing other employees negatively or communicating a bad image of the organization in public is also possible. These scenarios could have sincere consequences for the organization and should be prevented seriously.

Operational Perspective

In the following, the general annual process of a performance and potential management process will be described. We will dive deeper into the different roles of HR, supervisor, and employees during the process and highlight the key aspects, supporting tools, conference settings, and templates to install a solid process flow. Finally, the operational process should run by a sound IT landscape and link into the overall talent management and HR processes of the organization.

Performance and Potential Management Cycle

See Fig. 2.

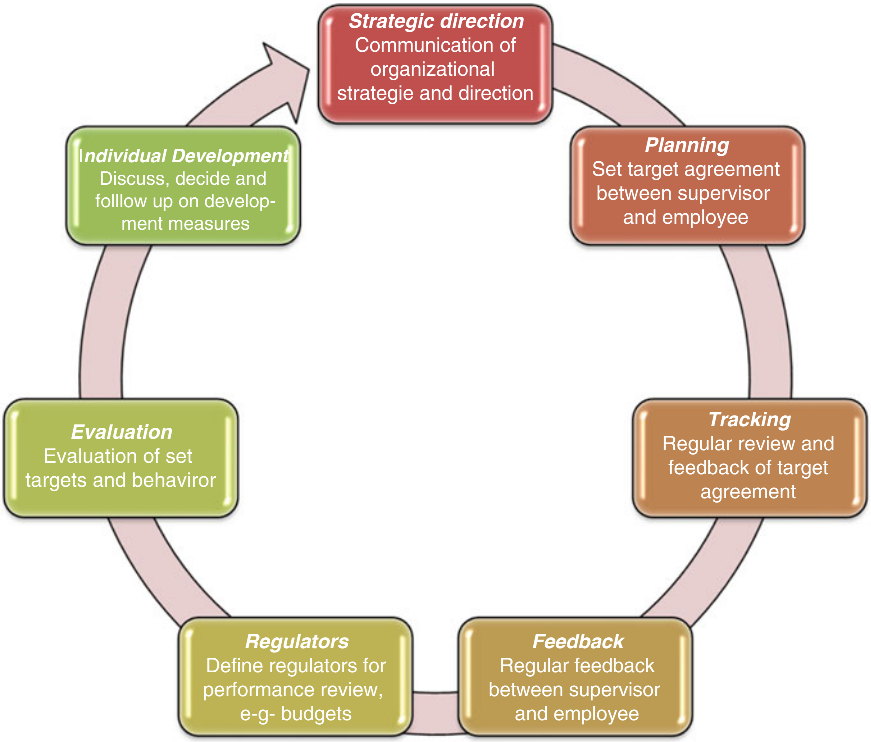

Fig. 2 Potential management process (Source: P. Erichsen 2014)

Annual Process

A solid performance and potential management system only runs smoothly when embedded into an annual and well-accepted process by all parties involved.

The process starts with setting the company targets (**strategic direction**) and cascade them down into individual target agreements on departmental and also individual level. Communication plays an important role during the process. Managers first need to understand the company direction and secondly need to be able to translate them into their own working area and communicate to their employees.

The targets should be planned, discussed, and agreed by supervisor and employee together (**planning**).

As targets might change throughout the year, a regular review (**tracking**) is highly recommended and keeps the targets valid.

One important pillar for a successful embedded performance and potential management process is a healthy feedback culture. Only with providing valid **feedback** on an ongoing basis ensures that the organization and the individual stay on track and provide guidance and direction. Worst case would be to not at all provide feedback or only at year-end about incidents at the beginning of the year, which plays against fairness for the employee to adjust or change. It is therefore recommended besides a onetime evaluation to establish an additional review, e.g., midyear review process.

To perform the performance and potential management process, specific regulators, e.g., budgets for bonus distribution, merit increase, percentage of potentials, etc., should be set according to the company's needs.

Usually at year-end, the actual evaluation process (**evaluation**) is kicked off by HR with a communication about this year's process, regulators, and guidelines. The evaluation is entered into the evaluation forms and discussed ideally in validation or integration rounds to ensure more eyes principle in the process. The results are then communicated to the employees and directed for the monetary parts (bonus, merit increase, etc.) to the payroll department.

The process should be linked to a continued improvement process for the individual. Hence, the discussion should not only be directed to the past performance but should also aim for a future perspective.

This should be supported by an **individual development** discussion, in regard to improvement, enhancement, and enrichment of the individual. A proper career planning and skill management process is underlying and to be linked to the company's talent management process but also matched with the individual needs and ambitions.

Roles in the Performance and Potential Management Process

In the overall process, three roles are important to work together for a smooth performance and potential management system:

HR

The HR department is steering the annual process (communication, training, etc.) of performance management and ensures that the organization is aligned in regard to budgets, timelines, and implementation.

HR is working closely with the management to facilitate the performance reviews and highlights organizational guidelines and compliance procedures but also supports the evaluation of the individual. HR informs the business about changes in the external market (e.g., HR marketing, employer attractiveness) and internal talent management analysis (e.g., talent shortage in certain segments) but also ensures a strong compensation system in comparison to the market benchmark.

Overall HR is the consultant, moderator, and facilitator in the performance and potential management process. HR is highlighting shortages in talent pipelines and risks for the organization but also provides solutions to enhance among others talent acquisitions strategies, employer branding to attract talent, placement process, training landscape, and development opportunities.

Supervisor

The supervisor is evaluating their employees based on the agreed target agreement and set of behaviors and provides a statement in regard to further development.

Depending on the established process, the direct evaluation of the supervisor is the first step and will be evaluated again in a larger group where the supervisor needs to argue and compare his/her view of the employee (more eyes principle). But also he or she will hear about other talented people in the organization possible relevant for the own area or will offer people to other departments to enrich personnel but most important organizational development and stability.

The supervisor should in addition to the evaluation discuss further development measures with the employee and elaborate on next possible positions in regard to fitness, mobility, etc.

It is crucial for a solid and accepted process that feedback is not only provided once a year but on a regular basis to the employee to achieve progress and acceptance.

Hence, leadership capabilities are crucial in the process, not only in regard to providing individual feedback but also to ensure that the right people are chosen for the respective tasks to be performed.

Besides the view on the individual in the department, the management also needs to keep sight on the overall people portfolio in their work area. Without looking at the big picture of talent acquisition, succession planning, placement decisions, etc., the management will decide on personnel matters shortsighted and might face surprises in the future.

Employee

In some organizations, the employees are asked to give a self-evaluation which is taken into account in the feedback sessions with the supervisor for evaluation.

The employee should be active in defining the annual target agreement and ask for regular review. With such active involvement, real surprises at the evaluation time should not come up.

In case the employee does not agree with the evaluation, organizations usually set up a process for escalation (e.g., workers council, next level complains).

Additionally the employee can play an active role in defining the development plan and state career plans to match with the company needs represented by the supervisor.

Areas of Performance and Potential Management

To dive into more details of how a performance and potential management instrument is structured, a look into the different areas of evaluation and development is necessary:

- Templates and tools
- Target agreement
- Target achievement
- Behaviors
- Overall rating
- Integration round (more eyes principle)
- Recognition of talent in the organization
- Human resource planning (succession planning)
- Compensation system
- Feedback
- Career path and development discussion
- Realization of agreed measures and tracking

Basis for the performance and potential management system is a combination of different **templates and tools** which should be installed into an IT platform and available for recording, tracking, analysis, reports, and changes. The templates should follow a user-friendly approach covering the elements the organization is driving for such as leadership behaviors but also to support legal requirements, e.g., basis for payments.

As mentioned after communication of the company's direction, the process starts with setting target agreements between supervisor and employee.

The **target agreement** must be possible to achieve and be meaningful, which requires a manageable number of targets (recommendation: not more than five targets and one individual target). The targets need to be described in a short and simple manner and weighted according to the time, efforts, and impact.

It is important to keep the target agreement relevant by regular review and feedback discussions between supervisor and employee. A recommendation is to (at least!) add a midyear review process.

The **target achievement** rating is then based on the set targets and fulfillment. This is the main item for year-end evaluation. Organizations install therefore a range from x to y to set the target achievement and to indicate where the evaluation locates in comparison to peers and overall performance.

As organizations also would like to ensure that their company values are known and followed up, it is strongly recommended to evaluate a defined set of **behaviors** which are valid throughout the company. The behaviors are communicated top down and should not change on a regular basis but be the backbone of how to fulfill the core values and reward or even sanction behavior during the work year.

During the performance and potential evaluation process, examples for the defined behaviors should be provided to help supervisors to rate accordingly in the higher or lower rating area, but also to describe to employees what it means to live up to the company values and show the desired behavior. Therefore, such a catalog of behavioral descriptions supports the feedback process and understanding for the rating by the employee. Additional open fields for feedback comments support a comprehensive basis for feedback but are also important for documentation purposes.

Based on the target achievement and behaviors, the evaluation is derived and the employees are set into the **overall rating**. Most companies use a grid of lower achievement, mediocre achievement, achievement, and overachievement to sort performance. Furthermore, a specific range, e.g., 0–150 % and 0–200 %, is used to provide a final target achievement rating. To ensure differentiated ratings, a spread is enforced by providing regulators such as budgets, mean percentage regulations, etc.

The individual result will then be discussed and rechecked in a larger management group to ensure the **more eyes principle** to avoid blind spots or playing favorites. The discussions are also used to ensure a healthy spread of population evaluated. Check questions can be used, e.g., who is the top performer? Could they take over the next level position? Is it true that really all are over achieving the targets?

These **integration rounds** are moderated by HR. The conference requires planning and preparation up front as executives are asked to take the time for personnel discussions and will be challenged in their decisions. Usually, preparation talks with, e.g., the department heads and HR are held up front.

The group attending the meeting should not be too large as well as the number of people to be discussed and integrated. Additional challenges are given in international or matrix organizations as people are not sharing the same location or have more complex reporting lines and hence only have a limited or differing view on people discussed.

Time should be planned sufficiently to avoid that the management team is rushing through decisions and loses sight of the individual.

HR highlights changes in the people portfolio, trends, special cases, and shortcomings (e.g., succession pipelines, qualification needs, diversity ratios, etc.). The management team should at the end achieve a common and agreed understanding of their people portfolio, the measures and decisions taken, and the way forward.

One highly important aspect (if not the most important!) that should be linked to the evaluation process is to **recognize talent and potential** in the organization. Fortunately it is common to link this to the performance and potential management process. A statement about future potential or intentions for a change (rotation) should be documented. To ensure visibility and early recognition companies use a special category for the determination of talents and potentials. The managers are then discussing in the integration conference which of the people evaluated has potential for promotion, who should develop still on the same level, and who needs a change in their professional portfolio.

This process is linked to the development and talent management process in the company and a highly important part of the feedback.

In addition, the discussion is the source for **human resource and succession planning** in the organization. Who should become the next, e.g., area manager? Who would fit for emerging market development? Also to foresee talent shortage in certain areas, e.g., do we develop our young talents fast enough? Are we meeting our diversity targets? Do we recruit the right people?

A good knowledge about the companies owning talent pipelines and availability of their people is key for business success of the organization!

It could well be that the succession planning discussion is also continued or planned in a separated conference. It makes a lot of sense to review the company's talent pipeline and portfolio not only one time the year to stay up to date with the development.

Conducted in a management conference, key and critical positions should be reviewed in regard to quality of succession pipelines; critical resource aspects for focus groups (e.g., diversity criteria) and emerging markets (e.g., talent shortage) should be addressed here, and decisions for follow-up measures should be taken. The management team will also decide with support of HR in which areas, e.g., new trainings, mentoring programs, changes in recruiting strategy, etc. should be invested.

In addition to the targeting on development of people, the process needs also to be linked to the **compensation system** of the organization. Hence, it has an impact on bonus payout, merit increase determination, and other pay elements as monetary motivators of the organization. But besides the money in the pocket, relevant **feedback** and the option of an attractive **career path** in the organization are true drivers of motivation and should be highlighted.

These **development discussions** should be documented in development plans agreed between supervisor and employee. Ideally the development plan is already set up in the IT system as template and offers choices for, e.g., training. Additionally target areas, information in regard to mobility and other relevant information to manage the talent portfolio should be covered.

Of course during the development discussion, the offering of training and development opportunities needs to match to the direction the company is driving to and balances between wishes and ambitions of the individual and the organization.

During these development discussions, it should be agreed between supervisor and employee which could be possible target areas, how mobile are the people, where restrictions are, and which training can support the development into the next step or improve the current work situation.

Looking at the areas of a performance and potential management process, it is obvious how important the information gathered is for a company and employees. However, without the **realization of agreed actions**, the process loses momentum. A **solid tracking and follow-up** process keeps the process cycle alive and ensures a solid succession and development process. Not to mention how important it is for motivation and engagement of the employees that managers keep agreements and follow up on development measures.

Development Fields and Follow-Up

The performance and potential management process should be linked to offered development measures and training.

Some organizations compliment their process with 360° feedback to enable an even broader view on their people.

Transparency measures, such as get to know interviews, mentoring programs, project assignments, etc., support that high-performing employees are visible to the management levels as placements and promotions are decided on higher level.

In order to evaluate readiness for taking over a leadership position, assessment centers are installed to implement a quality gate before leading a team.

To choose the right development and training measures, the offerings should be targeting different development aspects. This means as an example if an individual is seen as ready to take over the next management level, the fitting training solution should be offered supporting this development step.

System Landscape

Last but not least, well-established performance and potential management should be supported by an IT system.

It is essential for a well-running process that the system is implemented in a user-friendly manner. The effort of keeping a performance and potential management process on a high-quality level should not be disturbed by complicated systems or the issue of not covering certain locations or certain languages. Training in how to use the system (best it is more or less self-explaining or easy to learn by quick readers and short introductions) is essential. The areas mentioned in the earlier sections need to be covered to perform the overall process.

Hereby, the following criteria should be met:

- Online available system.
- Highly automated process.
- User-friendly usage of the system.
- Relevant forms and templates linked to the performance and potential management process, such as evaluation form, development plan, CV, etc.
- Languages should be available according to the international needs of the organization.
- User rights need to be provided according to access needs (administration rights for HR, access rights for supervisors to evaluate their employees, employees in a self- service to set up target agreements, development plans, CV, and to see their evaluation).
- Data protection needs to be provided.
- Documentation, tracking, and analysis tools should be available to work further with the collected information.

With such an IT landscape as the technical backbone of the process, transparency about talent pipeline, documentation of management decisions, analysis of risk factors, etc. are available. HR will make use of the reporting and analysis tools to engage and encourage the management team to discuss their organization in regard to people perspective and provide a sound basis for decisions to be taken.

Only a well-functioning IT landscape will increase acceptance of the process. If the usage of the tools is not user-friendly, also the performance and potential management process will be more difficult to perform.

Dos

Create Acceptance and Commitment to Your Assessment

Make sure that the assessment tools and results have top management attention. Ensure that the assessors are well selected and highly respected. Ensure that the assessment results are respected.

Ensure Transparency and Objectivity in Your Assessment

Assessment criteria and assessment process have to be transparent. Ensure appraisal input from at least one additional source besides supervisor's appraisal (e.g., additional appraisal from selected executive, integration of appraisal within supervisors' peer group, assessment center).

Ensure Global Standard

In international organizations, ensure that you have a good overview of performance and potential in your country organizations. Ensure a global standard of assessment criteria to enable international development of talent.

SMART Target

Set targets which are specific, measurable, achievable, realistic, and timely.

Combine Your Performance Management System with Measuring Values and Behavior

Ensure as an organization that you also track how targets are achieved to enhance a mind-set defined by the company's values. Positive and outstanding behavior according to your set of behaviors should be encouraged, and vice versa behavior you would not like to embed in your organization should be fed back.

Require Leaders to Give Feedback

Make feedback to employees about their performance assessment and development discussion regarding their potential assessment mandatory.

Avoid Surprises

The final performance rating at year-end should not come as a surprise! To prevent surprises and give clear guidance, supervisors should give frequent feedback throughout the year, and HR should encourage them to do so. Potentially, HR should implement a formal midyear review.

Enrich Your Potential Statement

Link a concrete developmental initiative (focusing on areas where the assessment indicates development needs) to your potential statement.

Activate Employees

Encourage employees to play an active role in their career planning and career development.

Don'ts

Do Not Forget Qualitative Targets

Integrate leadership behavior in target agreement and/or evaluation of target achievement.

No Work-Arounds

Do not allow work-arounds of your policy regarding performance and potential management. If certain aspects of your policy are not feasible, change the policy rather than tolerating noncompliance with your required standards.

Do Not Only Think Vertically

Ensure that a horizontal potential statement is considered as well as an important development opportunity.

Do Not Underestimate Expectations

Every potential statement creates expectations. Make sure that they are/become realistic.

Final Comments and Outlook

Performance and potential management, as one of the key areas of HR, is closely linked to training and qualification, compensation and benefits, and the company culture, all major fields of importance for HR, as well as for the company. These fields must be taken into consideration when striving for a systematic development of human resources, as they have an impact on performance and potential management.

There are only few areas in human resources management in which the HR organization plays such a key role as in performance and potential management in preparing and steering processes. This role is the basis from which HR can deliver major value to the company. On the other hand, this role also bears a risk – when performance and potential decisions are to be made, supervisors can "hide" themselves behind HR and the HR-driven processes, relinquishing their leadership role. This necessitates a clear definition of roles and responsibilities. On the one hand, HR has a governance and steering role. On the other, HR provides a professional assessment of employees' performance and potential. The employee's role is to actively plan and pursue his own development. The most significant role, however, remains with the supervisor. He not only undertakes the primary performance and potential assessment, but he has management responsibility for the development of his people, for feedback to his employees, and for the realization of all decisions and initiatives defined in the performance and potential management process.

Performance and potential management reflects – more than any other area of HR – a company's culture and the leadership philosophy. The establishment of such a framework requires a sound discussion and commitment of top management and the company as a whole to the fundamentals of company culture, leadership, and cooperation. Such a broad commitment to these criteria, standards, and related processes on all levels of the company is a key success factor. Personal engagement and discipline are needed to effectively carry out the standard processes and achieve a thorough and fair assessment of the workforce. Employees must be made aware that they are responsible for their own development and should be invited to participate actively in the overall process. A lack of commitment in this regard bears considerable risks – not only wasted time and money. Worse than a failed investment and not using the workforce's potential is the loss of credibility and trust on the employee's side. This can occur when an employee suspects a lack of sincerity from the company and/or supervisor or experiences a lack of transparency and consistency regarding individual and professional development perspectives.

Based on solid commitment, performance and potential management can serve as a powerful tool to foster integration of all parts of the company – across national borders and cultures. Commitment, a common understanding, and harmonized performance and potential management processes provide the basis for the most effective use of human resources – particularly in internationally operating companies. Such a common cornerstone of global HR work might also become an important element of a shared and globally established company culture. Even more, at times when young employees have high expectations for their professional future, a systematic and international approach to human resources development and this approach's positive impact on the company culture may become a unique driver for employer attractiveness!

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Performance and Talent: Pros and Cons of Performance Assessments

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Kristina Hambardzumyan

Abstract

Employee performance assessment is generically referred to as a process that combines a system of tools and methods aimed at evaluating an individual employee's job performance and productivity in relation to certain preestablished criteria and organizational objectives. Performance assessment methods vary, while the assessment cycles depend on the company's corporate management decisions. The potential benefits of performance assessment are commonly considered to be: employee performance improvement by means of setting goals and improving collaboration; facilitation of communication between the management and the personnel; determining employee career development and training needs to achieve strategic initiatives; increasing employee motivation and trust; providing feedback to employees; and counseling and developing them. In other words performance appraisal is a process that involves determining and communicating to an employee how he or she is performing the job and, ideally, establishing a plan of improvement.

Keywords

Performance appraisal definition • Factors influencing performance appraisal process • Performance appraisal overview of pros and cons

Employee performance is one of the most important factors in the organization. The right use of human resource is crucial for the organization to ensure the right quantity of the required personnel is engaged and the right quality of the work is

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accomplished by the employees. In this sense, employee performance appraisal is the right means to make thorough analyses of the employees' performance.

To attain an acceptable level of performance, it is important to take into account the individual characteristics and abilities of an employee, the efforts put forth by the employees, and the level of understanding of their role. Thus, it is important to note that whatever method of performance appraisal an organization uses, it must be job related. Therefore, prior to selecting a performance appraisal method, job analyses must be conducted and job descriptions developed and refined to keep up with the company's recent changes.

Whatever performance appraisal method is selected by the organization, it is important to modify and tune it in order to meet the organization's strategic goals, culture, and structure. Ideally the performance appraisal system will combine various methods and approaches to ensure that the final designed system is objective, relevant to the company needs, does not require too much effort and time, as well as other criteria generally important for the organization. Generally performance appraisal systems comprise of qualitative and quantitative methods of employee performance appraisal and are finally followed by an interview to explain the results and future development perspectives to the employee.

Despite all the potential advantages of performance appraisal there are some common drawbacks and errors in performance appraisal. To avoid potential errors in performance appraisal, such as Leniency (occurs when a manager's ratings are grouped at the positive end instead of being spread throughout the performance scale), Central Tendency (tendency of a manager to rate all or most employees as having the same basic level of performance), Recency (tendency of a manager to evaluate employees on work performed most recently), it is necessary to improve the skills of evaluators by giving them a relevant training to observe the employee's behavior more accurately and judge it fairly.

Some other important factors influencing the success or failure of performance appraisal interviews are:

1. The more employees that participate in the appraisal process, the more satisfied they are with the appraisal interview and with the manager, and the more likely performance objectives are to be accepted and met.
2. The more a manager uses positive motivation techniques, the more satisfied the employee is likely to be.
3. Discussing and solving problems that may be hampering the employee's current job performance improve the employee's performance.
4. The more the employee perceives that performance appraisal results are tied to organizational rewards, the more beneficial the interview is.
5. Performance appraisal mechanisms should be designed in a way to make the appraisal objective and provide accurate and relevant ratings of an employee's performance as compared to preestablished criteria/goals.
6. By allowing employee participation in the evaluation process, there is an employee-supervisor reciprocity in the discussion of any discrepancies between self-ratings and supervisor ratings.

One of the most important complications in performance appraisal is the subjectivity of appraisal. Despite the fact that one of the aims of performance appraisal is to encourage the employee toward better performance, the perception of right performance itself is often controversial, and since the appraisal is to a great extent a subjective process the right way of the results' communication is of crucial importance. Receiving or the anticipation of receiving a performance appraisal results that do not meet the expectations of the employee can be uncomfortable and distressful and potentially cause "tension between supervisors and subordinates." If the employees, being appraised, do not trust their employer, appraiser, or believe that they will benefit from the process it may become a "tick box" exercise. Thus, performance appraisal may have just the opposite influence on the organization, unless conducted properly and to a high level professionally.

Here is when the role of the HR personnel becomes even more important for the organization. It requires definite expertise to ensure that each individual in the organization perceives his or her role and its importance for the organization in the right way.

People are concerned about the adequacy of their wages toward their efforts put forth. In case they perceive their efforts are appraised objectively in comparison with the others in the organization and see how they can develop and how their development will be reflected in their income, there is more chance they will be willing to move forward. On the other hand, most employers are not always willing to tie themselves with promises for wage increase or other costly career developments and expect to get best possible results for less expenditure. For smaller-=size organizations, in case of professional and talented management in charge, it is quite possible to get all the advantages of performance appraisal without formally conducting it. For large companies it may be difficult, as the performance management itself is more complicated, unless there are top-notch strategies and procedures in force that ease the process of management and review of the results. On the other hand, performance appraisal systems may be designed in the way to bring to the minimum the subjectivity of the appraisal process, when combining mainly appraisal methods based on the actual quantities and qualitative appraisals. However, to create such a system, a virtuous work needs to be conducted by the HR team to analyze and fine-tune job description, to communicate the system specifics and processes' details to the employees prior to its operation, and keep supervising the process of perception of the whole system by the staff and its effective usage. Thus, to implement or not performance appraisal still remains an issue for discussion.

Further Reading

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Performance and Talent: Essentials of Development Discussions and Plans

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Agnes Tse

Contents

Abstract

To stay competitive in the rapidly changing world, development becomes essential. To make sure development is effective and beneficial, this requires a structural process.

Development discussion is the first part of the process. It is intended to be a purposeful and open conversation between the immediate supervisor and the employee. The content of the discussion can range from identifying development needs, improving weaknesses from current performance to preparing for the future career advancement. The immediate supervisor will either coach or counsel the employee with the objective to assist him to gain ownership to the

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development and commit to invest time to make change. In addition, the immediate supervisor should give positive and constructive feedback so that the employee gets the clear and specific inputs to focus on areas that he can develop. At the end, this should assist the employee to be equipped with the tools, knowledge, and opportunities he needs to develop himself and become more effective.

With the clear feedback obtained from the development discussion, the employee can proceed to translate this into the development plan. Time and resources is limited. It is necessary to stay focused on the critical areas. Very often, weaknesses are the key concerns but should not overlook to continue to build on the strength. A development plan with a balanced focus is important. Furthermore, the plan can consist of various kinds of actions which will help the employee to move from current state to future state when he is becoming more effective. The development actions can range from training, coaching to undertaking a challenging or overseas assignment. All these should provide the employee with meaningful learning experience so that he will become better in the performance.

Keywords
Development discussions • Development plan • Development needs • Assessment • Feedback • Coaching • Counseling • Career development • Strengths • Weaknesses • SMART

Introduction and Overview

Development is a MUST in today's world. There are rapid changes that happened in the workplace, be it technology, market, industry, or organization structure. They will impose new expectations on job requirements and performance. Everyone will feel that he is pressured to work smarter, faster, and better. Under these circumstances, an employee has to constantly learn and develop capabilities and knowledge to get better equipped.

Effective development requires a structural process. It starts with a development discussion with the immediate supervisor. This is an ideal opportunity to share perspectives, clarify objectives, and seek advice and feedback. It also requires the employee to have an open-mind to exchange his views with the immediate supervisor. At the same time, the supervisor can use this occasion to coach and guide the employee. This should be a candid two-way dialogue.

Output from this mutual discussion will become input into the development plan. The plan will provide a clear structure and focus on the development actions. This should document the development objectives, actions, outcomes, and timelines. The employee can use this as a constant reference to ensure actions are taken and monitored.

Development should not be only an individual activity. Getting support from others will help to make the process much more effective. Coaching, guidance, and feedback from immediate supervisor, peers, and family members are very useful. They will greatly help to encourage the employee to implement the plan.

The following sections will describe how to prepare and implement the development discussions and plans so as to get the desired outcomes.

Development Discussions

People Perspective

The society and workplace is constantly expecting an employee to continually improve skills and knowledge so as not to fall behind. Development becomes a MUST!

There are expectations to do more with less, reduce cycle time and increase productivity, improve work processes, launch new market strategies to meet higher customer expectations, and stay updated with new technology. To pay efforts on development is going to create tremendous benefits to an employee.

Development discussion between an employee and immediate manager needs to be conducted in an open and honest atmosphere. By doing this, it can help to address the skills and knowledge gap arise from the change in job requirements. Sometimes, employee will desire career growth and would need guidance and coaching from immediate manager through a development discussion. From this kind of interaction and exchange, it will improve the engagement and motivation of the employee toward the company, as well as the working relationship with the manager.

Changing Job Requirements

Even the same job will not have job skill requirements stay the same all the time. This will happen because:

- *New equipment is being introduced* – New machine is installed in the production line. New software is launched to the current computer system. New tool is introduced to improve job performance. An employee must learn new skills to operate such new equipment to ensure the tasks can be accomplished satisfactorily.
- *Job requires new certification* – Professional requirements are updated to match with the industry needs and raise the standards of operations. The government sets new rules and regulations to the business environment to enforce compliance and reduce risk. An employee will therefore need to learn new knowledge to fulfill new requirements.
- *Work processes change* – Work practices and processes change to increase productivity, reduce cycle time, and improve quality output. New skills and work methods are required to match with the process change.
- *Job scope expands* – The same job role can expand in terms of the scope and outcomes to achieve better outputs. For instance, the company will increase the

product range, geography, and customer base. A sales engineer will then have to acquire more skills and knowledge to meet the expectation.
- *Organization structure changes* – Company will change the organization structure at any time for business reasons. As a result, new reporting line and working relationship with new teams will be set up. This will therefore require a new way of working and behavior.

During the development discussion, the immediate manager can guide the employee about the implications of these changes from the job and working environment and coach the employee to learn new knowledge, skills, and behavior to adapt to the new requirements.

Advancing Personal Growth

Pursuing career advancement is what most people desire. This can mean moving to a next higher-level job, to a different functional arena, or even to a new geographical place. When an employee does this, this can achieve personal growth satisfaction. When embarking on this kind of personal development journey, the employee will be building on current experiences with new skills, knowledge, attitude, and work behavior.

Today, someone is a sales engineer. He is responsible for selling the products in a defined market segment and territory. His main focus is to ensure that he gets the adequate level of product knowledge and competitor information so that he can meet or exceed the sales targets.

However, he aspires to be a sales manager in the future. He will therefore need to have broader knowledge of the product range and the customers. He needs to be more knowledgeable about the competitors and market share. But this is still not sufficient to equip him to become a manager. He will be required to lead people and therefore has to have the necessary skills to be a team leader so that he can coach, lead, and manage his team members.

When the manager faces an employee with such kind of career advancement aspiration, he would advise the employee to learn and develop a new set of skills which will be a must if he intends to advance into a broader role and higher level. By giving him the direction to equip himself will assist him to advance from the current status to the next stage.

Reinforcing the Working Relationship Between the Immediate Supervisor and the Employee

Very often, one feels that it is the immediate supervisor who is responsible for his development. It is because the immediate supervisor sets the job expectations. He defines the job skills and knowledge requirements. He sets up the work environment in terms of the team structure, work processes, and tools. He evaluates his staff's performance and identifies what needs to be improved. He even decides who can be promoted or not.

However, if taking this perspective toward development, then the employee has to wait for his immediate supervisor to take whatever actions he intends to. He may become impatient or dissatisfied if the supervisor does not pay much interest toward this. He may feel that his needs are being ignored.

This applies the same in the scenario of development discussion between the immediate manager and the employee. In fact, both parties are on an equal grounds and partnership. Each has a key role to play in this mutual relationship.

Employee must take ownership and accountability toward developing new skills and knowledge. He must understand his development needs and define his development plans. He also needs to have the motivation and commitment to the development goals. He must be willing to invest time and efforts to learn new skills and knowledge to keep pace with the new requirements. Finally, he must make the efforts to apply his learnings into practice.

Therefore, during the development discussion, the employee should actively participate and get himself prepared before and during the conversation. He can take proactive approach and attitude when seeking the guidance and advice from the immediate supervisor. Taking this behavior will be more rewarding and beneficial to the employee.

Immediate supervisor needs to set clear expectations on development and provides the resources and support to help the employee to accomplish the development needs. He should constantly provide honest feedback and guidance so that the employee knows what are his strengths and weaknesses. He should coach the employee about where to focus his efforts. He acts as a partner to support the employee during the entire development process.

Therefore, during the development discussion, the immediate supervisor can openly discuss the development needs and plans with the employee to avoid misunderstanding. Overall, one of the main drivers to create engagement at the workplace is the quality of the working relationship between the employee and immediate supervisor. If they both can have mutual and open communication, this will greatly reinforce the relationship between them. And if the employee is highly engaged, this will improve motivation which in turn will result to higher level of commitment in efforts and better work performance.

Honest Feedback Will Facilitate Communication

Immediate supervisor plays the role of a coach in the development discussions. To be an effective coach, the immediate supervisor needs to:

- Gain the trust of the employee and encourage open communication
- Use active listening skills to understand the employee's perspectives
- Provide honest feedback toward the employee's strengths and weaknesses
- Utilize open-ended questions to develop awareness and encourage self-discovery
- Inspire the employee to develop the commitment to improve and change
- Maintain a positive and nonjudgmental stand
- Be sensitive to cultural differences
- Be effective in both verbal and nonverbal communication

Giving and receiving feedback is the major essence in the development discussion. There are three types of feedback:

1. Positive feedback – This applies to situations where an employee has done a good job. It usually consists of praise and recognition with the objective to reinforce the employee to continue with the positive behavior. This kind of feedback will be more powerful if it highlights the "why" and "how" the good job is done. In this way, the employee knows how to keep doing this in the future. ("You have made an outstanding presentation at the meeting and gained the buy-in of the senior management because the facts and data are succinctly presented and easily understood.")
2. Constructive feedback – This is intended to point out why the behavior has gone wrong or not satisfactory and then what can be changed so that the employee knows what to improve next time. This kind of feedback needs to be delivered sensitively to avoid resistance. It will be appropriate to describe the action with specific facts and not on mere assumptions and interpretations of the behavior. ("During the presentation, you did not fully address some of the follow-up questions raised by the audience leaving them not clear about your overall plan. Next time, you can consider to.. ...")
3. Negative feedback – The impact of negative feedback is usually destructive without leading to a desire to improve. The description is a replaying of the action that went wrong without offering a solution. ("You were just pushing your own views in the discussion causing a lot of distractions and resistance.")

An impactful development discussion will focus on giving both positive and constructive feedback to the employee. The core of feedback is giving data on behavioral evidence which will assist the employee to integrate into his own experiences and views of himself. Any change of behavior will only occur through acceptance and ownership of the feedback by the employee.

So, if the feedback is given in a constructive manner, the employee should keep an open attitude to receive it. Receiving feedback also requires skills to do so.

1. Listen and understand the feedback – Do not interrupt when feedback is being given. Listen attentively to make sure you fully understand what is being said before responding.
2. Ask questions for clarification – Raise questions if not clear; ask to get clarification if the feedback is vague and general. Ensure the feedback given is as specific as possible.
3. Make notes – Pay attention during the feedback sharing; jot down notes so that this can be remembered in the future.
4. Adopt an open attitude and not be defensive – Treat the person who gives feedback with respect because he cares. Take the feedback as a useful opportunity to learn about how others perceive the behavior. It is how an impression is created or affects others' point of view. See this as a way to discover personal strengths and weaknesses.
5. Seek specific suggestions to improve – Openly discuss with the immediate supervisor what he can do differently to improve performance. Get advice on

what kind of change is necessary and how to implement. Ask for suggestions on how to continue to improve.
6. Evaluate and analyze – After receiving the feedback, the employee can evaluate and analyze the information. There is no need to just accept whatever is being shared. The employee can further evaluate and check with others if in doubt so that the feedback will become useful, relevant, and meaningful input for making improvement.

It is obvious that during the development discussion, if the feedback to the employee is delivered in a constructive and honest manner, this will largely facilitate the employee to listen and accept the feedback. Adopting this approach in terms of giving and receiving will greatly enhance the communication process between the employee and the immediate supervisor.

Economic Perspective

Development discussion does not only bring direct benefits to the employee; it also creates economic value. In other words, if this is not done effectively, it can create cost and disadvantages to the employee.

Failure to Meet Current Job Expectations

Not everyone is able to fully meet the goals and objectives set for the job or sometimes does not have the right level of skills to keep up with the continuous increasing expectations of the job or even fail to interact with the colleagues in an effective way at the workplace. Under such situations, performance becomes an issue as this affects the quality of the output.

It becomes very necessary that the immediate manager uses the development discussion to point out to the employee his performance issues. He needs to help the employee to identify what is the gap and what causes the gap. And the employee should be fully aware of the negative impact if he does not take remedial actions in order to pick up the right skills and knowledge and take the development actions to ensure he goes back on track according to what is expected. If this is not being attended, he will gradually become a problem employee to the company in the future. And in extreme circumstances, this will lead to dismissal if the performance issues continue to persist.

Getting Ready for Future Job Expectations

It is clear that the workplace is changing constantly due to the rapid development in technology which means the job skills and knowledge will become different.

During the development discussion, the immediate supervisor must bring out to the employee the future direction of change and the implications toward not able to keep up with the new trends and development. He should help the employee to appreciate the necessity to stay abreast of changes in workplace and industry. And if not able to catch up with the rising expectations will mean falling behind the waves of change, leading to losing the competitive advantages which is very critical on today's fast-paced working environment.

Therefore, during the development discussion, the immediate supervisor can go beyond only the specific area of skills and knowledge improvement. He can set this development need against the context of broader environment so that the employee will be able to understand the problem if he is not continuously improving himself.

Development Discussion Is Not a Time-Consuming Activity

Sometimes, both the employee and the immediate supervisor think that preparing and conducting a development discussion is a very time-consuming activity. They feel that there are a lot of efforts that have to be put in before they can have a discussion. And this can become a reason why they are not enthusiastic about doing this.

It is true that if the development discussion has to be productive and meaningful, it is necessary to spend time to get this prepared. However, whether this is regarded as time-consuming or time wasting is dependent entirely on whether the value of development discussion is being realized.

If the communication and working relationship between the immediate supervisor and employee is very open and smooth, having a development discussion is like a normal interaction and conversation with each other. Having a timely and meaningful discussion can happen in many occasions:

- When the employee has completed a presentation to the senior management, the immediate supervisor can have a timely discussion with him about the outcome and what particular learning experiences he has gained.
- After visiting a key customer and on the way traveling back together, the immediate supervisor can ask the employee how he has found the customer visit and anything done well or not well as a reference for next time.
- If the employee has encountered a major setback in an important project, the immediate supervisor should review with the employee about what has gone wrong. After identifying the causes of the major problem, coach him to take remedial actions to get back on track. This kind of development discussion should be done promptly so that the employee will not miss the learning opportunity.

Risk Perspective

Effective development discussion is about delivering feedback to an employee in a constructive manner so that he can accept, embrace, and take ownership in such a way that he will take actions and work on further improvement.

How to Give Feedback to Avoid Resistance

The immediate supervisor will be providing feedback, whereas the employee will be receiving feedback. Usually, if the feedback is positive, this will be welcomed and easily accepted. But if the feedback relates to an employee's weakness, this may trigger a sense of resistance and risk of denial. Sometimes, an employee may refuse to accept the feedback and block any attempt to discuss about it. He may argue with others. He may defend that this is not his problem and, in some cases, may even discard the feedback as not valid and reject it completely.

Feedback should be given in a way that the employee can understand. It should be concrete and behavioral instead of judgmental. It should lead the employee to accept it and enable him to do something about it. Finally, it needs to be done with due sensitivity and at the same time without avoiding the key issues.

To avoid the risk of feedback being resisted and denied:

1. Ask questions and not to tell – It is very necessary that the employee is guided to discover his strengths and weaknesses. In this way, he will be more convinced about what he needs to improve for the better.
2. Describe and not to judge – Feedback is not the same as criticism. Negative feedback will only cause destruction and resistance. Any feedback to be given should be neutral. It should be describing the case and let the employee analyze and draw the conclusion.
3. Focus on behavior and not personality – If feedback is given in the wrong way, it may turn into personal. The message is focused on the behavior and what the employee has done. It should not be commenting on what kind of a person the employee is.
4. Be specific and not generalized – It is describing the behavior in a specific way: either specifically what the employee has done or what impression has been created. Being specific instead of too general will make it easier for the employee to understand the message and make use of the feedback to improve later.
5. Be constructive and not destructive – Feedback should not be used as a way to attack an employee. Provide inputs in a way that the employee knows what and how can be done better. Always end the feedback with a positive note.

Development discussion is like coaching. But coaching is not teaching. The coach does not need to involve himself with every aspect of the individual's development. Instead, he should share views and insights and guide the employee to think and discover the issues. It is important that he helps the employee to cultivate his capabilities and tap into his true potential.

Be Sensitive About Confidentiality

A meaningful and impactful development discussion will require both the immediate supervisor and employee be completely open and honest in their communication. In order to get the employee to fully open up himself and share about his development needs, this requires the level of trust that he has toward the immediate supervisor. On one hand, the employee would like to seek the support and assistance from the supervisor to help him continue to improve. On the other hand, he would not hope the supervisor perceive only his weaknesses and regard him as incompetent. He would hope that the immediate supervisor is genuinely helping him to become better in his performance.

Sometimes, the development needs not only relate to workplace issues but may be other problems about his personal motivations or family situations. In order that the employee feels like he can openly share with the immediate supervisor and work together to diagnose the problem, it is very necessary that the employee believes the supervisor is trustworthy and willing to provide the necessary assistance.

In order to gain this kind of trust, the immediate supervisor has to be respectful of the confidentiality of what the discussion may cover. He has to be able to protect the sensitive information that may be shared by the employee. The immediate supervisor can refer the employee to get other professional advice if what blocks the development of the employee is due to personal and family issues. He should not try to deal with these issues if he is not capable to handle. Instead, he can focus on those areas which he can deal with, especially those relate to the job and workplace matters.

Operational Perspective

Development discussion is usually held between the employee and immediate supervisor. At times, this can also be done together with the human resource manager, depending on the objectives.

To achieve an effective development discussion will require a structural approach. Preparation needs to be done in advance to get the desired impact:

1. Set the stage – It is very important that development needs are being identified first. This is the reason why a discussion is necessary. Without a clear understanding of the development needs will lead the discussion without focus.
2. Define the impact – When the development need is known, it requires a further step to define its importance. The employee needs to know why this is important to address. What is the consequence and impact if the gap is not being closed? This will affect how to set the development goal and outcomes.
3. Create ownership – Even though the development need is clear and the impact can be large if not addressed, it is critical that the employee is completely convinced that he needs to do something about it. He has to have the ownership and accountability toward this development opportunity and willing to spend time on it.
4. Develop the plan – The development discussion should be a way to assist the employee to think through his needs and what development actions should be formulated to become an actionable plan. Advice should be given to guide the employee to define what kinds of actions will be meaningful to address what kinds of needs.
5. Provide continuous coaching – Development discussion should not be a single meeting only. After the employee has defined the development plan, ongoing regular feedback and coaching is still necessary. This will help to evaluate the progress to see if any remedial actions are required.

There are two types of development discussions which have completely different objectives.

Performance Improvement Discussion

The immediate supervisor may find an employee is having performance issues such as failure to do the job at an acceptable level. The acceptable level is usually, but not always, documented in written performance standards and is typically defined in terms of job responsibilities, goals, and competencies. Instead of prolonging the performance issue, it is necessary to conduct a discussion with the employee to highlight his problem and define actions to bridge the gaps.

This kind of development discussion is necessary because failing to address low performance is actually sending a clear message to other employees that they need not meet the performance expectations. There is no consequence even if not delivering performance at the expected level. Besides, poor performance not being timely addressed will usually get worse over time. It rarely corrects by itself without action on the part of the employee. On the other hand, if the performance gap is closed, this will lead to a more productive team overall.

Conducting this kind of development discussion will require *counseling* by the immediate supervisor. It is intended to make the employee be aware of the deficiency and clarify expectations through counseling so that he has an opportunity to make the necessary improvements. Counseling has two primary objectives – one is to make the employee aware of the gap between his current performance and the job expectations, verbally and in writing, and second is to clarify what those expectations are (*what does success look like*?). Performance counseling is considered successful when the employee knows his current contribution level and takes ownership for raising that level. And to support the employee's improvement efforts, a written summary of the concerns and expectations should be given at the end.

Performance counseling may create discomfort to both the employee and immediate supervisor. Therefore, it is necessary to pay attention when conducting such kind of development discussion:

1. This must be done face to face, in person. Whenever possible, conduct the meeting in a private place where the employee will feel comfortable for an open discussion. In scheduling a meeting to discuss a performance issue, it is preferably to allow sufficient time to do so.
2. Set and maintain a constructive tone. The immediate supervisor should be calm, professional, and focused throughout the discussion. He should not confront the employee. Instead, he should describe specifically the performance issue and the impact created. The discussion should focus on assisting the employee to clearly understand the performance problems. He should focus on how the performance can fit into the total organization.
3. Choose several key points and messages, and get confirmation from the employee that he understands the performance problems and expectations. The immediate supervisor should provide opportunities for the employee to respond. This will

allow the employee to be active in the discussion and lessen the negative connotation of a “lecture” from the immediate supervisor.
4. Always end the meeting with a positive note by emphasizing that if the employee will improve his performance, this will be a mutually beneficial goal for him and the organization.
5. Document the discussion notes and the specific development actions that the employee will take. The immediate supervisor should provide the written summary to both for the follow-up. Plan future meeting times to review the progress. If the employee appears to be still struggling with improving performance, there is a need to revisit and talk again.

Development discussion aiming at improving performance is to help the employee understand the performance gap and reiterate the expectation on him. Most performance issues can be resolved and prevented from becoming *problems* by helping the employee be aware of the concerns and clarifying expectations as early as possible.

Career Development Discussion

An employee is looking for directions to continuously advance his career. In such a career development discussion, the immediate supervisor plays a key role to provide coaching and support and help the employee to identify opportunities for growth and development. The objective is to understand the career goals, strengths, and weaknesses of the employee so that the development gaps can be well determined. And then set the appropriate kind of training and assignments to support the growth of the employee. This can be an effective way to motivate talent within the organization. This can create a positive impact on engagement and retention.

Before having a career development discussion, the employee should also make his preparation. He should spend time to reflect on his interests, preferences, and career goals. He should find ways to identify his strengths, work preferences, values, and desired working conditions. All these will influence his career choices.

The immediate supervisor continues to play a coaching role in this kind of development discussion. Conducting the discussion in a structural manner will help the employee to set clear career goals for himself:

1. Clarify with the employee about his desired career goals and interests. The immediate supervisor should ask questions such as:
   - What are his preferred work characteristics (e.g., what does he want to be doing? Does he want to lead a team? Or does he want to pursue expertise in the profession?)?
   - What are some important career development issues for him now (e.g., is he equipped with the right level of professional education? Does he have experience in leading a department?)?
   - What are his short- and long-term career interests?
   - Are his career interests being constrained by current and future personal situation? How is he going to overcome these obstacles (e.g., will there be

any potential personal or family situations that will happen which may limit his geographical mobility, frequent business travel, etc.?)?
- What strengths and skills that he possesses can contribute to the career goals?

2. Provide a realistic view of the employee inside the organization. The immediate supervisor should share with the employee how he is being perceived within the organization. He should advise the employee how his current performance relates to future opportunities and whether his expectations are realistic or not. This will help the employee to realize whether he has a large gap between the current and future stage that he wants to become.
3. Increase the employee about the awareness toward the organization. The immediate supervisor can discuss the knowledge, skills, and competencies required to reach the career goals. Also, advise the employee the appropriate network or relationships that he needs to build and reach out for resources and support within the organization context.
4. Give inputs to the employee about how to design a development plan to achieve the career goals. The immediate supervisor can share what development needs are necessary in relation to the career plan. He can advise what kind of experiences, assignments, and training will be required to reach the goals.

Career development discussion should be able to guide the employee to clarify his career interests and goals. This should also be an opportunity for the employee to gain a realistic understanding of his strengths and weaknesses, then match against the future goals, and identify what he needs to continue to develop to achieve his career plan.

Development Plan

People Perspective

Development is a process. It has to be goal oriented with a clear set of action steps, and ultimately one can measure if he has succeeded or not. It is like managing a project which has clear beginning and end states. The development plan helps to bridge the gap from current to future state. It provides the direction moving from destination A to destination B.

When an employee is formulating the development plan, he can think through the following questions:

1. What are the most critical and important development goals required to work on?
2. What are the personal motivation and organizational environment that will support the achievement of these development goals?
3. What are the new behaviors, skills, knowledge, and changes that would need to acquire?
4. Who are the people who can provide the support, feedback, and coaching during the development process?

5. What are the resources required to learn and apply the new behavior (e.g., books, training, mentors, immediate supervisor)?
6. What are the specific deliverables to demonstrate that the development plan has been successfully achieved?

These questions help an employee to think from different dimensions before laying down the development plan. This can lead to more chances of success in the execution of the plan. A person's time and resources is limited. He should not embark on any kind of development actions without a clear sense of direction and focus. Development plan should consist of the relevant kinds of actions in response to the development needs. Only by being targeted in the plan will the employee get the benefits from the development actions to be taken.

Economic Perspective

Generally speaking, development plan consists of actions which will require resources, be it time or money. There is definitely a "cost" implication from a development plan.

The resources can be the time required from an employee to complete a training program. He may have to be away from work for a few days to attend the class. Or he may have to spend a month's time after office hours to read a book. Even if this is a coaching session with the immediate supervisor, he will have to commit several tens of hours to receive the coaching. If taking on-the-job training, this will involve additional time spent to learn new skills.

Furthermore, financial cost will be expected in the execution of development plan. This refers to paying for a training class or MBA course, buying books and business journals to read, and paying travel cost involved if going to other countries for training or on-the-job assignments.

It is necessary to be well aware of the resources required and budget in advance. It is important that these resources are secured and approved so that they are readily available and not affecting the execution of the development actions. It will become an unnecessary obstacle if this is found out later that the company is not prepared to spend money for an employee to attend a training or not to sponsor an overseas travel to undertake an assignment. Sometimes, this will lead to negatively impacting the morale of the employee if this happens due to poor planning.

In addition to the tangible resources (e.g., financials) required to implement the development plan, intangible resources will be necessary as well. This refers to continuous commitment and support from the immediate supervisor. He has to be ready to spend time to continuously coach, assist, and guide the employee during the development process.

Other kinds of support can be from peers, friends, or family members. These people are valuable resources as they can give feedback and be a sounding board. Very often, this kind of ongoing support is very critical. The employee can be applying a new skill or knowledge at the workplace after the training. At that time, the observation and insights from his peer will become very essential in terms of whether the new behavior is effective or not. Then he can continue to fine tune and apply until this becomes highly effective.

These development partners play the role of giving encouragement. They are someone who can offer emotional support when one encounters difficulties in the learning process or struggles in making progress. They provide coaching and counseling when one needs help. They are someone who advise what the priorities should be focused. They direct where to find additional resources. They help to clarify why roadblocks appear and how to overcome. They give guidance by either questioning, exploring, or prodding for the reasons. Finally, they can be someone who offer reinforcement and celebrate when good progress is made toward the development goals.

Therefore, to achieve success from the development plan is more than paying attention on the planning. Getting the resources in the execution is also a very critical step.

Risk Perspective

Sometimes, an employee is overwhelmed with what he should focus in his development plan. He has received feedback about his development issues and would like to jump into improving his problems as soon and as much as he can. But trying to cover too much in the development plan can become risky because this can lead to not able to achieve too much.

Furthermore, an employee may have developed a well-structured plan but lack the commitment, and motivation will also create the risk of not able to fulfill the plan.

Lack of Focus in the Development Plan

Development is an investment of time and energy. It is important to be focused and only limited to a critical few specific areas. If an employee lacks clarity of purpose and the capacity of how much can accomplish, it may lead to focusing on the wrong targets, wasting resources, and efforts. Therefore, setting the right direction to start is of utmost importance. Able to develop a workable and meaningful development plan is critical. Focus on the priorities is a must. This is to prevent an employee from feeling overwhelmed with too much to fulfill. Making significant progress on two or three most important development goals is more rewarding than trying to make small progress on too many goals.

Very often, the employee believes that development should only target at the *weakness* areas because this obviously needs to be improved. Yes, it is; otherwise, this will get into the way for effective performance.

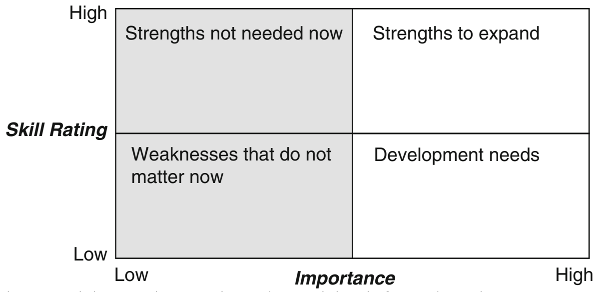
But he should not ignore continuing to sharpen the strength. In fact, someone is successful because of the strength that he possesses. These can be the special qualities and abilities that he has already developed and make him outstanding. So, if the strength is being ignored and not be continually built, the *strength* will gradually diminish and no longer be a strength in the long run.

Therefore, knowing the personal strengths and weaknesses is very necessary. In the development plan, the employee should leverage and sharpen the strength and make sure the weakness gap is closed and improved at the same time.

Besides, development areas can be related to *improving the current job performance* with the intent to have even better capabilities to perform in the job. This can be due to skills and knowledge that need to be more in-depth so that the job can be completed in a more professional and expertise level. In addition, if new technology, equipment, or requirement is introduced, it becomes even more necessary to continuously learn to perform in the current job at the newly expected level.

Then there is development plan which focuses on *achieving future career goals* and aspirations. The purpose is to acquire new skills and knowledge to prepare the employee to advance into a future role when the opportunity arises. For example, if he is prepared to assume a sales manager role in the future, he should start to learn about how to lead and motivate a team and also to learn a broader range of product and customer portfolio in order to prepare for a larger job scope in the future.

Therefore the first step is to identify what are the focus areas in the development plan.



This chart is a guide to determine the critical few development areas. There are two dimensions to evaluate. First of all, list out what are the strengths and weaknesses. Then consider if either the strength or the weakness is indeed important and necessary to address – from the perspective of critical to the current job or future career goal. If they are not (i.e., the shaded area), then there is no need to spend time on them. But if they are critical strengths required to continue to expand and serious weaknesses need to have their gaps be closed, they become of high importance. Then they should become the focus areas to invest energy and resources to develop.

After this evaluation is completed, the employee needs to continue zooming into the most critical few. Experience has shown that if development plan limits to *three* key objectives to focus on, chances of successfully completing the plan and achieving the desired outcome are much higher. A general rule of thumb is to focus on *one strength and two weaknesses*. In this way, strength can be continuously sharpened and weaknesses can be addressed. If the employee focuses on developing the strength, he will find this more encouraging because he is building on what he is good at, while this will be balanced by diligent work to improve his skills and knowledge to close the gap from the weaknesses.

Not Implementing the Plan

In reality, development is always not easy. Even though a perfect development plan is designed with all the right kinds of development activities, the key is still whether one is determined to implement it. There is a risk of obstacles that can get into the way. For example:

- I am too busy. I will work on this next week.
- I do not have enough time to attend the training. There are too many things going on now.
- I do not know where and how to start.
- I do not have sufficient resources and support required.
- I do not get my immediate supervisor's support toward my development.
- The new behavior required is very different from my usual habit. I am afraid others will not accept it.
- The new skills are very difficult to acquire and apply. I am afraid I will make mistake.
- My working environment is not supportive of the application of the new behavior.

Some of them can be due to the limitations from external environment. Some are within control, while some are not. They will be influenced which will impede the learning process. However, some may be simply excuses that one is using for not putting the plan into action. Development will require one to invest time and energy. In most cases, it is expecting the individual to exercise discipline to execute the plan.

Therefore, it will be necessary to think ahead and anticipate what kind of barriers may block the implementation of the development plan. Consider what are the likely reasons that one will not want to act on the plan. It must be done honestly so that this is clearly thought through in advance. But at the same time, think about what is the payback if the new skills and behaviors are acquired. If one is convinced of the benefits that the new learning will provide, then the development actions will become a good investment in return.

Operational Perspective

Development is like a journey. It is meant to take someone from where he is today to where he intends to be in the future. In order to arrive at the desired destination, planning in advance becomes necessary.

Define the Development Needs

Any form of development comes from diagnosing the development needs first. The needs can be to close current performance gaps due to lack of sufficient skills and knowledge to perform at the desired level. This can also be due to new skills required because of the change of job scope, introduction of new equipment, and work process. In addition, development needs will appear because it is intended to prepare an individual for a promotion to a higher-level role.

Development needs can be identified from:

- Performance evaluation offers an opportunity to find out what the employee does well and not well in which areas of his job. Someone is a production supervisor. He is very good at scheduling the production plan to meet the output targets because of his systematic method of organizing tasks. However, he is not competent to deal with people issues from the production operators and affect the quality of output. In this case, his development need will be to improve his skills in leading and motivating a team.
- Assessment against the job competency requirement is another way to identify development needs. One can define the competencies expected on a certain job role. For example, a successful human resources manager role is expected to demonstrate competencies such as business acumen, assessment and selection, coaching and facilitation, leading organization change, analytical capability, and defining and delivering HR strategy. Then both the employee and immediate supervisor can conduct an assessment of the employee against the required competencies. Then they can compare both sets of results to identify the following:
  - Competencies which are the strengths
  - Competencies which are the weaknesses
  - Competencies which show discrepancies between the employee and immediate supervisor's expectations

  The areas which are the weaknesses and with discrepancies in the assessment results can become the development needs for the employee to focus on.
- Feedback from others can add more perspectives about the employee's strengths and weaknesses instead of only from the immediate supervisor. This is sometimes done in the form of 360-feedback. Different people are invited to give feedback toward a certain employee. They are usually the staff, peers, higher-level management, or external customers. The intent is to collect more dimensions of feedback about the employee so that the development needs identified are more comprehensive. But caution has to be taken when doing this kind of feedback process. It must be focusing on "development" purpose and not assessment. The intent is to provide feedback to help an employee to develop his weaknesses and not being used to assess his performance. Otherwise, this will become a threatening experience to the employee, and no one is willing to give candid feedback.

  No matter what approach is taken to identify the development needs, the objective is to ensure that a proper diagnosis is done. Then the subsequent development plan and actions will be targeted at the needs and efforts. And the time spent on development will be worthwhile.

Design the Development Plan

Once the development needs are clear, it is necessary to gain the commitment and ownership of the employee to translate the needs into actionable development plans. The employee has to strongly believe that this is going to create benefits for his future and willing to spend efforts to accomplish the plan.

Development plan must state clear development objectives to achieve. The development actions are targeted to either close the skill gaps or achieve better future skills. Clear timeline is set on each action required. And finally measurements are set to assess if the development objectives are successfully accomplished.

The plan must be specific and doable so that the employee can take actions to fulfill.

Reinforce the Learning and Development

Development is a process. Though the development plan is time bound, real learning takes place only when the employee applies and practices the new skills and knowledge, as well as changes the behavior.

During the process of executing the development plan, the employee needs to get regular feedback from others. This can be his immediate supervisor, peer and even family member. They are necessary to support and encourage the individual to continue with the development actions.

When the development plan is completed, it is necessary to review the outcome. If the individual finally uses the new skills in the job and gets the satisfactory results, positive reinforcement should be given. This can be done in the form of encouragement and recognition. By doing so, the employee will feel motivated to continue practicing the new skills.

However, there can be times when the development plan fails to fulfill the objectives set. The individual is not able to transfer the new skills to the job or demonstrate the new behavior. When this happens, the employee should find out what is the root cause. Is this due to insufficient training provided, the usage of the right learning method, or the lack of environment and resources to provide the opportunity to practice the new skills? All this has to be analyzed to find out the reasons so that a new development plan can be formulated for the employee to go through again.

Successful development requires time and dedication in the planning and execution. If this is done in the right way, one can gain the outcome as desired.

Take the following steps to build a targeted development plan:

1. Determine focus areas – The employee can consider if the skills and capabilities to develop will benefit the *current role* because this will help him to perform better now or to consider if this will benefit *future role* so that he is prepared to get ready when the opportunity comes. Besides, this should benefit the business organization such that he can get the support and resources from working on the development goals.
2. Set development objectives – Development objectives must be specific enough to describe the kind of skill, knowledge, or behavior that needs to be improved. This can refer to learning a new skill, changing the current behavior, moving to a next higher level of skill, or applying the skills in a different way. This needs to be clearly and explicitly stated so that the employee knows exactly what needs to be done. The way that it should be described is: what he needs to do by the time he will complete the learning, and how will he know when he has achieved the

objectives. We usually adopt the *SMART* approach to describe the development objectives:

- Specific – State exactly what should be done after completing the development action.
- Measurable – Indicate the level of performance that is required to achieve.
- Achievable – The development target should be realistic and attainable.
- Relevant – The objective is relevant and appropriate to the needs and situation.
- Time bound – Include the timeline in terms of how long it should take to learn the new skill, e.g., in how many weeks or months.

3. Select development activities – Development activities are what should be done to fulfill the development objectives. When deciding the activities, the employee should consider what learning opportunities will best fit with the objectives. Is taking a training course the most suitable to learn this new skill or learning on the job is more appropriate? Is reading a book or taking an online course the most effective? Is there an opportunity to take a stretched assignment so that he can accelerate the learning output?

   No matter what activity to select, the employee needs to be conscious of the necessary resources to be invested. Some activities will require more intensive attention and time to spend. For example, if he takes on a stretched assignment, this will require to work out of the normal comfort zone (whether in a different working location or functional area). This will expect extra efforts to spend to accomplish the learning tasks. In some cases, it will require a more self-disciplined and self-initiative manner to complete the learning.
4. Solicit help and support from others – Involving others to actively support the development plan will increase the chances of successful accomplishment. These people can be the immediate supervisor, human resource manager, close working peers, or family members. They can become the development partners along the way of the development process. When finding these partners, one can consider if they have access to development resources that will be useful. For instance, they are good at certain skills or areas that the employee can learn from. They can be someone to provide feedback, advice, and encouragement during the development. They will serve as guidance to ensure he stays on track with the development plan.
5. Set a clear timetable for the development actions – Similar to a business project plan, if there is no specific timetable setup, it will be difficult to monitor the status. A development plan timetable should also include major milestones so that the employee can measure the progress. It is very important to set a realistic timeline for the plan. Take into consideration any personal obligations or daily workload that may affect the execution of the plan. Generally speaking, if the employee wants to focus on three key development areas, a 12–18 months time horizon will be reasonable. If the time is too short, it is not realistic to accomplish. On the reverse, if the duration lasts too long, the employee will lose the momentum and energy to work on the development goals.

An Example of Development Plan

<table>
<tr><td colspan="2">Competency to be developed (strengths or weaknesses)
(What is the specific skill, knowledge, or behavior that requires development?)</td><td>Date to complete</td></tr>
<tr><td colspan="3">Development objective
(What are the SMART goals to describe that this development is achieved?)</td></tr>
<tr><td colspan="3">Development activity
(What are the various types of activities to undertake to develop the specified skill?)</td></tr>
<tr><td>Development action
(List each development action)</td><td>Support/resources required
(List who will support each action)</td><td>Duration/timeline
(List when to complete each development action)</td></tr>
</table>

More Ideas on Development Activities

1. On-the-job assignment: Adults learn the most by doing. On-the-job assignment has proven to be the best way to increase both the breadth and depth of skills and knowledge. It can be taking on a project or joining a task force with other functional team members to resolve a business issue and give a recommendation. This provides the opportunity to acquire new skills and wider experiences in a real-life situation. The employee will be able to apply the learning when a similar situation happens in the future.
2. Modeling: This refers to shadowing someone doing their job. Examples can be participating a meeting with a more experienced colleague, observing how he delivers the business presentation, and working as a project assistant to a senior executive and participating in how he prepares and handles a strategic business project. This will provide direct exposure with senior and experienced business leaders and get to experience how they deal with various business cases. Being able to gain this kind of firsthand exposure is extremely valuable.
3. Attachment: This is another form of learning based on the job experience. This can be a short-term assignment to an overseas operations or a different functional area. The employee is asked to complete specific tasks during this attachment. For example, he is to attach to a Research & Development Department at the Headquarters to assist them to complete a global product research for his local market. This gives the direct experience in working in a different environment.
   If this is an overseas assignment, then the employee will have to adapt to the different culture and way of working in a new country. Sometimes, he may have to overcome cultural barriers such as language, working practices, and behavior. At the same time, he will also extend his peer networks in other locations which will be a definite benefit in the future.

   If the opportunity is to work in another function, this can increase cross-functional understanding. For example, if a sales person is to work at the operations department for several months, he will get to realize what is involved when the sales order turns into production planning, manufacturing and quality control, and then shipping to the customers to fulfill the order. This will broaden the perspective of the sales person and gain a more holistic understanding about how the end product reaches to the customer to close the sales. In the future, he will be more understanding about how all the different functional departments lead to the closure of a sales order.

Special project: Assigning an employee to undertake a special project within a specific timeline and set of deliverables and then make a formal reporting of the results to the senior management is also a very effective development activity. This has proven to be one of the best ways to sharpen business acumen. This can be a project that needs to be accomplished on his own or joining with a team. If this is a project requiring an employee to complete by himself, it will be testing his ability to analyze the issue, reach out to his network for resources to resolve the problem, and independently propose the appropriate recommendations. He has to organize and manage his time to complete the project on time.

If the employee is to handle a project with a team, this adds another element of complexity in terms of teamwork. Getting to know the team members (especially if they are not from the same department) and organizing the project tasks which can best utilize each member's experience and capability will require skills to manage the interpersonal dynamics to achieve the greatest results. If the team is not able to collaborate and communicate with each other well, the project can easily lead to failure. But this can turn out to be a valuable learning experience in terms of how to achieve a common goal through cohesive teamwork.

4. External occasions: Using external occasions is a way to increase a variety of experiences in the development activities. Someone can go to a site visit of a model factory to learn the best practices of manufacturing operation or be a speaker on a certain topic at an external professional meeting. This can develop an employee's public speaking skills to a larger group of external audience.
5. Stretched and challenging assignments: Experience has shown that putting an employee into a stretched and challenging assignment or project has proven to be one of the best ways of development. Under this kind of situation, the employee is forced to think and act differently. He will have to use new skills and behaviors to deal with difficult issues which may not be what he is facing everyday. Sometimes, he is put under pressure to try new methods to solve the challenging problem. This is a way to accelerate an employee's development experience. Some examples of stretched assignments and the related developmental experience that can be created:
   - Fix it or turnaround – Working under time pressure to deliver positive results from a negative environment (e.g., an unprofitable business), dealing with emotionally charged situations (e.g., employees going on strike), upgrading the organization capability and raising the expectation (e.g., the team's skills do not match with the new requirement because of business strategy change),

and working with potentially new team and quickly build up teamwork (e.g., low working morale).
- Start-up or acquisition – Learning new content quickly, taking risk and venturing into new area, building or integrating a different team, setting up new ways of working, and determining and communicating priorities.
- Increase in scope or scale in current job – Leveraging resources from various angles, building more networks and working relationships, managing a larger team in terms of size or geography, and learning new content quickly.
- Switch from line to staff or staff to line assignment – Learning the different perspectives that are critical in each type of role to be successful and having a broader understanding of the business strategy and goals and how decisions are made under different contexts.
- International assignment – Developing an understanding of and appreciation for others; adapting to differences in environment, cultures, and people; and expanding the thinking and decision making with a global mindset.

6. Attending training programs: In order to obtain maximum training benefits, the training program must be targeting at the specific skill that relates to the developmental objective. For example, if the development goal is to be better at influencing others, then learning negotiation skills will be a suitable program to meet this need.
   Training is the most effective if it is developing a particular skill set, such as giving feedback to others, managing a project, making a presentation, or managing time. Usually during the training programs, it offers a safe place to acquire and practice the new skills. One will feel more comfortable to try out even if making a mistake under such kind of environment.
   Other than group-based classroom training, there is also self-paced learning which is delivered via electronic media. This provides flexibility to individual to learn at his own pace at any time and place. And of course, reading books is also a kind of development activity.

Do’s of Development Discussions and Plans

Be prepared for the development discussion:

- As immediate supervisor, reserve enough time with the employee and schedule well in advance to allow for in-depth preparation before holding the discussion.
- As employee, prepare well for the discussion. Know what the development goals are and be prepared to ask how the immediate supervisor can support.

Immediate supervisor gives constructive feedback during the development discussion.

- Ask questions – Feedback is much more effective if the employee can see for himself what he needs to improve.

- Describe – Feedback is not the same as criticism; feedback should be neutral and not judgmental. Describe what is the case and let the employee draw his own conclusions, in particular negative messages (not “you are lazy” but “during the last weeks, I observed lesser output from you than before”).
- Focus on behavior – Feedback can soon turn personal; stick to commenting on what the employee does and not the kind of person he is.
- Be specific – The immediate supervisor should not just say he likes or does not like the employee’s work or behavior and should make it clear and specific; being descriptive will make it easier for the employee to make use of the feedback.
- Be constructive – Avoid negative messages if something is wrong, discuss constructive ways of making it better, and be clear about consequences; end the feedback on a positive note.
- Constant feedback – The immediate supervisor should not limit feedback to one yearly development discussion but can use “coachable moments” such as a joint car ride after a customer meeting for this.

Development actions in the plan should be SMART:

- **S**pecific
- **M**easurable
- **A**chievable
- **R**elevant
- **T**ime related – e.g., attend training on customer service by the end of August 2014 to close the gaps on service quality

Employee is in charge of his development.

- Employee should not expect the immediate supervisor or the company to take care of his development. He should take initiative and be proactive to reach out to his immediate supervisor for development discussion and furthermore to take ownership and accountability to implement the development plan. No pain; No gain!

Don’ts of Development Discussions and Plans

Immediate supervisor should mind the difference.

- Every supervisor needs to know that employees might have different career (and life) plans than he thinks they should have. Particularly, Generation Y employees have different outlook about managing their future. They are not automatically geared toward a career climbing the corporate ladder! The supervisor’s role is to provide guidance, advice, and insights about how to plan for their development.

Employee should not resist feedback given during the development discussion.

- Be open, not defensive – Employee should treat feedback as a useful opportunity to learn how his behavior has come over to the others, should not spend time on defending and justification, and should remember that "perception is reality"; he should decide on his own, as to which feedback is useful to change his behavior and which is not.
- Listen and clarify – Employee should not interrupt when his immediate supervisor is giving the feedback, should listen actively and make sure he fully understands what is being said before responding, and should ask questions to clarify, if necessary.
- Seek specific suggestions to improve – Employee should discuss with his immediate supervisor about what he might do differently to improve his performance; if he does make changes, then ask for feedback on the results.

Development plan should be focused on key development needs and actions.

- From the development discussion, the employee may become overwhelmed about his development needs. He may have an urge to work on many issues so that he can improve his performance. However, time, resources, and energy are always limited. If the employee tries to cover on many different development needs without a clear focus, he may find that he is spending a large amount of time and efforts but not really getting the desired outcome. Focusing on a maximum of three development needs and connecting with meaningful and relevant development actions will be more effective. And the employee will find this is a viable approach to get the best effect.

Final Comments and Outlook

Personal development is necessary if an employee intends to continue to improve performance and advance career. He needs to learn new skills and knowledge to ensure he stays abreast with the changes that are happening in the workplace.

Effective development is a journey which requires a structural process with the active involvement of the employee and the immediate supervisor. It starts with development discussion which is used to clarify and confirm development needs. Using this two-way open dialogue, the employee is able to identify what to focus on. Then the next step will be to transfer into an actionable plan with relevant development activities to be accomplished within a certain timeline and specific outcomes.

After the development plan is implemented, the employee must take time to reflect on the development experience. It is necessary to think about what has been learned and how to apply in the future. Reflection is the foundation for continuous development. Try to take time to reflect as often as possible. It can be done on a daily, weekly, or monthly basis. Even each time taking 10–30 min for reflection will be very rewarding. Ask the following questions when reflecting:

- What worked well and why?
- What did not work well and why?
- Any obstacles encountered and how they are being overcome? Will they continue to be the barriers?
- How are the current skills compared with what they were before the development actions?
- What kind of progress has been made?
- What skills should be continued to develop and sharpen so that they can become even more effective?

When self-reflection has been conducted, the employee can have another development discussion with the immediate supervisor again. The objective of this discussion will be for the employee to share with the supervisor what he has learned. He can use this opportunity to seek further coaching and guidance to make sure his development plan has accomplished the objectives.

The immediate supervisor can give feedback on what behavior changes he has observed from the employee. He can celebrate with the employee and give encouragement and reinforcement so that the new behavior will continue. However, if the development gap is still not completely closed, he can give advice to the employee on what can be done further.

This kind of mutual conversation is always helpful and can be a way to close the loop of the development process.

Development indeed requires constant hard work and time investment. But it is a worthwhile effort. Continuous development will ensure someone will not fall behind of the waves of changes ahead of him.

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Performance and Talent: Essentials of Talent Development Programs and Groups

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Abstract

In the last century, natural resources were the most valuable assets in a company; leading companies grew successful and prosperous by acquiring these resources worldwide. Although much labor was needed, it was for blue-collar and routine jobs. This began to change in the 1960s with the need for more creative work that required independent judgment and decision-making. Harvard research shows that in the 1960s, creative jobs accounted for only 16 % of all jobs. By 2013, more than half of the top 50 companies were talent based, including three of the four biggest, i.e., Apple, Microsoft, and Google. The working world has shifted from exploiting natural resources to making the best use of human capital (Harvard Business Review (Martin R, The rise (and likely fall) of the Talent Economy. p 3–4, 2014).

In these talent competitive times, companies are looking for the best performers, not only externally, but more importantly within their doors. Having identified these employees, it is then fundamental to have them enrolled in specific and targeted programs, as high potentials, to design tailor-made development actions in order to obtain higher performance from each of them. Obviously, they can develop important skills on their own, but what is more important is to understand how they can leverage better performance from each of them working in groups and teams.

High-quality training is extremely expensive, and in this cost-consciousness era, businesses are unwilling to outlay the amounts necessary; companies must therefore develop their own programs which include a mix of on-the-job training, stretch assignments, job rotation, and other development initiatives. Companies should also promote powerful tools like coaching and mentoring, business case readings, and, of course, online and in-house training programs, preferably their own platforms. Only a small percentage of the time should be dedicated to classical development and training, and these should be of high quality in prestigious business schools and institutions.

What motivates high-potential employees today is not only money but opportunities to grow, challenging assignments, fast track career development, status, recognition and reward (not just monetary), and lifestyle, among other things. That's why, even with fancy development plans, it is crucial to have challenges for these specific groups both during and, more importantly, after their training; if not, they will seek their own challenges and move on from the business. How, then, can companies ensure that their investment in these employees will be successful and that they will be able to retain their services today and into the future? This is one of the most challenging jobs for human resources directors today.

Keywords

Talent • Development • Retention • Teams • Leadership • Performance • Program

Introduction and Overview: What is Performance and Talent?

Performance and talent are deeply connected, not only in a professional way, but also in a personal way. Each person is *numero uno,* so each person is more than just the sum of their parts. This means that companies have the responsibility to identify the high performers and high potentials of each group and enlist them in elite groups of high potentials/performers. Several international companies already do this very successfully. Of course, it is crucial to have the commitment of these high-potential employees; otherwise, the success of the program will be jeopardized.

There are probably hundreds of books on development and high potential; however, in this chapter they will seek to answer some common questions, against the backdrop of having experience in the field in an emerging and developing region, sub-Saharan Africa, where there is a serious lack of talented and skilled human resources capable of meeting the challenges that companies are facing.

In order to attract and retain better performers in such dynamic and aggressive markets, companies need to have robust talent development programs, for individuals and groups, programs that allow them to develop the required skills and abilities to contribute effectively to business requirements while meeting their own career needs and aspirations. They will find such questions and answers in this chapter, in different perspectives, but not by giving academic or theoretical solutions but a practical sharing of what is done in countries such as Angola, Nigeria, South Africa, Kenya, and others in the international corporate arena.

The four perspectives below will give us a full and deep understanding of how they can deal with this topic and also some dos and don'ts on this important matter.

It is important to begin with the following two definitions:

- **Talent management**: The systematic attraction, identification, development, engagement, retention, and deployment of those individuals who are of particular value to an organization, either in view of their "high potential" for the future or because they are fulfilling business/operation-critical roles (CIPD 2015).
- **Performance management**: Performance management is an ongoing process of communication between a supervisor and an employee that occurs throughout the year, in support of accomplishing the strategic objectives of the organization. The communication process includes clarifying expectations, setting objectives, identifying goals, providing feedback, and reviewing results. In the talent management context, it involves two major areas of measurement: **performance and potential**. Talent management seeks to identify high performers in their current roles and, more importantly, to focus on employees' *potential,* i.e., their expected future performance given the correct development of their skills and abilities.

People Perspective

Today, talented employees want a fast-tracked career which puts them in management positions as quickly as possible; the baby boomer mentality of starting from the bottom and slowly climbing the corporate ladder is a thing of the past. In terms of the current generation of employees, if they believe they are not receiving what they need, they are quick to move on to other companies and roles, at ever higher salaries, benefits, and responsibilities, and in the competitive labor market that exists today, companies are only too willing to snap up good talent.

It is therefore important that formal talent development programs, as mentioned above, should be offered in organizations with clearly defined and transparent criteria on how employees can be nominated and/or enrolled on these programs.

It is also advantageous when there are a variety of programs catering to both functions and levels in an organization, e.g., a finance stream and a general management stream; middle management, senior management, and executive programs; and programs at global, regional, and business unit levels; these should be tailored to the employee population they are intended for.

Research and experience has shown that one of the most powerful tools for the success of these interventions is management commitment and engagement in the process; they should be able to see and feel the commitment of their managers and organization to the process; talent development should not be just a human resources initiative. Management at all levels should be able to coach their staff that are on the programs as well as being willing to mentor cross-functionally. Experience has shown that mentors should not be the person's direct manager and ideally should be senior to the mentee in order to help them grow to the next level.

In Africa, as in the rest of world, companies are suffering from a serious lack of talent. On one hand Africa has enormous potential for economic growth, with annual growth of more than 6 % compared to any other region. The continent's collective GDP forecast is at 2.6 trillion USD by 2020. It is well known that Africa is blessed with abundant natural resources and is seeing tremendous investment in oil and gas, mining and agriculture, and aid and relief, to name a few. However, this rapid growth, combined with historic underinvestment in human capital, is creating a serious shortage of talent – this, in itself, could hold the continent back from achieving its full potential and frustrate the expansion plans of many African and international companies. Investment in education and training is absolutely critical to increase the talent in this region, as mentioned in the beginning of the chapter; as important as natural resources are, at this point in time, it is talent that can provide key competitive advantages to companies.

The first step is to measure the talent gap in the company, which will entail looking at the challenge from both the talent demand and talent supply perspectives. However, this is a dynamic process, linked to the company's strategy, so the demand and number of talent needed can change from time to time. Companies should look at their short-, medium-, and long-term strategies in order to properly forecast labor needs. The next step is to analyze the current employee population and performance, identify their high performers and high potentials, and devise appropriate succession plans, development activities and programs, and recruitment strategies to meet the forecasted needs. This all needs to be backed by a good retention strategy; it would be a waste of time and resources to develop employees only to have them leave and join the competition.

With the shortage of talent in Africa, it is common to overload higher performers with many varied and challenging tasks and projects, including tasks that are not in their job descriptions or in line with what they were trained for. While a certain amount of challenge is important for this group, companies need to be careful not to demotivate and burn them out. This group of employees would typically be those who do not want to look bad and underperform and would therefore do whatever they need to in order to meet the demands placed on them, often to the detriment of themselves and ultimately the company, as, in the longer term, they may choose to take their services elsewhere; invariably, this is a very marketable group of people.

Another step to ensure the talent has an impact is to identify business critical positions. Many companies systematically review their business critical roles, asking internally how much impact certain positions have on profitable growth, customer relationship, and development of top talent. Then they look at the difference top talent can have on these outcomes compared with other employees and allocate these critical roles to them. However, it is fundamental to establish a proper performance management system to identify the top talent of the company. Having done this, it will be possible to prioritize mission critical positions, determine where the top talent resides, and redeploy talent from across the company into these critical positions. Experience shows that deploying top talent into business critical roles leads to an immediate improvement in individual performance and motivation and, in the longer term, company performance and success.

Also very important is to make the line managers accountable for talent management and to track their progress in this task by including it as one of their yearly key performance areas. Two of the most important building blocks which line managers need to be able to do effectively are to be able to hold meaningful career discussions and create relevant individual development plans; although this should be done with all employees, its importance in the context of high performers and potentials cannot be emphasized enough. It is important that line managers be trained to perform this task well.

Also fundamental to the process is to put in place a people scorecard that tracks talent management at the line level. This scorecard should cover a wide range of indicators, including the size and urgency of the talent gap by critical area, percentage of reviews completed on time and to quality standards, and identities of talent creators versus destroyers. They also look at bench depth for mission critical roles, employee satisfaction, mission critical roles filled by top talent, win rates for must-have recruits, and retention rates for top and mainstream talent.

In this time of cost-cutting measures and the need to constantly create greater shareholder value, the training budget is one of the first things to get reduced or cut altogether. This requires that companies become creative in how they develop their people. The below Pyramid of Development in Fig. 1 has become the norm of how companies now design their development programs.

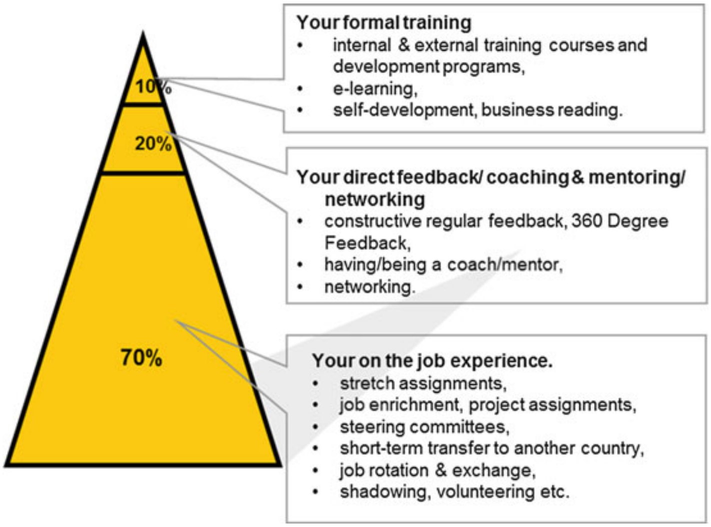

Fig. 1 Pyramid of Development

It is crucial therefore to expand the importance of on-the-job experience, stretch assignments, job enlargement and enrichment, cross-functional training, project assignments, short-term job exchanges with other countries in key functions, job rotation, shadowing, and volunteering. These are some of the options that leading companies use to develop their talent, and if they assign this development in the 70 % job experience category, they could say that the biggest part of the investment is in house.

Obviously, the above is not in and of itself enough, so the next part of talent development is a more personalized and tailor-made approach, using tools like coaching (internal or external) and mentoring, providing regular feedback and the use of 360 assessments. This can give to the companies a full view of the state of talent in the company. With this approach, the company can tailor the deployment of its talent to the company needs. This forms the middle 20 % of the Pyramid of Development.

Finally, the remaining 10 % is dedicated to classic training, e-learning, and promotion of business reading. With this last level of development, the high performers now have the possibility to achieve a high level of development and readiness to assume leadership roles and be accountable for business units or functional departments. While e-learning and business reading are available to all employees with the interest and inclination, and can easily form part of the individual development plans, classic training programs are far more expensive and exclusive with only a small percentage of the employee population being allowed to take part in them. These are coveted programs and it is quite a coup when one is selected to attend. It thus becomes important that line managers, together with HR, have clear and measurable criteria for choosing attendees; there is often a nomination process

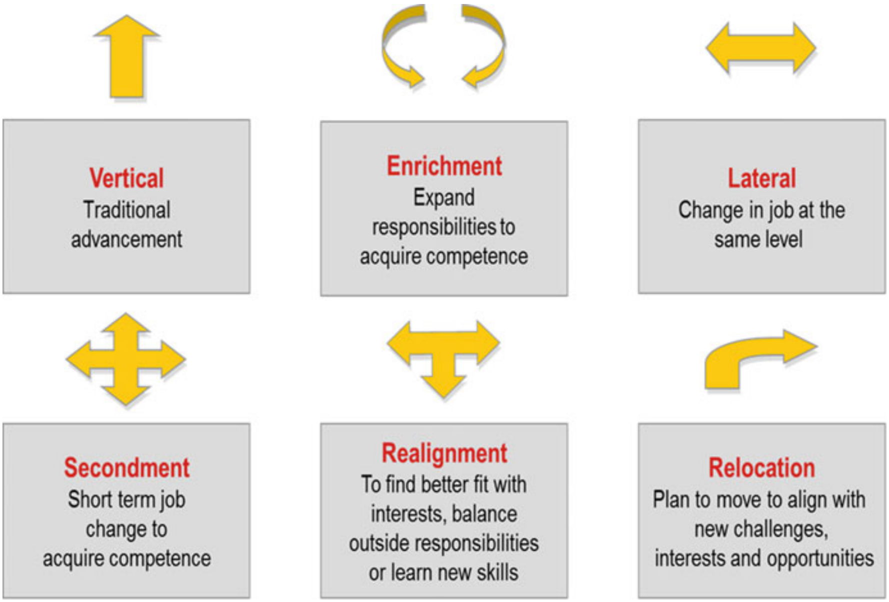

Fig. 2 Career development plan

followed by an approval process involving different levels of authority before a person can be selected. Because of the expense involved, companies must be sure that they select the very best to attend, those who will immediately apply their learning and thus show a reasonable return on investment.

Talented employees are concerned not only with money but also with their career and what they can achieve in the company. Depending on the status and how ready they are, as per above Fig. 2, companies can promote a vertical move, as a traditional advancement, to assume a higher role, an enrichment in order to expand responsibilities to acquire new competencies, lateral move, changing the job in the same level of responsibility, a secondment, as a short-term job change to acquire new competencies, a realignment to find a better fit with interests, balance outside responsibilities or learn new skills, and finally, relocation, as a plan to move to align with new challenges, interests and opportunities.

Economic Perspective

The connection between human resources development and organizational effectiveness has been established since the 1970s. McKinsey & Company published their seminal research "War for Talent" in 1997; essentially, it refers to the increasing demand for talent but with a decreasing supply. Employees are seen as key competitive resources, and as such, attracting and retaining talented individuals is crucial to a company's success. Although published 18 years ago and referring more to Europe and the United States, it is relevant today still and particularly in Africa where there is a real dearth of talented employees. Harvard research states that this shortage of talent is expected to go on for the next two decades.

By way of example, in Britain, after the war, when it became apparent that there was a significant lack of skills and abilities in the country, it sought to encourage the immigration of foreign workers into the country to bolster its workforce, transfer skills, and improve its economy. In Africa, however, despite there being a clear lack of talented skills and resources, foreign workers and expatriations are not encouraged; in fact, they are actively discouraged by the various governments, leaving the countries floundering economically. Multinational corporations are hamstrung in their ability to move their people around Africa; not only does this decrease development opportunities for employees but also leads to less than optimal performance for companies.

For this reason, expatriations should be used sparingly and strategically with one of the main outputs of the role being to develop local talent and transfer skills to a suitable local successor, within a finite time period.

Bain & Company (2013) surveyed almost 1000 companies across the world and found that less than one third were happy with their ability to attract, develop, and deploy talent into suitable positions. The talent shortage in Africa is even worse: education levels are low and even those who graduate from tertiary education do not always have the necessary skills for the working world. When companies do manage to find and hire the correct talent, these individuals are so sought-after that they leave, the company, the continent, or both, very quickly. Reversing the talent shortage is a long-term and difficult challenge, but if companies use talent development and retention as a key differentiator, maybe they can attract even more talent and so do better than their competitors.

Developing own talent has a huge economic benefit for companies. International companies that invest in Africa must have as one of their priorities the development of local talent in any particular country that they find themselves in, mainly due to very important economic reasons: the huge cost of having an expatriate in a role and also the retention of their best people.

Now, in 2015, one expatriate in Africa can easily cost around 300,000.00 USD per year, if they consider the base salary, plus bonus, housing allowance, travel allowance, health and life insurance, pension plan, flights home, and up to 45 leave days per annum in some hardship countries. In the same role if the company had a local employee, the cost can be half that at around 150,000.00 USD per year coupled with less annual leave days. Thus, there is a significant difference between expatriate and local costs of employment.

It is common to have around 15–20 % of expatriates in companies in Africa. Considering a company with 300 employees, usually at least 45 are expatriates. Considering the example above, 45 employees times 150,000.00 USD, it achieves the meaningful amount of 6,750,000.00 USD per year difference between having local talent or expatriates.

While it is healthy to have some foreigners in the company, especially international companies, in terms of company cultural experience or due to the lack of talent in the country, these should be managed closely and strategically and together with a good talent development program used to transfer skills to locals and achieve medium- to long-term savings from the employment of locals in the country.

It is also important from a corporate responsibility point of view for companies to be involved in developing local talent in the countries they are investing in. It is a fact that companies in Africa can achieve higher revenues in their businesses, as gross margins are higher than in developed countries, so with this higher income, they should be investing in schools and universities, promoting scholarships for the employees' children and also promoting the development of their labor force. This can be used both as a retention tool for current employees and as attraction tool for new talented employees.

Think about the basic math of turnover even at mid-level positions. The US Department of Labor estimates the total cost to replace an employee is 1/3 their annual salary. According to the US Bureau of Labor Statistics, total separations in February 2015 were 3 %. This annualizes to 36 %. If this national average and having a small employee base of 25 (an arbitrary number) with an average annual salary of 45,000.00 USD are to be followed, it is a possibility to replace nine employees per year at a total cost of 135,000 USD. Generally, the replacements for separated employees come in at higher salaries, and in the case of high performers, the cost to replace with someone of the same caliber can be even higher; it therefore makes more sense to develop and retain employees, especially the talented and marketable employees, than to be regularly replacing staff.

Risk Perspective

Leadership Commitment and Retention

Talent development should be a leadership priority in organizations; however, although its importance is acknowledged, few leaders actually make the time to coach and develop their teams at the level required, believing that talent management is an HR function.

Research has shown that as leaders move up in the organization, their ability and willingness to develop others decrease (Forbes 2011). This is unfortunate, as talent management is less about slick HR initiatives than about an organization mind-set and commitment.

HR has seen many development programs fail because of a lack of leadership support both in mentoring participants and in providing required assignments, projects, and roles needed for skills and career development in participants. Now, more than ever, when organizations' focus is control and efficiency and expensive training opportunities are scarce, management and leadership involvement is crucial.

A problem with many companies today is that they put tremendous effort into attracting talented and capable employees but spend little time in retaining and developing this talent. A talent management system and process must be worked into the business strategy and implemented in daily processes throughout the company as a whole. It cannot be left solely to the human resources department to attract, develop, and retain employees but rather must be practiced at all levels of the organization. The business strategy must include responsibilities and measurements for line managers to develop the skills of their immediate subordinates. Divisions within the company should be openly sharing information with other departments in order for employees to gain knowledge of the overall organizational objectives.

That's why it is so important to establish a plan to avoid risks with talent management. Hay Group (2006) gives us ten reasons:

1. More opportunities for high potentials
2. A road map for employee development
3. More talent ready sooner
4. More support for diverse workforce
5. Better morale
6. Lower turnover
7. Lower stress
8. Job content tied to business plan
9. Smoother disaster recovery
10. More focus on vision and direction

They also give us ten steps and questions:

1. Get management commitment.
   - What are the current problems (turnover, Absenteeism, etc.)?
   - How do they currently address them?
   - What do other companies do?
   - How could they fix problems?
   - Who will be involved?
   - How often will they meet?
   - What policies will they put in place?
2. Review company business plan.
   - Identify company direction.
   - Tie talent needs to company direction.
   - Look at current and future needs.
3. Establish a systematic program.
   - Clarify roles.
   - Prepare policies and procedures.
   - Set up a record-keeping system.
   - Identify target groups.

- Conduct a legal review of program.
- Address communications strategies.

4. Identify covered positions.
   - What levels will the plan cover?
   - Will there be more than one talent pool?
   - How many backups it will be needed to account for:
     – Turnover
     – Poor performance
     – Poor matches
5. Develop talent needs.
   - Analyze jobs and tasks.
   - Review or prepare position descriptions.
   - Develop competency list.
   - Identify work values for position.
   - Look at current and future needs.
6. Profile employees.
   - Look at performance record.
   - Consider:
     – Level of performance
     – Breadth of expertise
     – Learning agility
     – Skills acquisition
7. Match employees to needs.
   - High potentials
   - Steadies
   - Iffies
   - Nots
8. Identify gaps/potentials.
   - For those ready now:
     – What will be done?
   - For those not ready now:
     – Can they be developed?
     – Should they be developed?
     – How can they be developed?
     – How long would it take?
   - For those never ready:
     – What will happen to them?
9. Set development goals.
   - Establish likely activities.
   - Set time frame.
   - Determine resource needs.
   - Set measurements.
   - Agree on action.

10. Implement development program
    - Clarify manager's role.
    - Establish mentoring program.
    - Assign a "career coach".
    - Considerations in agreeing on number of actions to take.

    "Bonus" step: measure progress and adjust
    - Set schedule for feedback.
    - Periodically review progress.
    - Mental agility.
    - Adjust activities as needed – add or take away based on progress.

One of the other risks associated with talent development is retention; it is hugely disappointing and expensive when the company invests time and money in their people only to have them poached by other organizations. The huge investment made in developing talent in a company needs to be well protected. If on one hand companies need to work in a positive way regarding all that is mentioned above, it is evident then that companies need to protect this investment with a "development contract." This kind of contract needs to be signed before any development action is undertaken by the company and the employee.

The duration of the contract will depend on the nature and cost of the investment in the person, and if for any reason the employee leaves the company within a specific time period, the company must be compensated in the established pro rata amount in the contract.

Not all retention activities need to be punitive; below are more positive ways a company can create stickiness in their staff and can craft interesting retention schemes by using some combination of the examples below (Mondaq 2011):

- Use total employee compensation components' (salary, benefits, bonuses, training, etc.) flexibly to suit employees' needs, not just simply a one-size-fits-all approach.
- Design recognition and reward systems to stimulate employee involvement.
- Use flexible employee benefits to respond to a changing workforce.
- Offer stock options, not just to executive staff but also to those who are important to retain.
- Offer time off, sabbaticals, and other forms of nonfinancial employee compensation.
- Provide childcare and/or eldercare.
- Provide employee assistance programs.
- Form strategic alliances with other companies in order to provide discounts on various purchases.
- Arrange for professional services.
- Fund fitness and other club memberships.
- Fund professional memberships.

- Make the workplace a fun and happy place to be and, most importantly, engender trust in the employees.

Employees will find it very hard to leave a company that provides this kind of value proposition.

Operational Perspective

Talent management does not end at attracting and identifying high-potential employees and then putting them on a development program. Managing and retaining those individuals as part of a planned strategy for talent is equally important,

Talent management implies that companies are strategic and deliberate in how they source, attract, select, train, develop, retain, promote, and move employees through the organization.

Research done on the value of talent management consistently shows benefits in many critical economic areas: revenue, customer satisfaction, quality, productivity, cost, cycle time, and market capitalization. The mind-set of this more personal human resources approach seeks not only to hire the most qualified and valuable employees but also to put a strong emphasis on *retention*.

Organizations are focused on different elements – driven by their maturity and the urgent business problems they face today. While a few mature organizations have dealt with processes, most organizations focus on several of the key elements and build an integrated approach over time.

Additionally, talent management is a "forward-looking" function (Bersin 2006). Not only should talent management improve the organization's flexibility and performance; it should provide the information and tools to plan for growth, change, acquisitions, and critical new product and service initiatives.

A few critical issues that have been identified in research:

1. Talent management requires integration and communication between existing human resources (HR)-learning and development (L&D) functions.
   Training can no longer be "left on an island." The L&D organization must align much more closely with the performance management and recruitment process. Training programs should be developed and updated to continuously address problems which surface in the performance management process. New hires that are hired because of certain competencies should see a set of training offerings which complement and reinforce these competencies. The compensation program should naturally tie in to the performance management process.
2. Competency management, a misunderstood and difficult part of training and HR, has become critical.
   The job descriptions, roles, and competencies used for performance management are shared by L&D, recruiting, and succession planning. There are many

techniques for effective use of competencies; a simple best practice is for the company to have a small set of consistent, easy-to-understand competencies which can be applied across the organization.

3. Software solutions are maturing.
   Despite vendor claims, there is no complete "talent management" software solution yet. Vendors each offer different elements of this solution. To solve urgent problems, most companies today buy stand-alone systems: stand-alone learning management systems, stand-alone performance management systems, stand-alone recruiting, and stand-alone compensation systems. As the market matures and companies press harder for integration, vendors will create more integrated solutions.

   Even if an integrated toolset is found which manages multiple talent processes, the biggest challenges in implementation are integrating the business' own processes.

What Does This Mean to Any Organization?

Talent management is a powerful and important trend across HR and L&D. It changes the way a company is organized, how they use technology, how their resources are allocated, and how they measure what they do. If it is considered, as an example, a training manager, director, or CFO, talent management will impact the future role. In this example, some learning programmes may have to be integrated with the company's performance management initiatives. Many organizations have a new job: The VP of talent management. This role typically includes learning and development, performance and competency management, and succession planning functions. This integrated "HRD" function is an important evolution in the way HR organizations will be run in the future.

What Does This Mean for the Company's HRIT Strategy?

Talent management will also impact the company's systems strategy: for example, should the company have a stand-alone learning management system (LMS), or should the LMS be integrated with the company's performance management systems? What systems integration are the most important? How should competency models be used to tie learning to performance management? What "suite" of products is mature enough for the particular organization's needs?

The role of HRIT has also become much more complex. It is no longer possible to focus on HRIS systems alone – HRIT must understand learning technology, competency management technology, portal technology, and the integration of these different applications. In many organizations LMS systems, for example, are not managed by HRIT. Over time the role of HRIT will be more strategic than ever.

Different Types of Programs

Next it is important to look at various types of talent management programs and discuss a few that have been successful in different companies.

As mentioned before, there should be a variety of programs because one size does not fit all. Many companies have the following types of programs and elements to their talent development strategy:

- An entry-level graduate development program, typically recruiting high-performing graduates from university and putting them on an accelerated development program, lasting between 1 and 2 years, and then deploying them into suitable roles in the company.
  - Some companies do this program functionally, e.g., a marketing graduate development program. Actuarial programs are popular in financial services companies. Finance, particularly, often has its own stream.
  - A mentor is assigned from the beginning, and the program includes on-the-job training and shadowing, online training, projects, and formal classroom training.

  From experience, these programs only work if there is line management buy-in and commitment to the program. When embarking on this route, it is recommended that significant change management be done beforehand to ensure the success of the program. It is also important to form strategic alliances with tertiary institutions in order to obtain their best students.
- Middle and senior management development programs: these would typically include:
  - General management and leadership training and principles.
  - Company-specific training programmes: many companies have their own methodologies for various initiatives and managers must be well-versed in these, some examples of what they can be: the company's approach to coaching and its particular coaching methodology; the company's change management philosophy and approach, the particular personality and psychological assessments used, often participants would undergo assessment before the program and then discuss it on the training, the company's leadership model and philosophy.
  - A mentor is assigned for the full duration of the formal part of the program and beyond.
  - Normally, the program would include a business challenge to be worked on and then presented to a panel at the end of the program in order to obtain business experience and for accreditation purposes.
  - Many programs also include 6–12 months of post-training coaching to ensure absorption and application of the material studied.
- An executive management program targeted at current executives and those who are earmarked as successors to these roles. Very similar to the above MDP but of a higher level.

- Women in leadership programs are popular because of the low numbers of women in executive roles- two specific programs below will be discussed in more detail later in the chapter.
- Exchange programs: within the business unit (job rotation type), regionally and internationally.
- Company-tailored, postgraduate-level training programs at recognized business schools; again, these can be functional or general management targeted. Criteria are understandably strict so that only the cream of the crop is selected.
- Scholarships for MBAs and executive MBAs; as above, the criteria for these are generally very strict, and only recognized high performers and potentials are given this opportunity.

When operational perspective is mentioned, it is a must to talk about implementation of talent development programs that can make the difference.

In Africa, more than other regions, the opportunities for women to reach executive levels are not high. In most of the countries, it is still a man's world. However, companies have the obligation to change this and open more doors for women.

Below are two examples of women in leadership programs, one successfully running in an international company and one that is currently in development; the latter program is presented in order to detail the processes and milestones that are faced when developing a talent program.

The Top Women Programme is an established international programme at a leading multinational company.

The objective of the program is to discover talented women early on and systematically support them and create the necessary conditions for their further personal and professional growth. The company believes that boosting the number of women in management positions is key to the success of the business.

Framework

As per above Fig. 3, participants are selected from various regions and countries. The program has the following elements:

- Two workshops held at the company's head office in Europe, one at the beginning and another 6 months later.
- A mentor from senior management, allocated at the start of the program.
- A local project which supports women in the country where they work. Can be done individually or in groups.
- The program is supported by regular online meetings, e-learning, direct manager, mentor, and HR support.

The women have the advantages of senior management exposure and networking opportunities coupled with direct coaching and mentoring. The idea is to get them ready for senior management roles.

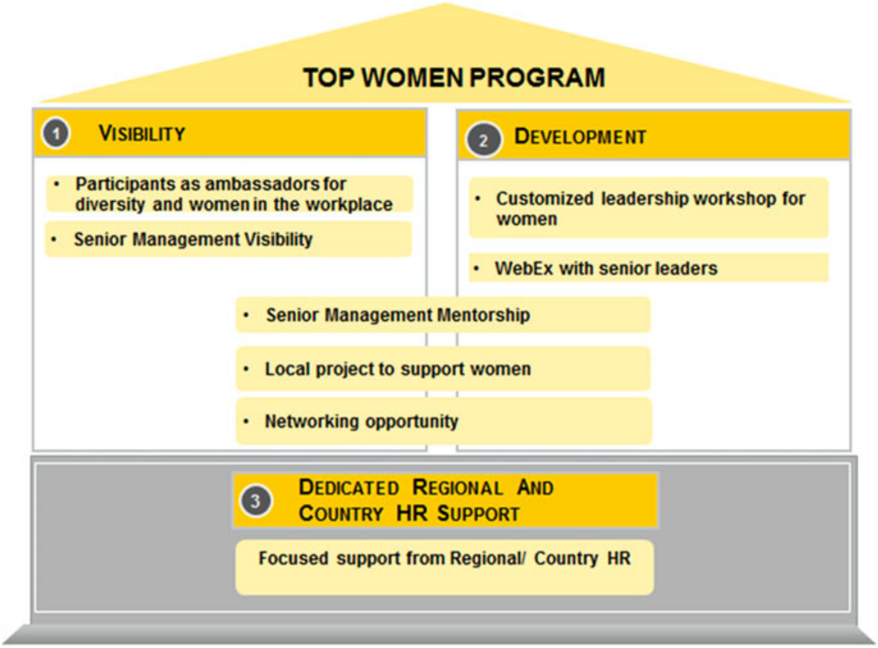

Fig. 3 Top women program

Each of the roles' players has different responsibilities, as detailed below, and these are interchangeable with any talent program:

The Top Women participants:

- Proactively drive and take ownership of their development.
- Maximize the opportunity to grow and develop their learning, leadership skills and business, and finance and strategic knowledge.
- Prepare and actively participate in the workshops and webinars.
- Work on local projects and proactively drive them.
- Look for opportunities outside of the core program to identify relevant learning and development opportunities.
- Actively apply in the workplace.
- Reach out to mentors and actively drive mentoring relationship.

The direct line managers:

- Support and allow the participants to take the time needed to engage in the program.
- Give participants the opportunity to apply what they are learning from the program.
- Encourage participants to extend their network and make good use of the mentors.

- Support participants on their development and action plans and encourage them to take personal ownership of their development objectives.
- Meet with them regularly to review their learning from the workshop and webinars and regularly review or challenge their individual development plans.

The mentor

- Support the participant with their career development.
- Discuss challenges on the career journey and provide advice on overcoming challenges and maximizing influence and impact.
- Assist in developing the candidate's network and increasing their visibility through facilitating connections where appropriate.
- Keep the content of the mentoring topics confidential.

Human resources

- Support throughout the whole program (overall coordination, advice on specific topics and questions).
- Match participant with career mentor.
- Support with local projects.
- Consult on learning and development topics.

The program has been running for a number of years and has shown good success, with the participants having the support of both local and global human resources and because they are visible and on the radar and are therefore consulted as and when international opportunities arise.

A spin-off of this and any well-run high-potential program is that the participants feel valued and important and their commitment to the company is that much higher and allows for better retention in this group of people. The visibility they receive at the higher levels of the organization is also advantageous to both the company and the individual themselves.

Women for the Top

Other project related to women, but in a different perspective from the other one, is the "Women for the Top." The project idea is for the implementation of an exchange program for the company's women. This program aims to widen experience, cross-country knowledge, and best practice sharing. On a dedicated platform for this purpose (e.g., a page on intrasocial network), women will have the opportunity to propose local projects that they will auction to exchange positions with other women within the same function and/or at the same position for a maximum length of 3 months:

- Project relevance:
  - Widens experience within company's countries.

  - Widens cross-country knowledge and best practices sharing.
- Project objectives:
  - Help company's women to share their experience.
  - Give company's women the opportunity to learn from their peers in other countries.
  - Address the lack of mobility of women within the company
- Project scope:
  - Company's region women.
  - All the countries in Africa where the company is located.
- Milestones:
  - Elaborate a questionnaire and check the opportunity for this kind of project.
  - Propose a project based on the questionnaire results.
- Request for help/support:
  - HR for database of company's women with good performance evaluation
  - Country managers to promote the women in their organization
- Project limits (out of scope):
  - Other regions than Africa.

Management Traineeship Program

Another program important to share is called the "management traineeship program"; it is a partnership with an international student organization and the company, and its pilot program had 18 trainees from different African countries.

This program concept, the management traineeship program, is designed to nurture this new generation of young leaders within the company in Africa, by exposing them to a practical and challenging learning environment in core areas of the company such as operations, sales, customer service, etc.

The program is divided into three phases lasting 3–4 years, with the trainees taking on management roles after successful completion of all phases.

The program is sponsored by the company's HR in Africa and has the full support of the CEO, who has proved to be a very useful strategic partner for the program; it is good to advise that any development initiative has a senior business sponsor, not just HR; this lends credibility and importance to the initiative.

Program phases and description are:

- **Phase 1**: 12–18 months – goal: understand the industry.
  Internship, during which the graduate will:
  - Work closely with and support the senior management on aspects of daily business.
  - Contribute significantly to a strategic project(s).
  - Upon successful completion, the intern will be hired by the company on a fixed-term contract and advance to Phase 2.
- **Phase 2**: 9–12 months – goal: learn about leadership and day-to-day business.
  Assignment in the same or different African country as:

  - Team leader either in **operations or customer service**.
  - The trainee will gain deeper knowledge of the operational aspects of the business and get hands-on leadership and managerial experience overseeing the day-to-day operations of a functional or product team.
- **Phase 3**: 9–12 months – goal: know how to sell company's value proposition to customers.

  The trainee will advance to the **sales** department in order to:
  - Sell and gain an in-depth knowledge of the company's product offerings, services, and solutions, while developing a professional network within the industry.
  - Upon successful completion of this last phase, the trainee will (most likely) take on a full-time role within an African country senior management team.
- Notes: Phases 2 and 3 can be swapped and happen in a different order. The intern will have continuous training and coaching.

This program is still running in the respective company, and it has proved to be a wonderful source of talent injection into the business.

Management Development Program

Last example given of a potential development program that can really boost the talent of the companies over the world.

Following the examples above, the intention is to give a full perspective on the implementation of a program like this.

1. Understand the requirements of the company:
   (a) The senior management team has high performance expectations from the country offices in Africa. The principal aim of this management development program (MDP) for the country managers and their direct reports in all African countries is to enable them to meet and substantially improve on the expectations below:
      (i) Sales and customer service
      (ii) Overall country management and results
      (iii) Employee performance and satisfaction levels
      (iv) Leadership skills
   (b) In addition to individual country performance, there is a need to build collaboration between country operations and have a common understanding of vision and values across Africa.
   (c) The training needs to be relevant to the actual work situation of the participants, practical and easy to apply in the workplace, and incorporate established company's methodologies.
2. Proposed methodology to meet company's requirements.

(a) A preparation phase – delivered remotely – to prepare participants for the workshop, including clarification of individual training needs and questionnaires to identify learning and communication preferences.
(b) Two 3-day face-to-face workshops delivered to participants at the company's regional head office. The content of these workshops is a mix of company-specific processes and general leadership skills. Multiple country teams participate in the workshops. This promotes cross-Africa collaboration and the exchange of good practices between countries. It is important to ensure optimum participant numbers in order to make this part of the program cost effective to run.
Each workshop is delivered by two persons of a training company. In addition, any employee of the company can be involved in order to be prepared to be an internal trainer.
(c) A relevant cross-functional, practical, cross-country business challenge project for participants to complete between the workshops – on, for example, building sales or improving asset management or developing higher standards of customer service.
The outcome of this inter-workshop project is presented to senior management at the start of the second workshop.
(d) Postworkshop review and support of the participants possibly involving coaching – ensuring application of learning in the workplace and achievement of learning objectives.

3. Management development program learning outcomes.
The focus of this blended learning approach is to build the skills of the participants in two critical areas:
   - Sales skills (influence and persuasion): to enable them to effectively lead/ persuade customers, employees, and colleagues.
   - Leadership and performance management skills (control systems): to ensure sustainable, predictable, high performance and results.
   By the end of the MDP, participants should be able to:
   - Understand the needs and expectations of their stakeholders (customers, managers, colleagues, staff) and communicate meaningfully with them.
   - Genuinely understand how people work in African environment and recognize, value, motivate, and inspire the diverse abilities of others.
   - Analyze work situations correctly and use the correct leadership model and style for the circumstance (e.g., directing, persuading, coaching, delegating, motivating and/or giving feedback, etc.) to achieve excellent results, respect, and trust.
   - Think strategically, and see their position within the bigger picture of company's operations and Africa, and take better decisions accordingly.
   - Cope with change and lead others through change while maintaining their resilience.
   - Handle conflict in a way that recognizes it as an opportunity for positive change.
   - Set clear personal growth goals and nurture their own personal well-being and professional development.

The examples above can be adopted and adapted to any company. The formula of the success, however, is not how it is planned but how it is executed. If a change management plan is needed to start this process, then the companies need to understand the advantages of having their talents being developed.

Operational Perspective: Performance Management

It is not possible to end this chapter without sharing best practices in terms of good performance management systems, given that performance management underpins so many aspects of the HR process.

Performance management is the evaluation of the output of employees to expected business and individual goals and targets. Overseeing performance and providing feedback should not be an isolated event, focused on an annual or biannual performance review. It should be an ongoing process that takes place throughout the year. The performance management process is a cycle, with discussions varying from year to year based on changing objectives. The cycle includes planning, checking in, and review.

Typically, the performance management process of most mature organizations contains some or all of the following components:

- Setting of targets/goals/key performance indicators (KPIs)
- Formalized regular reviews of:
  - Target KPI achievement or progress toward achievement
  - Behavioral/competencies/values review
- Calibration/forced ranking in line with the bell curve
- Is tied to remuneration in some way
- Career aspirations discussion and the development of an individual development plan (IDP)

Target/KPI setting

The process starts at the target-/goal-setting stage; in most companies these goals are cascaded from senior management down through the hierarchy, each level engaging in a negotiating process with their managers on the targets/goals to be achieved during the year. These KPIs/targets are customized according to the level and function of the employees but always linked to the direct managers. These are also weighted in order of importance. It is standard in companies to try and ensure that these are SMART, i.e., specific, measureable, achievable, relevant, and time bound.

Regular Assessment of Performance and Behavior

These are formal performance reviews that are completed at regular intervals, usually biannually; discussion centers on the achievement of targets and an assessment values and behavior in the preceding months, often 360* assessments, are used. The review should also include a discussion on the employee's career aspirations and progress on their IDP

This process is tracked by HR with and must be completed within nonnegotiable timelines. This can make performance management just another task of the company, whereas it should be an important process between manager and employee. It is advised therefore that there be more regular one-on-one sessions between manager and employee with the focus of these meetings being on coaching performance rather than the formalized review process followed in the mandated meetings.

Calibration and Forced Ranking

In the last decade it has become common for there to be a calibration process in companies because of the tendency of line managers to give overly favorable assessment ratings, either because the assessment is tied to remuneration or because the manager is unable to have difficult or challenging discussions with team members. The calibration process would involve all managers of a certain level of staff meeting to discuss and standardize the ratings given to each staff member, the chairperson being their manager (the grandfather principle). Each manager gets a turn to discuss their people and the ratings are debated, managers are allowed to give input on each other's staff members. In the case of disagreement the chairperson has the final say. The goal of this is one, to ensure that there is consistency across the board in the way staff are measured, and two, to ensure that ratings fall into the normal distribution (bell) curve.

Research, however, shows that the forced ranking process undermines the culture of trust and collaboration that should prevail in a company; employees question why other managers should have input into their performance and often lose faith in the process. Many companies are abandoning forced ranking completely, while others are asking that managers be mindful of the normal distribution curve when allocating ratings. Yet others are using versions of the calibration process for talent identification and succession planning.

One of the benefits of some kind of calibration/panel discussion process is that it forces managers to take the process seriously and to adequately apply their minds because they will have to present to and be challenged by their peers. The other benefit of the calibration process is that managers become aware of other employees in the business, and succession plans and pipelines become easier to devise and implement: it breaks down the team silos and opens up the business.

Remuneration and Performance Management

In the majority of companies, the performance management system is tied to remuneration in terms of annual increment, or discretionary bonus, or both. A below-standard achievement generally attracts no increment/bonus, standard/fully meets achievement attracts 100 %, and above-standard achievement receives above the norm rewards. The key to making this link meaningful is to have the remuneration timing as close as possible to the final target achievement review process.

Certain schools of thought believe that performance management systems should not be tied to remuneration but rather focus purely on behavior and performance. It is believed that managers give overly favorable assessments because they do not want their employees to be penalized monetarily; this then detracts from the process as staff are not aware of how they are actually performing and will take the necessary steps to improve and be better. The organization also has a compromised view of the actual performance of its workforce.

Career Discussion and Development of an Individual Development Plan

Part of the first performance management meeting should focus on employees' career aspirations, and managers should be skilled enough to contribute their input, advice, and assistance on how to achieve these; the next step is the creation of individual development plans (IDP); every employee should have this, not just high performers and high potentials. It remains the employees' responsibility to action the IDP, but they should be able to discuss this with their manager at any time. Career aspirations and the IDP should be discussed at the formal performance review sessions; this does not mean to say that it cannot be discussed at any other time, but this should be a minimum standard.

Companies also use performance management process as the basis for talent identification; those who consistently achieve above-average scores can be identified as high performers and high potentials and then can be enrolled onto talent development schemes.

Human resources' key role in this regard is to, firstly, develop a robust and up-to-date performance management process which includes relevant and user-friendly HRIT systems to support the process and, secondly, to provide line managers with adequate training and coaching to ensure that they develop the skills necessary to be able to handle performance and career discussions and provide relevant and timely coaching and advice to staff. Given that it underpins so many aspects of the HR strategy, viz., fixed and variable remuneration, talent management, succession planning and exit, and terminations for poor performers, this is arguably one of the most important HR processes in the company, and while HR facilitates the process, it should be owned by the business.

Dos and Don'ts

In addition to what has been detailed above, herewith are a few more helpful tips for successfully implementing performance and talent management practices in any business.

Dos

Leaders

The leader must act as a role model and emphasize and promote the value of learning. He needs to show commitment and conviction in all talent management processes, and leverage problems as real-world coach, and develop opportunities for his employees.

He must be an active supporter of the development programs in place, ensuring that high-potential employees who are on these programs get the right opportunities to practice their new knowledge on the job, thus ensuring skills development and transfer. He must be able to make performance management discussions meaningful in terms of career and individual development.

Human Resources

Not only the leaders but also the human resources department has a fundamental role in this process. They must be responsible for building formal accelerated development programs which encompass a large range of learning/development activities and opportunities, viz., on-the-job training, stretch assignments, case studies, practical work projects, online training, classical training, job rotation, coaching, and mentoring.

This department must also ensure line management support, both in enrolling their talented employees on programs and in ensuring the development of their employees who are not on the formal programs. Managers must be equipped with the tools to be able to recognize and develop talent. They must also build retention strategies into all programs, e.g., pro rata work back or payback for the time and costs spent on a program; these retention activities can also involve other less punitive measures such as project completion bonuses, share options, and recognition initiatives.

Finally, HR should develop a tool to evaluate the efficacy of the organization's talent and performance management programs and the return of investment on these. By way of training and one-on-one coaching, HR should ensure that managers have the necessary skills to be able to manage performance and career discussions and to be able to set meaningful goals and targets for their employees.

Organization

Last but not the least, the organization has a critical role in developing a clear picture of the organization's talent gap and how to get more out of its scarce talent, deploying them into roles where they can make the most impact. Companies must make line managers accountable for talent management including the tracking and rewarding their progress in these initiatives.

Organizations should develop a robust and useable performance management system because this underpins employee output/target achievement and the identification of talent in the company. It should also make sure that succession plans are developed and actioned.

Companies should encourage one-on-one performance and coaching discussions between managers and staff outside of the formal performance management process

Don'ts

In terms of what not to do, companies should never develop stand-alone talent initiatives; these should be linked to the business and HR strategy, and they should not ignore the benefits of a good change management program when embarking on a new talent development strategy.

If companies develop performance and talent strategies and do not action them, it may lead to demotivation in staff and a lack of belief in the company's ability to deliver on its employee value proposition.

The use of forced ranking of performance reviews is discouraged, though a panel process to review how managers have managed the performance review and career discussion process can be beneficial.

Conclusion

Successful companies:

- Constantly scan and adopt innovative HR and talent management practices
- Live their values
- Senior leadership commitment and engagement
- Skilled line managers – career discussions, performance management discussions, talent developers, and coaching and mentoring skills – and leaders developing leaders
- Performance and talent strategies aligned with business strategy
- Effective retention strategies
- Constantly evaluate programs and process and adjust as necessary
- Measure return on investment
- Effective retention strategies

What sets exceptional companies and talent strategies apart is that they are relentlessly focused on supporting the business strategy. They are detailed and comprehensive in addressing group, regional, business unit, and functional needs. And of course they have senior leadership support and commitment.

Talent today is no longer a resource to be wasted. Talented employees are rare and disputed by the top companies all over the world.

As the world opens up, companies can no longer consider their people's local talent; rather, they are global talent. Ambitious people want to discover the world and assume different and challenging roles in order to progress and achieve senior positions as fast as they can. As an emerging market and continent, many countries and companies in Africa can pay four or five times what these employees are earning in their countries of origin, so it is of great advantage if these companies can provide opportunities to develop and grow quickly and effectively. However, after some time these ambitious and energetic people are eager to go and discover other countries or regions, and this is where global companies can make the difference with genuine and accessible mobility policies to secure this talent.

As a learning process to talented employees wishing to climb the corporate ladder, it is very important to share the four ironies of leadership teams (from Wageman and Hackman 2010):

- Irony I: Leadership teams are composed of powerful people, yet they tend to be under-designed, under-led, and under-resourced.
- Irony II: Membership is important and coveted, but members often don’t know who is on the team, and they do not really want to come to team meetings.
- Irony III: Members are overloaded, but they tend to waste enormous amounts of time in team meetings.
- Irony IV: Authority dynamics pervade leadership teams and complicate team processes, but members won’t talk about them.
- **Irony V: These dynamics are accentuated the more senior the team!**

Also, other tips from the same author regarding leading teams of leaders:

- Create a bounded entity that is defined by a clear, shared purpose.
- Craft an agenda so that the work of the team is always focused on meaningful, interdependent activities.
- Shape members’ construal of their roles.
- Articulate explicit norms that promote attention to team processes and that minimize political dynamics.
- Coach the team.
- Leaders as: Architects, coaches, and “on the field.”

When companies need to introduce a new strategy of talent development, it is important to have a good change management strategy (adapted from Jack Gabarro):

- Create a vision.
- Communicate the vision.
- Establish a sense of urgency.
- Form coalitions for change.
- Empower others to act on the vision.
- Plan for and create short-term wins.
- Consolidate improvements and drive still more changes.
- Institutionalize new approaches.

And of course, infusing the organization with energy (based in a document of McKinsey & Company):

Effective Leaders of Change:

- Lead passionately.
- Aim high.
- Architect rigorously.
- Tailor relentlessly.
- Manage pace.
- Make it personal.
- Make it real.

As Lou Gerstner, CEO of WSJ, in 2000, stated: “I am a big believer in forcing change on large institutions just for the sake of forcing change. The longer an organization stays intact, the less successful it is. I’ve been absolutely convinced that you’ve got to blow things up and start over again every few years, and that puts a whole new face on people’s jobs. It gets them focused externally rather than internally.”

To conclude, the responsibility to develop the talent in an organization is the responsibility of all stakeholders in the process. However, companies should never forget that they are developing men and women, people, not “superstars,” so ethics and values are fundamental aspects in the process of growing and developing while climbing the ladder of success.

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Performance and Talent: Essentials of International Talent Development

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Contents

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Abstract

Talent is the key ingredient for entrepreneurial success. The upsurge in global economic interaction and the looming future lack of skilled manpower render the international development of talent a paramount concern of human resources management. Many companies are currently faced with the challenge of putting in place talent development programs or to improve the structural and financial efficiency of existing programs. This demands new strategies and approaches, as dealt with in this contribution in depth.

The concrete measures, recommendations for action, and practical examples discussed in this publication may serve as a guideline to the national and international development of talents. This also includes comprehensive information on the definition of international talent development, its inclusion in the overall talent management process, and how to successfully implement these challenges in practice. The scope includes fundamental aspects of corporate culture, staff communication, and personnel management up to concrete measures in support of talent and qualification for leadership positions. The significance of corporate strategy receives particular attention. International talent development is important to the success of companies large or small. Lufthansa Technik AG and DB Mobility Logistics AG are included as examples of how international talent development may be implemented.

Apart from the promotion of the most promising, talent management also strives to create a culture of work which will motivate every employee to deliver his absolute best and optimally bring his abilities to bear. What is important is that directed personnel development should support the talents and strengths of every colleague. Targeted talent development will prove beneficial in several ways, not only increasing staff performance but also positively impacting on work satisfaction, staff motivation, and loyalty.

Keywords
Talent • Talent management • International talent development • Development • Motivation • Corporate culture • Diversity management • Knowledge • Assignments • Competence

Introduction

The development of talent is becoming more and more crucial in the context of international work. More and more managers share the belief that “talent management is the topic of the future” (Enaux and Henrich 2011). In addition, companies are increasingly organizing their activities globally, in order to use international competitive advantages, for example, and to counter the shortage of skilled workers. International talent development is therefore one of the most important core areas of human resources management. The special challenges in the area of responsibility lie in the increased complexity since employees from different cultures are to be considered with a variety of values, attitudes, and ways of working when conducting staff development activities.

In order for international talents to decide on a particular company and see the future prospects of that employer, it is necessary to accordingly align corporate and managerial culture with the talent management processes in an appealing manner. “This includes a personnel policy that implements building blocks such as equal opportunities, appreciation of cultural differences and openness in communication” (Stuber 2009). This contribution will provide you with extensive information on what is meant by international talent development, how classification in the entire talent management process takes place, and how this relevant area of responsibility can be successfully implemented in practice.

“Discover your talents and put yourself into practice!” This slogan has become the motto of modern life. However, a look into the world of work reveals that very few people really know about their talents and skills and use them purposefully. The ability to self-reflect in order to assess one’s strengths and weaknesses should be learned early in life. This ability to self-reflect decisively allows you to optimally form your own path in life and work. The personal talent development is partly the responsibility of each individual. On the other hand, companies are responsible for creating the best possible working conditions so that employees can develop optimally within their means. In the process, it is important to focus observations not only on the past and present. When evaluating a colleague (for all terms that concern people in the text, the selected formulation refers to both sexes) with respect to his or her potential, future perspectives in particular should be taken into account. It is important to give employees the opportunity to obtain the relevant skills and competence by taking on new tasks. “Growing into” new tasks or even “growing out of oneself” is only possible if individual potential is identified and promoted and if colleagues are given the required confidence for handling pending tasks.

This publication addresses all decision-makers and responsible persons, on both operational and strategic levels, desiring to ensure the competitive edge and future of their company or organization through directed encouragement of staff and talent. It should be emphasized that successful talent management should be the formal responsibility of not only the human resources management but also management and the board of directors.

What Are International Talents?

About the Concept of Talent

As a thematic introduction, a clarification should be made here to explain what the term “talent” means. The term was used in ancient times, first as a unit of weight and later as a means of payment. Today the word talent, which is derived from the Latin “talentum,” refers to people with special skills and capabilities. Thom and Nesemann (2011, p. 25) define talent as “(. . .) all employees who have a high potential for perception of complex tasks and are in the process of developing a high potential.” In the publication titled “The War for Talent” (Michaels et al. 2001), talent is defined as follows: “In the most general sence, talent is the sum of a person`s abilities – his or her instrinsic gift, skills, knowledge, experience, intelligence, judgement, attitude, character and drive. It also includes his or her ability to learn and grow.” In the professional debate, there are different opinions about how crucial the level of training for talent development is. The fact of the matter is that outstandingly gifted people can also be found among nonacademics. Talents are to be found accordingly “in all forms of education and occupations and at all levels of the company” (Thom and Nesemann 2011, p. 26).

At this point it is worth stressing the difference between the concepts of talent and high potential. Thom and Nesemann (2011) state that high potentials are particularly distinguished in that they attract attention through a high degree of commitment and superior performance, are eminently qualified, and also have additional potential for further development. In the personal portfolio developed by Thom and Friedli (2008), it can be seen that talent does not have to necessarily stand out against top performance in the present situation. Performance can even be poor or moderate.

However, there is a high potential to tackle this in the future. In contrast, high potentials already meet the current requirements of a company on a large scale. They also have great potential to deal with complex tasks in the future.

As the discussion shows, there are no defined parameters concerning what is meant by the term talent. Instead, the definitions should be made in the context of the company. Every company should consequently define what attributes and characteristics an employee should bring in order to be recognized and promoted as a talent. The disambiguation is directed in part at the specific business goals since they act as important management tools for operational and strategic decisions and allow for corporate activity to be planned, implemented, and controlled. On the other hand, corporate culture plays an important role because herein lies the manner corporate objectives are achieved. Corporate culture includes the "universe of shared values, norms and attitudes that dominate the decisions, actions and behavior of the organization members" (Lies 2015).

Talents in an International Context

Companies show an increased interest toward international talent and young professionals because they can also support the process of globalization in addition to ensuring the labor productivity. In addition to their professional qualifications, they can possess, for example, interesting and competition-relevant know-how, such as regional knowledge, language skills, international contacts, and intercultural experiences.

What is international talent characterized by? International talent refers to when the employees can also operate successfully in an international environment, in addition to the previously mentioned talent criteria. Or they have a range of experience and skills that they have collected as part of several international positions (Suutari et al. 2014, p. 237). This shows that in the ranks of the workforce, international talents can be found both regionally as well as nationally and internationally. "International talent development means both globalization and localization of talents" (Piéch 2015, p. 71).

According to a study by Dries et al. (2014, p. 18) in which 410 HR managers of different business sectors participated, the cultural differences in understanding the concept of talent were relatively minimal. Significant consistency could be seen in that in particular the factors of "ability, skills, knowledge, and potential" are connected with the term talent. However, what is meant by these factors varies according to cultural attitudes and perspectives.

As already indicated, the observable performance of an employee does not exclusively form his or her key talent indicators, but rather his or her potential and the present characteristic of essential competencies. For this reason, talented employees should be recruited and promoted not because of their current abilities, but rather because of their potential. Therefore, an essential task of talent management is to convert potential into performance (Lackner 2014, p. 5)

International Talent Management

Conceptual Understanding and Core Tasks

In everyday entrepreneurial activities, talent management is already being used as a success factor in various applications. In the wake of ever-increasing internationalization and competition for the best people, internationally oriented talent management has also played an increasingly important role (Collings and Scullion 2011). Due to demographic developments and the resulting shortage of skilled workers, a company can hardly afford to disregard international human resources. "International talent management means that all activities are aligned globally, are based on global strategic objectives and take into account local peculiarities. A balance between global standardization and local adaptation should definitely be reached for the purposes of diversity management" (Schweizer 2014).

The design of talent management varies greatly among the companies according to the company-specific work culture, corporate objectives, strategies, and resources. Just as companies have to clarify for themselves which specific features and characteristics distinguish a talent, it is also important to clarify which core tasks are included in the company's internal talent management and how appropriately they can be implemented. For example, strategic elements are more in the foreground for some companies, whereas other companies favor procedural processes. In some companies, all members of the organization are explicitly included in talent management, while the majority considers the topic to be segmented for a select group of employees (Ritz and Sinelli 2011, p. 9).

Despite the different approaches, the following core tasks can be identified as part of talent management:

As illustrated in Fig. 1, the scope of talent management includes the identification and recruitment of talented staff, from the career-oriented promotion within the framework of the phases of work to remaining in contact and reemployment after possible resignation. Successful talent management therefore demands the cooperation of different sections of human resources. The promotion and development of talented colleagues should be running in parallel here. Future-oriented guidance remains important even should staff be optimally deployed in terms of their current skills and potential. This will achieve positive results in several ways since, apart from optimal performance, motivation and loyalty will also benefit.

Advantages and Benefits

Even if the cost and time required to implement international talent management are initially higher, this form of talent management offers interesting advantages for both

Fig. 1 The talent management process

the company and the employees. According to Schweizer (2014), these benefits can be summarized as follows:

- Departments and teams can be internationally staffed. Heterogeneous groups have the advantage of tackling business-related issues and problems from different angles. Due to the different schools of thought and approaches, more innovative and successful ideas can thus be developed than in homogeneous groups.
- For talents, it may be an incentive to gain international experience through a career opportunity abroad and educate themselves personally as well as culturally. This way employee loyalty and the image and attractiveness of the company are simultaneously strengthened.
- It is possible to diversify staff acquisition even further so that vacancies can be filled faster and strategic HR planning is implemented more precisely.
- Tolerance and global understanding within the company can be promoted through international teams.

Principles of Success

Despite its immense significance, the establishment of successful talent management is a key challenge for the personnel management of companies worldwide. The study titled “Six Principles of Effective Global Talent Management”

(Stahl et al. 2012) made this conclusion. The following principles for success for international talent management were derived from the investigation results:

- Alignment with Strategy: Corporate strategy is the starting point for talent management. It is important to clarify the question as to what talents the company should focus on.
- Internal Consistency: All core tasks of talent management should be coordinated and thus contribute to a synergy effect. With the investment in developmental measures for talents, measures for retaining them or their career management should be taken into account at the same time.
- Cultural Embeddedness: In the various measures of talent management, such as recruitment, development, and retaining talent through compensation and benefits, conscious integration of corporate values should be carried out.
- Management Involvement: Talent management is not only the task of the HR department. It should be practiced by managers at all levels, including senior executives.
- Balance of Global and Local Needs: When companies operate abroad, they should adapt to local needs and/or take them into account.
- Employer Branding Through Differentiation: Employer branding is a strategic corporate measure where concepts from marketing, especially branding, are applied in order for a company to position itself as an attractive employer in relation to competitors (Schuhmacher and Geschwill 2014). Top talent should be addressed and convinced by the company.

Since the targeted alignment of employer branding is a crucial foundation for the successful implementation of international talent management, Bayerl (2015) of aconso AG stated the following: "Employer branding and talent management (...) are in the fast lane in personnel management. More and more companies and organizations recognize and use the possibilities of the employer brand to attract the best professionals and executives for their business and motivate staff. Satisfied and committed employees always act as ambassadors of the company. In order to be perceived as an attractive employer, a company must effectively communicate its values and culture both internally and externally." By raising the company's profile as an attractive employer, the recruitment of talented young professionals and high professionals receives significant support. To recruit international talent, particularly the recruitment strategies of E-recruiting and public events such as professional and educational fairs and business networking events at universities should be globally oriented.

International Talent Development in Practice

In the previous sections, an overview was given, the criteria for which included discussing the concepts of talent and international talent management and whose key tasks are associated with this field. Since the focus of this paper is on the development of international talent, various options are shown below, such as how international talent development can be successfully implemented in practice. In the process, both selected strategic and operational measures are presented.

Corporate Culture and Diversity Management

In order to reach excellence, a work environment enabling peak performance is required above all. In addition to interesting career opportunities and attractive prospects, it is all about creating a work culture through which every colleague feels motivated to do his best and develop his or her potential. How do companies manage to produce such a positive and constructive working atmosphere? Work life is shaped by a variety of values, norms, and beliefs that are embedded in the corporate culture. Due to the current challenges, many companies are developing a growing interest in integrating a culture of mutual respect, appreciation, and openness in everyday working life. In the process, diversity management, that is, recognition of the diversity of skills, experience, and talents of employees, should be promoted and used increasingly as a success factor in the company and in public institutions. “The typical goals of diversity management are closely linked to demographic change and the resulting technical and managerial shortages. Increasing employer appeal and attracting new talent are at the fore. In addition, multiple perspectives promote innovation and motivation of employees, which contributes positively to the company culture and also responds to new markets and consumers layers” (Landwehr et al. 2013, p. 38).

Most of the measures currently taken in the name of diversity management aim to promote female employees (ibid, p. 39). To ensure commercial competitiveness, it is becoming increasingly important within the framework of talent development to promote and position highly qualified women. “Unless key positions are increasingly held down by talented women, the talent gap created by demographic developments will not nearly be plugged” (Thom and Sinelli 2010). Favorable framework conditions are required to allow occupational and family responsibilities to coexist. Many employers have recognized this dichotomy already and are offering options designed to improve occupational and familial compatibility.

When developing and designing a diverse workforce structure, the field of ethnic diversity plays also an important role. As effective measures, these include (Landwehr et al. 2013):

- Recruitment of foreign specialists and managers
- Recruitment of employees with migration backgrounds
- Delegating employees and executives abroad
- Building a global talent pool
- Assembling international teams

Additional dimensions of diversity should also be taken into account in a successful development of personnel and talents. To sum up, it may be said that the consideration of factors of an individual and cultural nature within the framework of diversity management is an important determinant of corporate success.

International Human Resources Management and Employee Motivation

Successful integration of international talent in a company requires the consideration of different management and communication styles as well as a high degree of flexibility and intercultural competence. It should be noted, for example, that the performance and achievement motives are marked differently according to their own national culture. This means that international human resource management and employee motivation are to be very precisely tailored to the cultural backgrounds of the participants. In addition, executives are faced with the challenge of recognizing the potential for conflict in teamwork in addition to competence promotion of their employees and developing and implementing appropriate strategies for this purpose.

But what should companies without executive personnel bear in mind? "The non-hierarchical company – the bold future dream of progressive organizational development – is already a reality in some places" (Bittelmeyer 2014, p. 19). Especially in the case of a nonhierarchical organizational structure where self-organization and self-responsibility of the employees are set, the targeted development of human resources and talent should be a central part of corporate strategy. Although it is usually assumed that an independent and self-determined work leads one to improve employee motivation and qualifications, the implementation of staff development programs is highly recommended. For example, the employees of it-agile are no longer judged by an executive, but rather in the form of a peer-to-peer review. Here, each employee receives feedback from a hierarchical peer on where his or her strengths and development potential are so that there can be meaningful career planning (ibid., p. 22). With respect to the topic of personal responsibility, it should be noted that the ability to take on responsibility for people is marked differently. To consciously assume responsibility, both differentiated cognitive and emotional processes are required. It is all the more important to provide an organizational framework where each employee can use his or her individual potential even with respect to taking on responsibility.

There is a company that decided to make leadership in the sense of "privilege" meaningful again after abolishing executives and its name is Google. At Google, leadership is not understood as a status symbol, but rather it has to be earned. "We attach great importance to the fact that a manager brings agility, in other words looks for change or at the least calmly approaches change," explains HR manager Frank Kohl-Boas in Bußmann (2014, p. 66). In addition, managers should know when they must act actively and when they must act passively. Staff and management development is applied extremely individually at Google because existing programs and training can be selected much like a modular design principle according to employee needs. In addition, a lot of attention is paid to a feedback culture. In particular, managers are given the chance to review and revise their leadership behavior where appropriate through immediate feedback from their colleagues (ibid.).

Staff Management and Team Development

International talent development involves much more than just taking a look at the best. It is also important to give every individual the necessary attention in the context of his team. Every employee has individual, unique behavior patterns, inclinations, and skills. In practice, however, personal preferences are often not included to the extent that they would be advantageous. Oftentimes skills are harmonized for the requirements. However, a great potential of human resource is wasted as a result because requirements, ability, and preferences should be merged in the team. In this regard, Margerison and McCann stated the following: “In a team where each individual does a lot of what he or she likes to do, energy, enthusiasm, commitment and motivation – all increase many times – and then you get a high-performance team” (Tscheuschner and Wagner 2012, p. 35).

The Team Management System developed by Margerison/McCann revolves around the central functions of a team working with the individual preferences and skills of colleagues. According to their team success research, you have the following eight areas of activity that successful teams should have covered: advising, innovating, promoting, developing, organizing, reacting, monitoring, and stabilizing (ibid., p. 31). A strong team is characterized by the fact that it takes into account the diversity of colleagues, for example, through different work preferences, values, professional backgrounds, and related diverse thinking and communication styles of colleagues. Cooperation in international teams also requires high intercultural management skills to take advantage of the diversity of languages, cultural values, as well as work and behavioral methods for developing team efficiency.

Staff management takes practice! In order to lead a team successfully, different leadership skills are required in addition to high management motivation. Knowledge and understanding of specific management tools and communication techniques, such as the employee appraisal, formulation of target agreements and performance reviews, the use of various management strategies, success factors of delegation and conflict, and stress management, are crucial in successfully completing management tasks. In addition, the manager often acts as a coach or mentor. Qualification is strongly recommended for these functions. The basis for a powerful and motivated team is developing the personal leadership style of the manager. Reflecting on one’s own leadership behavior provides the opportunity to identify additional team resources, develop constructive solutions and management issues, and put them into practice. In order for managers to cope with the complexity of challenges, many companies offer targeted management qualification in the form of seminars, lectures, workshops, or coaching.

Operative Perspective: Measures for International Talent Development

For cultural diversity to be an asset for the company and its employees, the implementation of targeted talent development is recommended. The basis for optimal talent development should be forward-looking human resources and career planning. At best, personal and career development planning should take place as early as in the recruiting phase and accompany the employee continuously through the upcoming phases and work processes. The measures relevant to the development of international talents will be presented below.

Talent Pools and Software Tools

For many companies, the use of talent pools is part of a practicable measure to support the recruitment and positioning of suitable employees. The overview of profiles and qualifications also enables targeted implementation of operational competence management. In competence management, strategically relevant requirements are mapped into technical and interdisciplinary competences and implemented in the form of a learning management system (Thom and Sinelli 2010). Neben (2015) gives cause for concern, however, that “Talent in reserve” contradicts reality. Companies should be very careful saying “You are finished,” since this may raise employee expectations which lead to disappointment unless they are satisfied. It is furthermore not assured that employees in a talent pool will actually meet the concrete demands by the position to be filled.

The use of a technical system platform is recommended when implementing a comprehensive talent management strategy. The spectrum of offers should be selected taking into account internal company objectives for talent management and existing HR systems. Economic management of personnel and talent management are supported, for instance, by SAP ERP Human Capital Management (SAP ERP HCM) and cloud software by SuccessFactors (a SAP company). The software covers the entire cycle of employee planning and development: recruiting, performance management, remuneration, continuing education, career, and succession planning (SAP 2015).

Strategies for Workplace Layout

The strategy for workplace layout or expanding the field of work includes job enlargement, job enrichment, and job rotation. Since these strategies should specifically also be taken into account for talent development, they are briefly explained below. Job enlargement means adding activities at the same level of skill with the objective of counteracting monotony by providing a greater variety of tasks and extending the scope for action. This is called horizontal restructuring. Job enrichment, on the other hand, is part of vertical restructuring. The field of work is in this case extended through assignment of higher-quality tasks and decision-making competencies (Heise 2011).

Job rotation comprises the systematic exchange of workplaces in order to gain new technical and leadership skills. By offering talented staff insight and experience in different fields, they are empowered to extend their own range of competence and to better understand company processes. Social competencies are furthermore significantly developed through interaction with new colleagues and superiors (Hopp and Göbel 2004). It is especially beneficial also to international talent development if talented colleagues are given the opportunity of gaining new experience at various international locations.

Staff Assessment and Reflective Leadership Conduct

Affiliation with the group of talents or high potentials is not a fixed component. "Rather it is the result of a careful assessment of potential that needs to be repeated every few years" (Thom and Nesemann 2011, p. 25). Due to the thematic focus of the article, the topic of personnel assessment in its complexity cannot be treated here in detail. However, its high relevance should be pointed out since potential assessments are an essential basis for talent development. In contrast to performance assessment, potential assessment relates to the future aspect of qualifications. Potential describes a specific "developability" of people because of the personal gifts and talents they possess (Haenel 2005). In practice, there is a wide range of methods and tools to implement potential assessments. In addition to the implementation of assessment centers and conducting interviews, potential estimates of colleagues are part of an executive's key instruments by holding employee and development discussions and the use of assessment forms, for example. It should be emphasized that employee performance assessment is a supreme discipline. In practice, at this point in particular, there is a great need for training among managers. According to a representative survey by the consulting firm Metaberatung, 55 % of respondents felt the assessments made by the supervisor were arbitrary and untruthful (Retting 2014).

On the one hand, it is imperative that managers are qualified in successfully conducting staff appraisals and performance reviews. On the other hand, their colleagues should be able to actively shape their careers. The basis for targeted career planning is knowledge of their own strengths and potentials. Based on this, strategies are relevant in terms of how this potential can be placed best within the company. For this purpose, the employee needs extensive skills to successfully prepare and conduct his discussions with the manager or his appearance as part of talent selection processes.

It is furthermore important that managers have an awareness not only of their colleagues but also of themselves. The basis of motivated and high-performance teams is the ongoing development of the personal leadership style of the manager. Reflection of the own leadership style opens up an opportunity of recognizing team resources and to develop constructive approaches to solutions and implement these in practice. Colleagues may at times also feel thwarted by the manager's lack of authority or his complacency. Staff in leadership positions should therefore also ask whether their personal career path is coherent and whether their own potentials and talents are properly appreciated and deployed. Satisfaction with the development of the own personality and career is an important prerequisite to optimal support of talent development of the colleagues.

Appraisal Interview: "Interest" as a Key Factor

As already mentioned, appraisal interviews are one of the important tools in HR and talent development. The aims of this interlocutory form can include discussing the labor situation, agreeing on the next steps of career development, motivating employees, and enabling two-sided feedback. Promotion of a positive culture of discourse is a significant component of successful working relationships. The exchange of information is important in this respect, but especially also expressing appreciation where due. The neurobiologist Joachim Bauer emphasizes the importance of expressing your appreciation in your working relationship: "Lack of appreciation makes you sick. [. . .] From a neurobiological point of view, we, as human beings, need social resonance and cooperation. Finding and giving recognition, appreciation and attention in our relationships lies at the core of human motivation" (Lienhart 2011, p. 17).

In order to have constructive exchanges with employees, basic communicative rules must be observed, and it is necessary to preserve the interests of the other party. When people bring special interest to a situation or event, then they show increased cognitive and emotional involvement. "Interestedness is subjective [. . .] characterized by a feeling of sympathy, attention, understanding, being meaningfully active, expansion of learning" (Stangl 2015). Figure 2 shows what factors are taken into account to establish the communicative basis of interest development.

The development of interest by the dialogue partner is a prerequisite for effective communication. The individual aspects are discussed in more detail for a better explanation.

Transfer of Knowledge on a Cognitive and Emotional Level

People who can reach and inspire others with their words combine cognitive and emotional elements in their statements. Words with a high information content can be better processed and stored if they can be linked to an image or feeling. For this reason, communicatively trained people build an image for others with what they say. In addition, they are able to transform the content of discussions into an understandable language for the others. The ability to make changes at the levels of communication presupposes that one can empathize with his or her interlocutor and develop sensitivity to his or her situation.

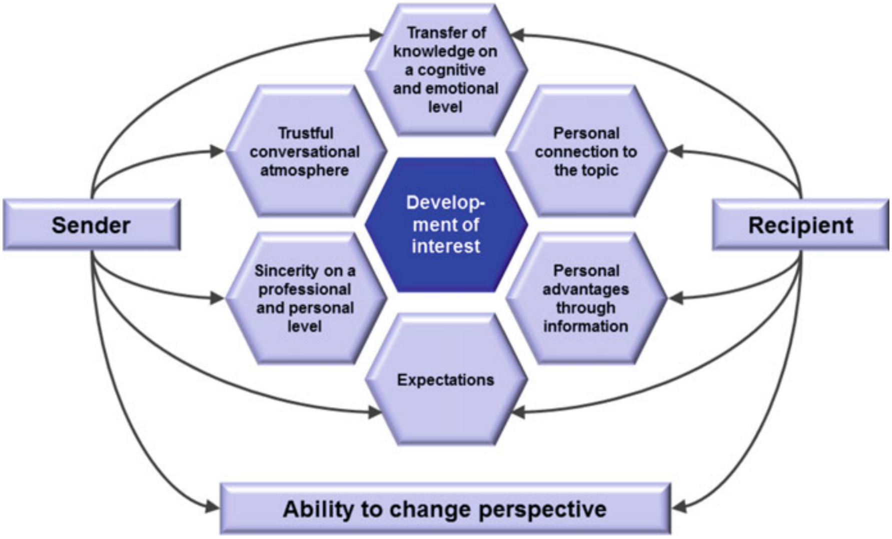

Fig. 2 Development of the key factor of "interest"

Trustful Conversational Atmosphere

As we bring our interlocutor a high level of appreciation and an interest in his situation, we build a trusting atmosphere for the discussion. Through our empathic attitude, the other person feels we understand him or her. This is a foundation for the development of interest, which is reflected in the open-minded attitude of the interlocutor.

Sincerity on a Professional and Personal Level

Authenticity and sincerity are central characteristics of a successful communication style. People notice very quickly whether what is said is coherent and credible. According to Mentzel et al. (2004, p. 31), among the key aspects that contribute to a credible performance are openness, honesty, expertise, and authenticity. The interlocutor will develop interest for the information of his or her communication partner if he or she is convinced of his or her honest intentions.

Expectations of the Dialogue Partner

The extent to which we take in information crucially depends on our expectations and the associated intention. The difference between hearing and listening is that we make the decision to want to take in what we hear when listening. Only the decision makes it possible to open one's consciousness so that certain tones are listened to" (Schinzilarz 2008, p. 14). With concentration and attention, the person filters the information he or she wants to take in from what is heard. In accordance with this, it is important to take into account the expectations of the communication partner.

Personal Connection to the Topic

Due to the complexity of our knowledge, while communicating, we often neglect the fact that we should primarily select the information to which the other party may also personally relate to. Interest in a conversation is particularly high when information can be linked to existing knowledge and experiences.

Personal Benefits Through Information

Interest in topics of conversation is often linked to the person's own relevance to the topics. Interest can be especially high if personal benefits can be achieved through the information, and the information is a subjective value for the person. Through the ability to take in perspectives, we are enabled to assess the interlocutor in this respect and align our communication therewith.

Intercultural Communication and Intercultural Skills

Every one of us is familiar with them: misunderstandings in communication. What we say and how it is understood by others are oftentimes worlds apart. It is particularly challenging when people from different countries communicate with each other. For many employees and managers, dealing with intercultural challenges is a part of professional life. In addition to language barriers, different values and ideas as well as culturally determined ways of working can lead to significant misunderstandings and a loss in quality. The differences in the understanding of time, in the hierarchical thinking, in employee management, dealing with conflicts and risk, and in the understanding of loyalty are just a few aspects that have to be considered in cross-cultural understanding (Piéch 2013, p. 31). The special requirements in international cooperation are mainly based on the different cultural implications in company communications. To avoid misunderstandings, the knowledge of culture-specific ways of thinking and acting is indispensable. Global work processes can be made more efficient if an adequate flow of information and interaction leeway is ensured through effective communication branches and management methods. Acting in international work teams and dealing with clients from other cultures therefore require all parties to have a high degree of intercultural skills and competencies.

In promoting international talent, skills in the field of intercultural competence are the key to success. Promotion of intercultural competence should play a central role both at the employee and team level. Implementation of intercultural training particularly lends itself for this purpose. According to Clement and Clement (2014, p. 4), different objectives can be pursued through intercultural training, such as:

- Preparation for international projects and negotiations
- Preparation for staying abroad
- Team formation/team building for interculturally based teams
- Assistance in post-merger processes

In the literature there are a number of definitions for the term intercultural competence. According to Thomas (2003, p. 39), intercultural competence appears “in the ability to detect, respect, appreciate and productively use cultural conditions and influencing factors when perceiving, judging, feeling and acting with respect to oneself as well as others.” For Bolten (2007, p. 87), intercultural competence is not an independent competence; rather it is the successful holistic interplay of individual, social, professional, and strategic action in intercultural contexts. Moreover, in most of these features, it is about competencies that are important for acting successfully in one’s own culture (ibid.).

Intercultural learning is a great added value for learning about one’s own culture as well as foreign cultures and creates the awareness that every culture has various explicit and implicit patterns of perception and expectations. It is crucial to promote new thinking styles and also allow an “as well as” attitude out of an “either-or” one, for example. The expansion of personal horizons and awareness of the self in the context of unknown are elementary learning processes that open new qualities in both professional and private life and can significantly improve the shaping of interpersonal relationships.

Intercultural Coaching and Mentoring

Through intercultural coaching, the working processes of experts, managers, and talent development can be significantly supported and enhanced at home and abroad. At the center of the consultation processes is solution-oriented work on individual and team-oriented goals and strategies for success. Intercultural coaching is very successfully used in the promotion of talent, as the talented staff develop constructive possibilities for action and problem-solving strategies in direct cooperation with the coach in order to improve their efficiency and to precisely master intercultural situations and difficulties. The expanded action repertoire can also be applied to new tasks so that a superior way of dealing with professional and intercultural challenges is ensured. In addition to the proven use of external coaches, every manager should be considered a coach and be qualified in this respect.

In addition to coaching, mentoring programs can significantly contribute to the development of talent. Mentoring "means the activity of an experienced person (mentor), who passes his knowledge and skills on to an inexperienced person (mentee or protégé). The aim is to support the mentee in his personal or professional development within or outside the company [. . .]" (Richert 2006, p.7 ff.). In particular, the personal interaction and the ability to plan the meetings individually in terms of content and timing lead to this staff development method being readily accepted by many talented employees. It should be noted that in addition to professional qualifications, the mentor also has international experience and can empathize with the role and expectations of the mentee. The mentors themselves benefit from their own mentor activities since they thereby obtain an additional opportunity to reflect on their professional activities. Since the success of mentoring crucially depends on the cooperation between mentor and mentee, personal responsibility is also strengthened as a result (ibid., p. 10).

Learning Circles, Action Learning, and Stretch Assignments

Action learning, learning circles, and stretch assignments are further interesting activities in the promotion of talent because they support the individual development of employees within the scope of the actual challenges of everyday working life. As Goldsmith and Carter (2010, pp. 199, 202) explain, people learn best when they apply new information to current challenges, when they are in constant exchange and feedback with their colleagues, and when the learning process involves the whole person. By having talented colleagues identify specific problems and create solutions, they become experts and senior experts in this field.

Learning circles are corporate learning groups where the participants self-organize to work on the individual issues and challenges. In learning circles, each participant selects a target and develops realistic and relevant action steps to achieve this goal (Goldsmith and Carter 2010, p. 204). After the objectives have been achieved, the next aim is formed and implemented. Thanks to learning circles, the participants are given an important platform for reflection and feedback. They can additionally build a cross-functional network, and through their support, faster and more efficient decision-making and problem-solving processes are possible (Deters 2012, p. 126).

In action learning, a selected team of employees works on a real problem in the company that is outside of its area of competence. Action learning enables the participants to prepare for strategic issues and to develop decision-making powers (Byham et al. 2002, p. 233). Thanks to the cross-sectoral and strategically oriented tasks, this measure generates a high level of commitment and motivation among participants. Action learning and learning circles are measures for talent development that require few resources and that demand and support goals such as networking, learning soft skills, problem-solving skills, personal and professional development, as well as a holistic view of the company (Deters 2012, pp. 127–128).

Stretch assignments are an individual development measure in which systematic allocation of particularly challenging tasks is conducted, where talents also have to use new, untested skills. Often it is the development of particularly significant skills in preparation for a leadership position, so that stretch assignments are usually applied as a long-term measure (Byham et al. 2002, pp. 176, 199). Even if the underlying assumption is "The greater the challenge, the greater the development," excessive demands should be warned against. It is crucial that no excessive and insufficient demands are made of the talents; otherwise, you risk frustration and demotivation.

For all three measures, it is recommended that the talents are assigned a coach or mentor, who is a contact person for questions and problems, provides feedback, and, where appropriate, is engaged in a supportive role (Byham et al. 2002, p. 188).

Risk Perspective: Using Talented Employees Abroad

Chances and Risks

Another interesting measure for international talent development is the international deployment of employees, as overseas assignments are also crucial in personnel and management development in addition to achieving operational aims. To successfully operate in an economic context, expertise alone is no longer enough. International know-how and intercultural skills are essential soft skills in a globalized economic structure. According to the survey "Talent Mobility 2020" by the accounting and consulting firm PricewaterhouseCoopers (PwC 2010), the number of assignments of expatriates will increase by 50 % by 2020.

In the process, international assignments are part of the personnel decisions of a company that are favorable to investment as implementing them usually costs two to four times the gross annual salary of a comparable position in the parent company (Kühlmann 2004). The situation is therefore all the more problematic in that approximately 10–20 % of expatriates (employees who temporarily work for a domestic company or a foreign company abroad are referred to as expatriates; after being assigned abroad, expatriates can also be referred to as returnees or repatriates) cancel their stay prematurely and a further percentage of employees remains behind the desired expectations in terms of performance (Stumpf 2005). A serious problem is the fact that after their foreign assignment, more than 60 % of the employees change employers within two years (Gelbrich and Müller 2011). Companies thereby lose not only highly qualified staff but also competitive relevant knowledge and experience. Nevertheless, it is more important to increase efficiency in the international transfer of personnel by increasing the performance and satisfaction of expatriates and foreign returnees. This can be achieved, for example, if employees receive target-oriented training and consulting services in all phases of relocation from international preparation to reintegration. The measures aim to qualify the expatriates so that they effectively shape their actions in foreign and in their own cultural contexts and combat specific problems on a solution-oriented basis.

Return from Abroad and Transfer of Knowledge

In order to retain foreign-experienced and talented employees in particular, greater attention should be paid to intercultural knowledge and experience in the context of returning from abroad. Reintegration with one's home country often proves to be the most difficult phase within the foreign assignment process. Their success depends largely on the extent to which the growth of their own skills obtained abroad is taken into account. Gudrun Kipp, who is responsible for international assignments at Bosch, said in this regard: "The return of the acquired knowledge to the company is not only a very important factor for the satisfaction of returnees, but ultimately the decisive factor for successful deployment management" (Guba 2014, p. 32).

However, targeted knowledge transfer after returning from abroad is still a rarity in the practice of foreign assignments. For example, sometimes companies offer their employees opportunities to participate in evaluation discussions or intercultural competence analyses in order to systematically reflect on their knowledge gained abroad and their international experiences. This step is necessary as most expatriates are often unaware of their acquired intercultural know-how. A key reason lies in the fact that knowledge is mostly at the implicit (unconscious) knowledge level. The ability to clarify implicit knowledge, i.e., the awareness of internalized knowledge, is the precondition for ensuring that the acquired knowledge and experience potential are available for putting into practice (Piéch 2010, p. 81). As part of systematic staff development, experience, skills, and qualifications of expatriates acquired abroad should be specifically processed and used in the company.

The Importance of the Family in Overseas Assignments

Whether or not foreign assignment of an employee is successful depends to a large extent not only on the assigned person himself but also on any accompanying partners or family. Ideally, they support the expatriate to develop its capabilities in foreign cultural context and to put full concentration on the work abroad. In the worst case, problems in the partnership or in the family can disturb the expatriate in his work and even cause the foreign assignment to be terminated.

The problems that partners and children experience are often underestimated in foreign assignments. They also need to adjust their lives to the new culture and find a constructive approach to the manners and way of thinking that happen abroad. To make matters worse, partners primarily assume organization of their new everyday lives and the construction of social relations without having a formal setting.

In contrast to the expatriate, who is mostly at home within the structures of work, his partner has to deal with intercultural challenges associated with high levels of self-organization and self-responsibility. Many of those traveling will feel left alone in this situation. Isolation, loneliness, restrictions in one's professional career development, and role conflicts are just some problems that expat partners have to cope with. In order for the partners' time abroad to be successful, coaching or seminars, for example, are highly recommended. With these measures, the implementation of individual development objectives and strategies for success and the training for new behavioral strategies are specifically promoted. Intercultural knowledge can thus be translated into substantial action.

SCIENTIA^3: Analyzing, Communicating, and Using Knowledge

In order for employees to operate successfully abroad and also be available to the company with their valuable work force after returning, special programs and methods should be implemented during their assignment abroad. As an example, the staff development method "SCIENTIA^3 – analyzing, communicating, and using knowledge" should be presented at this point. This method, which can be used both for expatriates and for their partners, supports the successful implementation of employee assignments from a process-oriented point of view (Piéch 2012, p. 52). What is innovative about this method is that for the first time it perfectly connects the following objectives:

- Targeted preparation, monitoring, and reintegration of expatriates
- Systematic preservation and use of intercultural knowledge and experience potential
- Efficient staff development

The success of this method is based on the innovative synthesis of targeted staff development and support during the entire process of being abroad and the systematic use of knowledge of intercultural know-how by expatriates and their partners. As made apparent by Figure 3, there is a staff development method SCIENTIA^3 consisting of four phases.

The phases are briefly explained below.

Phase 1: Reflection

A professionally run systematic reflection of international experience in phase 1 forms the basis for successful knowledge and experience. In regularly conducted development discussions and reflection processes, experiences and adventures are promptly documented over the entire length of the assignment abroad and the implicit, that is, the unconscious and action-guiding experience and knowledge of expatriates are developed.

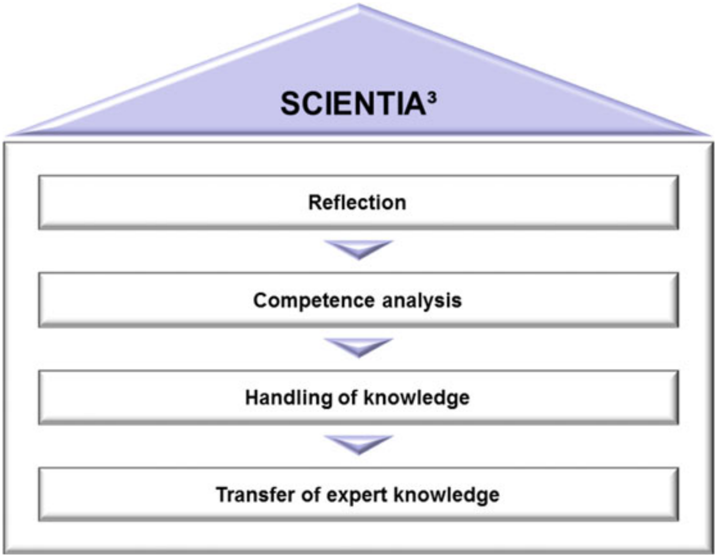

Fig. 3 Employee development method: SCIENTIA^3

Phase 2: Competence Analysis

This experiential knowledge obtained as part of a purposeful reflection process is structurally prepared in this phase. The focus here is on the detailed analysis of the acquired competence spectrum of the expatriate and the demonstration of specific applications. The documentation and verbalization of competence growth will be implemented in a professional manner at this stage.

Phase 3: Handling of Knowledge

In the third phase, the returnee acquires a set of methods concerning how he can shape his handling of the "newly" developed knowledge resource. The operational and strategic alignment of knowledge use is analyzed in a personal, organizational, and social context. This broadening of perspectives allows the supra-individual transfer of knowledge resources.

Phase 4: Transfer of Expert Knowledge

Having "knowledge" capital is a prerequisite for obtaining knowledge transparency. However, only the skills for communication and use of knowledge generate significant added value. The main problem of many returnees oftentimes lies herein. For this reason, expatriates in the fourth phase are capable of situation and needs-based communication of their personal knowledge and intercultural potential.

With the SCIENTIA^3 method, expatriates acquire a wide range of skills, making them highly skilled and motivated employees for their company. The gain in competence can be used far beyond the assignment-specific context and is used for systematic HR and talent development.

People Perspective: Retaining Talent

Factors for Enhancing Employee Loyalty

If a talented employee leaves the company, the company thus loses not only valuable work force but also competition-relevant knowledge and experience. In addition, the high financial costs of the previously made investments for recruitment, induction, training, and remuneration, for example, as well as the costs resulting from filling the vacant position are associated with the loss of talent (Suutari et al. 2014, p. 239). For this reason, it is important not only to invest in the recruitment and development of talent but also in employee retention.

How can staff retention be successfully implemented? It should be noted that the retention of staff is applied before an employee joins the company, when an initial reference is made to new employees by HR Marketing. As was made clear in ► Chap. 2, "Human Resources Marketing and Recruiting: Essentials of Employer Branding," it is crucial how the potential employer presents itself in its values, its working culture, and its development possibilities. The first step for future employee retention is already taken here (Flato and Reinbold-Scheible 2008). Because talents are also very interesting to competitors, retention management should focus on the central question: What could make talents change employers? For a binding effect, measures and activities "that increase job satisfaction of employees and create incentives to remain with the company" should be offered (ibid).

International Employee Motivation

In order to achieve optimum results in talent and employee retention, incentive systems that appeal to both the intrinsic and extrinsic motivation should be employed. If an individual acts out of intrinsic motivation, he does so out of his own interests and of his own accord, without being influenced from the outside. The work itself is something that simultaneously motivates, satisfies, and brings joy (Rheinsberg 2002, p. 152). In extrinsic motivation, external influences and incentives act as a motivator. These pulses can have both material and nonmaterial origins (Sprenger 2010). Monetary bonuses count as an extrinsic, material incentive. Intangible incentives, for example, can be given via career planning, job design, or qualification opportunities (Semar 2004). To increase motivation and performance of employees, the incentive systems should be made accordingly on an alternating basis.

When retaining international talent in particular, it is important to note that there are different needs based on the cultural background and motif structures. Gilbert stated in this regard: “Motivation factors vary depending on the country and company. Even within companies they can vary between the different business and functional areas. For this reason it is important that employers identify and use the individual motivational factors in their company. This way, the return on investment for HR issues is maximized” (Mercer-Studie 2008). As the research results of Mercer show in the study titled “Engaging Employees to drive global business success,” employee engagement is strongly determined by the business and cultural environment. The study lists different cultural motivation factors from 22 countries. Globally the most important factor in this respect is mutual respect (ibid.).

Talent Retention Through Talent Development

Talent development is closely linked to talent retention. Job satisfaction is also largely connected to which development opportunities the company offers the employee. Hockling (2011) states the fact that younger workers especially want to be promoted as follows: “But most striking is the desire of young people to receive continuous feedback. The Millennials want feedback from their employers and are interested in mentoring and support programs.” “The younger generation – Gen Y – also shifted its career focus and is looking for a balance between personal and professional life as well as self-realization. This trend should be identified early by the company and adapted in the incentive systems to attract talent” (Rundstedt 2013).

In principle, staff development should be based on the potential and needs of the employees. It is crucial to make an age-differentiated analysis and to include older colleagues in the development programs. Forward-thinking companies are aware of the skills and potential of their older counterparts and therefore create particularly attractive working conditions and training opportunities for this target group. It is advisable to align talent development in the form of life-phase-oriented personnel development (Becker 2010, p. 53), in which the preventive measures for all life stages and activity levels are considered. The task of the staff developer is to choose the most effective staff development measures for the respective age classes with their individual qualification levels (Deters 2012). It is important that talents are motivated to face the new challenges and to tackle them successfully. This requirement applies to the new self-understanding of many qualified employees who desire not only pure employment security for their job satisfaction but most of all autonomy, flexibility, and the freedom to implement their own ideas (Rundstedt 2013). Talent management and succession planning are furthermore intertwined. Succession planning opens up new perspectives on talents and therefore also opportunities to prove an employee’s worth (Thom and Sinelli 2010).

Even if employees decide to leave the company, attempts should be made to maintain the employer-employee relationship through targeted retention management. For example, objectives may include building cross-company synergies, strengthening the entrepreneurial image, or even recovering lost talents again and keeping them with the company in the long term.

Economic Perspective: Relevance to Companies and Practical Examples in Commerce

Talent Development at DB Mobility Logistics AG

DB Mobility Logistics AG started implementing the first development center for targeted talent development in 2011. Constanze Wiedemann, team leader for talent management, and Tobias Huch, of DB Mobility Logistics AG, explain that talent could in earlier days be proposed only by management. Within the framework of process development, it is possible for managers today to personally apply for participation in a development center. The development centers are directed across all business segments at target areas (e.g., finance, marketing, technology/service). The central aim of the development center is to explore and to promote employee potential in their own companies. As part of the two-day event, where, for example, an extensive interview will take place and a simulated executive meeting will be handled by the participants as a case study, colleagues will be evaluated by higher-ranking executives and departments/HR. After the event, there will be a detailed feedback discussion with colleagues, and the development activities in the departments will be discussed. A major advantage of the development center is that the potential assessments of employees are made from different perspectives.

To promote foreign colleagues or employees who work in an international context, there will be implementation of international development centers in the future. A further measure to promote talent is to offer "talent days." Here a creative exchange of talent and future employers in the company will be held across all business segments and with the involvement of the executive board. In addition, DB Mobility Logistics AG will offer its potential high performers comprehensive programs and seminars for systematic career development (Wiedemann and Huch 2015).

Talent Development at Lufthansa Technik AG

Lufthansa Technik AG international talent management is based on comprehensive development of a culture of leadership, supported systematically ever since 2010. According to Astrid Neben, director of Personnel and Organizational Development of Lufthansa Technik AG, measures such as systematic succession planning, internal planning of promotions, and regular grading of management have been implemented as routine processes, thereby significantly contributing to the success of the company. The orientation of leadership development on the Lufthansa-wide competency model is a relevant building block of cross-corporate talent management: "Leadership Principles," which addresses all members of staff. This model constitutes the basic framework for effective staff and leadership development policies – creating a common understanding of leadership. Regular and systematic analysis of performance and potential on the basis of the Leadership Principles provides an informed and current overview of company potential.

For the directed development of talents apart from leadership careers for defined families of jobs, Lufthansa Technik is also offering careers in projects and technical fields. Via the Lufthansa School of Business, colleagues are also offered individual and internationally oriented development opportunities such as tailored training and continuing education and dialogue and network platforms. Assessment centers are used for filling leadership positions. Appointments to management positions used to be preceded by attendance at a development center, with the objective of an appointment on a leadership level. Graduates of the development center, however, often failed to attain the technical and cultural know-how needed to successfully hold down the job positions. The current implementation of assessment centers allows a more targeted positioning of candidates with potential (Neben 2015).

A Success Factor for Companies of All Sizes

Implementation of international talent management is currently practiced mainly in large companies as they are represented at various locations around the world and have established interesting opportunities for an international career or personnel changes through their personnel structure. In addition, large companies often have access to better financial and human resources (Ewerlin and Süß 2013). For small- and medium-sized businesses, however, the relevance of talent management with an international focus is also important. For example, although no global business activities are planned, changes in the labor market, particularly in the employment structure, should be focused on. Professionals and talents of international origin are increasingly moving toward the center of attention in order to meet current and future challenges such as internationalization or professionalization. As stated in the article, every company has to determine for itself the way in which talent development is implemented. Therefore, even small- and medium-sized enterprises should seize the opportunity and go with targeted development measures. Major impacts can already be achieved through cost-conscious investment. A first step could be to systematically use everyday tasks as well as existing projects and working groups for staff development in which talents are specifically integrated, challenged, and encouraged in coping and solution processes. The resulting win-win situation for the company and for the talented employees has a positive effect on the entire working environment and on competitiveness.

Dos and Don’ts in International Talent Development

Practice Extra-Occupational Talent Development

As a component of talent management, talent development deserves to play a process-accompanying role in all phases of the work process. Even successful employees desire continued encouragement. You can increase your employees' job satisfaction and performance motivation through future-oriented perspectives.

Every Employee Is Important!

In addition to promoting the best, also focus on each and every worker's talents and strengths as part of targeted human resource development. Create a work culture in which every employee feels motivated to give his or her best.

Expand Responsibilities

Successful talent management is rooted in corporate strategy and should also be structurally incorporated into the business and managerial level, in addition to the responsibilities of human resource management.

Implement Diversity Management

The basis for successful work is formed by an organizational culture characterized by mutual consideration, appreciation, and openness in dealing with one another. In this regard, diversity management is an important factor for a company's success, since recognition and encouragement of staff diversity have a lasting effect on workers' motivation and ability to perform.

Take Advantage of Employer Branding

Employer branding plays an important role in recruiting talented employees and gaining their loyalty for the long term. Keep in mind that this process starts with the first contact through human resource marketing. Orient your recruiting strategies on the global level and position yourself as a more attractive employer than your competitors.

Recognize the Importance of Coaching and Mentoring

The use of coaching and mentoring is a central component in international talent development, because this enables very specific development processes. On the one hand, coaching and mentoring can function as individual measures. But they can also be used in tandem with other strategies, such as job rotation, action learning, learning circles, and stretch assignments, to offer additional support.

Consider the Cultural Differences of Your employees' Achievement Motives

Achievement motives and performance vary depending on an individual's national culture. The use of international talents therefore makes it necessary to take account of effective management and communication styles, which should be very precisely tailored to employees' cultural backgrounds.

Invest in Your Managers

In addition to high managerial motivation, complex managerial competencies are required in order to successfully function as a manager. The reflection of one's own management behavior and the refinement of one's personal management style also play a fundamental role in supporting colleagues' talent development as well as possible.

Establish a Positive Discussion Culture

Successful working relationships are based on a positive discussion culture. Utilize performance reviews not only for the exchange of information but also to express your appreciation of colleagues. All over the world, treating employees with respect is among the most important motivation factors.

Be Innovative in Your Design Possibilities

Don't hesitate to implement international talent development because of the presumed expense and time involved. Even small investments can have a big impact. So use your design freedom to implement effective talent development measures.

Don't Make Indiscriminate Use of Talent Pools

Employees have expectations when joining a talent pool. Can the company live up to these expectations and is the employee really capable of meeting the specific requirements of the position to be filled?

Do Not Underestimate the Importance of Intercultural Competence

Intercultural competence forms a crucial foundation for the success of activities in international work environments, as well as the success of cooperation in international work teams. Targeted promotion of intercultural competence is therefore not a voluntary exercise but a prerequisite.

Don't Waste Your Expatriates' Valuable Knowledge Potential

After returning home, if an expatriate is unable to put into practice the experience and skills that he or she learned abroad, then this increases the risk of employee dissatisfaction and the likelihood that he or she will seek a new employer. You will be losing not only a valuable employee but also knowledge and experience that can give you a competitive edge.

There Is No Such Thing as "Too Small"!

It's not the size of a company that matters when implementing targeted human resource and talent development. In addition to large corporations, small- and medium-sized enterprises should also seize the opportunities that internationally oriented talent management offers.

Conclusion

By intensifying global economic relations and the problem of the future shortage of skilled workers, the special field of international talent development is of particular importance in companies and organizations. Successful operation on international markets requires that the increased complexity is taken into account in staff design and development through international factors. As part of the article, it was shown which position international talent development has taken within international talent management and what special issues are to be considered in the establishment and implementation of the area of responsibility. In particular, the strategic importance of the international talent development has been demonstrated in the corporate context. From the perspective of human resources management, talent management makes a major contribution to achieving an organization's strategic objectives. Due to this strategic function, talent management should be structurally involved at the executive or board level and not be the sole responsibility of the HR departments. This gives this special field strategic direction and meaning, which is necessary for successful implementation.

In this article, various measures have been discussed as to how successful talent development can be implemented at a national and international level. The range of topics included basic aspects of corporate or organizational culture, communication between staff, personnel management, and concrete measures toward qualification of talent and leadership. Additional emphasis was also laid on the promotion of intercultural competency and the deployment abroad of talented staff. Successful participation in international markets assumes that the increased complexity brought about by intercultural factors is taken into account in the selection and development of staff. Targeted talent development will prove beneficial in several ways, not only increasing staff performance but also positively impacting on work satisfaction, staff motivation, and loyalty.

It is critical that staff and talent development is the responsibility of both the company and each and every employee. Through the employee's own initiative, the element of self-determination is activated, which has a positive effect on individual development. Talents should accordingly receive an operating supportive framework in which they can work on developing their career from their own initiative. The implementation of individually tailored talent development should be based on a specific culture of feedback, which, for example, is successfully accompanied by regular development meetings, coaching, or mentoring.

Even if differentiated promotion of talents is recommended, in conclusion, it should be pointed out that it is advisable to promote the talents and strengths of each colleague in the context of specific employee development. To generate a positive work environment, which is the basis for the motivation and commitment of employees, appreciation of the diversity of people plays a major role in particular. In the process, a loyal treatment on professional and personal levels is the basis that motivates colleagues and responsibly shapes the value creation process of the company.

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Performance and Talent: Essentials of Coaching

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Abstract

The following chapter provides an overview of coaching as a key way of managing employees, thinking about their well-being, and increasing their business success by having empowered them. For managers, coaching unleashes their full potential. On an organizational level, coaching ensures a company's long-term sustainability – a talent management approach toward developing and retaining talent and contributing to greater employee satisfaction. In the following chapter, coaching is discussed in such a way as to hold meaning and significance for business. It is viewed not only from an array of diverse perspectives but also as a summary that reflects the experience of the authors. This is part of an effort to provide an all-round view when it comes to taking a decision whether to introduce coaching into an organization as a service, as a leadership style, or as a part of a shift in corporate culture. When organizations embark on a process of fundamental change, coaching is an excellent way of accompanying individuals, employees, and organizations as they traverse the route of this transformational process toward the creation of a new business culture.

Keywords

Leadership style • Coaching as a leadership style • Corporate culture • Transformational process • New business culture • Manager coach • Improve business performance • Improve productivity • Maximize performance • Coaching as a service • Coaching as a culture • Coaching process • The coaching journey • Cross-cultural coaching • Global coaching • Intercultural coaching • Coaching across cultures • Executive coaching • Manager as a coach • The future of coaching • Effective coaching • Internal coach • External coach • External global coach • Cost of coaching • Group coaching • Virtual coaching • Science of coaching • Life coaching • Career coaching • Business coaching • Personal coaching • Qualifications of a coach • Coaching vs. therapy • Contractual goal-oriented coaching approach • Evaluation of coaching • Purpose of coaching • Radical change of attitude • Radical change of behavior • Peer coaching • Intact team coaching • Leader as a coach • Coaching tool box • The attitude of the coach

Introduction

What Is Coaching?

In the sixteenth century, a "coche" (French) was a vehicle that carried people in the direction they wanted to travel. It was driven by a "cocher." This metaphorical meaning remains; coaching aims to accompany people as they make changes and accomplish goals that really matter to them. During the coaching process, the coach works with clients to help them find the answers themselves; it focuses on enabling them to reflect and contributes to unlocking the "coachee's" potential.

Coaching is a process that engages the coach and the coachee in a formal contract between themselves. This contract defines the relationship and reflects the coachee's goals and objectives. In the business context, coaching also aims to enhance leadership skills. Performance plans are replacing the formal contract agreements between the internal coach or the "manager coach" and the employee, but performance plans are not a substitute for coaching.

Coaching is almost always a short-term process, with the final goal being the unlocking of one's potential in order to improve individual business performance and productivity or to help the coachee to resolve some personal problems (when these are not symptomatic expressions of mental disorders). When directed at leadership style, coaching is a long-term process which is designed to last as long as the professional relationship with the organization lasts.

Differences Between Coaching and Mentoring

Mentoring is concentrated on the transmission of knowledge and experience among individuals and is mostly conducted by professionals with extensive experience and expertise. The mentor relationship is a long-term one. Mentors are found both within the organization itself, as well as externally, and are ideally subject-matter or industry-experts. As already mentioned in the definition, the characteristic of coaching is a short-term relationship, with clearly identified goals, and an action and results orientation. The client pays for the services of the coach, who in most cases, does not work for the same organization.

Differences Between Coaching and Psychotherapy

Psychotherapy focuses on mental disorders that impact a person's life in such a way that this person is not able to perform the normal activities associated with daily life. The frequency of the symptoms, their duration, and aggravating and relieving factors seriously affect the functioning of the individual. The process of psychotherapy often lasts much longer, with emphasis on the past and the present, and an insight-oriented approach.

Coaches can refer a client to therapy when required; mental disorders form the red line between coaching and therapy.

People Perspective

The Reasons Behind the Success of Coaching

Coaching has its roots in the field of sport and aims to reduce the internal obstacles of athletes. The potential that is released shows the way for maximizing performance. Coaching came into the business sector some 20 years ago and was mostly reserved for senior managers. Coaches were primarily psychologists.

Nowadays, coaching is available for professionals across all levels and fields. The rise in the popularity of coaching can be attributed to:

- The increase in and acceleration in organizational change over the past few years, such as mergers and acquisitions.
- The evolution of the role of the leaders over the years: Managers are asked to make decisions, drive change, develop the competency of their employees, and to adapt their capacity to deal with change.
- The acceleration of business processes, workplace diversity, globalization, and cross-functional teams has forced managers to rapidly shift to new skill sets that cannot be addressed by classical training only.
- The expectation on the part of employees from their companies to assume greater responsibility for their personal and professional development.
- Employees who no longer rely exclusively on their employer to provide them with all that they need for the development of their careers.
- Individuals who wish to take control over their own destinies. Awareness and a sense of responsibility are strong drivers, and coaching seems to provide something more than training to support self-development.

Employer Branding

In many companies, coaching is a confidential process. This means that only decision-makers and the human resources department are involved in discussing the nomination process. Nevertheless, the writers recommend establishing a transparent process, as fast as this is possible. Ideally, this process is aligned with a long-term human resources development strategy and should be reviewed and adapted on a regular basis. The eligibility process for coaching is the key. If incorrectly communicated, coaching can become:

- A threat: The last chance before an employer takes hard measures.
- A type of punishment: It might be considered to be a form of punishment in the sense that colleagues can point the finger at the coachee (this is because it is assumed that he/she has done something wrong).
- Because it can also arouse jealousy and envy:

When done well, coaching can help a company to implement a management style where employees are empowered and can work independently. It can enhance the notion of an "employer who cares for people, and develops people." By offering coaching, the company expresses a sincere interest in its people and shows belief in them. This is the fairest way of striking a balance between performance requirements and the development of the employee's potential. Successful long-term implementation of coaching as a service or as a culture will also contribute to a company's reputation as an "employer of choice" in the market and may become part of its employer branding – all of which enhances the organization's ability to attract high-quality people. Nevertheless, organizations are well aware that coaching may lead its employees to leave the company. This problem arises sometimes when the employee's values, for example, are not aligned with the values of the company. A coach may be able to support the employee to leverage differences in a positive way and to reconcile them with those of the company, which in turn may lead to employee retention.

Coaching and Ethics

Rather than focusing too heavily on the skills of the coach, one should emphasize their inner values, deeply held convictions and qualities, all of which have considerable importance and significantly impact the process of coaching. The authors truly believe that this is the key to achieving success in coaching. Coaching is a personal relationship – an authentic meeting of minds on equal footing.

The writers are aware that in some Asian cultures, the coach is seen as a superior, and the coachee expects him/her to have a dominant role. But this situation cannot build the fundamentals of a working relationship over time. The right coaching relationships imply a negation of any kind of imbalance in power.

Based on the three aspects of a human being – physical, mental, and spiritual – the coach considers the person in his/her entirety, body, mind, and soul. It is in this context that each particular situation, each problem, is tackled. The coach listens on these levels and hears where the clients are located in the process.

In each coaching situation, the hope and belief of the coach is that each subject is full of resources and does have the power of choice. The coach encourages and supports people to find their own answers. The coachees are capable of choosing and taking action. The freedom of choice also implies the other side of the same coin: the responsibility for providing answers, making decisions, and taking action.

An individual is a dynamic entity. When the coaching relationship works well, the process of self-reflection, and the ability to self-distancing, which contributes to accelerating implementation of the desired changes, occurs. The coach needs to

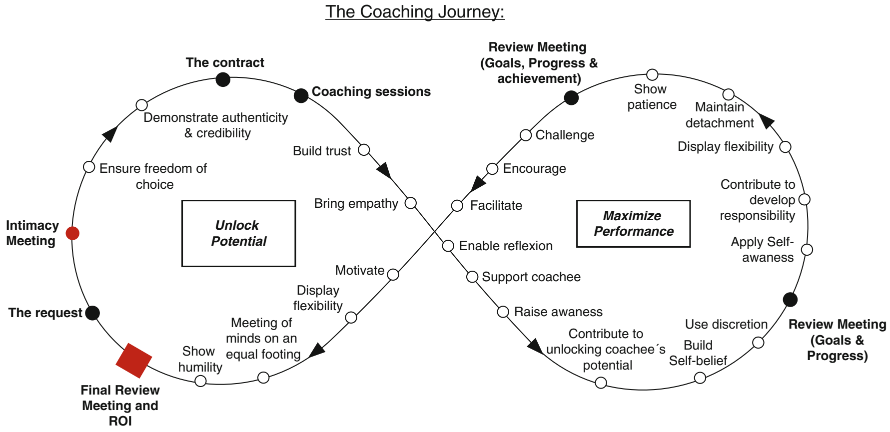

Fig. 1 The coaching journey

bring flexibility and create the capacity to adapt quickly. This is the reason why goals should be reviewed on a regular basis, especially when the coaching process is initiated by a third person.

Professional coaches anchor their practice in a code of ethics, which builds the backbone of the working relationship. Coaches subscribe to principles and values. A coach will always "act in such a way that they treat humanity, whether in their own person or in the person of another, always at the same time as an end, and never simply as a means" (Immanuel Kant, *Groundwork of the Metaphysics of Morals*). In consonance with this principle, the authors consider that the guarantee of confidentiality and the protection of the coachee's integrity are key factors for the success of the coaching process. For example, in the context of the intervention of an external coach in a company, it is not uncommon for the management or the board to exert pressure on the coach to disclose confidential information that the coach has acquired from his/her clients. But professional coaches are not afraid of losing a contract or contact with their clients because of this reason.

This graphical representation aims to provide an overview of the complete coaching process (Fig. 1).

The different stages not only constitute the values embodied by the coach but also the attitudes the coach adopts during the process. This is a global, and at the same time, endemic process, which takes place in each coaching session. Each coaching session entails the opportunity to validate the goals and review the progress and the achievements of the coachee and for the coach to embody these values and attitudes. The coach needs a great deal of broadmindedness, flexibility, and tolerance to represent these values. (Note: The ICF does not talk about values or attitudes but uses the words "principles of coaching" and "core competencies," which are reflected through skills such as questioning skills. Another word used by the IAC is "masteries.")

A New Discipline Has Emerged: Global Coaching

For many years coaching has been considered a profession which can be implemented all over the world without any specific customization. The concept behind this approach was that the principles, processes, tools, and skills for coaching could effectively remain the same as we are all human beings. And since coaching is about supporting an individual to reach his or her potential, there was no need to embrace a specific cultural approach. Most coaching schools would offer similar training to their students across the world without emphasis on adapting the coaching approach related to cultural differences. As much as the principles, processes, and skills for coaching remain effective across the world, this approach will minimize the impact of cultural differences concerning effective coaching and results.

It is crucial first of all to clarify the definition of global coaching and specifically the difference between:

1. Cross-cultural coaching (also called intercultural coaching)
2. Global coaching (also called coaching across cultures)

Cross-cultural coaching is the process of coaching someone to enable the person to effectively work with other cultures. To achieve this competence in today's globalized world, cross-cultural skills are very much needed and training could be a sufficient means for helping individuals to understand cultural differences. Self awareness is a prerequisite for being able to adjust to other's cultural preferences. If the interaction is one-on-one, it can be referred to as cross-cultural coaching. Nowadays, many companies provide cross-cultural training programs to their expatriates to support their effectiveness while relocating them internationally. The aim is to teach them how to bridge cultural gaps and to make the relocation process easy – both socially and professionally. The process includes understanding one's cultural preferences, understanding other's preferences, and how to leverage those differences to accept and adapt and, as a result, to become more culturally aware and competent.

As a coach, global coaching or coaching across cultures means being able to understand and to relate to clients from different cultural backgrounds and to adjust the coaching approach accordingly. A global coach can also specialize in specific types of coaching such as executive coaching, career coaching, etc. Do we, regardless of the type of coaching, coach an American in the same way as a Singaporean? The authors think that the answer is no. Cultural differences need to be taken into account as the coaching dynamic is impacted by cultural preferences and orientations. Leveraging cultural differences will allow both coach and coachee to look at fresh perspectives and share even more meaningful conversations and will allow to unleash more human potential and achieve more meaningful objectives.

Global coaching is a profession still in evolution, but it is one which has proven to be effective for companies operating globally. It helps them in building and retaining talent, developing employees' engagement, and increasing performance by aligning the goals of the individuals with the goals of the organization.

Communicating and Implementing a Global Coaching Culture in an Organization

In a global company, creating a coaching culture may require a combination of internal coaches (e.g., Human Resources), managers as a coach (leadership style), and an external coach to support the organization in effectively developing the coaching culture.

The corporate culture defined by a company will be communicated along with their different entities in the world. However, in many cases, the local culture will influence the corporate culture. The global coach will be skilled enough to navigate across those differences to reinforce a coaching culture aligned with the corporate culture.

Integrating Culture into Coaching

The tools to bridge coaching and interculturalism come from several models or frameworks used in the field of intercultural research and include dimensions of culture represented by continuums. A cultural orientation is an inclination to think, feel, or act in a way that is culturally determined. For each dimension, the cultural orientation of an individual, on average, will lie somewhere along a continuum.

The cultural frameworks are based on the work of several interculturalists (Edward T. Hall, Hofstede, Trompenaars, just to name a few) and are based on values. There are no good or bad values, just different views of the world.

The Table 1 attached is freely inspired from several cultural frameworks. It provides insight into how the dimensions relate to coaching across cultures and the importance of adapting the coaching approach to each individual and his or her own cultural preferences.

However, to avoid stereotyping individuals, one should always keep in mind that each person has his or her own map of the world which will determine what they prefer and influence their behaviors. The dimensions of culture support the global coach in understanding this map.

The Future of Coaching

While the regulations, standards, and practical frameworks surrounding the field of coaching will certainly continue to grow, the authors nevertheless expect that coaching, which has been inspired by and confined to American and European cultural milieus, will benefit from incorporating an Asian view as well or, in more general terms, by an intercultural view on coaching.

Table 1 Cultural frameworks

Category	Dimension	Dimension	Impact on coaching	Impact on coaching	Note
Locus of control	**In control**	**Not in control**	**In control**	**Not in control**	
	People have the power and responsibility to control and influence their own destiny and external events. They can generate changes	There are powers and forces we cannot control that will influence our life, karma, luck, fate etc. and we should accept them. If it does not happen it was not meant to be	Decision making and implementation of decisions done faster. Coachee feels empowered. If I want it, I can do it: proactive. Obstacles can be removed	Internal obstacles to be removed, religious beliefs for example to integrate in decision making and action planning.	Midpoint would be harmony, knowing when we can act or let go (Ying and Yang, Taoism, Buddhism, etc.)
Time approach	**Fixed**	**Fluid**	**Fixed**	**Fluid**	
	Time is a commodity, a scarce resource to manage carefully	Life is a cycle of events, where time is an abundant resource. Deadlines are expressions of intent	We have 45 min for this session. Let's start now to make the best use of our time. Coach is trusted quickly. Direct link time- ROI	A good session will last the time needed. ROI will not be measured in terms of time invested. Need to build a connection, spend time knowing the coach and build trust	Also to be considered is the short term, midterm, long term approach and the monochronic or polychronic approach to time
Organizational structure	**Hierarchy**	**Equality**	**Hierarchy**	**Equality**	
	There is a place and a role for everyone socially and professionally. Some people have more power, status and influence than others. A clear definition of power provides a structure for societies to function properly	People are equals, all opinions and ideas valued. Power inequalities are artificial	Coachee may expect the coach to be a mentor and often seeks advice. A certification and credentials often required to build coach credibility. Coachee worried by what others will think, social, boss and peer pressure	Coachee expects the coach to be a sounding board to experiment out of the box ideas. Many possibilities	Confucianism, the 5 relationships of power

(*continued*)

Table 1 (continued)

Category	Dimension	Dimension	Impact on coaching	Impact on coaching	Note
Organizational structure	**Stability**	**Change**	**Stability**	**Change**	
	Value orderly environment with stability Change is disruptive and need to be justified	Change and innovation are welcome. Flexible approach	Resistance to change. Coaching is about change. . .less risky step by step approach easier. Bring coachee to stretch zone, not panic zone	Open to change. Creative out of the box ideas, more risk taking. Necessity to look at potential pitfalls	Also to be considered if culture is past, present or future oriented, and the degree of acceptance of risk taking
Communication	**Direct**	**Indirect**	**Direct**	**Indirect**	
	Words are important and a message short and sharp. Say what you mean and mean what you say. Explicit. Conflict is ok	Harmony and face saving are important and not every truth is good to say. Implicit. Conflict should be avoided	The coach can speak the truth, and challenge with tough questions and insights. Assertiveness valued. Phone coaching widely accepted	The coach will need to build trust first and then adjust the questioning style to avoid making the coachee lose face. Attentiveness to non verbal communication, tone of voice, body language, context etc. Trust longer to build. Phone coaching more difficult	This is also linked to High-low context and conflict management
Communication	**Emotional**	**Neutral**	**Emotional**	**Neutral**	
	Display of emotions is accepted Personal connections valued	Emotions are not openly expressed or shown Pragmatic, impersonal communication	Coach can ask about feelings and use some tools such as role play, visualization etc.	Coach needs to read more the indirect communication and sense when some tools will not be accepted as leading to too much emotional potential reaction	

Communication	**Formal**	**Informal**	**Formal**	**Informal**	
	Formality is conveyed through protocol and strict social rules of behaviors which are clearly defined and agreed upon such as forms of address, name cards exchange, seating arrangements, dress code	Protocol kept to a minimum. Familiarity, a friendly and relaxed atmosphere are valued and expressed through use of first names for example	Will impact where to coach and use of titles, dress code etc. Coach should not be too familiar and understand the hierarchy where coachee evolves	Coaching can be more relaxed including in coffee place	English language is a problem as there are no forms of politeness
Mode of thinking	**Deductive**	**Inductive**	**Deductive**	**Inductive**	
	Reasoning is based on principles, theories, concepts and previous experiences	Reasoning based on experimentation. Facts are compiled to reach conclusions	Coach can use more specific tools but must refrain from moving into consulting, or telling mode	Coachee needs to see clear application. Coachee can be too much in story telling mode	Influenced by education system
Mode of thinking	**Linear**	**Systemic**	**Linear**	**Systemic**	
	Dissect sequentially a problem into small chunks	Holistic approach, connection and integration of issues and ideas	Coachee may lack of big picture approach	Coachee may not move into action, spending too much time procrastinating on the impact in other areas such as relationships if the coachee is from a group and hierarchical oriented culture	

Culture is only part of the equation. Using intercultural tools will help the coach to push beyond the confines of his/her own culture's norms when coaching. The intercultural dimensions offer a foundation on which coaches can build a better understanding of the role culture plays in their work and a way of thinking that can help them to improve their effectiveness as coaches and better support their clients to achieve meaningful objectives.

The classical definition of coaching and the well-known tools and processes (the Science of Coaching) therefore remain relevant, as do most tips on the art of coaching, with the additional layer of the art of coaching people from different cultures.

Mastering both the science and skills of coaching, as well as the intercultural approaches in the field, allows the integration of the cultural dimension/orientation into coaching and, furthermore, the integration of coaching skills into more general intercultural work.

It is the blending of the interculturalist world with the coaching world.

Global coaching is becoming therefore a global trend as it helps to better understand the clients with the inclusion of the cultural aspects, and move them quickly towards their goals. This innovative multi-cultural approach to coaching is aiming at effectively facilitating human fulfillment and growth with a global perspective in mind. The advantage for global companies is that the global coach whether external or internal, will be able to work not only with experts from the head quarters, but also with the local workforce in countries where the multinational operates.

The speed of business processes and business cycles, peer relationships, cross-functional organizations, and workplace diversity requires managers and employees to speed up their learning curves. Effective coaching interventions offer scope for this, much more than training does.

Economic Perspective

The choice between an external coach, an internal coach, or the manager as coach has a considerable impact both on the results of the coaching and the consideration that should be given to investment regarding compatibility with the objectives and purposes of coaching. The following Table 2 presents the advantages and disadvantages of choosing internal or external coaches, including manager coaches and external global coaches.

When looking at the overall picture, the internal coach or the manager coach appears to be the best choice as far as costs are concerned. But organizations should pay attention to the total cost of the services, including additional training, which is often required to ensure the quality of the internal coaches and the managers as coaches. Specialized organizational coaches can be underutilized at times.

There are two major implications for organizations in using an internal coach or a manager as coach:

Table 2 Decision matrix: make or buy

Internal coach	External coach	External global coach	Manager-coach
Low cost of services, but additional training will be necessary if the internal coach has no specific coach certification	High cost of services. Eligibility for coaching has to be carefully defined, panel of coach recommended	Same as external coach	Low cost of services, but additional training might be necessary
Shares corporate values and culture	Brings in objectivity, introduces fresh perspectives. Will document himself on company corporate culture and values	Same as external coach but also navigates and makes a link between corporate and local values and cultures	Shares corporate values and culture
Lesser degree of confidentiality	High level of confidentiality, greater objectivity	Same as external coach	Lesser degree of confidentiality
Belongs to the organization; may be perceived as biased	Impartial and free of any conflict of interest	Impartial and free of any conflict of interest	Team leader; may be perceived as biased
Short-term process, but long-term relationship	Both process and relationship are short-term	Both process and relationship are short-term	Long-term relationship and process
Target: usually C-Level, could also be executive level, middle management, junior level	All levels: C level, executive level, middle Management/ and junior level	Same as external coach, with specialization on Expatriate and global managers	Team members
Relationship of dependency	Contracts between the parties involved	Contracts between the parties involved	Superior-subordinate relationship
Focuses on business performance and productivity. May also focus on well being of coachee and career goals	Focuses on business performance, productivity and personal development and challenges	Same as external coach but can also focuse on bridging cultural gaps and making relocation process socially and professionally easy	Focuses on business performance and productivity as well as career development
Has in-depth knowledge of people and the organization	Listens and observes. Has in-depth knowledge on coaching and usually on psychology	Same as external coach, also Has in-depth knowledge on coaching and interculturalism	Has in-depth knowledge of people and the organization

1. Dedicated employees as coaches may not be the appropriate solution for an organization. More often than not, a few individuals in an organization will volunteer to be trained in coaching to become an internal coach. But their enthusiasm may not compensate some lack of specific coaching skills. It is crucial to assess their personality, preexisting knowledge, and emotional intelligence as high-level soft skills are required for effective coaching.

2. One of the major risks of training an employee to become an internal coach is that once certified as a coach, the employee will leave the company to work as an external coach. In any case, it will be a challenge for such employees to strike the right balance between challenges encountered in their daily business and internal requests for coaching. These are two dimensions which are of different nature: one has an operational dimension, with a short-term view, and the other a more strategic one, with a medium-term perspective.

Delimitation of Boundaries Between Coaching, Training, and Teaching

Choosing the right form of coaching-related services from a provider also has an impact on the results and the investment. It seems often the case that organizations are not clear on what training, coaching, and teaching, respectively provide. Sometimes, the investment made in coaching is much above that invested in training, and in some cases, the service provided on a one-to-one basis could have also been provided to a group of people, because coaching was not necessarily required.

The Fig. 2 below presents the delimitation of boundaries between coaching, training, and teaching.

When discussing coaching, especially with organizations, it is vital to understand their perceptions regarding coaching. Coaching is often used to describe services that are, in fact, skills training, such as conflict resolution and assertiveness, or interculturalism. When this has to be done for a small group of persons, or one person, then the word "coaching" is sometimes used. But as can be seen from the graph, coaching is dedicated to **managing changes**, creating outcomes, and is **highly personalized** and hence tailored to each person. With regard to training and teaching, participants have limited scope in influencing the curriculum, even if they are invited to set their own targets. The trainer or teacher develops the training content and sets the goal of the training alone and/or in agreement with the stakeholders. Teaching and training are much more dedicated to theory than to practice,

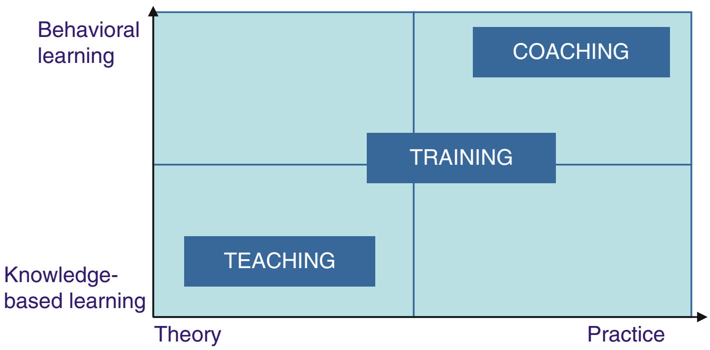

Fig. 2 Delimitation of boundaries between coaching, training, and teaching

even if today most providers believe in the contrary. Few of them are able to demonstrate that 60 % of the training or teaching time is dedicated to behavioral learning.

Cost of Coaching, Certifications and Cost

Cost of Coaching

When coaching is delivered on a one-to-one basis, good external coaches are usually expensive for an organization… This is why group coaching (usually defined as coaching several employees together) is often chosen as a more cost-effective option. In this context, it is usually provided after completion of training in order to reinforce the training concepts and to help participants to implement them in their jobs. In this case, the coach needs to be familiar with the training content. Another purpose is to allow the participants to understand coaching and practice the process and skills to become managers who will use coaching as a leadership style. Group coaching will often involve employees from different cultures and the global coach will be able to leverage on their cultural orientations to ensure that all participants are comfortable.

Nevertheless group coaching may not be as effective as the face-to-face coaching because the success of the coaching may be hindered by the lack of confidentiality.

In Asia, group coaching is usually chosen for junior managers and one-to-one coaching for senior managers.

Virtual coaching is also an option used to decrease the cost of coaching, especially when coaching is delivered for global teams located across the world. Commonly, the coach (internal or external) will coach the employees based remotely. Virtual coaching can be very effective, but it also raises several challenges in terms of communication – accents, unstable sound, lack of non verbal cues, time zones difficulties etc. An effective global virtual coach should blend his coaching and cross-cultural skills with specific virtual skills. Virtual coaching strategy works for one-to-one coaching sessions, group coaching sessions, and peer coaching sessions. Time zone differences however do increase the challenge when one French coachee joins a group coaching with a Japanese and a Thai peer or in such cases an Australian manager coaching a Malaysian employee. The major challenge involved in virtual coaching is the building of trust, which can be very difficult in Asia due to a preference for face-to-face interactions and the need for more time in building relationships.

Certifications

As most organizations lack internal, accredited, or certified coaches, human resources can either set up an internal certification program for employees who are interested in coaching or send them to an accredited external program.

For this chapter, it is important to clarify the difference between a certification and an accreditation. Schools give certifications, but those may not be accredited by international bodies such as the ICF. Before choosing a school, it is important to review the curriculum to evaluate the process and tools offered by the curriculum (Science of Coaching). The curriculum should also be adapted to the type of coaching an organization or a person is intending to implement (life coaching, career coaching, business coaching, etc).

Many program contents offered by coaching schools are now delivered on virtual mode of training as the cost of virtual training is usually lower than the cost of face-to-face training. A blended approach could be effective, but virtual training only may not be as effective as the blended approach or face-to-face training, because participants prefer a personal interaction and individualized feedback.

Eastern cultures do value certifications, and it would be hardly possible to coach without any recognized certification. Besides the school certification, an accreditation from an international body such as the ICF which offers a guarantee of the experience of the coach is recommended as the accreditation relates to a proven track record in terms of number of hours of coaching experience.

An internal coach or a manager acting as a coach for his subordinates can blend his/her coaching knowledge and skills with cultural awareness, once trained in this specific discipline. Cultural awareness training should be a prerequisite for internal coaches working in global organizations.

Receptivity to Coaching in Different Cultures

Coaching was first initiated in the United States where it is understood as a development opportunity. Nowadays the North American market is more mature than the European or Asian market, and most coaching schools are offering occidental tools and approaches. Coaching then migrated to Europe where there is still resistance. Eastern cultures became increasingly interested in coaching recently, mostly through human resources initiatives within organizations. Coaching has made its way to Asia mostly through American and European multinationals.

But very few individuals in Asia would contact a coach directly, not only for cost-effective reasons but also because there is still a perception that coaching is aimed at fixing a problem. However, at the senior level, the understanding that this is part of one person's individual development has emerged. Most Asians will prefer an external coach to maintain confidentiality.

The Future of Coaching

Coaching will certainly continue to play a key role in the future, and interest and investment into it continue to grow. Coaching works: employees who receive coaching are often successful, and many cases exist where significant improvements in performance can be directly related to coaching. The focus will be increasingly on the business context and relate to talent retention, management, and employee satisfaction. As coaching tends to be expensive, companies may, in the future, decide to rely on developing their own internal coaches, rather than hiring external ones. Enthusiasm for group coaching will continue to grow, and group coaching could become the preferred option for businesses and individuals although the major success factor for coaching is based on individual interaction to ensure sustainable growth and change in a confidential environment.

Virtual coaching could see significant developments since it is easy to implement inside an existing community, and it has the potential to make individual coaching or group coaching an exciting and sustainable model for the future.

Risk Perspective

Qualifications of a Coach

It is difficult for an organization or an individual to select the right coach.

Tentative steps are being taken to regulate the coaching industry, and some standards do seem to be emerging. Coaching, however, is not yet fully recognized as a profession, like that of a psychologist, counselor, or a medical practitioner, and many uncertainties remain among HR professionals regarding exactly what qualifications are appropriate when looking for a coach.

So What Competencies or Qualifications Should a Coach Have?

One opinion is that ideally, coaches provide services in their own fields of expertise. For example, an executive coach should be experienced in fulfilling an executive role. A coach for medical practitioners will have had experience in this profession for a couple of years before bringing coaching services into this field. This would help to avoid mismatches between the coach and the coachee. In fact, the most common reasons why coaching contracts are canceled relate to the competency of the coach and the relationship between the coach and his/her subject.

There is no unanimity across the coaching community on this topic. Some detractors of the above theory believe that the main difference between a coach and a mentor lies in the fact that a mentor should have proven expertise in the coachee's field of business, while the opposite is true for a coach.

If we accept the fact that professional issues are linked to personal aspects and vice versa, then the coach should also have in-depth knowledge of both business and psychology. This implies that the coach is able to determine at the very beginning of the coaching relationship, the level of autonomy of the coachee. He/she is also able to diagnose some mental disorders and refers the coachee to a therapist if necessary. Depending on the nature of the psychological problems, in cooperation with the therapist, both the therapist and coach can decide whether to postpone the coaching process or to carry it on in a parallel manner.

For life coaching, in which clients wish to work on improving their lives (and which means concentrating on much deeper issues), a coach could have, on top of the competencies already mentioned, a traditional therapeutic background.

Some coaching experts and therapists take different views and believe that personal issues do not belong to coaching; they consider it part of the bailiwick of therapists. From the point of view of the authors, there is an interaction and synergy between professional and personal dimensions when business issues are involved.

For example, during coaching sessions dedicated to enhancing the presentation skills of a manager, overcoming shyness, inhibitions, and fear of ridicule could also be part of the coaching process. Shedding tears and expressing emotions are part of the coaching relationship and are permitted. In cases where the coach discovers that the origin of the problem is a mental disorder, then the coach will refer the client to a therapist. This assumption, of course, has an impact on the coach's professional background.

What the Coaching Schools Provide

The processes, models, and tools of coaching differ from school to school but are fundamentally quite similar. Each coach will build his own tool box over time – coaching is a long-term and ongoing learning process. Regarding the skills, the ICF (International Coach Federation) has defined the core skills a coach must be proficient with, and so has the IAC (International Association of Coaching). The ICF names them "core competencies," and the IAC refers to them as "masteries." The skills are worded differently but are in fact very similar and shared by all coaching schools. Besides the core skills/competences such as active listening and questioning skills (among others) which are taught in the coaching schools, the coach will bring his or her knowledge of key business skills such as leadership competency frameworks, sales and time management, etc. to cement his or her coach competency profile.

An additional skill for the future is intercultural competence. A coach able to coach across cultures (a global coach) has an additional competency that can be called – CQ (cultural intelligence) along with cross-cultural skills as well as specific tools in his box. Coaching and interculturalism have existed as separate disciplines for a long time, missing cross-fertilization opportunities. The crossroad between coaching as a discipline and interculturalism is what is meant by "global coaching" and refers to integrating effective coaching practices with intercultural know-how and sensibilities, through which the coaches add new dimensions to the discipline of coaching.

The unique combination of coaching and intercultural skills will allow coaches to facilitate the unleashing of human potential while leveraging the richness that lies in cultural diversity. Global coaching opens the door to more effective coaching to meet the demands of today's diverse and international workplace and brings the depth of cultural understanding and awareness to the field of coaching. Global coaching has led to a paradigm change and an enlargement of coaching as most people have practiced it to date.

Western Coach Working as Global Coach

The advantage for global companies is that the global coach – whether external or internal – will not only be able to work with experts from the headquarters in the United States, for example, but also with the local workforce in countries where the multinational operates. In Asia, most clients would need to know prior to the coaching session if a western coach will be able to understand where they come from in terms of communication, values, etc. and if the coach understands their culture. Often Asian clients would say that most models and approaches are Western and that "it does not work for us." An experienced global coach, a hybrid between an interculturalist and a coach, will be able to remove this fear and create a climate of trust to build the relationship needed for effective coaching and optimum results.

As selecting a coach is a difficult process for organizations and individuals, the authors recommend the following checklist:

- Definition of the organizational understanding of coaching (service vs. attitude or leadership style)
- Clarity regarding the aim and content of coaching (business skills vs. performance) will have an impact on the choice of the right coach
- Intimate knowledge of the coach regarding the industry, the coachee's expertise, and the level of knowledge
- Compatibility in the social and ethical values transmitted by the coach
- Psychology background because professional and personal are often related
- Receipt of recommendations from one's network for proven and experienced coaches
- Ensuring evidence of the proven credentials of the coach and the number of years of his/her experience in the field
- And, last but not the least, the "gut feeling" of the responsible HR manager and coachee during the first meetings (trustworthiness, chemistry of compatibility, etc.)

In most countries where coaching is a recent discipline, it is common for the external coach to be selected by the human resources department and assigned to the employee. Another developing practice is a panel of coaches from which the coachee can choose from after a short "meet and greet" session.

Freedom of choice will favorably influence the coaching achievements.

The Contract

The writers have already mentioned the importance of the contract between the coach, the coachee and the sponsor/stakeholder. When the coaching processis initiated by a third person, it is necessary to define the goals of the coaching process and the expected results together. Disclosure or nondisclosure of information is part of this contract. Based on their experience, the authors recommend a written contract. It defines the starting point of the relationship. In particular, when the coaching is promoted by the company, the contract ensures that stakeholder(s) and the coachee are fully aware of the process, the goals, and the expected results. This document is not a legal one but merely an agreement between the parties. The guarantee of confidentiality and dispositions regarding disclosure of confidential information are also defined in this document.

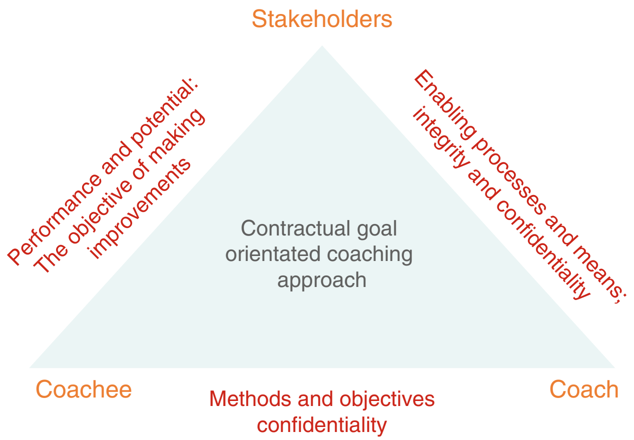

Fig. 3 The virtuous triangle of coaching

The first contract is between the coach and the stakeholder (the human resources department and/or the manager) (Fig. 3). The target is to ensure consistency between management objectives and the philosophy of the coach. Project management and quality evaluation are part of this contract, but this contract also defines the level of confidentiality and the disposition in relation to disclosures of information during the coaching process. The coachee is informed about this: it is a transparent process.

The second contract is defined between the coachee and the stakeholder (the human resources department and/or the manager, ideally the manager). It is the responsibility of both the coachee and the manager to define clear objectives and delineate the expected improvement of the performance and/or potential of the coachee. The objectives have to be written down and should be clear and explicit for both. These will be shared with the coach, sometimes during a tripartite meeting.

The third contract is between the coachee and the coach. It is set at the beginning of the process and aims at defining the goals of the coachee, while the coach presents, in a transparent manner, the possible methods which can be used during the coaching process. At the end of the contract and sometimes also during a mid-point review, the coach will invite the coachee to share his/her outcomes with his manager in his/her own words to avoid any breach of confidentiality.

A Practice That Still Remains Controversial

The rapid rise of coaching in the last few years and a shift in the understanding of coaching as a new management style have led critics to consider it as a drift toward a process of soft domination. Each actor is asked to interiorize constraints that were previously imposed externally. Some other critics underscore the fact that there are also many contradictions with regard to ethical principles and the coaching process, such as:

- When focusing exclusively on the development of individual performance, the process is not open to results anymore. Coaching of this sort makes assumptions: it is judgmental, prescriptive, and instructional.
- The manager might himself/herself be embarrassed; he/she needs to perform too, and the coachee becomes a pawn on the strategic chessboard.
- The "manager coach" has different roles: he/she evaluates the achievement and the results of the employee, and, on the other hand, he/she also accompanies the employee in his/her development and is responsible for ensuring the performance and right attitude of the coachee with respect to the organization. It forces the manager to juggle multiple roles, and he/she has to adapt his/her managing style continuously to the situation, which could be very confusing for an employee. The manager could be seen as being insincere.
- It is difficult to assess the impact of coaching. The evaluation of coaching – the calculation of the return on investment (RoI) – is still mostly based only on the perception of the coachee at the end of the coaching process or the perception of the manager of the coachee. On the other hand, few organizations assess the impact of the coaching interventions, because the role of coaching is not easily measurable.
- The external coach could be also biased when the coachee does not reach the expected targets. If the coachee decides to leave the company, then the coach could be seen as incompetent.

In the field of life coaching, there is a great deal of conflict of interest. Some therapists still seem to consider coaching as a hidden form of therapy and believe that improvements in individual and professional effectiveness are part of therapy. Apart from emotional reactions, if we consider the number of failures or the lack of achievement, coaching is far beyond psychotherapy. It is, in fact, much more regulated by standards and practical frameworks compared to different forms of psychotherapy.

Operational Perspective

The Purpose of Coaching

Coaching in the Business Context

Organizations employ external coaches to help leaders maximize their potential, motivations, and productivity; support them in periods of transition, such as during promotions, lateral moves, and expatriation; and also in order to retain individuals with high potential. The desire to enhance the ability to accept, adapt, and drive changes is further reason for providing coaching. On an executive level, coaching is about developing the potential of high performers and improving retention rates. Organizations use coaching for high-performing middle managers or junior managers, while executive coaching occurs less frequently. But some coaching also focuses on honing specific business skills, such as a manager attends a coaching session on conflict management, on performance review, or on presentation skills. However, this would be better described by using the word “individual training.”

In the business context, coaching is seen more and more as a style of management and as an important leadership practice. In that sense, it is the attitude of the leader toward the employee that changes. A focus on the development of the potential of people replaces the exclusive focus on performance.

This management style is based on the belief that each employee has the necessary resources, and the role of the manager is to help employees grow and build their awareness, self-belief, and sense of responsibility. Our experience shows that organizations that implement coaching as a leadership style are more successful and have more satisfied employees and managers than those who do not. However, this is not an easy leadership style to put in place. It is the experience of the authors that most companies complain that managers do not fulfill their leadership roles well. The expectation from their managers who implement coaching as a leadership style means that they exercise empathy, supportive behavior, and integrity toward their employees. This considerably enhances the expectations from managers. Managers complain that they lack time to lead their teams properly. This leadership style implies that managers, again, have less time at the beginning of the process. Setting up a new organizational management culture centered on coaching does mean that those managers need to add additional specific skills and knowledge about coaching to their skill set. Coaching is about attitudes; it is not another toolbox. Coaching as a leadership style means that major **transitions that are to be effected** require **a radical change of attitude** and **behavior** of the manager toward the employees. The writers believe that such a style cannot be seriously implemented in a company unless its managers are deeply and thoroughly trained in coaching. Such training should place the emphasis on deep thinking, self-reflection, and, of course, ethics. It should be completed with training on cultural differences as well which would allow a smooth coaching process and better results. Indeed, most global managers, whether they are experts or not, are leading a multicultural team and often struggle to create a highly performing team due to cross-cultural misunderstanding.

Some companies speak about the “manager coach.” The manager coach helps employees improve their skills, solve problems, and produce better results. It also aims at boosting employee engagement when coaches address workplace problems. Nevertheless, in this case, the role of the coach is ambiguous, because he is still the supervisor of the coachee, checking and monitoring his/her work. But he is also part of the organization and is under pressure to perform. He shares the same cultural and strategic contradictions, confronts similar problems, and is facing the same strategic changes. In contrast with the external coach, the internal coach deals more with contradictions and complexity, and for this reason, the scope of his work should be limited to business performance. One should ask if the concept of the “manager coach,” except for the fact that it has a nice emotional impact, is confusing. Maybe the concept of “manager as mentor” would be more suitable.

Personal Coaching

Individuals can also be contracted to coach on a private basis. This is referred to as personal coaching. Personal coaching focuses more on enabling and reflection and less on knowledge and training. The reasons why a private individual contracts a coach are slightly different from those reasons for which a coach is contracted by a company for its employees. Personal coaching depends entirely on the individual's perspective: desire for a career change, lifelong learning, achieving greater balance between work and home life, etc. People want more and more from life these days, such as greater peace of mind, less confusion, and less financial pressure. The fact that an increasing number of people consult a coach shows that individuals are more and more becoming actors in their personal development over the course of their careers. This reflects a desire for growing independence, freedom, and personal responsibility for self-development.

A Mixed Approach: Group Coaching and Peer Coaching

Group coaching is rapidly becoming a popular option for businesses and individuals because it is a highly interactive process of learning. Group coaching comprises a group of people from different organizations or peers, with common interests, who want to share their lessons learned, best practices, and knowledge. They expect to make their work more effective and efficient. This form of coaching is very practical and entails a hands-on approach. It is also enriched because participants share their experiences and time with their communities.

Opportunities for coaching are available face-to-face or via web conferences and could be formal or informal. Prior to the coaching session, the group and the coach define the outcomes desired. The coach challenges, supports, and facilitates progress through several coaching sessions. By using the technique of web conferencing, recordings of the meeting can be made available to support participants who are absent. This solution offers flexibility, particularly in an international and cross-cultural context. Nevertheless, one can also ask whether this accompanying measure becomes more explicit by using the concept of intensive training or through workshops.

Intact Team Coaching

Intact team coaching still remains rare but is emerging. Intact team coaching is powerful as all coachees belong to the same team and share common goals. It supports team building and a healthy team dynamic while also increasing performance, helping to implement change, etc. A new practice is to blend team coaching with individual coaching in between team sessions to support the individual or team needs.

Attempt to Measure the Return on Investment (RoI)

The authors believe that the challenge in measuring the results of coaching does not reside primarily in the nature of coaching but within the goal-setting process, which should be the starting point of each coaching process. The experience of the writers shows that organizations do not pay enough attention to this for two main reasons:

a dearth of time and misunderstandings as to who is responsible for each part of the process (the coach, coachee, or stakeholder?). Taking into consideration the huge investments coaching entails, measuring only the "happiness" factor of the coachee and his boss is not suitable. Organizations need to quantify the results of coaching. The coaching goals have to be specific and correlated with the key performance indicators (KPIs) which have to be measured during the process and, at the end of the process, the level of achievement. The writers suggest dividing the main goal (improvement of productivity, for example) into sub-elements (such as (1) delegating more effectively, (2) enhancing bottom-up communication in my team, etc.) similar to how work packages are defined in project management. Then it is necessary to go further with the identification of measurable parameters, that is, quantify them. What does this mean? This includes reducing the number of issues within the team or with customers from x to y or saving time up to a factor of y. One assumes that this requires substantial investment in terms of man-hours at the beginning.

Following this, assessment or a 360° feedback could be conducted, in a pre- and then a post-format. When coaching focuses on behavior, the comparison between one's perception of oneself and the perception of others will give the coachee a better understanding of how one's behavior affects others. There are also other ways of assessment, such as ones that measure values, preferences, and personality. These are suited to generating rapid awareness regarding these topics, but as these have very deep dimensions, changes cannot be seriously expected during a short-term coaching process. Therefore, it is recommended that assessments are used which are based on criteria that have been specifically defined for the coaching process.

Detractors will complain that this is not a very quick method. Nevertheless, when a routine and well-formalized approach is considered, the added value and credibility of such a process are undeniable.

The RoI, too, should be measured during the process. A review of progress with the coach, the coachee, and the manager or stakeholder allows all the reviewing of all of the relevant coaching objectives, eventually reorganizing them and, of course, measuring the progress. While the coach needs to help the coachee to keep working in a particular direction, he also needs to be flexible enough to change the plans, if required. In that sense, it is necessary, after a couple of weeks, to involve all the different parties again (mid-point review).

Methodological Perspective

At present, coaching uses many of the tools and techniques set out in various psychotherapeutic models. This process is not linear but is affected by trends – during the 1990s, neuro-linguistic programming, and during the last 10 years, transactional analysis and systemic approaches, for example. Behavioral psychology and humanistic psychology also have a certain amount of influence. Tapping into these methods offers a rich source of tools, but sometimes these trends tend to limit coaching, especially when organizations require that the coach be trained exclusively on one psychotherapeutic model. When coaching becomes dogmatic, with top-down advocacy for one specific philosophy, for example, then coaching loses touch with its deepest credo: freedom of choice, moral integrity, and responsibility.

American and European cultures considerably influence the coaching methodology. As coaching is witnessing significant growth worldwide, coaching methods from the Asia-Pacific region will certainly influence models and methods and might be our representation of coaching. The Western and Eastern philosophies, ancient as well as modern, could make a major contribution to the development of coaching but, as of now, are underrepresented.

For years, psychotherapists have been trying to identify, through research, the validity and reliability of their methods. Coaching that mostly takes place in the business context should embrace with passion each initiative aimed at demonstrating the return on investment (RoI) of the methods applied during the coaching process.

Traditionally, coaches use assessments for their coaching sessions such as the MBTI, a tool measuring inborn preferences or Emergenetics, DISC, etc. Very often, these tools are made available by human resources based on the company predefined profiling tools used in their organization. If coaching is largely about shifting and expanding people's perspectives in a way that they can translate their discovery into daily actions, then working with individual belief systems, assumptions, and values is vital and allows a depth and breadth of perspectives to uncover even more possibilities when facing dilemmas. For these reasons, some Coach argue that the use of any kind of psychology-based diagnostics tends to limit the impact of coaching. Furthermore, for a global coach, understanding the cultural preferences of the clients and raising their awareness is essential to allowing them to discover the impact of those preferences. One example would be the dimension about the modes of thinking (deductive/inductive). A deductive approach would be more European, while an inductive approach would be more North American (these are well-researched trends, but we should avoid stereotyping and remember that each individual is unique). Another example, related to communication, would be the flexibility of the coach regarding questioning skills. A coach will not use the same type of questions with a Dutch national and an Indonesian national.

Reconciling and leveraging both (the global approach) would allow alternative views of a same situation, and finding solutions from various perspectives would allow more creativity in problem-solving methods and therefore more options for action, more impact, and more meaning.

Dos and Don'ts

Dos

Coaching Starts with Listening:

A coach supports his/her coachee (the person who is coached) in becoming successful. To do this, the coach actively listens to the motivations, goals, and emotions of the coachee, develops an understanding of the coachee's relevant environment, and jointly develops, along with the coachee, strategies for his/her success. This also includes an understanding of what "success" means for the coachee.

Coaches Are Independent:
A true coach does not have any stake in the environment of the coachee and is fully independent.

Coaching as a Leadership Style:
Define your understanding of coaching clearly if you wish to avoid confusion within your organization. The concept of "leader as coach" has its limits, because the leader has interests of his/her own, which might differ and even be in conflict with the coachee's interests. Of course, a "coaching leadership style" is desirable, in which a leader displays congenial behavior, such as active listening, and a supportive attitude toward the employee.

Coaches Should Be Selected Carefully:
The expertise required for real coaching is similar to psychotherapy, even though coaching should be conducted carefully in order to avoid it turning into psychotherapy. A coach has to know what the limits of coaching are! Internally experienced staff members may become coaches but only after a structured education and selection/a quality management process. Coachees usually develop trust and so a certain kind of vulnerability toward the coach, which the coach has to deal with in a professional and ethically responsible manner. Not everybody can be a coach, and not everybody should be a coach!

Organizations should invest some time in the definition of an evaluation process based on different levels: qualitative and quantitative.

A coach should have a broad tool box and use tools as and when needed. Often, experienced coaches use tools out of awareness as they integrate them in their coaching instinctively. Some tools may work in some cultures and some may not. Global coaches have extended their tool box and repertoire of behaviors; they can hold different frames of references in their mind at any time and call upon multiple cultural perspectives at any time.

Don'ts

A person who has never delivered coaching before should not improvise in this field. It is mandatory that a coach completes a training program, which usually takes 12–14 months, before delivering coaching services.

Coaches, who are asked by a third party to disclose information shared during the process with the coachee, should not do this unless it has been initially contractually agreed with the coachee and the third party. External coaches should avoid when possible to coach different employees of the same department inside the same organization who are working closely together or are in a relationship of dependency.

Being unclear about the organizational understanding of coaching and the limits of this service will generate a climate of uncertainty, which could affect the employee's morale. Being imprecise around the use of the concepts of coaching, mentoring, and training will create confusion in the organization and has the potential to waste both energy and money.

Coachees should not be left alone in the process of selecting their coach. The role of the HR is to match the individual and the context within a framework of clearly defined goals to an appropriate coach. In another approach, a coachee can choose a coach among a panel of coaches after a short “meet and greet” session.

Organizations should not abandon the goal to develop and roll out methods for assessing the results of coaching.

When organizations require that a coach be trained exclusively in one psychotherapeutic model or require that a coach needs to hold a certification from a specific organization, the very act of coaching becomes dogmatic. Coaching under these pretenses loses touch with its deepest credo: freedom of choice, moral integrity, and responsibility.

Outlook

The present times are marked by a rapid evolution of professions and an increasing drive for accountability in every workplace. Managers continue to experience an increasing workload and need to rely on employees being accountable.

Organizations are emphasizing intellectual capital, that is, new recruits are seen as knowledge workers. The conception of employee knowledge as the new capital for an organization makes it necessary to rethink the management’s style of functioning. This is a process that durably challenges and transforms the conception of an organization.

While organizations previously valued conformity to the internal structure and submission to hierarchy, today they look forward to fostering employees to take initiative and to be the real source of ideas and proposals within the organization. Managers need to adapt to this so as to support the rising power and autonomy of the employees.

The search for employee willingness to innovate is becoming an essential criterion for success. Such a positive outcome needs developing relationships of trust with the employees, because there can be no initiative without a certain amount of freedom.

Freedom requires transformation of the style of communication, where the employee’s voice finds equal legitimacy as that of the manager. In other words, listening to the employee’s motivations becomes a key management attitude, and the fostering of employees to take initiative, a necessity for the organization.

A real willingness to cooperate should be able to develop open communication channels between managers and employees. Therefore, a management style based on trust must replace a management system marked with “fear of the boss.”

This is indeed a great challenge! And coaching fits in this perspective. Coaching is not a passing trend or fashion, but it is an integral part of each organization with ambition for growth.

Coaching is not a stand-alone process and needs to be integrated within organizational processes and into a global learning and development strategy. Coaching is part of the corporate leadership model, which needs to be defined and formally written by each organization.

The challenge for Human Resource managers is to analyze the maturity level of the organization for implementing coaching as a service or as a culture. The value of coaching to support organizational changes and learning implies a supportive environment; organization affected by major changes in which fear and uncertainty are part of day-to-day life will not allow coaching to be very effective.

Performance and Talent: Virtual Coaching 32

Laurence Baltzer

Contents

Abstract

New technologies have opened new possibilities for tailored and flexible human resources development. Although available for many years, synchronous virtual communication platforms have only found a real place in business in the last 5 years. In many companies, face-to-face learning is still preferred to virtual synchronous learning. In the field of management coaching, coaching from a distance – coach and coachee are separated by space and time – is still the exception. However, looking at managers' diaries, human resources development should explore more approaches that allow for time- and space-independent ways of communication and cooperation between coach and coachee.

Immersive Coaching® is a coaching approach that combines the advantages of face-to-face and virtual interaction. A characteristic feature of this intensified way of coaching is that it not only aims at creating the best possible coaching process in time for the coachee (and the coach) but also puts large emphasis on creating a coaching space (or spaces) that provides further added value for both partners: stimulating a relaxed and trustful coaching atmosphere and allowing for new learning insights by possibly being embedded in a tailored learning scenario.

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Thus the word "immersive" stands for two dimensions of further intensification of the coaching process: In difference to classical coaching processes that rely on a set of f2f events, Immersive Coaching® tries to aim at a continuum of coaching interactions and if possible it tries to embed the coachee into a learning environment that provides exactly those learning situations that are needed in order to achieve the development goals of the coachee.

Immersive Coaching ranges from "face-to-face only" to "virtual only."

With this approach, coachee and coach can "design" a flexible coaching process so that

- This process is well integrated in the coachee's daily working life.
- Interaction can take place in a web-based format wherever the coachee is.
- All coaching information is available for both partners on the net.
- A feeling of closeness is still there, even at a distance (sometimes even stronger than face-to-face).
- The coachee can stay anonymous, if wanted.
- In total, the coaching process is experienced as even more intensive than a pure face-to-face coaching.

Keywords
Coaching • Virtual Learning • Virtual Coaching • Human Resources Development • Virtual World • Immersion

Introduction

One-to-one coaching is a powerful human resources development instrument. It allows for tailored interventions over a defined period of time, for targeted learning, for feedback, and reflection much more than a face-to-face group training. Coaching is a process. Over the years it has developed from the "once a week at the coach's office" to something more flexible, fitting the almost unpredictable schedule of busy managers: coaching in the taxi to the airport, even though not ideal in terms of location, concentration, and confidentiality, is not the exception any more. Using new technologies like asynchronous (action of one partner and response of the other partner are time delayed) and synchronous (interaction takes place in real time) communication platforms for one-to-one coaching still has little acceptance, although these technologies offer so many possibilities.

Virtual Coaching - A step towards more effectiveness

Research (Uniting the Virtual Workforce, Sobel Lojeski and Reilly 2008) and practice (see for example: Closeness at a Distance: Leading Virtual Groups to High Performance, Meister et al. 2014) has shown that the feeling of being close to someone is little correlated to the very fact of really being in the same room or geographically close to each other. There are a number of factors that contribute to the fact of feeling close to each other (or not, even when sitting in one physical room). In these times of virtual interactions, the old paradigm that coaching must take place face to face to generate the necessary trust and openness needs to be revised. Coaching can take place virtually, using the available technologies and virtual spaces. This is particularly relevant for the important coaching target group of executives. What this target group lacks is time and predictable weekly schedules. Furthermore, coaching is often agreed upon in times of challenges, e.g., moving to a new position, starting a first leadership position, or even in times of crisis, e.g., dealing with conflicts in the team or with a team member. In these phases of life, time becomes even scarcer: no time for a further meeting, one of the already exploding number of existing ones, even for a meeting with a coach that should help navigating the challenge.

Using available media, asynchronous (email, forums) or synchronous ones (Phone, Skype, Lync, Facetime, etc.), allows a flexible coaching process which is independent from location. Scheduling becomes easier, because travel times of coach, coachee, or both are avoided and because even short meetings become worthwhile. This creates a different process in which the coachee can "call for coaching" in the moment he or she needs it. This coaching process gets very close to the coachee's working reality and rhythm, is intensive and efficient, and thus generates an increased benefit and return on investment for the organization.

Implementing this new kind of coaching is easy as the required information technology is implemented in nearly all companies or available as free software on the Internet.

However, there is another added value when 3D-virtual worlds are used as coaching spaces.

The generation of digital natives has made the experience on how computer games can captivate and fascinate, provide spaces for complex learning, and generate the feeling of "being there/being in world" – this phenomenon is called immersion. And one can go beyond toward extended reality if, for example, into your sight field more information is blended in. Thus the line between reality and virtuality gets blurry.

If done professionally, coaching in a 3D-virtual world allows on one side to really create the required closeness, openness, and trust between the interacting partners necessary for a good coaching process and on the other side to create new learning/coaching environments – this is what Immersive Coaching ® is about.

Creating an immersive coaching process means using and tailoring all available "rooms", face-to-face to virtual, in order to generate contact and learning or reflection processes when it is adequate for the coachee. This clearly changes the way of working of coaches, who need to have an affinity for technology and for another kind of "facilitation" as well as being prepared to respond to ad hoc coaching requests or to be able to design dedicated coaching and learning spaces. The latter competence is quite a new challenge for coaches on the market (Olbrish Pagano 2013).

As a consequence of all this, the coach gets closer to the coachee's reality. The coachee really experiences being accompanied – being softly enclosed by a "coaching fluid" and having a 24/7 room for personal reflection, deceleration, and learning. This basically explains the higher intensity and success of Immersive Coaching ® with respect to classical coaching and thus a better return on investment.

One target group that can particularly benefit from this approach are executives preparing for an expatriation abroad: As very often expatriation means moving a whole family, the weeks and months before the official start in the guest country tend to become a real logistical and time-consuming challenge. However, preparation to the new culture, environment, and position are very important. Similarly, the first weeks and months in the guest country are also very intense and leave little time for looking for an appropriate coach. Immersive Coaching ® makes an ongoing coaching process possible, from preparation to the first months in the new position. A safe harbor at a coaching island in a challenging rough sea one has to travel through.

Final Comments and Outlook

Virtual or blended coaching including synchronous and asynchronous elements is a very helpful solution especially for managers with a tight schedule and many days on business travels. In times of individual challenge or crisis, when coaching is particularly relevant, this new coaching format offers the flexibility needed to respond to the coachee's needs. Although for many years virtual coaching seemed to be a "no go," research and experience have shown that closeness, the feeling of being together, is possible even virtually and can make a coaching process as successful and even more successful than traditional face-to-face coaching. Coaching platforms including 3D worlds technologically inspired by computer gaming, where coach and coachee meet as avatars, will become more and more the new reality of coaching, especially when working with digital natives.

Cross-References

► Training and Qualification: Online Leadership Training in Crisis

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Performance and Talent: Coaching International Leaders

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Contents

Abstract

Organizations and their global leaders need support to navigate changes and keep up to the tasks and challenges that are required today and tomorrow.

The importance of carefully defining coaching is often overlooked. This step is crucial, however, because the definition can either limit or allow to really enhance the corporation to a new level of performance. If coaching is merely about listening, questioning, and encouraging, its capacity to transform the organization might not be apparent.

Coaching should be defined as the art of facilitating the unleashing of people's potential to reach meaningful, important objectives.

Keywords

Global leader • Coaching culture • Globalization • Leadership capabilities • Potential • Coaching organization • Open-minded • Trust • Value

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Introduction

Globalization accelerates rapidly around any organization – as companies keep looking ahead at their business landscape to become more global each day, one thing is certain: an ever increasing number of global leaders are required who will be able to successfully lead organizations in what is becoming a more interconnected world.

Today's greatest business opportunities also come with huge challenges – leaders need to build bridges and connect worldwide resources and talents while constantly finding new ways to create values to their organizations.

Managers all over the world emphasize that building partnerships is one of the most important competencies for future global leaders. Partnerships can be both one-to-one and one-to-many, using horizontal leadership such as peer coaching to create high performance project teams helping each other. Most organizations recognize the need of this type of leadership; development has been a topic of interest for many years, as companies have worked on ways to develop more leaders for the desired results to the organization.

What Differentiates a Global Leader?

If the desired outcome is to work more effectively and collaborate more efficiently with colleagues from different cultures, different views and perspectives must be considered. The speed with which employees are able to adapt to foreign behaviors and unfamiliar environments will be the decisive dimension of future business deals and the foundation for functioning intercultural relationships.

In order to work more effectively and collaborate more efficiently with colleagues from different cultures, organizations have to train their employees to consider different views and perspectives, cultivate adaptability, and enhance tolerance and open-mindedness that leads to nonjudgmental actions and a true appreciation of diversity as an opportunity to learn.

In their issue "Leadership in a Changed World," the Harvard Business Review editors observe that "for all the talk about global organizations and executives, there's no definite answer to the question of what, exactly, we mean by "global." But there is some consensus it seems. First, the five top executives interviewed all agree that "the shift from a local to a global marketplace is irreversible and gaining momentum." Second, they all insist on what Fred Hassan (Chairman and CEO, Schering-Plough) calls a "global attitude": "an attitude which involves a real passion and curiosity about the world, a willingness to accept good ideas no matter where they come from, and collaboration around geographies" (Bowen et al. 2010).

Curiosity about other cultures and enjoying and appreciating the challenges of communicating in a competitive, fast-paced global business environment is an essential skill for a global talent.

Coaching for Global Leaders

As with most leadership capabilities, the best method for development is with *practice*.

Coaching can be exercised on an individual, team, or organizational level:

(a) At an individual level, participants discover new cultural choices for dealing with challenging situations.
Powerful coaching questions can be practiced with employees to enhance these capabilities and gain more mindfulness about their behavior as a leader:
   1. What does the term "open-minded" mean to you?
   2. What would it be like to be more open-minded as a leader?
   3. Where on a scale from 1 to 10 would you classify yourself as "open-minded"?
   4. What is your unique gift as a leader?
   5. How can you take advantage of it?
   6. How can you take advantage of it in your multicultural team?
   7. Where do you stand today and who do you want to become as an international talent?
   8. What could you achieve by being more open-minded? How can you achieve this?
   9. What impact and energy do you have on others in the team?
   10. What activity could you take on in your multicultural team to really challenge yourself?
   11. What can you do to maintain your decisions and behavior free from prejudice?
   12. Try to list all your current opportunities in order to enrich yourself from diversity.

(b) At a team level, global leaders can learn how leveraging diversity can lead to increased team unity and performance.
The coach can use the following exercises with the team:
   1. Raise awareness about the impact of everybody's presence on others.
   2. Let team members acknowledge who they are and who they want to be in different situations.
   3. Work with the team through cultural assumptions and values.
   4. Form groups of teams with people from different cultures.
   5. Work on each member's unique gift to the organization.
   6. Help each member to take advantage of their unique gifts in a team.
   7. Work with the team on contradictions while establishing trust.
   8. Conduct role plays to help team members deal with conflicts.

(c) Organizational coaching applications

Mergers, acquisitions, and joint ventures – all forms of expanding the business beyond country boundaries lead to the challenge of integrating diverse cultures, bridging the cultural gaps, and defining a new corporate culture. When executives are able to work together to improve their performance, a positive sign of enthusiasm and motivation is lived throughout the organization.

Conclusion

There are many positive impacts for companies that invest to develop which they want to become their global leaders. Investing in global leadership qualities means finding new opportunities and better execution without failing defined multinational strategies:

- Competitive advantage: Global leaders know the customs, culture, and etiquette, and they know the nuances of business critical to the success or failure of a company.
- Expansion of business: Global leaders recognize the potential within their global portfolio.
- Global leaders develop global talents.
- Strong leadership culture also increases the access to top talents sought after by multinational companies.

A coaching organization creates an environment where behaviors for continuous learning, integration of different cultures, and exchange of knowledge are encouraged. This sort of coaching culture results in better networking, trust, effective leadership, and higher commitment, leading to more effective multinational organizations.

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Performance and Talent: Essentials of Mentoring

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Karen Minor

Contents

Abstract

In today's nimble business environment, business needs to continually nurture and to maximize the talent of the workforce. The answer is to create a culture where there is shared responsibility for workforce development.

Mentoring program: Investing in the future includes some steps to help create a formal company mentoring program that will not only help individuals grow the skills they personally need for the future, but it will also help the company to develop the talent pool that will drive their future success.

Mentoring models employees, helping employees to be their best. This type of culture can provide a strong, sustainable foundation for continued learning and growth.

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A mentoring program needs to have goals, firm process, procedures, roles, and accountability, including measures. The objectives of the program can be tailored to the needs of the company as well as the needs of the individual.

Keywords
Culture • Mentor • Mentee • Mentoring • Mentoring program • Process • Program manager

Introduction

In today's business environment, it is a distinct advantage to nurture a culture where mentoring is the norm. Mentoring is one of the most powerful tools a company can utilize to keep the development of needed talent a priority.

Mentoring is a purposeful business relationship between two people. The objective is to improve the performance of the mentee, to help them to grow professionally. The mentee is seeking to develop, and their role is an active one requiring their involvement. The mentor is a person who can share their insights, experience, and feedback, helping the mentee to perform at their best.

Leaders of high-performing companies support employee development to drive results. These leaders recognize that they are accountable for developing the needed talent for the future. Mentoring is an active process that can develop the skills needed by the company.

A mentoring relationship can develop naturally. Relationships develop, and a mentee may ask a mentor to help them, or a mentor may want to help a mentee, for a variety of reasons. Also, a mentor could be from outside of the company, may be affiliated with an organization focused on mentoring, or may be a person the mentee knows personally, such as a former professor. Those relationships can be helpful, productive, and satisfying.

The focus of this chapter is to offer practical guidance on how a company can deliberately create a mentoring program in a corporate environment that will facilitate the development of a skilled workforce and a mentoring culture.

What Is Mentoring?

Mentoring is a purposeful relationship between two people. The two key roles are that of the mentor and the mentee (sometimes referred to as the protégé). This relationship has a distinct purpose; the mentor helps the mentee to gain needed knowledge and skills. In general, the goal is to help the mentee to strengthen their performance and, in the context of business, to hopefully propel the career of the mentee forward.

The mentoring relationship can be informal or formal. An informal mentor can begin with someone that a mentee looks up to and someone to go for insights on a problem the mentee is struggling with or for advice on a problem or career direction. In an informal mentoring relationship, goals are fluid, outcomes are not measured, and the mentor and mentee select each other based on chemistry.

Many people are fortunate enough to develop one or more relationship with a mentor. A mentor could be any person who takes a special interest in the mentee, a senior family member, or a member of a club or church group. A mentor may be from the workplace, a skilled coworker, or a senior leader. A mentee can reach out and find several mentors, and they may help them with different goals. The idea of people having one mentor throughout their life is not the norm.

A mentor and mentee can also have a more formal relationship. A formal mentoring relationship would include clear goals, regular scheduled meetings with set agenda, and accountability. In a formal company-sponsored mentoring program, there is a sincere, agreed-upon focus on helping the mentee to achieve their development goals. The goals give the relationship focus.

In business, the mentoring program is best defined as a purposeful business relationship. The mentor shares their experience and insights with the mentee. The mentee is clear on the goals, what they are working on, and they work together to help the mentee grow and develop the skills they need to be successful in their career. A formal program can advance the skills needed by the company, one mentee at a time. This structure helps to institutionalize the process and to build a culture where people help each other grow.

A formal mentoring program in a company can be very advantageous from a diversity perspective, while informal programs are based on people self-matching with people like them, people with whom they may have “chemistry.” In the corporate environment, there are competent people who may be known to anyone at the company who is “like me.” Paring mentors and mentees based on the likelihood of the mentor having the skills and knowledge that can help the mentee achieve their goals.

Mentoring relationships within a corporate environment can be very productive because both parties are vested in driving the company’s business success. Companies that offer the support of a formal mentoring program, with clear program objectives, viable structure and process, and clear accountability are even more likely to see results, as well as cultural impact.

Elements of a Successful Mentoring Program

The Roles

There are several key people and roles involved in a corporate mentoring program. The first critical relationship in a mentoring program is the leader's role. Leadership involvement is critical. The support of the company and of the leadership team is a cornerstone of a successful mentoring program. Leaders drive the strategic direction of the company, and with the support of their human resources department, they know the critical talent that is needed, both in today’s environment and for the future.

Leaders who are engaged in the mentoring process nominate participants to a program as mentors or mentees. They also support the program by mentoring a participant. When a leader is modeling the desired mentoring behaviors, the program gains momentum and traction in a company.

The manager of the mentee is in a unique position. The manager's role is to manage their employees and to help them by providing them with tools and resources they need to be successful on the job. Ideally, the manager evaluates the employee's performance and gives their employee ongoing feedback and coaching so the employee understands where they stand performance wise. The manager wants and depends on their employees to deliver quality work.

In a corporate mentoring program, the direct manager's role is different and separate from the role of the mentor. The manager's focus is on today's work, and they have authority and power over the employee. Often employee may not feel comfortable and open enough to bring some issues to their manager. They may want to put their best foot forward with their manager and not show weakness of any kind. That is where the mentor can be a valuable relationship.

The role of the mentor is impartial and confidential. The mentor does not complete the mentee's performance review, and their role is purely focused on the development needs of the mentee. A mentee can seek their mentor's input and not be concerned in sharing what may be a weakness. The focus is only to share insights that can help them improve. The mentee can feel free to discuss a variety of issues with their mentor, such as interpersonal challenges that may come up in their department. A mentor provides safe, discrete, and confidential help which is impartial.

While mentors are the senior person on the mentoring relationship, mentors are sometimes not comfortable with the role of being a mentor. The potential mentor may be humble and modest. There can be a concern that as mentors they are "solely responsible" for the success and development of the mentee; this is not the case. The mentee is responsible for their personal professional development. The company provides the program, and the mentor provides their sincere knowledge and desire to assist.

Another misconception is that the role of the mentee may be perceived as a passive one. The mentor is there to help them achieve their career development goals. That is a perception that needs to be tempered. The mentee will need to work hard to learn, to change their behaviors, and to gain the needed skills and knowledge from their mentor. The first step is to be clear on their development goals, to understand what they need to learn, and to then remain focused on these objectives so the relationship with their mentor can be maximized. The mentee drives the process and the relationship with the mentor. They should take on any administrative tasks, scheduling, finding meeting locations, and respecting the mentor's preferred meeting times.

The mentee also needs to remember that they are building a relationship with the mentor. They need to be the person the mentor wants to work with and the person the mentor wants to help. The mentee must demonstrate their commitment to learn and must be prepared for come to meetings with their mentor. Often the mentor/mentee relationship continues beyond the timing of the program; the bond remains firm.

The mentor needs to be committed to the mentoring program and to devote time and effort to the process. Mentoring is purposeful business relationship between two people. If both people are vested in making the process valuable, the more likely the relationship will yield results.

A company mentoring program needs to clarify the different types of roles the mentor can play. To some, a mentor is always someone who will open doors, will serve as an advocate of the mentee, and will always represent the interest of the mentee in corporate forums. This description is of an advocate, and not every mentor is willing or able to become an advocate. While a relationship with a mentor who is your advocate is an advantageous relationship, this type of relationship needs to be earned, takes time, and is the highest level of mentoring. In general, most corporate programs are of a finite length, and a relationship of this level would likely take a year to establish.

In addition to the role of advocate, a mentor can wear many hats. A mentor can share relevant business expertise about the company and can teach the mentee a skill. Sometimes people leverage a mentor who is business savvy and another who is the excellent council on ethics. Another example might be a mentee who wants to deliver impactful presentations to the C suite. A mentor who has experience doing this can certainly provide practical and even insights into the political aspects of this skill.

A mentor can also serve as a sounding board, a person that can give opinions on challenging or important decisions or interpersonal issues. It is not unusual for a mentor and mentee to develop a relationship that includes conversations on immediate challenges, the testing of approaches, the review of important documents, etc. Mentors can share their experiences and examples and experiences of what works and does not work within the corporate culture, the protocol, and the unwritten rules of the company.

Mentors can also introduce the mentee to other people who may be able to share needed information and resources with the mentee. For example, the mentor may not be an expert on the new emerging technologies the company may be launching, but, if that is a goal of the mentee, the mentor can introduce them to a person who can share their expertise in that area.

Bottom line, the mentor can provide so much help to a mentee, but the relationship will be most productive if the mentee first does the work to identify their personal opportunities for growth.

Another role in a mentoring program is that of program manager. This person is generally a member of the HR department. Their role is to administer the program and all of the process elements of the program. They may have the responsibility to build or buy the program framework or materials. A company may elect to engage a consultant to provide content, and the program manager can monitor and manage the consultant to assess and maximize quality. They also need to secure leadership support, engage participants, match the mentors with the mentees, and ensure that all of the participants are prepared and trained to maximize the learning opportunity, to solve problems, to communicate needed information, and to measure results.

Program Structure

Mentoring in a company, formal or informal, can be helpful. However, a formal mentoring program can focus on the company's priorities. Especially if mentoring is new to a company, a formal program can ensure that some of the critical elements of mentoring are in place. Mentors and mentee will learn the value of mentoring and upon completion will be prepared and more comfortable being a mentor for others.

The first step in establishing a mentoring program is to develop the business case. The company's leadership team and HR are privy to the direction of the company, the current talent pool, and any skills gaps that exist now or in the future. Other indications of a need may come from company cultural survey, employee focus group input, or performance management and succession planning data.

Next there needs to be an agreed-upon organizational objective or goal for the program. This objective will be measured against at the end of the program.

After the corporate goal is set, the mentoring program is structured to meet the needs of the company.

As an example, a company may seek to develop future leaders who have the same knowledge, vision, and values that exist in the current strong leadership team. The leadership team has reviewed the succession plans, they know that the local talent pool is limited outside of the organization, and the company has plans to grow over the next 5 years through acquisition.

The company decides that a mentoring program that includes career-oriented employees who have demonstrated the targeted skills, knowledge, and motivation is a tactic that will help meet the company's goals. In the above example the goal of the mentoring program is to develop the mentee's leadership skills and business acumen.

Once the program goal is established, there is a need to decide on the scope of the program. For most programs a group of up to 30 pairs is enough for one program manager. Another consideration is the number of available mentors and the overall size of the company.

The next step is to invite participants that are part of the targeted group. Companies need to be careful to include interested people while also adhering to the criteria that meet with the company's direction. A mentoring program that is too large can be taxing on the mentor pool and the program manager, and quality may suffer.

One way to be sure to include the right people in the program is to ask the leaders to nominate potential mentees and mentors who possess the needed skills, knowledge, and motivation. Decisions will need to be made on who to include, and you certainly do not want to include a mentor or mentee who is not interested.

To effectively engage mentors and mentees, it is recommended that you provide potential participants with clear description of the mentoring program. This description should include information on their role and responsibilities, as well as the role of other stakeholders in the process. This can be done through their leader, by providing a written description of the program, or by offering an information session. The intention is to engage them in the program, to gain their commitment to participate, and to prepare them for the program. It is helpful to have clear guidelines and expectations for mentors and mentees. All parties also need to know that the process is confidential. This helps the mentee and mentor manage this purposeful business relationship.

Once a potential mentee is nominated and interested in the mentoring program, they should complete a questionnaire or assessment of the development areas that are most important to them. At the same time potential mentors can complete a questionnaire where they recap their own strengths, knowledge, skills, and experience. This data can be used to match a mentor with the mentee.

Large companies may need to automate the initial questionnaire process. In smaller companies the process of matching can be done by enlisting a committee of leaders and HR personnel who know the people. Additionally, depending on the company, you may need to limit the number of participants from departments, so you do not overburden one area.

The matching process should first focus on what the mentee identifies as their priorities. The next step is to assess the mentors, and to consider which mentor has the abilities to help to meet the development needs of the mentee. It is important for them to remember that mentoring is a business relationship and there needs to be some guidance for those matching the participants. Usually, a mentor is one or two levels higher than the mentee. If there is too much of a level gap, the mentor may not be able to relate to the challenges of the mentee.

A mentor does not need to be “the same” as the mentee. They do not need to be in the same department, be in the same age, have the same background, or be of the same sex. They do need to be compatible and to know that this is not a “friend” but a purposeful business relationship.

Another caution is to not assign more than one mentee per mentor. There may be perceived status to having a mentor who sits in the C suite, and there may be popular mentors who are in high demand. Program managers should take care to not overload any mentor.

Often people gravitate to others who have an engaging personality and there is “chemistry.” As a business relationship the focus of mentoring is on the learning and in working together to build the compatibility based on the common goals. In most cases the best match between a mentor and mentee is when there is a fit based on the needed knowledge criteria.

Once the match is made, there can be an introduction kick-off session where the mentor and mentee meet. During that session materials can be shared that help both participants to manage the program effectively. This material can include a review of the mentee’s goal and the different techniques a mentor can use to assist them with their work as a mentor. (Some examples are shadowing the mentee, sharing examples from their career, recommending and discussing a book, etc.) An action planning tool is also helpful to include in the introduction session.

That said, mentors are more likely to be successful when they are prepared. The mentoring program needs to remember that their mentors need guidance as well as the mentees. Mentors need to know their role. They need to know the development areas that are most critical to the mentee. Also, it is optimum when the mentor is assigned to a mentee that can benefit from the strengths of the mentor.

A formal mentoring program should also have a designated time frame. A 6-month program can be productive, but may not allow time to build a relationship. Nine to 12 months may be the right timing, but that is dependent on the preference of the company. Often these relationships continue beyond the designate time frame.

After the information session, the program manager should keep in contact with participants and follow up on any questions or concerns. It is also recommended that the program manager engage the group at intervals throughout the duration of the sessions. Surveys assessing the progress and soliciting questions can be a good springboard to guide the program manager to address any concerns or questions. A follow-up session may need to be offered that can help a group of mentors or mentees maximize the program. A Lunch and Learn, specifically for the mentoring program participants, can be used to build upon best practices or to hear from supportive leaders.

At the conclusion of the program, it is important to measure the effectiveness of the program. There is the potential to measure the impact the mentoring program had on the company's program objective. There also needs to be feedback on if the mentees and their managers believe the program has helped the mentee meet their personal performance goals.

Mentors can also give feedback on the perceived value of the program, as well as if they learned from their role as a mentor. Often mentors report that they learn a great deal through the program and that they find the role to be a satisfying one.

In addition to the formal company mentoring program, which could be seen as excluding some motivated employees, the company can offer parallel programs that can be available to more employees. These programs can teach employees to develop mentoring relationships on their own, which positively impacts their development. The company can provide content that teaches people how to be a mentor as well. An e-learning class, a key note on mentoring, or a workshop can all be tools to enable motivated employees to mentor and be mentored. This type of knowledge sharing enables motivated employees with needed information so they can benefit from this knowledge. These tools also reinforce the commitment the company has made in mentoring and in helping employees to develop.

Additionally, mentoring components can be imbedded into other programs offered by the company. For example, a new employee can be paired with another employee to help to learn their new role and their way around the company. A new leader can be paired with another more senior leader, to help navigate the transition to upper management. A leadership development workshop can create cohorts of four or five participants with the express objective of creating a network of learning and support for each other.

All of these programs reinforce that it is the role of all employees to help others to be their best. This mentoring culture will help companies sustain continuous learning.

People Perspective

It is critical to consider the impact a mentoring program can have on the people in the company. How would the employees feel if the company offered a mentoring program to employees? What impact would such a program have on the company culture?

A company that is vested in growing talented team members for the future is building a positive reputation as an employer, both inside and outside of the company. Employees who are entering the workforce today value the opportunity to grow and develop and to learn in a very practical way. A mentoring program (and other learning programs) can be a differentiator of the company in the talent marketplace.

Leaders who demonstrate their support to the development of motivated employees through a mentoring program, by mentoring others, and by supporting their key team members to participate in the program as a mentor or mentee are driving a culture of learning that will pay off.

Employees naturally want to do well and to be successful on the job. Mentoring is not only an opportunity to grow; it is a chance to get to know a person with more experience. That type of relationship building is also a plus. If the company provides learning opportunities that help employees reach their goal, employees will appreciate that support.

Offering additional mentoring support to all is a tactic that is inclusive. This tactic enables motivated employees to leverage the support of others to achieve their personal goals. This holistic approach is another building block of a culture of mentoring.

Economic Perspective

A mentoring program is focused on investing in the key people at the company. A mentoring program is laser focused on the critical skills needed by both the mentee and the company. The program is targeted and segments the right people; therefore, the investment is focused and likely to pay off. This type of development is needed because if companies do not buy or develop the talent needed to meet the business needs, the company will fail.

The first step to success is to have a clear understanding of the skills needed for the future success of the company. A strong partnership with the leadership of the company reveals the strategic direction of the company and the talent needs for the future. Additionally, it is critical that leaders understand that the company must invest in developing the talent.

Then, on the personal side, the mentoring program should include process steps that help mentees identify their personal priorities. The mentee is then matched with a mentor who has insights that can help them with their priorities. The process also helps mentees communicate their priorities effectively to their mentor and to develop viable plan of action with their mentor.

Mentoring programs do not have to be costly to administer, and since the focus is specific and customized to what matters most to the participant, value is maximized.

A mentoring program provides the framework where personal objectives that are important to the mentee can be realized. It is not a “one size fits all,” where people attend a workshop that is not relevant. The mentee focuses on their personal priorities, and the mentor they are matched with is chosen because of their experience in the needed area.

The biggest investment in a mentoring program is the internal resources that exist already. This would include the time involved on the part of the participants, the mentor, the mentee, and the program manager. In the meantime, the skills that are learned and used will help to continually improve the organization’s performance and strength. Mentoring models the role of employees helping each other to succeed.

Other investment considerations will vary depending on the program specifics. Meeting space, consultant support, materials, possibly software, and e-learning content are also costs to consider.

Risk Perspective

If a company has a clear understanding of the skills needed for the future success of the company, then there is an awareness of the talent needs and the impact of not having the talented workforce available to achieve the objectives. It is critical that leaders understand that the company must focus on developing the talent in order to meet the business needs.

Many human resources departments have data to help to assess the talent strengths and the risks associated with workforce skill gaps. Is there talent available inside or outside of the company to meet the needs of the future? Is there a strong performance management process and succession planning in place for key positions? Is there clarity on the needed skills for key positions? Do people with potential to develop at the company know their strengths and their development needs? The insights on the talent needs for the future and knowledge of the workforce’s strengths and skill gaps are information that can help human resources to build a mentoring program that includes the right people and will grow the needed skills and minimize the concern and risk of not having the needed talent.

Organizations recognize that workforce demographics are changing. In many companies, upon examination of succession plans, there may be an exodus of talent as a generation exit the company. If we put in place a mentoring program to transfer the knowledge from the senior employees to other generations, it will minimize that “brain drain” and will help to retain good people. Mentoring is an economical way to mitigate that risk.

Operational Perspective

There are operational considerations in the administration of a mentoring program. Whether a company chooses to run a mentoring program internally or to enlist the support of an external partner or consultant, an assigned mentoring program manager is an important role to ensure program quality.

There are administrative tasks that need to be handled in a quality manner. A mentoring program follows a clear process and includes communication and quality training, and there is inherent accountability on the part of all participants. The program manager would ensure quality execution of the program including a feedback and measurement strategy.

Dos and Don’ts of a Successful Mentoring Program

In today’s business environment, it is a distinct advantage to have a culture where mentoring is the norm. Mentoring is one of the most powerful tools a company can utilize to keep the development of needed talent a priority. However, there are some dos and don’ts that can help to guide the process and assure maximum success.

Dos

It is important to assure that the company leaders believe in mentoring and are involved in mentoring program. This will set the expectation that mentoring is important to the company.

It is important to clearly define the three key roles of a mentoring program. The mentor is a person who shares their experience to assist a colleague in achieving their development goals and, ultimately, with their career. That colleague is the mentee, and their role is an active one; they need to be engaged in their own development. Another role is that of the program manager. This role is helpful in a company to handle administration and program requirements and to field questions or concerns.

Do a good job planning the mentoring program, and have guidelines and expectations for the mentoring program that fit with the development objectives of the company. This will help the mentee and mentor manage this purposeful business relationship. For example, if the company expects to acquire a subsidiary, there may be the need for leadership skills, knowledge of acquisition, and assimilation of technical knowledge.

Participants need to be educated on the various types of mentoring relationships and the mentoring program requirements in your company’s program. Participants also need to be educated on their role, a technique to maximize their role in the mentoring process.

One example is that there needs to be a clear process of engagement and how the mentee takes the initial steps to discuss what they want to get out of the mentoring experience with their mentor.

Do assure that both mentor and mentee understand that this relationship is confidential and is focused business relationship. The development needs of the mentee are key focus.

Do be sure that the mentee understands that they drive the mentoring relationship and that they know how to maximize the relationship with their mentor. The mentee should take responsibility for the scheduling of the meetings with their mentor.

Do assure that a mentor is a person with greater experience than the mentee and that the mentor is a person willing and able to provide guidance, share their experience, and make the needed time to help their mentee.

The mentor needs to be trained as well, and they need to be supported. Do include tips for the mentor, to help them to be their best in this important role. Sometimes mentors are hesitant to step up and have a fear of failure. Information and tips to help them succeed are valuable.

Do give the mentor ideas on techniques they can use to assist them with their work as a mentor. Examples are shadowing them doing work or running a meeting, sharing examples from their career, recommending and discussing a book, etc.

Do have a measurement in place to assess the program impact. This requires gathering feedback on the impact on the objectives of mentees, as perceived by their mentors, their managers, and the mentees themselves. There should also be a measurement of the program overall and the impact on the company's objective. An assessment should be done in the middle as well as after the program concludes.

Don'ts

There are some keys to a successful mentoring program that need to be reinforced. Do not leave the matching to chance. Have some program objectives for the mentees, and match them with a mentor who can assist, with the development need (business knowledge, technical skills, knowledge, leadership skills, etc.); even if some of the matching is automated, the input of informed leaders (and perhaps HR leaders) is needed to validate the matches.

Do not forget that mentors need to know what their role is and how they can be the best resource for the mentee. Sometimes mentors will not want to participate because they may not know how they can contribute. They may even be insecure with this role which is out of their comfort zone.

Do not have a program that is open-ended time-wise. Generally, a 9–12-month program is a good amount of time to make a difference and to see improvement. That said, a shorter program can be helpful as well, depending in the objectives. When a viable relationship is built, it will continue naturally.

Do not assign mentors or mentees who are not committed to the program and who do not want to participate.

Do not assign a mentor-mentee pair who works in the same department. Do not allow program participants to take for granted that the mentor will definitively act as an advocate and open doors for the future development of his/her mentee. This type of advocacy for a mentee's needs to be genuine needs to be earned by the mentee and is truly the highest level of mentoring.

Do not allow mentors to care more than the mentee. The mentoring program will not work if the mentee is not engaged in their own development.

Do not include mentors or mentees in the program if they will not make the time commitment. This can result in frustration for either participant, and is up to the program manager, and the mentor and mentee to contract for the time early in the relationship.

Do not overload the high level, superstar mentors, and do not overload one department with too many mentoring program participants. Many will want to be mentored by the popular or powerful mentor, CEO, the COO, but if these people are overloaded, this could lead to burnout. Also, there is an advantage to give other possible mentors chance to develop into great mentors.

Do not allow the mentoring relationship to be a source of preferential treatment. Mentors must not overdo their roles by using their power to promote “their” mentees when there are other more suitable candidates for the position for the company.

Conclusions

A formal corporate mentoring program is focused on developing the skills that are needed by employees to ensure future success. This type of program is based on a plan, clear objectives, and a facilitated process. A mentoring program can help facilitate the transfer of knowledge and can imbed in the organization the value of helping others succeed. Through mentoring, strong relationships are built, and a culture of mentoring will help to ensure the future viability of a company.

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Performance and Talent: Essentials of Succession Planning

35

Ulrike Hildebrand

Contents

Abstract

The following chapter provides an overview of succession planning as a key tool to ensure a company’s long-term success – a risk management approach to address the potential risk of losing key talent, whether it be in a planned (e.g., retirement) or unplanned (e.g., voluntary turnover/attrition) fashion. In the following paragraphs, succession planning is described as a process and its meaning for the business. It is looked at from different perspectives in an effort to provide an all-around view with the intent on providing hints and thoughts of real-life challenges one could reasonably expect when embarking on the mission to introduce succession planning to an organization. However, when pointing out realistic challenges with the design and implementation of succession planning, the message should not be understood in any negative or discouraging way. On the contrary, despite all those challenges, succession planning is viewed here as a necessary component of business long-term sustainability. And, it is not looked at as a “necessary evil,” but as an interesting and very rewarding challenge when

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mastered. This tool goes directly to the heart of any organization: to its people. Without the people the organization is after all an empty shell. Succession planning provides guidance in regard to the development of the people – something that will help with retention of talent. The desire for growth and development is part of the human being and companies failing to understand that will ultimately fail in their effort to attract and retain the best talent.

Introduction/Overview

The term succession planning is often understood in the context of small businesses and refers to finding a successor for the owner of the business, especially if there are no family members that could or would want to take over the business. The term succession planning also refers to a program or process that bigger companies put in place to ensure the existence of a pipeline of talent that can be groomed and grown to take leadership positions in the company over the course of the following years. This chapter refers to succession planning in bigger companies.

Succession planning is a process that serves multiple purposes. For one, a well-done and executed succession plan will ensure the success of the company business by putting the right people in the right place at the right time, and with that it should contribute to the company's overall success. Secondly, it will contribute to the individual development of employees and most likely with that have an impact on attracting and retaining talent for the organization. In essence, a succession plan defines who in the organization will be promoted when and into what position. It should be done on a regular basis – at least annually – in context and alignment with the talent or performance management process a company has in place. In fact, the succession plan should be a desired outcome of the performance management process, provided that the performance management process includes also an assessment of employees' potential and growth capabilities. As a succession plan identifies the next person to be promoted, it makes sense to tie the succession planning process to performance, assuming that promoting an individual to the next level of the hierarchy is based on how well the individual performed at his/her current level. Unfortunately, that link is not always clear or clearly followed (in some companies, it may be more important how long one has been with the company, called seniority, or how well one is connected within the company), so it becomes even more important to have a clear **performance and potential management** process in place and to have it followed (see ▶ Chap. 26, "Performance and Talent: Essentials of Performance and Potential Management"). For the purpose of this chapter, it is assumed that the succession planning process is connected with the performance and potential management process and that in order to become part of the succession plan, an individual meets the respective performance and potential requirements.

What does succession planning look like? There are different ways of visualizing succession planning, but a most popular way is through organizational charts (see Fig. 1). In a perfect world, a company has an online application that will produce

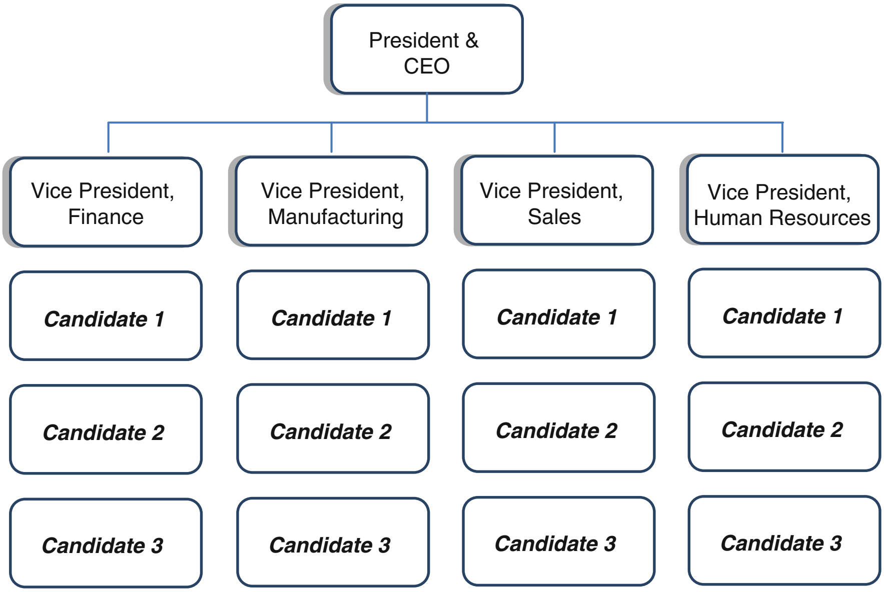

Fig. 1 Succession planning chart

succession planning charts based on the data put into the system. Visualizing the succession plan is very important, as it is the best way to ensure a common understanding among the people involved in the process and the final decision making regarding candidates.

Succession planning should also have a time perspective to it. It is not sufficient to identify internal candidates for a certain position; it is also important to determine the time frame in which a particular candidate is ready to actually fill this position. That said, a lot of companies make three distinctions:

- Short term/immediate
- Mid term
- Long term

The definition of mid- and long term may slightly vary from company to company, while short term usually means someone is "ready now." In other words, if a position opened up today, the short-term candidate has the skill set and capabilities (technical and personal) to fill the position tomorrow and be successful. Some companies may extend the short-term category to 1 or 1–3 years, but realistically speaking – when reminding ourselves that the reason for a succession plan is to fill critical positions quickly – 1 or 1–3 years may be too long of a time frame to wait for a candidate to get ready, even if all kinds of development measures are taken immediately.

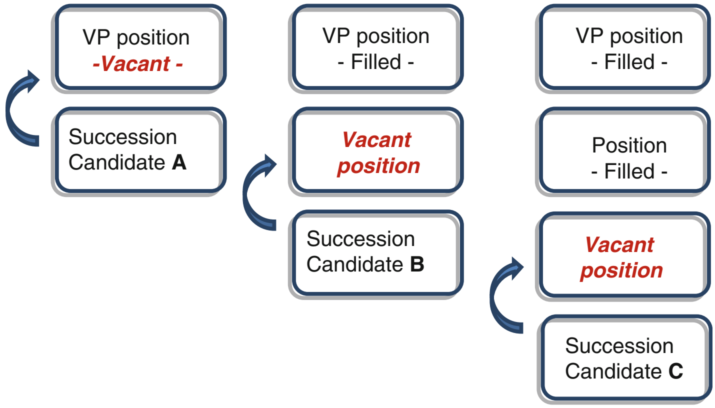

Fig. 2 Placement chain

The definition of mid and long term depends on how short term is defined. If short term is really "ready now," mid term may become 1–3 years and long term may become 3–5 years. If short term is defined as 1–3 years, mid term may become 3–5 years and long term more than 5 years.

How is it determined whether or not a candidate is ready now or needs more time? In which category a candidate falls will be determined based on the degree to which a candidate meets the position requirements in terms of:

- Technical expertise and experience
- Interpersonal skills and possibly leadership experience
- Potential (and willingness) to learn and grow

While succession planning is usually a process that is managed top down, it should be prepared bottom up. What does this mean?

Succession planning is in many companies a confidential process, meaning only top management or decision makers and (hopefully) human resources are involved discussing potential internal candidates and creating and reviewing succession planning charts. In that sense, it is a "top-down" process. However, if an internal candidate (A) moves from his/her position to the next level, he/she leaves his/her position open, for which a successor needs to be identified as well. When a successor for A is found, this successor (B) leaves his/her position vacant, and another successor (C) has to be found (see Fig. 2). That said, in order to establish a comprehensive succession plan, the process would need to reach down enough levels in the organization so that a chain of "bottom-up" placements can be executed. When in such a placement chain a company reaches the point where no internal candidate is identified as ready, it will have to go to outside to find an external candidate.

Often succession planning is understood only as a plan for vertical movement (movement from a lower to a higher level position), but it is worthwhile to point out that within succession planning a company should also consider lateral or horizontal movements of candidates. For example, prior to becoming the director of human resources, a qualified candidate may have to serve at the manager level in different human resources functions. In this example, the manager of learning and development may have to succeed the manager of compensation first, before being considered for the director position. In this case, the manager of learning and development would be listed as a successor for the manager compensation in the respective succession plan.

In a perfect world succession planning is tightly linked with career paths. **Career paths** are defined steps one would have to take in order to reach a certain position at the higher end of the hierarchy.

People Perspective

Succession planning is part of the talent management toolbox and with that has – when used – an impact on employees and their careers in the organization. It is nature to most of us human beings to want to learn and want to develop in a traditional organization and traditional sense that translates into progressing through the levels of hierarchy toward the top management level.

Some individuals are perfectly content with learning and growing by expanding their horizons laterally within one or across multiple functions. These employees may be found in a succession plan, but for positions that are the same level the position they are currently holding is. Other individuals strive for the promotion to the next level. Either way, having a succession plan in place provides employees with development opportunities most people are looking for. To be in a company that has and follows an internal succession plan will encourage employees to stay with the company, so in that sense, it serves as a **retention** tool. Executing a succession plan successfully over many years will also contribute to a company’s reputation in the market and may become part of their **employer branding** and as such can also positively affect the **attraction** of talent from the outside.

For those individuals who are interested in moving up through the levels of the hierarchy succession planning can also serve as a guide for their career planning. So long as they are aware of the required experience they will have to have to reach a certain level, they can plan their career moves accordingly and ensure that they gain the required experience. While a succession planning process is usually managed by top management and human resources, each employee can still influence and impact their own career by knowing and expressing their interest in certain positions or functions. This is an aspect that often falls short in companies. Many employees believe the company is responsible for their development and the company should decide – or is the only one who can decide – what their next moves are. And, a lot of companies will take that responsibility on by not communicating clearly enough that and how an employee needs to take charge of his/her own destiny.

As succession planning is usually designed to identify potential candidates for leadership positions, it may be important to point out that the motivation for employees to climb the ladder on the succession plan should be clear – to both the individual and the company. The higher one rises in the hierarchy, the less important the technical expertise becomes and the more important leadership skills become. However, many people strive for the promotion, yet without understanding that once they reach the next level, they will (or should) no longer do what they may do best or love the most, namely, using their technical expertise. Many managers promote or support the promotion of a candidate they like personally or whose work they appreciate the most, and their support for promotion ends up being an act of recognition, rather than identifying the individual best suited for the position.

Succession planning should always be tied to the business; in other words, if and when conducted, it should be done with the goal of supporting the business goals and objectives (and with that business results!) by putting the right people into the right job at the right time. As mentioned before, individuals are selected usually based on their performance – excellent performance that is – and with that there will be employees that are not selected because their performance is not sufficient to be considered for this process. This does not mean that someone who is not considered is not performing or not performing well enough in terms of meeting the position criteria. He/she may just not be performing above and beyond expectations.

Nevertheless, the succession planning process will identify "non-successors," and there are usually basically different groups of "non-successors":

- People who perform well enough and meet the respective requirements of their position, but the performance level is not high enough that he/she would be considered for the next level
- People who may exceed performance expectations, but are not seen as having the potential to be successful at the next level
- People who do not perform well enough and do not meet the respective requirements of their current position

For the last group, the strategy should be clear: nonperformance should be addressed and managed in a way that either performance is increased or the nonperformer is removed from the position. (Note: Removing someone from his/her position does not necessarily mean termination of employment. The individual may have been in a position that is not a good fit for him/her, and therefore there should be considerations to move this individual into another position if possible.)

Managing the group of people whose performance level is not exceeding the expectations or meeting "high-potential" requirements can be challenging. When implementing the succession plan and through their performance reviews, they will know that they have reached the end of their career (in this company), and while that may be acceptable to some, for others it will be hard to accept and remain motivated.

The most delicate discussion will probably be held with employees who have raving performance reviews – exceeding expectations by far – and are still not considered for the succession plan. Again, in this group there will be employees who are happy with their current situation and are not striving for promotion, but often one will find employees in this group that have the aspirations to move up the ladder, and those are part of their motivation to perform at such a high level. Telling such an individual that he/she is not considered a “high potential” and will therefore not be put on his/her boss’ succession plan requires honesty and courage and the ability to keep this individual motivated.

Economic Perspective

Succession planning, basically defining who replaces whom and sometimes when, is typically done for top leadership positions in the company, for example, the chief executive officer (CEO) or the chief financial officer (CFO) or the chief human resources officer (CHRO). However, it behooves a company (and many do) to create a succession plan also for other high level positions that are responsible for a particular unit, for example, a plant manager or a sales manager of the regional sales office. The point here is that hierarchical rank is not necessarily the one deciding factor as to whether or not a succession plan should be in place, but that it is important to identify all positions in the company that will benefit from having a successor identified. In general, this applies to all positions that are difficult to fill or take time to fill for any reason, e.g.:

- Top management positions – if backfilled from the outside, it usually involves an executive search and will usually take at least 3 months.
- Positions in locations where the labor market does not provide the necessary expertise.
- Positions in locations where people would hesitate to move (whether it is for economic reasons such as high cost of living or lack of recreational values or other reasons).
- Specialist positions requiring knowledge that is in high demand on the market.

Not having a succession plan with an identified internal candidate to be promoted to those positions has an economic impact on the company:

- To engage an executive search firm to find a new CEO or vice president of sales usually costs one third of the first year’s total cash compensation of the new incumbent. If, for instance, a new vice president of sales has a base salary of $ 200,000 and receives a 30 % bonus, the fee for the search would be $86,666.67. This kind of search is usually a retained search, which means the search firm will receive its fee regardless if the company hires one of the candidates presented to them by the search firm or not and regardless if a candidate works out in the end. In addition, there is cost to the company due to the position being open for a longer period of time. As mentioned before, an executive search usually takes at a minimum 3 months, more regularly 6 months, and during that time frame, there is no VP of sales who generates new business, and no one is leading the sales team, leaving them to do their job as best they can, but probably missing direction and potentially not working as effectively and efficiently as a team as they should.

This may not be measurable in money immediately, but it is fair to say that the absence of leadership for a longer period of time has a counterproductive impact on the organization.

- In a location where the labor market does not provide the necessary skill set, the company will have to find talent elsewhere and entice the final candidate to relocate. The company will have to pay for relocation – the cost for relocation will vary depending on whether or not the candidate has family and whether or not they may have to sell a house and how far one has to move. Direct cost may also incur due to the time involved to actually relocate, for instance, if the candidate cannot sell his/her house and requires longer temporary living. The longer the time to relocate, the more of an indirect impact can also be expected. With a candidate commuting back and forth between his/her old home and the new location, there may be travel time on Mondays and Fridays instead of working time, and it is more difficult for the candidate to fully engage in his/her new assignment.
- Positions in locations that are not desirable for whatever reason will also increase the cost of filling if no internal candidate is identified and ready. If, for instance, someone from a lower cost of living area is offered a position in a higher cost of living area, the salary offer will have to be higher, and it may also require a signing bonus – a onetime amount paid to the candidate upon starting employment as a form of enticement to accept the position. All previously mentioned relocation cost will also apply. In some cases, where an entire family is relocating, factors like school quality for the children may play a role, and a company may find itself paying tuition fees for private schools to match the education quality of the candidate's previous location. In the end, if a company is desperate enough to find a candidate from the outside, they will pay a lot more than they would have paid an internal candidate.
- Specialist positions such as an IT Mainframe Specialist are usually not planned for in a succession plan, because it is usually lower in the hierarchy and therefore outside the focus. However, depending on the market situation, if such IT specialists are in high demand and supply is low, the company will likely hire a recruiter to find the talent. At this level, it will most likely be a so-called contingency search, meaning a recruiter is hired to search for a candidate, but will only be paid if he/she finds a candidate that is hired by the company. The competition in the market for this kind of specialized knowledge will also increase the price – the pay for this position will increase, and this may affect internal equity on the compensation side, i.e., employees working at the same level in the same pay grade as this newly hired candidate are making less, because the pay for the needed specialist from the outside may exceed the salary band (see Section V, "Compensation and Benefits").

One factor that is costly to the company in all of these examples has not been mentioned yet: the cost of time spent on these efforts by several employees of the company. Depending on the level of position to be filled, there will be executives and managers and in all cases human resources staff involved in organizing the search, interviewing, calibrating, and potentially relocating candidates. This is time they would not have had to spend if through succession planning an internal candidate was identified.

Risk Perspective

The biggest risk in succession planning is to not have a plan and/or to not conduct it properly. The process of succession planning consists of the following steps:

1. Based on the business strategy and goals, identify *what is needed in the future from a human capital perspective*. What skills and capabilities will the workforce have to have to be able to meet the requirements of the business in the future?
   The risk: not taking a comprehensive view of what is needed for the future from human capital perspective. When identifying the future needs, it is easy to stick to what has been there in the past – a current leader considered to be successful in terms of delivering results based on his/her technical skills may (mis)lead the company to look for a successor that has the same level of technical skills. However, there are more factors that play a role in being successful including but not limited to motives, habits, and personality traits of the person and the environment. "Soft factors" like these are often difficult to identify or describe and even more difficult to measure, but they are important.
2. *Identify the key roles in the organization* – the roles that are critical to the success of the organization. These are the ones a succession plan should be developed for, and as mentioned before, they are not necessarily only top leadership positions.
   The risk: keeping the focus too small – eventually every position becomes vacant, and the company should have a plan for each. However, companies that are new to the process will probably benefit from focusing on a smaller number of positions in the beginning, until their process is clearly defined and execution becomes more flawless.
3. *Identify the leadership and technical competency requirements for those key roles*. Review existing competency models to ensure alignment with future requirements or develop competency models, which determine the specific competencies that are needed to demonstrate high performance and to be successful in the identified key positions. Steps to determine a competency model are described by Boulter et al. (1998).
   The risk: not taking the time and effort to develop or review competency models and/or not paying attention to alignment with the company's vision and mission. Often companies have (or think they have) a competency model based on experience – whatever previous successful incumbents of the positions did and had. While previous successful incumbents provide a good beginning of the analysis, it is always worthwhile to question if their approach is still valid for the future, where markets and environments constantly change.
   For lower-level positions where mainly technical skills and expertise are required, it may be sufficient to limit the focus to the technical elements.

For leadership positions though, it does make sense to build a competency model that is aligned with the company's values that are usually derived from its vision and mission. For instance, if a company's mission is to be the innovative leader in its industry, they may need a leader to have creativity, analytical capabilities, the ability and willingness to challenge the status quo, and the ability and willingness to lead change. This may or may not be required for every leadership position, or the degree to which this competency would be required may vary between higher and lower leadership positions.

Overall, defining competency models is not only time-consuming but also challenging in that not everyone who is involved in the process may agree. In addition, the leaders that should be involved in this process (e.g., the president of the company for his/her vice president positions) may not always see the value in this sometimes tedious exercise, and even if they do, they are pressed for time on more urgent business matters. Nevertheless, any shortcut taken in this step will likely have a negative impact in the end – while a succession plan can still be put together, the candidates identified in this process and consequently promoted to the respective position may not deliver.

4. *Assess the workforce and identify talent* in the organization that is either meeting the defined future requirements or will be able to develop the respective capabilities.

   The numbers of internal potential successors, who are now in the **talent pool**, determine the organization's **bench strength**.

   The risk: disregarding the view of the identified potential successors. It is not conducive to the success of succession planning to identify individuals that may have everything the organization requires or needs, but are not interested in leaving their current position. Even if interest and motivation seem to be there, if the identified candidate does not understand or is not willing to invest time and effort in his/her own development toward this new position, a successful placement is at risk.
5. *Calibration of talent pool*. Once the talent pool is identified, senior management and everyone involved in the hiring process should spend time discussing the candidates and agreeing that they are indeed the next successors. (This process step may be covered within the performance and potential management process, and if it is, there should be no need to repeat it.)

   The risk: There is no calibration among senior management of the identified talent pool, or senior management is not completely honest. Typically, in a calibration meeting (usually facilitated by human resources), senior management discusses the talent identified and how they see or do not see candidates fit for certain positions. This will include discussion about development opportunities and needs a candidate may have in order to get to the respective position discussed. It is not always safe to assume that the outcome of the calibration discussion will indeed reflect consensus and therefore lead to actual placements of internal candidates. Calibration meetings can be long and tedious; each participant has a different view on each candidate and what is needed for the position he/she is supposed to fill one day. (Here is one point in the process where a clearly defined competency model could help with generating a common understanding of what is needed.) Whether it is time pressure, the lack of patience for this kind of discussion or the thought that if the position, for which potential successors are being discussed, is in another area – there are many reasons why such a calibration meeting may not get the proper attention. One way to know if it does or does not get proper attention is when it is time to place an identified candidate in the position he/she was identified for and the hiring manager or executive is not ready and willing to take this individual. Some companies circumvent this risk by addressing it directly in the calibration meeting (i.e., the respective manager/executive is asked to agree to taking the candidate) or by obtaining commitment from everyone that candidates identified in this process will be placed directly when the opportunity presents itself. Especially the latter will definitely support the integrity of the succession planning process, but it may also be perceived as counterintuitive to any rule or guideline the company may have saying they will post every open position internally.

6. Knowing the current and future state now allows for *development of the succession strategy*. As succession planning is often done with a focus on internal candidates, in many companies, the succession strategy is limited to determining initiatives and activities around individual development of these internal candidates, such as training, project work, lateral moves, etc.
   The risk: not taking a more holistic approach that will also include considerations of recruiting and retention. It is absolutely acceptable to find that there may not be enough and/or qualified internal candidates – after all, this is one of the reasons succession planning is done in the first place. If the internal bench is not strong enough at a certain point in time, the company has to consider its options. If the need to have a potential successor in place is somewhat urgent – for example, the VP of sales is looking to retire in a year – and there is no one that will be ready within that time frame, the company should consider going to the outside and bringing someone in early enough that proper training and preparation can occur and the transition is smooth. For the long run though, the company may want to look at what can be done to ensure internal successors can be groomed and that may be to hire sales people at a lower level today to groom them over the next years.

When putting together a succession plan and identifying the internal candidate pool, the company should also pay attention to the demographics of their workforce. Anticipated retirements and their timing are just as important to be aware of as anticipating what the younger workforce expects for their career and how the company is meeting their expectations. Are they likely to stay or are they likely to leave, and if so, why? What needs to be done to keep the talent that is identified in this process (see ▶ Chap. 38, "Engagement and Retention: Essentials of Retention Tools")?

While every company should focus on the development of internal candidates for their succession plan, there is also something to be said for the idea of bringing "fresh blood" into the company. Outside candidates can bring a different view and different experience to the company that may be helpful in the development of the organization as a whole. Many companies follow a rule of thumb or goal in regard to internal vs. external placement such as 70 % of all positions should be filled internally.

7. *Execution of the succession strategy*. Based on the succession planning effort, the company has now identified action needs around individual development and hopefully included recruiting and retention in their consideration. These needs have to be translated into action plans, and those need to be implemented.
   The risk: The implementation of action plans often represents a resource challenge. In general, there are three big resource challenges: people (human resources), money (financial resources), and time. These are the obvious ones and the ones that are often used as an explanation (sometimes as an excuse) as to why there is a lack of action according to plan. Actions are louder than words, and if the succession plan is just that – a plan that is not followed by action – the entire process was a waste of time. In addition, the company will see discouragement of employees, loss of motivation and morale, and that will have an impact on productivity and with that on the bottom line. Going through the effort of succession planning without a previous commitment to do something with it is not only not useful but often harmful. Therefore, prior to this undertaking, the company needs to be fully committed to dedicate the necessary time and resources to the process in its entirety – from design to execution.
8. *Monitor and evaluate the implementation*. Every process is only as good as its implementation.
   The risk: Given the time and resource challenges, there is always the chance that the follow-through is lacking, and if that is the case, the succession planning process will not deliver the desired results. Therefore, monitoring and evaluating the implementation is of utmost importance. In essence, one would like to keep track of both quantity and quality aspects of the process: quantity here refers to ensuring all identified key positions have a succession plan, and quality can be measured (over time) by how many internally identified successors are in fact placed in the positions for which they were marked ready and when they were considered to be ready.
9. *Repeat the process*. Succession planning is a long-term process, as should be clear by identifying potential candidates in short-, mid-, and long-term categories.
   The risk: Succession planning is directed toward ensuring the continuity of leadership in an organization and, if done properly, requires a lot of effort and time to do. It also raises expectations from identified candidates. It is also subject to change all the time with regard to the talent pool that is identified, even though the process itself should be steady and basically not changed. In many companies, succession planning is an annual exercise, often tied to the annual performance review. Annual reviews are definitely recommendable. A onetime or occasional effort to "do succession planning" will not provide the desired results of knowing the bench strength; therefore, internal placement objectives may not be met (neither in terms of the percentage the company may aspire to nor in terms of meeting the requirements for key positions as defined by the company), and individual development may end up being more random than targeted

(if happening at all), which then in turn may have an effect on retention of talent. If a company cannot or does not want to commit to succession planning as part of their business and culture, they may be better off not doing it all.

A lot of the risk around not doing succession planning or not doing it properly is going back to the time, effort, and resources it takes. If committed to the process, a company should look to technology to make this process more effective and efficient. Often succession plans are still created manually in power point and/or excel, and that in itself takes a lot of time. Integrated software solutions can be of tremendous help, but those may require a substantial financial investment. In addition, especially in global companies and companies that have not grown organically but through mergers and acquisitions, the implementation of *one* software solution often presents another challenge.

Operational Perspective

The operational perspective addresses the question of how to do or implement succession planning. What are things to consider and think of prior, during, and after the execution of the process? (This does not include the content aspects of the process that described earlier.)

Prior to even designing a succession planning process or considering buying a process off the shelf from a technology service provider, a few questions need to be answered (and these are in no particular order of priority):

- *Who will own the process*?
  Often the perception is that the human resources department owns the process, meaning it is theirs and they are driving it and will be held accountable for its success or failure. Given everything what has been said about that succession planning so far, this would not be the most promising approach. The process needs to be owned by executive management – they should drive it and they should be held accountable for its results. This seems obvious when understanding that it is the executive management who is ultimately responsible for stability and continued success of the organization. Human resources should provide the process (i.e., design, instructions, training of management, etc.) and manage it (i.e., gather data, provide support to management, monitor steps and timing, and if they face noncompliance from the organization, make sure the executives are aware and will address it). To answer this question is key, as it addresses the question of commitment (from leadership), which then will impact the quality of execution.
- *What resources will be needed*?
  The amount of resources (people, money, time, etc.) may vary based on the size and complexity of an organization. As one would expect, less resources should be required in a smaller local company vs. a bigger global company. Thought will have to be given to.

– *Does the implementation of succession planning require additional headcount*?
  This would predominantly affect the human resources department as the process manager. More often than not companies do not seem to think additional resources are necessary, and once a process is fully implemented, roles and responsibilities are clear and met additional headcount may not be necessary. However, it may make sense for a company to at least consider temporary support if and when succession planning is rolled out for the first time.
– *Is the company ready and willing to make a financial investment for a software solution*?
  This will heavily depend on the financial situation of the company and the seriousness with which the company is pursuing this undertaking. Global companies may face the situation that some entities around the world may already have a software solution and others do not. Those who do may not want to give up theirs and those who do not have one may feel they would rather look for a solution that fits best for them. Regardless, from the perspective of the global headquarter of a company that is run "as one global company" (and not as a conglomerate of independent companies under one holding), it does make sense to have one system that is the same in all entities worldwide, because the succession plan should identify the best talent in the entire company regardless of its location. In that scenario, the question of an adequate software solution becomes more difficult to answer, as it may not be clear which entity will cover the cost and, more importantly, which tool is the best for everyone. These kinds of "politics" have the tendency to delay decision making and with that execution.
– *How much time and how many resources will it take to prepare the organization*?
  What is needed to prepare the organization will depend on previous decisions. If it was decided to keep it a manual process (at least for now), the preparation time should be less than if it were desired to implement a software solution first. However, as long as the process is more manually driven, it can be expected to be more time-consuming during the process management. In either scenario, there should be time taken to prepare the organization with communications about the process (in particular if it is new), clarification of roles, responsibilities and expected outcomes, and potentially training of a new system. At this stage, the communication to the organization is a key aspect to consider. As mentioned earlier, companies may decide to keep the succession planning low key and behind closed doors, but that should refer rather to the results of the process (i.e., who is on the list) than to the process itself. In the interest of trust with leadership and retaining talent, the fact that there is a process and how it works is something that the entire workforce should know. Communicating the process will also put some accountability on leadership to stick to the process. Assuming that the process and how it works is being

communicated to the entire organization, it should be done with sufficient notice, which could mean one performance cycle prior to introducing the process. Employees deserve to know how they are being measured and what they would need to do to become part of the succession plan should that be their desire.

- *How does this fit with existing processes*?
  As mentioned before, succession planning would usually be tied to the respective performance and potential management process in place. In that case, the calibration of succession plans in which identified potential candidates are discussed by senior management would make sense in close proximity time wise to the results of the annual performance appraisal. In most companies, the performance cycle matches the calendar year, from January 1 to December 31, which means performance appraisals would have to be done in January of the following year. If all is integrated, the performance appraisal will be the basis for the assessment of potential, and that will lead into the succession plan. Keeping the processes connected can be beneficial in terms of time (even though additional calibration of succession plans will add to the time spent on performance management) and accurate recollection of people and their performance. If as part of the performance and potential management process calibration of those factors is already happening, succession planning could "just" be an additional agenda topic to discuss in the same meeting. This will extend the duration of the meeting, however, and participants of calibration meetings will need to be given proper notice to be able to plan their schedule accordingly. The question of fit with existing processes is not limited to the timing. It would also apply to the criteria defined to determine suitability of candidates. The requirements of key positions, for which succession candidates will be identified, should align with the criteria used to measure performance and identify someone's potential.

During the execution of the process, communication is vital. All active participants in the process need to clearly understand the objective of it – to assess the bench strength of the organization and, based on the result, develop action (not just action plans) around strengthening that bench. Assessing the talent is a very difficult task. The basis on which an employee is identified as a successor is based on his/her performance and potential to be effective and successful at the next level. To clearly define the difference between performance and potential may seem simple in theory, but to separate the two – and have every manager have the same understanding and therefore outcome of the definition – is challenging for most people. This is where competency models for the key positions for which a succession plan is established will be of tremendous help. Clearly defined descriptions of requirements in regard to leadership skills, technical expertise, and, for instance, cross-functional experience will enable the leadership group to "check the box" for each candidate and come to consensus quicker. Prior to even assessing potential, the performance needs to be evaluated, and even that usually has an individually subjective component.

The process leading to a succession plan usually follows the below steps:

1. Performance evaluation – typically companies have some rating scale ranging from not performing to performing exceptionally well. Performance may be categorized on a three-, four-, or five-point scale (or even more categories). Some companies consider high performance a prerequisite to be considered for the succession plan.
2. Potential evaluation – understanding the term "potential" to be the ability and capability to be (or become) effective and successful at the next level in a general sense, there is a lot of room for interpretation and judgment based on individual values and experience.
   Both these evaluations are done by the direct supervisors individually in a first step.
3. It is typically the human resources department who will gather the data and create a preliminary succession plan based on the individual evaluations.
4. Calibration – the leadership team who is ultimately responsible for the process should get together in a meeting to openly and honestly discuss the nominations for the succession plan. This is a key element of the succession planning process as it is required to create a common base of understanding and agreement of the quality and quantity of successors from the internal talent pool. While especially in early years of the process the outcome may be disappointing in that the bench may not be as strong as expected, this discussion will increase the validity of the outcome and the actual succession plan, tremendously – if the leadership takes sufficient time to do it and is honest when doing it.
   A popular way to capture the outcome of the calibration meeting is the "9-box model," in which performance and potential are tied together (see Fig. 3).

The communication to the leadership is basically training, especially in the first year, and as with every training may need to be repeated and reinforced from time to time. The communication to the workforce in general is also important. The employees, too, need to understand the process, the criteria, and how the succession plan is determined. Very important in the general communication to company is the clarification of roles and responsibilities, including the individual employee's responsibility to take initiative and actively seek their own development.

There really is not after the process – it is (or should be) an ongoing process, each step leading to another action. From the 9-box model, names would be transferred into the succession plan, again discussing whether a candidate meets the requirements or can be developed to meet the requirements, of the position at the next level. As names get identified, it should also be discussed what development steps and actions should be taken to help the candidate in preparation for the move. This individual development planning is very important, as this is the part that is personal to the employee and will possibly impact his/her desire to stay with the company.

At this stage the succession plan is finalized. So far it was assumed that the company has a desire to use this tool also for retention, and under that assumption, communication about the process is necessary. In this scenario, the individuals should receive feedback pertaining to them from the calibration meeting and its result, in particular when it comes to planning next development initiatives.

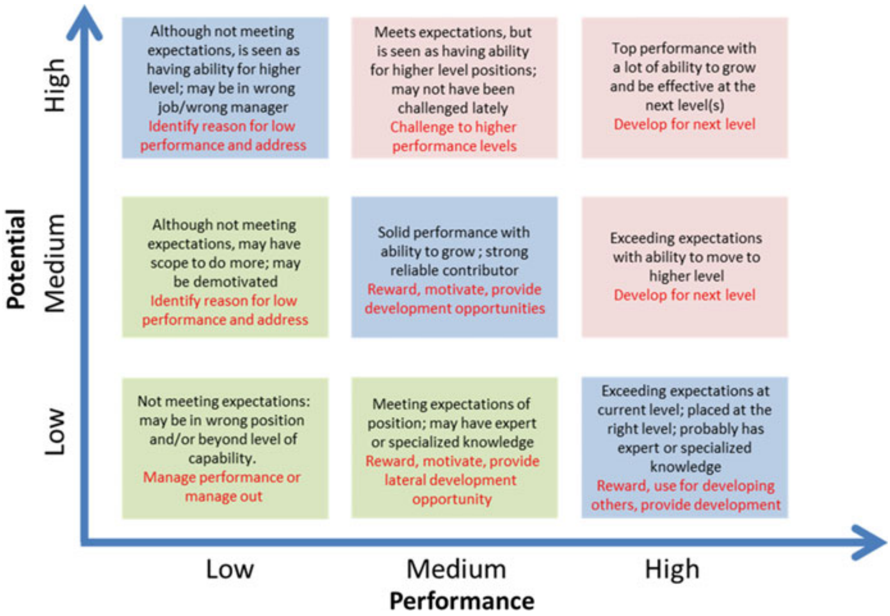

Fig. 3 Nine box talent management model

Development initiatives can only be successful if the person who is supposed to be developed is actively and willingly supporting it. However, some companies conduct succession planning behind closed doors and prefer not to communicate. One reason for that could be the desire to not raise expectations of promotion and growth; another may be that the criteria are more subjective and maybe less based on performance than on relationships or seniority. When being open about the process and its details, including feedback on an individual level, a company needs to be careful to manage expectations well. Having been identified as a potential successor is no guarantee that the individual will be promoted, at least not without the individual's commitment to his/her own development. And sometimes there may be other factors that become important – it is the company's responsibility and obligation to manage the expectations such that they can meet them.

Finally, it is important to do a reality check on the succession plan: in other words, is it doing what it is supposed to do? A "good" succession plan has only candidates listed that will indeed be placed into the positions they have been identified for, even if it takes some time to get them ready. So how will the company know? Well, they will know for certain after a few positions for which the succession plan has been established have become vacant and successors have (or have not) been chosen from the succession plan. The reality shows that sometimes, when the time comes to promote a candidate from the succession plan, the decision makers refrain from the process or internal successor identified earlier in the year and prefer another candidate, may it be internal or external. If and when that happens, the credibility of the succession planning process is obviously compromised, and the company has wasted a lot of time, effort, and resources. How can this be avoided? One way to avoid this is to install accountability into the process. At the calibration meetings where the succession plan candidates are discussed, the facilitator should obtain commitment to the outcome. Every leader participating in the discussion should make a public statement that he/she will put the respective individual in the position the candidate was named for when the time comes. However, this is just a moment in time in which such commitments may be made quickly and easily. The other piece is that when starting out the process, it should be communicated clearly that once a candidate is identified and agreed upon, he/she will be placed with no further discussion when the opportunity presents itself. The key though is not to just say it but to do it.

That said, there should some mechanism be built into the process to address out of the ordinary circumstances that provide a solid reason to not stick with the process. For example, if a candidate who has been identified as ready now and has obtained all the approvals from the decision makers finds him/herself in a personal situation that will likely affect his/her effectiveness in the new higher level position, both the company and the individual should have the choice to step back from the commitment at this time. Such situations could be around a serious illness in the family, elderly care requirements, the spouse taking on a new position requiring the candidate to have more flexibility for the family, or simply that the individual has decided against this career path. There is also the possibility that things may have changed on the company side. A change in organizational structure may have eliminated or downgraded the position. In essence, even though the commitment to the process should be rock solid and not be questioned when delivery time comes, it may be useful to do one more round of validation that nothing has changed in regard to the candidate and the organization since he/she was identified and put on the list.

The number of people identified in this process may also be an indicator of the quality. While a company may have a goal to fill 70 % of all vacant positions internally, that goal should not drive the number of people identified. Translating a 70 % internal fill rate into a number of identified candidates may (mis)lead the supervisors to nominate individuals that are not ready or not qualified in some way. However, the goal of 70 % internal placements is very valuable in determining today's bench strength when compared with the actual number of "true" candidates. To get a sense of what could be a realistic number, a standard bell curve may be of help. Under the assumption that performance is the prerequisite for potential, a company should expect about 13.6 % of excellent performers and 2.1 % of outstanding performers (see Fig. 4).

They will now look in this pool of high performers (15.7 % of the rated population) that has the potential to be successful and effective at the next level. If and when applying the standard bell curve again to this 15.7 %, the number of people identified with potential seems incredibly low (see Fig. 5), and it is hard to accept that there should be so little talent in the entire workforce! However, this is the point where the company needs to remember that (1) they are doing the succession plan for leadership and expert positions, and those are usually very limited in number, and

Example Performance Distribution

Total	Insufficient	Inconsistent	Steady	Excellent	Outstanding
100	2	14	68	14	2

Fig. 4 Performance standard distribution

Example Potential Distribution

Total	Low	Medium	High
16	2.5	11	2.5

Fig. 5 Potential standard distribution

(2) the succession plan is an assessment of the talent base and should lead to individual development that will result in a bigger candidate pool that is and will be ready. Last but not least, it should be expected that the majority of the workforce is not suited for leadership positions, and that does not mean they are not good talent!

The mathematical approach, however, should only serve to provide some guidance or as a reference; it should not lead to forced rankings or distributions.

There is another aspect to consider when looking at the result of the succession plan: the demographics and diversity of the identified candidates, i.e., how many are male and female, their ethnicity, and age. Diversity in the talent pool for most companies is a desired objective – some more so because of rules or laws in their country and others because they realize the advantage of having a diverse workforce.

Dos

Companies should be doing succession planning for the right reasons (i.e., risk management and talent retention). This is the only way to gain serious commitment to the process.

To ensure alignment with business strategy, the process needs to address workforce planning in the long term and may have to be adjusted on a regular basis accordingly.

Define a clear process that fits to the company and its existing processes and hold people accountable to it. Take time to customize where necessary.

Be clear how strong the process should be. Is it done just to assess the current bench strength or are there internal placement goals to be met? The solution in between could be to make potential internal successors one candidate that is compared to candidates from the external market.

Take the time to develop the leadership competencies/competency model that will address future needs of the company. They will also create a more objective base for evaluation.

Be clear about communication: what, when, how, and by whom. Be consistent in the communication effort.

Manage expectations of supervisors and employees in regard to their roles and responsibilities in the process and the outcomes of the process.

Ensure senior leadership has bought in and is actively involved and supporting it.

Ensure employees are actively involved in their own career planning and development. Employee engagement in their own development should be a key factor in placement decisions.

If at all possible, utilize technology to reduce time spent and risk of manual errors.

Quality is key: the quality of the process defines the quality of the outcome. The desired quality of the outcome is a list of "true" or "real" successors – not just names.

When doing succession planning, a company should also invest in the individual development that will be recommended as a result of the process. It is the follow-up and follow-through on the commitment, and without resources and willingness to invest in individual development, the entire process can at best provide a snapshot of the talent bench at a certain moment in time.

Ensure that the candidates identified are not only capable but also motivated to be part of succession planning and related development activities.

Be clear that succession planning is a long-term process. Starting out it may not provide "enough" candidates, but over time (years!), the company will be able to develop its own talent and create a meaningful bench.

Don'ts

Companies should not do succession planning, because it is the popular thing to do or to keep busy. Doing it without the necessary level of commitment will cause more harm than good.

Do not consider this a onetime project. If not reviewed and adapted on a regular basis, it will lead to an outcome that does not meet business needs.

Implementing an "off the shelf" process without customization will impact the quality of the outcome and the credibility of the process.

Being unclear of how the process will be used means the desired outcome is not clear. Without a defined outcome, the execution will suffer and with that increases the possibility of the effort being a waste of time.

If the definition of competencies is not done or rushed, the identification of candidates will be more subjective, and future leadership needs of the company may not be addressed.

Lack of or inconsistency in communication creates uncertainty, which will affect morale and productivity.

Not managing expectations or not doing so properly will create disappointment and loss of trust – first in the process, then in leadership, then in the company.

Without leadership support and drive, this process is a waste of time.

Employees that are not taking the initiative and responsibility for their own development are often not the right people for the next level (leadership) role.

The more manual the process, the more time and effort it will require and the more difficult it will be to get the proper level of engagement.

Companies should be aware of and avoid the temptation of putting a lot of names down. If quantity (number of names) is higher valued than quality of candidates, it may provide instant gratification at the end of a long calibration meeting, but it will not be satisfying when the identified candidates are either not successful or not even promoted.

Lack of follow-up with individual development planning may not only create confusion but more likely disappointment. The process will not have the desired effect on retention, and of course, the succession plan will not evolve over time. If a company decided that they cannot or will not invest in the development of the people, they should probably stick to a “behind closed doors” approach of succession planning.

It is relatively easy to not verify with the candidate – all too often it is assumed that the employee is interested and willing to move up; and sometimes employees will say they are, because they feel it is expected of them. These candidates are less likely to be successful.

Doing succession planning once or sporadically every so many years will not yield the desired outcome. Patience and perseverance are important, especially for leadership – they need to understand that developing talent takes time.

Outlook

Succession planning is a relatively complex process if done properly, and it requires a lot of time, effort, and resources. Demographic shifts and globalization add other layers of complexity or difficulty. Many companies have an international footprint, and in an effort to become one global company, they are looking at one global talent base, creating one global succession plan, in which not only performance, potential, and willingness to move up matter but also the willingness and ability to move to another country. And even if someone is willing and able to move to another country, the question is will he/she be able to adapt to the different culture and be effective in this very different cultural, political, and regulatory environment? It is a challenge to reliably assess that capability and is therefore easily ignored or at least not the top priority when choosing the expatriate. However, there is something to be said for this type of qualification: if one does not know how to work with the people in the country and how to navigate through their culture and politics, then how useful are all the job and company-related knowledge and expertise he/she is bringing with him/her?

When defining competencies and requirements for the key positions in order to identify potential successors, one needs to be aware of the tendency to go by what worked in the past. But, the economy changes, the environment changes, and the motivating factors for the next generation workforce changes. When defining the future position requirements, a company should keep those factors in mind and take into consideration how economic uncertainty or communication technology may impact the future work environment and qualification needs. The concept of long-lasting employment relationships, in which individuals stay for 20 and more years with the same company and work themselves up the ladder, seems to become less practical in economically challenging times. The idea of being a “free agent” who may work for multiple companies at the same time in a part-time capacity may become more attractive for a younger workforce that is looking for variety but also needs stability.

Regardless of how complex or difficult the succession planning process may seem to be or become, the bottom line is that it can be considered as the risk management process for human capital in the company. Taking that view, there should be no hesitation for any company to engage into this process in a meaningful way.

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Part IV

Engagement and Retention

Engagement and Retention: Introduction and Overview

36

Janina Schönebeck and Manfred Schönebeck

Contents

Abstract

Companies should develop an in-depth understanding of their employees' needs, for example, by conducting employee surveys, in order to develop measures matching these needs. Research on burnout and engagement found that the core dimensions of burnout (exhaustion and cynicism) and engagement (vigor and dedication) are opposites of each other (Gonzalez-Roma et al.; J Vocat Behav 68:165–174, 2006). Maslach et al. (Ann Rev Psychol 52:397–422, 2001) argue that job engagement is associated with a sustainable workload, feelings of choice and control, appropriate recognition and rewards, a supportive work community, fairness and justice, and meaningful and valued work. The topics introduced in "Engagement and Retention" will link to these dimensions and discuss them more closely.

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Introduction to the HR Concepts: Engagement and Retention

Engagement

Until the 1990s, employee satisfaction was the most commonly used employee opinion research concept. Employee satisfaction can be understood in terms of its relationship with other drivers such as loyalty, engagement, commitment, business performance, and many more. These sub-concepts of employee satisfaction have gained and lost importance throughout the years. As with many research areas, trends come and go over time, as circumstances change. There are two main sub-concepts of employee satisfaction that are of tremendous importance and are widely discussed in the literature and companies all over the world – these are loyalty and engagement. The Gallup Organization introduced the term "employee engagement" in the 1990s. Meanwhile, hundreds of scientific publications have appeared on the subject. Many private consultancy companies have developed their own engagement concepts. Consequentially there is no consensus about the exact definition and concept of the term "engagement." As noted by Robinson et al. (2004), there has been surprisingly little academic and empirical research on a topic that has become so popular.

Definitions in Different Contexts

Definition in everyday life: In everyday life, engagement refers to involvement, commitment, passion, enthusiasm, focused effort, and energy. For instance, the Merriam-Webster dictionary describes engagement as "emotional involvement or commitment" and as "the state of being in gear."

Definition in business context: Employee engagement is the emotional commitment the employee has to the organization and its goals. This emotional commitment means engaged employees actually care about their work and their company. They do not work for a paycheck only or just for the next promotion. Instead, they work on behalf of the organization and its goals.

Definitions in academic and psychological context: In academic literature, it has been defined as a distinct and unique construct that consists of cognitive, emotional, and behavioral components that are associated with individual role performance (Saks 2005). Kahn (1990) defines personal engagement as the individual identification with one's work role. This includes physical, cognitive, and emotional contributions in favor of the work performance. Rothbard (2001) also involves the psychological presence in engagement but goes further by incorporating attention and absorption. *Attention* refers to cognitive availability and the amount of time one spends thinking about a role. *Absorption* means being engrossed in a role and refers to the intensity of one's focus on a role. Shuck and Wollard (2006) define employee engagement similar to the previous definitions but also mention it to be directed toward organizational outcomes.

Synonyms for the term engagement: The following words have interchangeably been used for the term engagement in literature: loyalty, work performance, intrinsic motivation, identification with work, dedication with work, integration, involvement with work, job involvement, organizational citizenship, commitment, proactive personality, conscientiousness, empowerment, role expansion, absorption, affective, attachment to work, and enthusiasm.

Preconditions and Consequences of Employee Engagement

Employee engagement is positively related to retention. This relation is even stronger when the organization is undergoing structural changes such as downsizing and layoffs. Under such circumstances, disengaged employees are more likely to hold intentions to leave the company than engaged employees (Wiley and Campbell 2006). Other concepts that are closely related to engagement, such as satisfaction and commitment, also show a direct relation to turnover (Griffeth et al. 2000).

The popularity of employee engagement as a concept results from the positive consequences it has for organizational outcomes. These are, for example, job-related attitudes, health, job performance, role expansion, and growth and productivity retention, to name but a few. Research has found that engagement is significantly related to customer service scores (Wiley 1996) and financial performance indicators (Wiley and Campbell 2006).

In any case, before organizational outcomes can be expected, the employee's individual performance level has to increase first. Preconditions in this regard are job resources and personal resources which positively influence employee engagement.

Job resources refer to those physical, social, or organizational aspects of the job that may reduce job demands and the associated physiological and psychological costs, be functional in achieving work goals, and stimulate personal growth, learning, and development (Bakker and Demerouti 2008). Important resources in this regard are, for example,

- Development opportunities
- Performance feedback
- Rewards and recognition
- Autonomy
- Skill variety
- Fairness
- Social support from colleagues and supervisors

Personal resources are linked to the individual's capacities. It especially refers to the individuals' ability to successfully control and influence their environment (Hobfoll et al. 2003). Personal resources are, for example,

- Self-efficacy
- Hope
- Enthusiasm
- Optimism
- Self-esteem
- Emotional intelligence

Two-Sided Relationship Between Employer and Employee

Discussions on employee engagement strongly focus on important attributes employees should possess in order to meet the requirements the engagement entails. It requires employees to be, for example, proactive, conscientious, or enthusiastic. For employers this is especially important to ensure an effective and efficient performance outcome. This view is very narrow and does not respect a component that is crucial to achieve this aim. Engagement is not only something which sees employees contributing for the good of the company. It is a two-sided relationship between employees and employers. In this respect, it can be understood as a social exchange. This idea of a social exchange theory was recognized and introduced by Saks (2005). It states that employers and employees should equally contribute to this concept to create obligations for the good of the other party. A relationship with reciprocal interdependences builds a relationship over time by generating trust, loyalty, and mutual commitment (Cropanzano and Mitchell 2005).

Critics on Engagement Theories

Theories explaining employee engagement ignore the fact that employees might engage with their work on different levels. Some employees might have a higher level of engagement, while others may have a moderate level of engagement. Thus, their level of engagement has a different impact on the extent to which they are productive, satisfied, committed, etc.

Theories proposing the effectiveness of employee engagement fail to address the effects that individual differences may have on the individual engagement level. For example, the question whether employee engagement is a personality trait or a quality does not respect the environment that the employee is exposed to. This incorporates the shortage of engagement theories to provide answers for the following environmental questions:

- Do cultural differences have any significant influences on employee engagement?
- Do low-skilled employees and high-skilled employees have the same degree of engagement?
- Do age, gender, or duration of employment have any effects on the employee's engagement level?

Retention

Employee retention or turnover (the opposite of retention) is one of the most critical issues that today's businesses must focus on. Studies have shown that the future success of companies will depend on the extent to which companies are able to attract and retain innovative, creative, and flexible workforces.

The term "employee retention" first began to gain bigger attention in the business world in the 1970s. It was not unusual for people who entered the job market as late as the 1960s to remain with one employer for a very long time, sometimes for the duration of their entire work life. But as job mobility and voluntary job changes began to increase dramatically, employers had to deal with a new phenomenon – called employee turnover. A new management tool had to be considered and developed in order to deal with these new challenges.

Definitions in Different Contexts

Definition in everyday life: The Oxford Dictionary describes retention as continued possession, use, or control of something. However, in the academia and business world, the term has slightly different meanings.

Definition in business context: In business literature, retention is understood to be the percentage of employees staying with the organization (Phillips and Connell 2004). Stauss et al. (2001) understands retention as the degree to which employees are encouraged to stay with the organization for a certain period of time or until the completion of a distinct project.

Definitions in academic context: According to McKeown (2002), retention should be understood as a systematic effort taken by employers to create an environment that encourages employees to remain employed. This mainly incorporates policies and practices that address the diverse needs of employees.

Synonyms for the term retention: The following words have been used for the term retention in literature: detainment, withholding, confinement, detention, freedom, liberation, departure, withdrawal, and turnover.

Preconditions and Consequences of Employee Retention

With every ten managerial and professional employees who leave the organization, an average company loses approximately $1 million. When associated with one employee, the direct and indirect costs are a minimum of 1 year's salary. A company that loses one of its key talents or key employees not only faces a significant economic impact but also a loss of corporate knowledge (Fitz-enz 1997). Knowledge management is a critical component of employee retention that should not be underestimated. High performers and key employees are likely to seek new employment opportunities as these opportunities are easily accessible for them than for poor performers (Holtom et al. 2008). This leads to a further loss in terms of the company's performance and reputation.

Rates of voluntary departure and its economic impact on the company vary throughout countries as the companies' economic environments differ. European employees are less likely to change their jobs than US-American employees. This could be the result of any of a broad number of reasons including higher employment rates (Tanova and Holtom 2008). Scientific research explored the underlying forces for turnover and retention behaviors in order to enable companies coping with that issue. Various retention theories have emerged as a result of this research.

Fulfilling the Needs and Expectations of Employees

There are several theories that have attempted to explain the factors behind employee retention and turnover. Theories that emphasize the importance of motivation have found great acceptance as the extent to which employees are motivated determines the employees' retention and turnover intentions. Theories focusing on employee motivation stress aspects such as needs, equity, expectancy, and job design.

Need theories attempt to point out internal factors that influence an employee's behavior (Ramlall 2007). These factors can be of psychological and physiological nature.

- According to *Maslow's Hierarchy Theory,* employees are motivated by the desire to achieve or maintain physiological, psychological, economic, affiliation, esteem, and self-actualization needs. The degree to which these needs are met will determine the employees' intention to stay with their employer (Kreitner and Kinicki 1998).
- *McClelland's Need Theory* proposes that employee retention is dependent on the fulfillment of achievement, power, and affiliation needs. The need for achievement includes the individual's striving to excel and succeed. The need for power describes the ability to make others behave in a certain way. The affiliation need refers to friendly and close interpersonal relationships (Ramlall 2007).

The *equity theory* considers that employees are not only developing loyalty toward their company by receiving the absolute amount of rewards for their efforts but also by gaining a feeling of fairness and equity (Robbins 1993). Based on the input – including experience, educational background, competence – employees compare outcomes such as salary levels, recognition, promotion, and appreciation. Employees who perceive the input and outcome relation as imbalanced are likely to consider leaving their organization. Consequentially, organizations should develop a reward system that is perceived to be fair by its employees (Ramlall 2007).

The *expectancy theory* proposes that employees can be motivated to choose a certain behavior over another based on the expected outcome they have of the chosen behavior. But before actually choosing a certain behavior, the employee is evaluating the motivational options during a cognitive process that incorporates perceptions, beliefs, and attitudes. Thus, the outcome is not the only aspect in making a decision (Kreitner and Kinicki 1998; Pinder 1984). Studies on organizational behavior describe expectancy theory as a motivation theory that was first introduced by Victor Vroom (1964). It combines three components that have the ability to trigger a certain behavior. These components are:

- Expectancy – describes the understanding that a certain effort will result in the desired performance goal.
- Instrumentality – the belief that for an expected level of performance, one receives a reward (e.g., payment increase, recognition). The desirability and level of reward determine the performance effort one is willing to invest.
- Valence – is the emotional tendency someone has with regard to an outcome.

The *job design theory* understands the task itself as the influencing factor of employee motivation. Monotonous tasks negatively influence employee retention behaviors. Challenging tasks however have the potential to increase employee motivation and loyalty (Herzberg 1966). Task variety, autonomy, and involvement in decision-making processes are just some aspects that would foster an attractive job design approach. Another often underestimated aspect influencing the motivation and satisfaction with an organization and job is the perceived meaning the job involves (Oldham and Hackman 1980).

Holtom et al. (2008) summarized the various retention studies and defined, to a degree, the factors that are indicators of employee retention (although the factors do not equally contribute to employee retention). In this regard, job satisfaction and leadership style may have a higher impact than organizational size or culture. These factors are:

- Individual differences, personal characteristics, personality, ability, attributes, nature of the job, routine, autonomy, job scope, role states, traditional attitudes, job satisfaction, met expectations, organizational commitment, job involvement, attitudes, stress, strain, engagement, exhaustion, well-being, psychological uncertainty, change acceptance/perceptions, challenge/hindrance stressors, organizational context, organization size, group cohesion, demography, reward system, organizational culture, organizational prestige, climate, unit-level attitudes, institutional pressure, person-context interface, justice, leadership, attachment, person fit, realistic job preview, interpersonal relations, position history, socialization, withdrawal cognitions, expected utility of withdrawal, turnover intention, cost of turnover, discomfort with quitting, alternatives, perceived alternatives, general job availability, unemployment, and employment opportunity index.

Critics of Retention Theories

The theories introduced above provide a first, abstract understanding on employee retention and turnover. But as already mentioned, they are abstract as they do not consider more recent developments such as changes in society, individual needs, technological advancements, worldwide financial instability, etc. The aforementioned theories therefore cannot address the following question with regard to what motivates people to stay or leave their employers:

- The introduced theories attempt to explain the factors behind retention behavior, but they ignore the fact that every individual action is likely to result from the person's unique personality.

- These theories do not address whether age, gender, and tenure have something to do with the individual's intention to stay or depart. For example, future research should investigate whether or not young people are less loyal than older employees or whether female employees are less likely to leave than male employees.
- Nowadays people are more attracted to switching between different career options as it is relatively easy to change the career direction or even professional field. People are more likely to chase their dreams when the opportunity arises.
- Today's generation is less likely to settle down in one location and spend the rest of their life at the same place. The flexibility today's life offers individuals might have an effect on employee retention behaviors. People are becoming less attached to their communities, their cultures, and their countries.
- Today it is very easy to expand networks. People are connected with many individuals, organizations, and groups. They are more aware of their options. The use of social media and especially career websites makes it easier to find new opportunities with another employer.

How to Work with This Chapter

This chapter introduces a practical way to strengthen a company's HR efforts in the fields of employee engagement and retention. The major focus of the chapter is to provide support without describing abstract theories and ideals but rather by providing realistic and practical tools.

The following outline gives an overview on the chapter structure of engagement and retention:

Setup and strategic alignment	Employee surveys
	Retention tools
These two chapters are especially important for setting up and implementing the company's engagement and retention efforts	

Operational tools	Cultural and social activities
	Employee care
	Idea management
	Rewards and recognition
	Employee and labor relations
These chapters introduce powerful retention tools, their meaning, advantage, and usage	

▶ Chapter 37, "Engagement and Retention: Essentials of Employee Surveys" understands the employee as the underlying force of all efforts in a company's engagement and retention efforts. Only when understanding the existing company's strengths and weaknesses in the field of engagement and retention appropriate measures to actually improve the situation can be designed. As this understanding sheds light on the employee perspective, it can only be provided by employees and managers themselves. This section describes in a step-by-step approach for designing and implementing an employee survey. In order to ensure that the survey results actually come into use, the chapter stresses the importance of incorporating employee surveys in the company's strategic alignment processes. Beyond that, the survey results are especially important in the process of designing reasonable and appropriate retention tools. The latter is presented more extensively in ▶ Chap. 38, "Engagement and Retention: Essentials of Retention Tools."

▶ Chapter 38, "Engagement and Retention: Essentials of Retention Tools" looks at the many existing aspects of HR practices that are linked to retention and aims to provide organizations and managers with insights that enable them to positively influence employee retention. It targets not only the development of a culture that creates high levels of employee satisfaction and low turnover rates but also good organizational performance in the long term. In this context, the chapter focuses on the changing nature of the workforce, the importance of retaining good people in terms of organizational success, employer branding, and other people-related aspects of work such as management style, organizational image and success, etc. Organizations should aim to strategically and proactively incorporate HR considerations across their business. Employees and human resource management should be connected to everything they do, and employee benefits and human resource programs should be tailored to suit the needs of the workforce and the individuals within it.

▶ Chapter 39, "Engagement and Retention: Essentials of Culture and Social Activities" introduces cultural and social activities that are especially designed to improve bonding and communication among team members. If implemented successfully, they can have a positive effect on employee satisfaction, retention, and organizational performance. The chapter recommends a bottom-up approach involving the employees in the conception of tailor-made activities that fit the workforce's characteristics and cultural circumstances. At the same time, it creates a link to brand value and stresses the importance of maintaining a voluntary atmosphere.

▶ Chapter 40, "Engagement and Retention: Essentials of Employee Care" looks beyond trivial behavior etiquettes by not only mentioning traditional methods of employee care but also describing the extent to which the leadership style and the welfare of top management influences employee perception regarding the company's efforts in the field of employee care. The chapter encourages readers to maintain a critical point of view of the many well-intentioned ideas existing on how to improve employee care, noting that an overload of effort can result not only in costs in terms of time and money but also in the potential loss of sight of the most essential (and important) components of employee care.

▶ Chapter 41, "Engagement and Retention: Essentials of Idea Management" gives insights into the establishment of an idea management process and the nourishing of a working atmosphere that supports an innovative spirit. Many companies fail to exploit their innovative potential just because they are incapable of managing the process of idea development from the start to finish. Companies that value the innovative ideas of their employees are usually more successful in retaining their staff as they provide an inspiring place to work where employees feel their work and abilities are valued and meaningful.

▶ Chapter 42, "Engagement and Retention: Essentials of Rewards and Recognition" describes a powerful tool that, if designed and implemented well, will create motivation and engagement. There has been a shift in the need for recognition. People like to be recognized and acknowledged for their efforts and would like others to know about it. People actively seek feedback. This is becoming even more present in a culture that offers numerous like and dislike feedback channels. HR discussions on recognition are dominated by financial figures. And despite the necessity of financial recognition that gives the impression of fair compensation, there are other components in a potentially successful recognition program that should not be underestimated in their importance for the individual.

▶ Chapter 43, "Engagement and Retention: Essentials of Employee and Labor Relations" provides insights on what are the relevant components that promote industrial peace and smooth working relationship between management and its employees. The focus is to qualify what an effective relations program should be and how it can prevent and resolve problems involving individuals which arise out of or affect work situations from a human resources standpoint. This implies the importance of understanding those components in the organization that may promote or hinder employee and labor relations. The main goal of employee and labor relations is to maintain employer-employee relationships that contribute to satisfactory productivity, motivation, and morale.

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Engagement and Retention: Essentials of Employee Surveys

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Abstract

This section understands the powerful tool "employee surveys" as a holistic approach where the employee, as a valuable performance driver, is the underlying force of all considerations. Therewith, the section raises awareness for ethical concerns and suggests the construction of a tailor-made questionnaire that considers a company's unique characteristics. In that regard it is indispensable to clarify what information shall be queried in the survey. Thus, the process of finding the research objective is introduced by utilizing the advantages qualitative research entails. In addition, general rules for questionnaire construction are outlined including the formulation of survey questions, scaling, and the decision on a reasonable number of survey questions in relation to the expected responses. Besides discussing the possible survey forms (online or paper-pencil), the importance of creating acceptance among employees with an effective communication strategy is highlighted. Following, a low-scale and a comprehensive survey evaluation are described, whereby the comprehensive evaluation approach is extensively explained with the help of a highly sophisticated method – factor analysis. A step-by-step instruction manual guides the researcher through the procedures. Last but not least, it motivates management to design an action plan and integrate it into the company's strategic alignment process.

Keywords

Factor • Analysis • Normal distribution • Recognition • Questionnaire • Survey • Items • Tailor-made • Online • Paper-pencil • Satisfaction • Engagement • Loyalty • Scorecard • Target agreement • Scale • Reliability • Likert • Action plan

Introduction

Financial numbers (e.g., employee costs, sales volume) and customer satisfaction are common dimensions for implementing measures and defining the strategic alignment of a company. These dimensions also enjoy high priority while, for example, the employee, as a valuable performance driver, remains underestimated or even unrecognized within a company. Customer satisfaction is strongly driven by the media. Service or product failures are effectively communicated in public and thus need proactive reactions from the company. It is even common sense that customer dissatisfaction is to be avoided in the first place. Employee satisfaction on the other hand is usually not threatening the company in that manner. Shortcomings grow within the company and are discussed among employees and their families, but this does not necessarily pressure the employer into immediate action.

The use of annual employee surveys monitors and measures the company's progress in nonfinancial measures. Satisfied, loyal, and engaged employees deliver higher performance by working more effectively, efficiently, and in a customer-oriented manner. Furthermore, they deliver better quality and are more loyal to the company. An employee survey provides an accurate indicator of the organization's performance and thereby the necessary information to implement the right improvement processes. Besides a therapeutic effect, the social improvement within the company stimulates communication and interaction, as well as the handling of challenges among employees and managers.

Before starting an employee survey, it should be carefully considered if enough professional capacities, time, and money are available within the company or if an external provider would be the better choice. This is especially important as the quality of the survey and the derived actions should not suffer from a lack of experience, knowledge, and manpower. Provided the survey is conducted and implemented with care, the extensive time and money costs will pay off eventually.

The chapter follows a step-by-step approach and guides the reader through the different stages of employee survey implementation that paves the way for the greatest possible impact on the company. The stages are described with the help of three perspectives in three independent sections: the people perspective, the operational perspective, and the economic perspective. The risk perspective is not introduced as an independent section as the single risks are mentioned in the corresponding context of the discussed topics.

First, the people perspective is introduced as the foundation of all survey implementation stages. It raises awareness for the uniqueness of a company and its employees by discussing ethical concerns and the advantages of a tailor-made questionnaire. This includes preparatory actions such as determining the overall research object with the help of qualitative research and the survey complexity on the one hand and technical guidelines such as the formulation of survey questions, and scaling and prevention of common biases on the other hand.

Second, the operational perspective forwards knowledge on survey implementation and evaluation. Again, people are the precondition for conducting a successful survey. Consequentially, the section emphasizes the importance of an effective communication approach that creates acceptance among employees. In the following section, different survey methods are introduced (online and paper-pencil), as are the follow-up procedure and the necessity of an annual and consistent survey cycle. The survey evaluation concentrates on low-scale surveys that have only 10–15 questions by using a simple evaluation method on the one hand and comprehensive surveys with large data sets by using a sophisticated evaluation method, factor analysis, on the other. The latter forwards greater understanding on the underlying factors that influence the observed research object.

Third, the economic perspective is explained. It understands an employee survey as a holistic approach that should be integrated into the company's strategic alignment process. Otherwise, the survey only provides nice figures and results that caused unjustified costs. With respect to a holistic approach, the section raises awareness on topics such as the communication of results; the integration into the company scorecard; the preparation of short-, middle-, and long-term oriented actions; and success measurement of these actions. The composition of single action plan tools can be prepared with the help of the other topical chapters within *Engagement and Retention*, for example, ▶ Chap. 38, "Engagement and Retention: Essentials of Retention Tools."

People Perspective

Ethical Concerns

Any measurement involving human beings should be carefully considered, especially if the single participant is not interested in or asking for that measurement. The pressure that is put on the targeted measurement group by an implementing entity or formal representative of the contracting authority should not be underestimated.

Intrusion into private sphere of participants, impairment of participants, and misinformation and deception are immanent aspects of human being-related measurements and should be addressed in order to ensure the research project's success.

Intrusion into private sphere: A good spirit and attitude are crucial. The researcher should really intend to see sensitive as well as negative and positive feedback from employees as a great information source to develop the company and make it even more successful. Surveys normally ask employees sensitive questions that not every employee is comfortable to answer (e.g., questions related to work-life balance, pressure capability, feasibility of work load). The handling of such information should be absolutely anonymous, and employees should not fear that it is used against them. Solely interpreting sensitive information from employees as a sign of their personal weakness is neglecting the possibility of work-related circumstances the employer may have created.

Impairment of participants: The results are no justification for blaming single employees or groups (e.g., certain departments or management levels) for negatively interfering and hindering the company from being even more successful in certain aspects. Detecting discrepancies should be seen as an opportunity to initiate a change process that offers useful and respectable actions helping to improve the situation. The employees will be grateful for that and put their trust in a strong leader and creator of a favorable working environment who is not only interested in financial numbers but also human beings.

Misinformation and deception: If the participants misunderstand the good intention of the survey measurement, they are less likely to be willing to answer truthfully. The consequences are useless results that will not detect the real areas of potential improvement within the company and lead to wrong action plans that have no meaningful impact. Before conducting the survey, the company should clearly decide in which areas realistic amendments could be offered. Thus, questions about potential changes in a certain areas are off limits if the company communicates after the survey has been implemented that changes cannot be expected.

Sure enough it is important to catch the employees' interest for the measurement and give them the feeling that their opinion can set things into motion. In that sense they become co-creators that accept the responsibility for mutually creating a positive future for their company. Employees are driven by their own wish to be acknowledged as respected partners in the company or organization. To create such a constructive atmosphere, employees should feel that their feedback is

(a) **R**ecognized by the respective leaders
(b) **E**nhancing their working conditions
(c) **C**reating brand awareness (inside and outside)
(d) **O**rganized by a neutral and ethical trusted agency
(e) **G**enerating new insights on how to develop the company's strategy
(f) **N**arrating individual conflicts in an anonymous way
(g) **I**ncreasing management's reaction in terms of caring for the staff
(h) **T**erminating gossip and bullying
(i) **I**nitiating new solutions to discover and solve problems
(j) **O**btaining self-knowledge for each team
(k) **N**ominating new targets that ensure a successful future for the company (and therefore the employees' own working place)

The main motivation for employees and managers to take part in surveys is the word-forming when combining the first capital letters from (a) to (k): RECOGNITION.

Tailor-Made Questionnaire

A practical tool to measure the phenomena of interest (e.g., satisfaction, loyalty, engagement) is constructed when following the questionnaire development steps suggested in this section. It demonstrates the advantage that systematic, qualitative interviews constitute for the construction of tailor-made questionnaires. It shall guide the researcher to detect ideas about the real drivers and unknown interdependencies that influence the investigated phenomena in a certain way. This development of a first simple qualitative model of the observed phenomena promotes the postulation of first assumptions for gaining insights and a deeper understanding. Thereafter, the findings will be utilized by creating a questionnaire with items. An item consists of two parts: (a) a text statement and (b) an answering scale offered for "crossing." By placing a cross, the participant shows his or her level of agreement or disagreement with a certain statement.

Step 1: Define Research Objective

An employee survey provides valuable insights into the employees' work perception and thereby enables the researcher to extract meaningful knowledge in order to design improvement processes in the company. But to make use of this powerful tool, it is indispensable to clarify what information shall be queried in the survey. If this is not well grounded, the retrieved information might conclude into useless actions and fail to achieve the greatest possible impact on the company.

Before starting the survey the research objectives and goals should be clarified. Considering the broad concept of employee satisfaction, common areas of interest are, e.g., employee performance, absenteeism, motivation, engagement/commitment, loyalty, turnover, team productivity, communication among employees and managers, customer orientation, attitude towards the customer, and brand perception. It is of great interest for managers to understand the company-specific drivers of satisfaction and dissatisfaction in order to foster strengths and target weaknesses. The manager might know which areas are eligible, but only a survey can shed light into this matter.

Question sets could be designed for the working environment, remuneration and benefits, atmosphere and working morale, training, external and internal communication, company goals and objects and other company relevant areas. The next step shall help to clarify the research question.

Step 2: Understand Company-Relevant Factors with the Help of Qualitative Research

The most beneficial and expedient solution is a tailor-made questionnaire that considers a company's unique characteristics such as corporate culture and identity, as well as the employees' and managers' perceptions and opinions. Additionally, it includes general knowledge on the research question (e.g., employee satisfaction, loyalty, engagement), the company's industry, and current social and economic trends. Only when considering the aforementioned aspects in the construction of a tailor-made questionnaire can one claim to have paved the way for results that represent the respective company's reality and most importantly that distinguish the relevant dimensions to answer the research question.

The corporate culture and identity as well as the employees' and managers' perceptions and opinions can be identified with the help of qualitative research methods that are commenced only once before the actual questionnaire development process starts. The result is a more distinct understanding of company-relevant dimensions. In terms of employee satisfaction measurements, this could include, for example, key issues of staff turnover, engagement, loyalty, brand perception, conflict potential, etc. With that knowledge, the researcher is able to phrase questions for a tailor-made survey that also employees consider being important in terms of the observed phenomena. The employees will have the feeling that their social reality within the company is really being understood. They will not shake their head and say these questions are nonsense and the whole measurement is completely useless.

Excursion: Qualitative Research

Qualitative research primarily has an interpreting character that aims to gain a detailed and comprehensive understanding of a research question. In the distinct case of developing a tailor-made questionnaire, the aim is to understand the corporate culture and identity the employees' and managers' perceptions and opinions. The process of acquiring knowledge consciously incorporates the interviewer's communication with employees of the observed social reality – paraphrased below as qualitative interviews. When conducting a qualitative interview, it is important to understand that social reality is a construct of subjective perception and therefore cannot be objective. This is the main challenge when conducting qualitative interviews. Because qualitative interviews aim to perceive the subjective social reality of the interviewed person, it is necessary for interviewers to follow strict interview techniques and guidelines to ensure the persistent quality of such interviews. Research projects that analyze qualitative interviews aim to develop both:

(a) *Detailed individual case analyses with individual case structures*: The interviewee's and interviewer's perceptions and the description of social reality are following constructive principles. Each interview will reveal the interviewee's personal construction of reality.

(b) *Condensed case typologies (case categorization)*: All interviews follow the same research question making it possible to conclude from single constructive social realities to a more abstract pattern of the observed reality. This abstract reality enables the survey constructor to go ahead with the questionnaire development.

As these aforementioned processes and techniques require experience and professionalism, it is advisable to involve experts who conduct qualitative interviews and provide the results. Furthermore, it is advisable to include neutral interviewers since qualitative interviews interfere with the individuals' personal and sensitive opinions and perceptions on organization-specific aspects. Ensuring absolute anonymity is the only way to create trust in the method, its intention, and its success.

Because it is suggested to consider low-scale questionnaires for small companies with only a few employees, it may be assumed that the effort and costs resulting from qualitative analyses prior to the survey are too high. To the contrary, as it is not advisable to introduce comprehensive questionnaires to smaller companies, it is even more important to rely on qualitative results as it helps to understand the company's unique and complex reality. Detecting certain aspects of a small company by only introducing a low-scale questionnaire may be inconclusive. Hence, it is equally important for smaller and bigger companies to consider diverse evaluation methods in order to receive a holistic picture connecting diverse perspectives.

Step 3: Consider Survey Complexity

Several aspects have to be considered when deciding on the survey complexity.

Depending on the company size and the respective participant pool the evaluation method is chosen. The fewer the participants, the more feasible it could be to consider a low-scale questionnaire with approximately 10–15 survey questions and a simple evaluation method (e.g., satisfaction score per question). The more participants there are, the easier it is to run more complex questionnaires with, e.g., 50–80 survey questions and sophisticated evaluation methods (e.g., factor analysis).

The length of the questionnaire should not be overstretched. To answer one question takes approximately 10 s. Consequently a survey with 10–15 survey questions lasts approximately 5 min including some extra time for demographic questions, while a questionnaire with 50–80 survey questions lasts approximately 10–15 min including some extra time for demographic questions. Fifteen minutes should not be exceeded as the concentration and motivation to answer the questionnaire is decreasing the longer it takes. This would affect the results in a negative way. Stopping the time in a test run should provide information on the length of the survey. Additionally it is helpful to prepare the participants by communicating the approximate time required in the survey invitation and instructions.

How many survey questions are feasible? For *low-scale surveys*, it is suggested to stick with 10–15 survey questions. That way, the comprehensibility of results is kept distinctive and transparent. This is important since low-scale surveys do not offer the opportunity to utilize complex analysis methods that reveal unobservable causes and constructs. *Comprehensive surveys* bring the advantage that more complex analysis methods imply. Here a rule of thumb is the number of expected returns divided by three. This is important as certain sophisticated evaluation methods need higher numbers of responses in order to reveal reliable and significant results. For example, a comprehensive questionnaire with 50 questions should only be considered when more than 150 responses are to be expected. But even with this rule of thumb more than 80 survey questions should strictly be avoided even if more than 240 responses are expected. If there were 150 employees in a company, this would imply a response rate of 100 %. This is not very realistic. Provided there are more than 250 respective participants, it is advisable to achieve a response rate of at least 60 %. Higher response rates can be achieved with smart communication and proactive motivation strategies.

Survey question numbers above 15 and below 50 are not favorable as:

(a) The distinctiveness and transparency necessary for comprehensibility reasons in low-scale surveys is being deteriorated.
(b) The necessary lower limit of survey question numbers for comprehensive questionnaires is being neglected to the detriment of reliable and significant results.

Thus, in companies that wish to conduct an employee survey, it is advisable to choose between the following two options:

(a) Low-scale questionnaire with 10–15 questions if less than 150 returns are to be expected
(b) Complex questionnaire with 50–80 questions if the number of respective participants is at least three times as high as the number of survey questions (viz., rule of thumb applies).

Step 4: Phrase Company-Relevant Survey Questions

Phrase survey questions in a direct and clear manner. All participants have to answer the same question in order to derive an overall opinion. Hence, survey questions should be easy to understand in their verbal meaning and avoid ambiguous interpretation. If people interpret the same question differently, it is impossible to extract a commonly understood opinion. Simple rules to achieve this are the following:

- Avoid phrasing questions with double negatives.
  Example: "I do not feel uncomfortable with the current work pressure." Agreement with this statement should be understood as positive. Phrasing it in a more simple and positive way makes it easier to assess and avoids complicated thinking processes. Rephrasing the question as follows is advisable: "I feel comfortable with the current work pressure."
- Avoid implicit negative words requiring positive responses for a negative opinion.
  Example: "I doubt my direct superior's leadership capabilities." Agreement with this statement should be understood as dissatisfaction with the superior's leadership qualities and thus is a negative opinion. It is more preferable to ask questions that relate agreement to a positive opinion. The example could be rephrased as follows: "I am satisfied with my direct superior's leadership capabilities."
- Avoid combination of two opinions in one question.
  Example: "My direct superior provides quick and professional feedback on my work". The participant would have to weigh the two mentioned aspects, quick feedback and professional feedback. But the assessment of each aspect could be very different. Thus, it is more preferable to ask two questions.

Survey questions should be as specific as possible in their content. More distinct results are obtained from specific rather than general questions. The survey implementer may have a certain concept in mind when asking for something without realizing that this is a concept with subjective interpretation limits. The participants may not have the same understanding causing false result interpretation. Such a construct that may cause interpretation errors is "engagement". The supervisor may believe that engagement implies the willingness of employees to work overtime without asking for compensation. The employee on the other hand may understand it as the willingness to work overtime but without simultaneously relating it to the surrender of compensation. The following statement may not lead to the right conclusion: "I am engaged at work." Another aspect is the use of quantifying subjective terms such as "often" or "sometimes." Individuals may understand it differently, making it impossible to clarify. Simple rules to avoid such errors are the following:

- Define the concept and phrase three or four questions that would identify the concept.
- Avoid questions where participants have to interpret the meaning of a question.
- Be certain about what exactly is of interest.

Measure the intensity of agreement or disagreement. Just knowing if someone simply agrees or disagrees with a statement is not necessarily useful as people may have different emotional intensities attached to specific statements. Furthermore, it is important to distinguish survey questions in their relevance for the participants. For that purpose, Likert (1932) has introduced an attitude scale distinguishing the respondent's attitude level towards a question. Simple rules to achieve this are the following:

- Use a Likert scale with five or seven check marks (e.g., 5-point Likert scale check marks could be strongly disagree, disagree, neither nor, agree, and strongly agree). Keep the scale consistent throughout all questions. Switching scales is inappropriate. This can be achieved if only questions are brought forward that ask for the participant's level of agreement or disagreement.
- Avoid even check mark numbers to ensure that a respondent can be indifferent and is not forced to agree or disagree.

Encourage truthful answering. Socially desirable answering is a disruptive factor in measurements. People are influenced by their social background, and many topics may not be evaluated with respect to personal beliefs carried deep inside, but by what society believes is right or wrong. In any case, a survey aims to gather truthful information even if it is against socially accepted ideals. Thus, it is important to encourage respondents to rely on their gut feeling while answering the survey questions. Simple rules to achieve this are the following:

- Ensure absolute anonymity by involving a third party to conduct and evaluate the results.
- Communicate the intent of the survey and encourage the participants to rely on their gut feeling without thinking too intensely about single questions.

Randomize survey questions asking for attitudes. Questionnaires run the risk of presenting the survey developers understanding of the observed universe and hence fail to measure the observed reality in an unbiased manner. Context effects in attitude surveys are a commonly underestimated potential bias in this regard. When the survey developer sorts questions into predefined topics, the participants' interpretation and evaluation of these questions might be influenced unintentionally (Schwarz and Strack 1991). The randomization of questions anyhow helps to avoid context effects, and it supports the alteration of the participants' responsiveness. Avoiding a systematic bias by randomizing the survey questions can increase the probability of receiving a realistic view on the observed matter.

To get started on the survey question development, the following list introduces ten possible survey questions that relate to different concepts of interest that could be observed in a company (Table 1).

Step 5: Decide on the Extent of Demographic Questions

Demographic questions relate to the participants' characteristics. Only ask for the most important characteristics because usually participants do not like to provide too specific demographic data as it can expose their identity. This is particularly contentious if there is doubt in data protection and anonymity. Demographic questions have an influence on the participants' willingness to truthfully answer the questions; a socially accepted answering tendency may result from that. An extraction of honest opinions can only happen if genuine anonymity exists.

Generally, it is enough to ask for gender and age. In bigger companies there may be heterogeneous departments that should be examined separately. This is also

Table 1 Ten examples of survey questions

1.	Team	I feel a family atmosphere in my team
2.	Team	There is an open dialogue between staff and management in my department
3.	Pressure	My job allows me to have a balanced life
4.	Salary	I am satisfied with my salary
5.	Training	I am satisfied with the training opportunities at my work
6.	Brand	I am proud to represent my company
7.	Brand	I am proud to work for this prestigious company
8.	Engagement	In my immediate team colleagues help each other when problems occur
9.	Engagement	In my immediate team everyone fulfills his/her duties with commitment
10.	Loyalty	I feel I have a future with this company

a matter of existing subcultures and structures within that company. Respecting the identity and independence of single departments will enable the distinction of measures that need to be taken in each department to increase satisfaction, motivation, engagement, etc. Hence, demographic questions considering, e.g., country, region, and department may be of interest for the evaluation. It is important to be especially careful with the intended level breakdown. It should not be too specific, meaning: avoid having less than six people in a specific group.

Step 6: Free Text Boxes Could Reveal Useful Additional Information

Employees could be asked if certain aspects they feel are important with regard to the observed phenomenon have not been considered in the questionnaire. Furthermore, it is a great opportunity to give employees the chance to voice complaints or satisfaction with aspects they feel are currently important to them. The following list introduces examples for free text boxes:

- Are you currently dissatisfied with a particular aspect at work? If so, please specify: <<free text>>
- Do you feel something has been neglected in the questionnaire that you feel is important for the survey? If so, please specify: <<free text>>
- Do you have any further comments on the implementation of the survey? Please let us know what that is: <<free text>>

Step 7: Conduct a Survey Pretest

It is important to pretest a survey questionnaire before collecting the final data. It helps to detect flaws in certain questions, misunderstandings, and potential bias risks. Testing is often understood to be a waste of time and resources, but failing to run a pretest could be even worse than just using time and resources. It may lead to serious bias and useless results and actions.

For a low-scale survey, the following steps should be adequate in terms of a pretest:

- Ask 5–10 people of the targeted group to pretest the survey. It might even be feasible to consider different selection criteria to find the pretest participants, e.g., age, department, and gender.
- Ask the pretest participants to write down comments to whatever comes to their minds.
- Furthermore, review the survey forms of each participant and examine the way they have answered it. Are there any distinctive features, e.g., many unchecked questions, many corrections, and decision problems? And finally:
- Improve the questionnaire.

If it is a comprehensive questionnaire with more than 50 questions, run the survey as if it were the regular survey already. This time a bigger pretest group is advisable (20–40 testers depending on the company size). The following aspects should be tested:

- *Scale reliability*: A pilot study should be conducted to test whether the evaluation method can produce valid results with regard to the actual research question. Since the questionnaire should possess a certain construct – e.g., employee satisfaction – *Cronbach's alpha* may be used to verify the used scale's internal consistency and thus its reliability (Cronbach 1951). The aim is to eliminate or revise non-suitable questions. A reliability coefficient above 0.8 is preferable. A lower reliability bears a higher probability that the results are statistically not significant enough (Kline 2009).
- *Item analysis*: The item analysis assesses each survey question (item) with regard to its suitability to determine the survey question. A widespread statistical measurement in the field of item analysis is the discriminatory power (item-total correlation). It reveals if a single item is inconsistent with regard to the average behavior of the other items. Items with discriminative powers below 0.2 are suggested to be discarded without further discussion (Everitt 2002). Items with discriminative powers between 0.2 and 0.4 are still difficult. To keep it simple, it is suggested to discard items with discriminative powers below 0.4. This is additionally supported when *Cronbach's alpha* would increase when the respective item is discarded.

Generally, it is advisable for low-scale and comprehensive surveys to run an expert rating, where researchers discuss the questions in terms of their feasibility, adequacy, etc. The testing phase provides the opportunity to reflect on the survey questions once again and to eliminate survey questions that are redundant or formulated in an overly complicated manner.

External Comparison

Company managers would like to know if the company performs better than others. It might be interesting to create certain frames to achieve comparability with competitors. Ideally, other companies ask their employees the same questions, allowing comparisons between companies. Some external providers offer this kind of comparable items. They are called marker items which are mixed with the tailor-made survey questions. They are generated by different factor analyses. Each marker item strongly represents a special factor and will help finding the name of the company-specific factors. Please have a look at section "Survey Implementation" to receive more insights in factor analysis.

In any case, general questionnaires should be strictly avoided as they only give the impression of being more efficient. A company may indeed become comparable with other companies, but the distinctiveness of that company, making it successful in the first place, cannot be presented properly. The bad habit of letting one agency measure the whole market and all competitors is most useful for this agency to grow, to become more powerful and offer consultancy on how to receive a better ranking in *THEIR* survey. If the same employee satisfaction survey was conducted in a slaughterhouse and in a TV station, where both companies have pleasant managers and clear processes, the question will arise which company has the most satisfied employees. The reason for higher satisfaction, e.g., in the slaughterhouse, may be lower or more modest expectations. But does that automatically allow the conclusion that the managers of the TV station are doing a bad job? Not necessarily, but after coming to know that their staff is unhappy, they will be discouraged and implement misguided actions for improvement.

The secret is that independent survey measurement providers rarely tell their clients that mass measurements in satisfaction-related topics mostly show a curve representing a normal distribution (see Fig. 1). The most relevant distinction may be that the different company curves could be situated higher or lower in a diagram, but this only reflects the interval of the answering scale used and different levels of expectations in diverse companies.

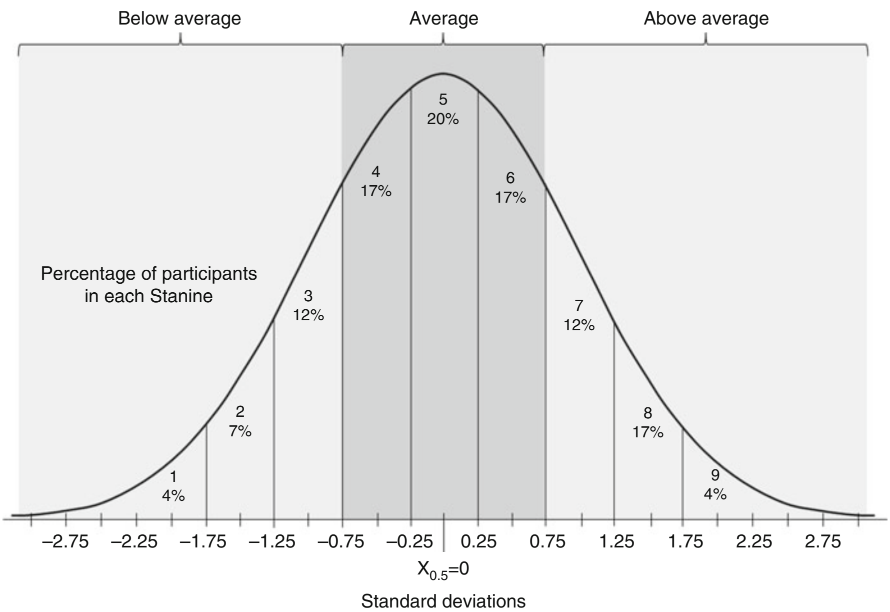


Fig. 1 Normal distribution of participants

If the HR management of the slaughterhouse would compare their own company's satisfaction curve with the one of the TV station, would that mean nothing has to be done? Those comparisons between two different companies may be (ab)used for advertisement, public relations, or stock exchange analyses, but it is just a meaningless race with the devil.

Wherever the company's satisfaction curve (normal distribution) is situated, one should focus on the left and the right of its highest point. Here, the lower scores representing extremely unhappy (below average) and extremely happy people (above average) can be found. A good manager should care for both. Analyze what makes the satisfied people so happy and discover best practices. Recognize how the unsatisfied people could become more loyal and content.

Operational Perspective

Survey Implementation

Step 1: Create Acceptance

In order to achieve high participation rates and acceptance for the measurement program, designing a tangible communication campaign for the survey is crucial. Forcing a measurement program on employees without aiming for their acceptance and understanding regarding the aim and purpose of the program will entail results that are not necessarily representative and consequentially will not prepare the ground for the right conclusions and actions. The communication campaign could consider the following aspects:

- Acceptance among employees often starts with the acceptance of the work council. The support of the work council will make things easier.
- Conduct a workshop with all heads of departments to communicate the survey's intention and the benefits it will entail for each department and the company in general.
- Enable heads of departments to voice their concerns openly and discuss these issues in order to create a trustful and co-creative atmosphere. Discuss opportunities to settle concerns in order to lay the ground for a mutual employee survey initiation plan.
- An information brochure informing about an upcoming employee survey, its intention, and its benefits could be handed out to each employee. Furthermore, black boards or regular work meetings in departments could be useful for that purpose. Especially point out **RECOGNITION** – as introduced in section "Ethical Concerns."
- If an external provider is assigned to conduct the survey – which is highly advisable as it creates trust and anonymity – this should be clearly communicated as a strong benefit.
- Evaluate (together with heads of departments and working council) whether a publicly displayed "participation cockpit" showing the participation rates per department makes sense, to raise competitive spirit.

Additionally, relieve possible obstacles by finding ways to make survey participation more attractive in terms of simple instructions, good and clear design, overview, etc.

Step 2: Decide on an Evaluation Technique

Depending on the company's communication channels and structure, a suitable evaluation technique proves either to be an online or a paper-pencil questionnaire.

An online questionnaire is feasible for companies where all employees have access to a computer at work. Easy accessibility as well as privacy is very important in that matter. Waiting in line to fill out the questionnaire cannot be interpreted as easy accessibility. It is also beneficial if all employees have their own e-mail accounts to receive their personal survey invitation with a link leading directly to the online survey form. If not everyone has their own e-mail accounts, the online survey address (URL) and personal access information may be provided to the respective participants in a letter together with the location of an accessible computer at work.

Excursion: Online Survey Systems

There is a huge variety of online providers offering free sources with basic equipment and fee-based add-ons. Some of these are, e.g., SurveyMonkey, SurveyGizmo, and LimeSurvey. These tools include features such as survey design, organization of survey participants (mass mail, tracking, etc.), and export of data sets. Some even allow an automated data evaluation. Care should be taken however, as this cannot replace the knowledge and experience of a professional researcher in detecting important connections, patterns, and relevant information. For very basic questionnaires (maximum 10–15 survey questions), this might be adequate. A comprehensive evaluation of complex topics such as satisfaction, engagement, and retention should be in the hands of an experienced research team.

A paper-pencil questionnaire may be feasible for companies that do not fulfill the requirements of an online questionnaire. Maybe employees do not have a steady working place or are on external appointments throughout the week. If that applies, a paper-pencil questionnaire allows the participant to fill out the survey whenever it is practicable. The team leaders should be responsible for handing out the questionnaires to every team member. The biggest concern of paper-pencil questionnaires is the obvious lack of anonymity. Thus, it is important to deliver the survey form together with a stamped and addressed envelope giving the participants the chance to send the form in anonymously.

A professional agency guaranteeing absolute anonymity to all participants is beneficial for the survey execution process. An external agency fulfills not only ethical requirements, but makes participation more attractive for employees because they will feel more free to tell the truth.

Step 3: Follow-Up

The survey period should last at least 2 weeks and be clearly communicated. Usually people either answer the questionnaire right after they have received it or they will forget to do so. Therefore, it is advisable to send out reminders to all participants after the first week. Since full anonymity was promised, nobody should know who has not answered yet. Everyone should receive the same reminder text thanking them for the great participation and reminding those who have not responded yet that this is their opportunity to influence the company's improvement process and that their opinion is highly important to perceive a realistic understanding on the observed phenomenon. Only with the comprehensive feedback of all employees will the management be able to implement meaningful measures.

If the total number of participants does not fulfill the requirements as stated in section "Step 3: Consider Survey Complexity," an elongation of the survey duration by approximately 1 week should be considered. Appeal to the employees that the participation rate is not high enough and how important every single response is.

Online tools allow the tracking of single participants. But as this is neglecting the promise that the responses are supposed to be treated anonymously, it would be disrespectful to make use of that tool. Employees should have the chance to refuse survey participation without having to fear that their superiors will come to know that they have done so. If employees realize that only they have received a reminder but their colleagues have not, this will create discomfort and the opinion will mount that the anonymity promise is more a strategic claim than an honest interest in ensuring the participant's anonymity.

Step 4: Keep It Frequent and Consistent

Employee surveys should be conducted yearly and with the same questions in order to keep the results comparable and understandable throughout the years. Updates and amendments of the questions should only be made if necessary (e.g., if a company wants to know something about a recent event, recent change). Something should not be measured just because it is interesting, but if its result is manageable and allows proper and achievable actions.

Survey Evaluation

This field is very broad and can be discussed extensively in terms of applicable evaluation methods, statistical measures, and interpretative approaches as well as suitability of research questions, question and scale types, and analysis methods. Thus, it is not feasible to run through all this in detail, especially as there is a large pool of professional literature existing already. To keep it short and simple for a start, two approaches will be introduced focusing on (a) low-scale survey evaluations and (b) comprehensive survey evaluations.

Low-Scale Survey Evaluation

As introduced in section "Tailor-made Questionnaire", the chosen survey complexity determines the evaluation method. For low-scale surveys with 10–15 survey questions, the evaluation method is following simple terms. Sophisticated evaluation

	A	B	C	D	E	F	G	H
1	Participant No.	gender	age	dept	item_001	item_002	item_003	item_004
2	1	1	25	1	5	3	4	2
3	2	1	MISSING	1	3	3	4	3
4	3	2	55	3	5	4	4	2
5	4	1	24	2	4	1	4	2
6	5	2	33	3	3	4	4	3
7	6	2	18	3	4	4	3	2
8	7	1	19	2	2	4	MISSING	2
9	8	MISSING	34	2	4	2	5	4
10	9	2	40	1	4	2	4	3
11	10	1	42	3	3	1	5	3
12	11	1	MISSING	1	4	2	4	2

Fig. 2 Excel data sheet showing feedback from survey participants

methods may not be practicable due to reliability and validity issues. Due to the manageable survey question number, the level of complexity is kept on an easily understandable level. The data may be simply evaluated with Microsoft Excel but also with more sophisticated statistic and analysis software such as SPSS and STATA.

Step 1: Prepare Data Sheet

Before starting the evaluation, the data sheet has to be prepared. In case a paper-pencil method was used, an Excel sheet with all the participant information and feedback needs to be generated. An example form is depicted below.

Columns B, C, and D in Fig. 2 show the entries of the demographic questions. For evaluation purposes, the answers for the demographic question regarding gender should be translated into integers (e.g., 0 = no answer, 1 = male, 2 = female). The same should be done for the demographic question regarding department (dept). For missing values, a term should be used, e.g., MISSING. This is necessary to eliminate possible misunderstandings and to mark that there is a missing value. If the cell is simply left blank, it is more difficult to detect missing values especially for more extensive data sheets. The survey participants answered the survey questions (item_001 through item_004) by checking terms. These terms need to be transferred into integers in order to evaluate them statistically (e.g., strongly disagree = 1, disagree = 2, neither nor = 3, agree = 4, strongly agree = 5; see columns E through H in Fig. 2).

Step 2: Calculate Results

Response rates: Number of survey responses divided by number of sent-out survey invitations. Example: 20 surveys were sent out and 11 responses were received. Thus the response rate is 11/20 = 55.0 %. There might be participants that have sent in empty survey forms. These should not be presented in the response rate. For the variable "gender," calculate the relation of female and male compared to the

	A	B	C	D	E	F	G	H
1	Participant No.	gender	age	dept	item_001	item_002	item_003	item_004
2	1	1	25	1	5	3	4	2
3	2	1	MISSING	1	3	3	4	3
4	3	2	55	3	5	4	4	2
5	4	1	24	2	4	1	4	2
6	5	2	33	3	3	4	4	3
7	6	2	18	3	4	4	3	2
8	7	1	19	2	2	4	MISSING	2
9	8	MISSING	34	2	4	2	5	4
10	9	2	40	1	4	2	4	3
11	10	1	42	3	3	1	5	3
12	11	1	MISSING	1	4	2	4	2
13								
14	Response Rates							
15	Overall	=11/20			55,0%			
16	Male	=(COUNTIF(B2:B12;1))/11			54,5%			
17	Female	=(COUNTIF(B2:B12;2))/11			36,4%			

Fig. 3 Calculation of response rates

19	Age		
20	Overall	=AVERAGE(C2:C12)	32,2
21	Maximum	=MAX(C2:C12)	55
22	Minimum	=MIN(C2:C12)	18
23	Male	=AVERAGEIF(B2:B12;1;C2:C12)	27,5
24	Female	=AVERAGEIF(B2:B12;2;C2:C12)	36,5

Fig. 4 Calculation of demographics (age)

overall number of responses. Example: 4 out of 11 (36.4 %) are female and 6 out of 11 (54.5 %) are male. One value is missing. To calculate the values in Excel, please have a look at the formulas presented in Fig. 3.

Demographic analysis: This includes at least gender and age but additional demographic questions considering, e.g., company departments may be included. For the variable “age,” the maximum, minimum, and mean value should be presented. To calculate the values in Excel, please have a look at the formulas presented in Fig. 4.

Scores per survey question: Decide whether to present the mean value or the percentages. To calculate the mean value, add survey question values of a particular survey question over all participants and divide it by the number of participants that have answered this particular question. Example (see Fig. 3): for item_001 in column E – 2 people have answered with strongly agree, 5 with agree, 3 with neither nor, 1 with disagree, and 0 with totally disagree. There are 2 + 5 + 3 + 1 + 0 = 11

26	Item Scores				
27	Item	Average		in %	
28	item_001	=AVERAGE(E2:E12)	3,7	=(3,7-1)/4	67,5%
29	item_002	=AVERAGE(F2:F12)	2,7	=(2,7-1)/4	42,5%
30	item_003	=AVERAGE(G2:G12)	4,1	=(4,1-1)/4	77,5%
31	item_004	=AVERAGE(H2:H12)	2,5	=(2,5-1)/4	37,5%
32					
33	Item Scores - MALE (gender=1)				
34	Item	Average		in %	
35	item_001	=AVERAGEIF(B2:B12;1;E2:E12)	3,5	=(3,5-1)/4	62,5%
36	item_002	=AVERAGEIF(B2:B12;1;F2:F12)	2,3	=(2,3-1)/4	32,5%
37	item_003	=AVERAGEIF(B2:B12;1;G2:G12)	4,2	=(4,2-1)/4	80,0%
38	item_004	=AVERAGEIF(B2:B12;1;H2:H12)	2,3	=(2,3-1)/4	32,5%
39					
40	Item Scores - FEMALE (gender=2)				
41	Item	Average		in %	
42	item_001	=AVERAGEIF(B2:B12;2;E2:E12)	4,0	=(4,0-1)/4	75,0%
43	item_002	=AVERAGEIF(B2:B12;2;F2:F12)	3,5	=(3,5-1)/4	62,5%
44	item_003	=AVERAGEIF(B2:B12;2;G2:G12)	3,8	=(3,8-1)/4	70,0%
45	item_004	=AVERAGEIF(B2:B12;2;H2:H12)	2,5	=(2,5-1)/4	37,5%

Fig. 5 Calculation of item scores

participants that have answered this particular survey question. The mean value is [(2 * 5) + (5 * 4) + (3 * 3) + (1 * 2) + (0 * 1)]/11 = 3.7. Attention: if someone has not answered this particular question (missing value for item_003 in cell G8), there would not be 11 but 10 participants to be considered for the mean value calculation of this particular question. To calculate the percentages, subtract 1 and divide the result by 4. Example: item_001 has a mean value of 3.7. Meaning the overall satisfaction level with that particular survey question is (3.7–1)/4 = 67.5 %. To calculate the values in Excel, please have a look at the formulas presented in Fig. 5.

Excursion: Consistent Development Approach Versus 100 % Achievement Approach

Thinking in percentages can be misleading when one really wishes to understand how companies work and develop over time. When assuming that mass measurements in, e.g., employee satisfaction are usually normally distributed, the urge to strive for 100 % satisfaction is not practicable and impossible. When looking at the normal distribution in Fig. 1, it becomes obvious that participants can be sorted into three major categories: (a) below average, (b) average, and (c) above average. Although the overall level of satisfaction within these categories may increase over time because of well-implemented actions, the three categories will always apply. This should not be understood as a disadvantage of data that is normally distributed. In fact, it is an advantage if a company is understood to undergo permanent improvement and growth processes. This method ensures the ideal foundation to reflect and foster that understanding. The 100 % achievement approach will see the process of improvement and growth as an endeavor with an end. It is impossible to reach 100 % satisfaction in the company. Hence, it should not be the overall target. Once the measures to increase satisfaction have been implemented, the overall satisfaction level will increase but this will not be 100 %. A satisfaction level of 70–80 % is realistic. The overall target should be to hold this exceptional satisfaction level by regularly analyzing areas of improvement. These could be different from year to year, and the necessity to detect and improve them should not be underestimated in the company's permanent endeavor to maintain a high level of satisfaction. Just imagine what positive effects it could have if departments are compared with each other. Department managers that have very low satisfaction and realize that other departments are more satisfied will have the compulsion to move and change something, especially if it is constituted in their target agreements.

Comprehensive Survey Evaluation

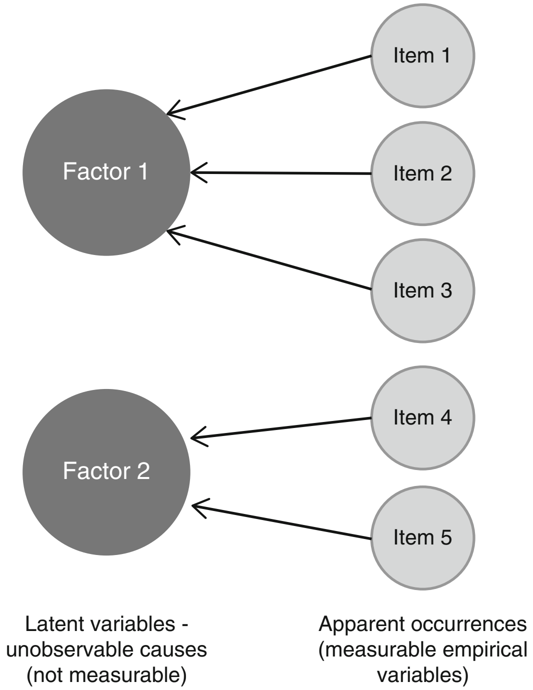
Why Should Factor Analysis Be Used for Comprehensive Employee Surveys?

Factor analysis originates from psychometry and is used extensively in the areas of behavioral and social sciences, marketing, company research, and many more sciences that operate with huge data. If a comprehensive and more complex survey is undertaken, more sophisticated evaluation methods, such as factor analysis, can be used. It brings structure and understanding into the huge amount of data sets that are collected during the survey implementation.

The explorative factor analysis is a method for complexity reduction and usually helpful in early stages of research. It uses measurable empirical variables (survey questions with scale – items) to unfold latent variables (factors) that are not directly measurable (Hair et al. 1995). There are a variety of variables that could explain a certain factor and how the observed company perceives it. Certain concepts of interest in human resources are complex and cannot be simply understood by asking one or two questions. Satisfaction, engagement, and loyalty, for instance, are such concepts. By collecting a bigger quantity of various questions, it becomes more complicated to truly understand and keep track of possible interdependencies among the questions. Factor analysis reduces the complexity of such concepts to more simple patterns the researcher can grasp.

But why use factor analysis if one can simply categorize the questions according to similar or related contexts? There might be interdependencies the researcher is not able to detect or assumes falsely. The following example shall explain this matter. Considering a set of questions from a survey, a categorization of these questions by the researcher might lead to two factors: one including all questions related to appreciation and the other to salary. Factor analysis is extracting only one factor including questions related to appreciation and salary. Factor analysis has detected a more complex factor existing in the observed company. Consequentially, the

Fig. 6 Factor analysis – complexity reduction



increase of satisfaction with questions related to appreciation also increases the overall factor satisfaction (provided the correlation is positive). In that sense, appreciation can be understood as a substitute for salary. Instead of increasing salary, aspects of appreciation could lead to first positive results. It should not be forgotten that salary is closely related to appreciation-related aspects. Thus, salary is an important part of that factor.

Further reading on factor analysis is highly suggested, e.g., Guilford (1954), Hair et al. (1995), or Costello and Osborne (2005).

Figure 6 illustrates the idea of complexity reduction in factor analysis.

The whole process of running factor analysis is very complex. The following steps explain the procedure in a very simplistic way. Especially the interpretation of the statistics should be treated with caution. If the results are too difficult to understand, additional literature should be consulted before making decisions regarding further analysis. The interpretation of the statistics and consequentially the decision for additional analysis measures have a huge impact on the actions leading to the improvement process in the company.

The following step-by-step suggestions for running factor analysis are realizable with statistics and analysis software (e.g., SPSS, STATA). There are several examples on the World Wide Web on how to conduct a factor analysis in a step-by-step manner. Furthermore, the software handbooks for the programs mentioned above should also be helpful.

Step 1: Prepare Data Sheet

As already illustrated in Fig. 2, a data sheet has to be prepared. For paper-pencil questionnaires, the effort is very high, which is why surveys with bigger numbers of participants should be conducted with the help of online software. The software usually provides the opportunity to export the data sheet as an Excel file or even directly as a file that is compatible with the statistic and analysis software. Adjustments may have to be made. The exported file should be closely reviewed with regard to its suitability for the evaluation purpose. Missing values may have to be defined. For further instructions the corresponding statistic and analysis software's user handbook is suggested.

Step 2: Test Applicability of Factor Analysis

The *Kaiser-Meyer-Olkin* (KMO) test is a measure of sampling adequacy, and it confirms whether the data pool with a certain number of survey questions can be presented with the help of factors. It indicates the proportion of variance in the variables that might result from underlying factors. The KMO value ranges between 0 and 1. If the value is above 0.5, factor analysis is suitable for the respective purposes (Cureton and D'Agostino 1983; Costello and Osborne 2005). The closer the value is to 1, the higher the suitability of the method. If the KMO value is below 0.5, the results of factor analysis might not be useful in the end. The KMO value can be identified with, e.g., SPSS.

Often this irritates HR managers because they see the risk that their own model of the observed phenomenon could be rejected by the collected data. They often believe if the model is falsified the blame is on them and affects their sunk costs profile and reputation within the company. This is a very justified concern, but the issue should not be simplified in black and white. The used model might not be applicable, but the survey questions are still valid and useful for other methods e.g., a cluster analysis (Kaufman and Roussew 1990). If the experience in questionnaire construction and factor analysis is low, scientists from universities or specialized consultancies should be asked for assistance.

Step 3: Run a Factor Analysis

Once the data sheet has been made available in the preferred statistics and analysis software, factor analysis can be performed. Please bear in mind that factor analysis is a data reduction method. It will help in displaying the survey results in a more abstract and understandable way by applying extraction and rotation methods.

Select applicable variables for analysis. Those variables that are not supposed to be part of the factor analysis process (e.g., age, gender, department, etc.) should be unselected. Only the variables referring to levels of agreement or disagreement (Likert scale) should be selected.

Check distribution of underlying data. As described in section "External Comparison," the data generated using Likert-type items in comprehensive surveys with big response numbers is probably normally distributed (compare Fig. 1). The distribution of the data determines the possible factor extraction method that is

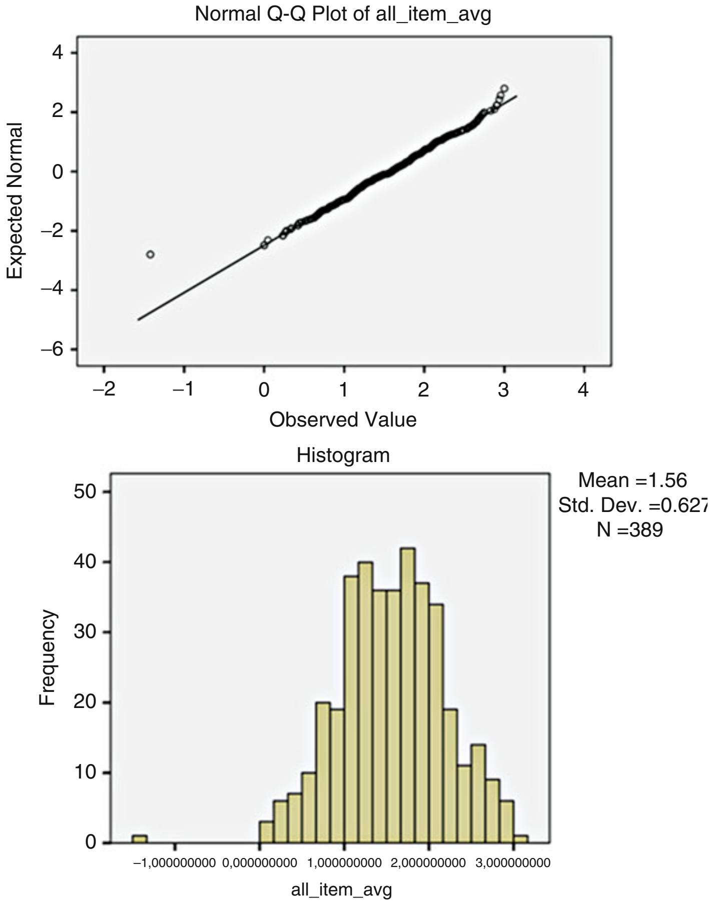


Fig. 7 Q-Q plot and histogram

chosen next. Unfortunately there are no unequivocal criteria of a disruptive deviation from a normal distribution. The following observations may help to distinguish if the data is normally distributed:

- The *Shapiro-Wilk test* for $N < 50$ and Kolmogorov-Smirnov test for $N > 50$ are commonly used significance tests detecting if the underlying data is normally distributed. The smaller the significance value, the more improbable it is that the data is normally distributed. If the significance value is above 0.05, the data is considered to be normally distributed.
- Skewness and kurtosis should not be below -1 or above $+1$.
- In addition, visual graphs, e.g., histogram and Q-Q plot, support the investigation. The depicted Q-Q plot and histogram below (Fig. 7) show an example with normally distributed data.

Factor	Initial Eigenvalues			Extraction Sums of Squared Loadings			Rotation Sums of Squared Loadings[a]
	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %	Total
1	23,248	36,326	36,326	22,722	35,503	35,503	13,810
2	3,914	6,115	42,441	3,445	5,382	40,885	9,712
3	2,209	3,451	45,892	1,680	2,625	43,510	8,514
4	1,723	2,692	48,584	1,265	1,976	45,486	13,824
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Extraction Method: Maximum Likelihood.
a. When factors are correlated, sums of squared loadings cannot be added to obtain a total variance.

Fig. 8 Total variance explained

The Q-Q plot is interpreted as follows: if the observations hug the line, the data is normally distributed. The histogram is interpreted as follows: if it shows a multi-peaked or highly skewed distribution, the data is probably not normally distributed.

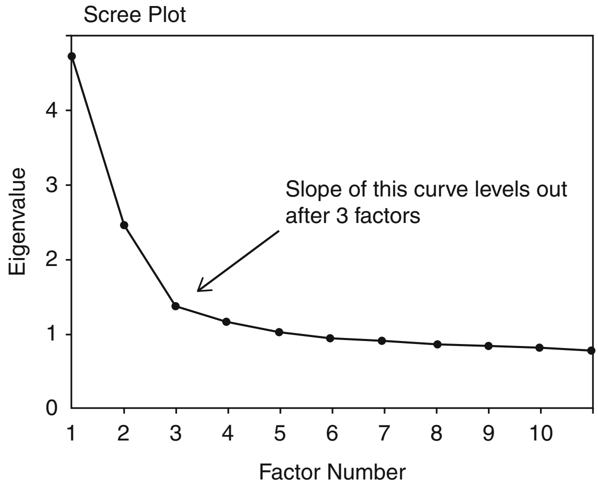
Choose an extraction method. An extraction method is chosen to distinguish the number of latent variables (factors). If the underlying data is normally distributed, the maximum likelihood method (ML) shall be used as extraction method. Otherwise, the principle axis factoring (PAF) method shall be used. ML uses only those parameters for estimation (e.g., mean value and/or variance) that distribute the most plausible realization of the underlying data (goodness of fit). To put a first limitation to the possible extracted factor number, the Kaiser criterion is commonly accepted. It allows only factors with an eigenvalue bigger than one to evolve in the factor analysis (Costello and Osborne 2005). For illustration purposes, an example of SPSS output of the maximum likelihood extraction method is depicted below (Fig. 8). It does not relate to the data set introduced in section "Low-Scale Survey Evaluation."

According to "initial eigenvalues," a four-factor structure is extracted with the criterion of eigenvalue greater than 1. According to "extraction sums of squared loadings," 45.486 % of the total variance is explained with a four-factor solution. Solutions with a total explained variance above 50 % would however be more preferable (Hair et al. 1995).

Additionally, a scree plot (Fig. 9) helps to substantiate the extracted factor number distinguished by the maximum likelihood method of extraction. The number of factors can be read on the horizontal axis of the diagram where the graph has a kink – this so-called "elbow criteria" also helps to determine the number of factors.

If the number of extracted factors under the terms of the Kaiser criterion and the scree plot is not consistent it might be worthwhile to consider a forced factor solution with fewer or more factors and see if the total variance explained increases

Fig. 9 Scree plot example



noticeably. Forced factor solution can be selected instead of the Kaiser criterion. "Over-factoring" tends to be more acceptable than "under-factoring." It is rather dangerous to extract too few factors than too many because factors may disappear during the rotation method and their variance will be transferred to other factors (Guilford 1954).

Choose a rotation method. The rotation method extracts factors that are as different as possible from each other. This is important for discovering distinguishable factors. Furthermore, it allocates the variables primarily in one of the factors. It can be chosen from either an orthogonal method, e.g., varimax (assumption that factors are uncorrelated), or an oblique method, e.g., oblimin (eases the assumption of an uncorrelated factor solution) (Guilford 1954). It is suggested to test both methods and decide which one works better for the underlying data (Costello and Osborne 2005). The record will display the loading each variable has on each of the extracted factors. A factor loading is the correlation of a variable with a factor. For illustration purposes, an example of SPSS output of the pattern matrix is depicted below. It does not relate to the data set introduced in section "Low-Scale Survey Evaluation."

Figure 10 above displays only loadings greater than 0.3. This can be achieved by suppressing values below 0.3 in the options of the corresponding statistic and analysis software.

The variables belong to those factors they load most strongly on. It might be possible that one factor has only one or two variables. It might be of interest to run a forced factor solution with fewer factors than extracted with the Kaiser criterion.

Step 4: Naming the Factors

Once the number of factors was specified, the factors could be observed by reviewing the variables that are allocated in each of them. A common approach in factor naming is to observe those items (survey questions) that have the highest loading on the respective factor. Naming the factors should be part of group work;

Fig. 10 Example for factor loadings

Pattern Matrix

Item	Factor		
	1	2	3
i015	,401		
i005	,401		
i001	,640		
i014	,719		
i006	,509		
i012	,535		
i002		,450	
i003		,514	
i007		,340	
i013		,709	
i011		,567	
i004			,578
i009			,409
i008			,583
i010			,565

Extraction Method: Maximum Likelihood.
Rotation Method: Oblimin with Kaiser Normalization.

discuss with colleagues what names are possible and mutually decide on the final names. Ideally the names should reflect the content the variables constitute. Possible factor names in satisfaction research could be Team, Fairness, Brand, etc. It is important to find the company-specific factor names, as this is a matter of understanding the observed phenomenon within the company.

Step 5: Calculate the Results

After having distinguished the factor structure, the levels of agreement or disagreement with these factors should be examined. For that purpose it is essential to group the variables in the corresponding statistics and analysis software. This will enable the work with factors rather than single variables.

In section “Low-Scale Survey Evaluation,” only very basic information was retrieved, and the results could be calculated with Microsoft Excel. Factor analysis allows more sophisticated information retrieval with the help of statistics and analysis software. It can distinguish scores per factor, e.g., overall or per department, gender, or age group.

Survey results are not always as one would expect them to be. It is of utmost importance to maintain a thankful attitude towards those who came up with criticism! As long as people share their criticism, they are interested in the success of the company!

Economic Perspective: Implementing an Action Plan

Step 1: Reflect the Reasons

An employee survey is always initialized for a reason. Try to reflect on the reasons and to summarize them. There may have been concerns regarding productivity, absenteeism, motivational aspects, engagement, etc. These reasons constitute a hypotheses construct whose correctness should be verified with the results of the employee survey. If the hypotheses can be accepted, the first aspects of a to-do scenario are determined. There may be aspects that have never attracted attention because they could have been seen as irrelevant for the company. The whole process of analyzing the company's reality is about learning and understanding. Thus it might be necessary to adjust current efforts in favor of reacting to more essential areas voiced by the company's employees.

Step 2: Introduce a New Scorecard Perspective

Recognizing employees' needs should be a never-ending initiative. By conducting annual employee surveys, company management keeps high standards and communicates the importance of a continuous development approach. Identifying problems before they manifest in strident complaints and rising demands is more attractive for management as it ensures a controlled management of prevention and intervention rather than an enforced reaction management.

The yearly employee survey should be part of the company's strategic scorecard. Often employees are widely neglected in such quantitative-oriented strategic steering measures, but they are crucial for the success of the company. Most companies are very successful in prioritizing the customer perspective. The customer is highly valuable, and a huge variety of measures are undertaken to make them more satisfied and loyal. Why should not the same effort be put into creating more loyal and satisfied employees? If the aim is to increase the company's performance, it is important to understand which aspects are hindering growth in that area. Increasing pressure and setting higher quantitative performance targets may not be successful in the end and even cause worse results or breakdowns in other areas, e.g., increasing employee turnover and absenteeism. Incorporating the employee perspective will support the company's management to manage their human resources more effectively and contribute to the company's overall performance requirements.

Step 3: Define Short-, Middle-, and Long-Term Actions

Ideally scenarios for short-, middle-, and long-term reactions – also called "action plan" – were already created during the initiation phase of the research project. The action plan should be part of the strategic HR program. It ensures the possibility of responding immediately and intelligibly after each measurement phase. Although annual amendments may have been done (e.g., because the company wants to know something about recent evolving topics), the employee survey should be the same every year allowing comparability throughout the years. Thus, measuring the same phenomenon and the drivers behind it every year enables the researcher to create a standardized action catalog covering certain fields of improvement. For example, if a department has a comparably low score in one factor (e.g., Team), it might be interesting to focus on team activities and improvement in the following year. The algorithm that suggests certain action-catalog fields under specific circumstances (e.g., lowest score in a certain factor, significant decrease in a factor score compared to last year, etc.) should be well thought out. If the actions compiled in a certain action-catalog field have not brought any success (e.g., increase in factor score), it should undergo refinement, enhancement, or improvement. Throughout the years, the action plan and catalog should be constantly developed and improved.

Step 4: Communicate the Results

One of the biggest mistakes when doing a survey is to stop activities after the survey has been evaluated. The real work starts after the survey has been completed! It means responding to employees, thanking them for their participation, and communicating changes that were made based on the survey results.

Company managers should be trained to understand the results. They are the ones that have to implement action plans and should be motivated and encouraged to act appropriately in a joint cause. Furthermore, it is crucial that they understand the reasons, aims, and corresponding procedures to reach these aims.

Step 5: Measure Success

After the first year, another survey should be conducted. It will not only introduce the second round of the employee survey, but it will enable a reflection on the first implementation phase. By comparing the results of the first and second year, flaws and potential areas of adjustments can be detected. Furthermore, it reveals if the last year's efforts were crowned with success and who has successfully implemented the action plan or who should be supported and encouraged in the next year to put stronger emphasis on the action plan. All these results should be reflected in the corresponding target agreement of the responsible unit.

If the company fails to incorporate the action plan as a strategic component in the company's overall orientation, it runs the risk that all the previous efforts to initialize and conduct such a survey will increase the sunk costs and get lost in triviality.

Dos and Don'ts

Frequent and Consistent

Employee surveys should be conducted on a yearly basis and with the same questions. Only when acting according to these principles the developments in the various areas can be observed and evaluated. Amendments of the questions or additional questions should only be considered if necessary. It becomes, for example, reasonable if the company wishes to find out something about a recent event, recent changes, etc.

Avoid Off-the-Rack Questionnaires

Every company is different; therefore, it is inadvisable to use the same questionnaire across different companies. However, using the same questionnaire is useful to compare oneself with other companies. Otherwise, design a new standardized questionnaire in order to receive information about the company's specific reality. Only customized questionnaires are able to provide the necessary insights to better understand the company.

Keep the Survey Short and Simple

Questions should be easy to understand and should avoid ambiguous meanings. The survey should not be difficult for employees to answer and should be of appropriate length.

Do Not Underestimate Scientifically Substantiated Questionnaires

"Thrown-together" questionnaires pave the way for false conclusions. Invest time, effort, and money into the development of your questionnaire. The questionnaire should be reliable and strong because it is your groundwork and defines the quality of your concluding measurements. No amount of effort is therefore too much to put into its development. The better your questionnaire is designed at the start, the more reliable are the results achieved and the more effective and purposeful are the measures derived.

Do Not Forget Hypotheses Postulation

Be aware of your hypotheses before starting the measurement. Otherwise, the measurement will produce useless results.

Create Acceptance

Design a tangible communication campaign for the survey to achieve high participation rates and acceptance. Forcing the survey on employees without aiming for their acceptance and understanding regarding its aim and purpose will entail results that are not necessarily representative and, consequentially, will not prepare the ground for the right conclusions and actions. Consider perhaps other measures to achieve a high participation rate, for example, a publicly displayed notification board revealing the participation rates per department. This could raise the competitive spirit and lead to higher participation. Consider that acceptance among employees often starts with the acceptance of the work council. Therefore, having the support of the latter will make things easier for the employer.

Be Aware of the Relationship Between Measurement Results and Management Reaction

When presenting a measurement result, always consider the necessary management reaction. If such a relation is ignored, the result will not be of strong value for you, the employer. Do not ask questions about potential changes in a certain area and afterwards avoid approaching this area. The amendments you are willing to make should be clear from the beginning.

Do Not Forget Communicating Results

If a general acceptance of the measurement program among employees has been achieved, the employer has the responsibility to communicate the results. It is even expected. Not fulfilling this responsibility will destroy the employees' trust in the seriousness and reliability of the survey. Do not forget to thank the employees for their participation. Furthermore, communicate the actions and changes made based on the valuable survey results.

Do Not Be Frustrated by Negative Results

The survey results may be different from your expectations. But as long as people share their criticism with the company and are honest, even if it seems too extreme, the company will be able to develop and improve by working with all kinds of feedback. In this regard, it is highly important to maintain a thankful attitude towards all employees including those that came up with criticism. Take this chance to include any opinions in the measures to pave the way for a successful and strong future for the company.

Final Comments and Outlook

Satisfied, loyal, and engaged employees deliver higher performance by working more effectively, efficiently, and in a more customer-oriented manner. Furthermore, they deliver better work quality and are more loyal to the company. The use of annual employee surveys monitors and measures the company's progress in nonfinancial measures. Besides a therapeutic effect, the social improvement within the company stimulates communication and interaction, as well as the handling of challenges among employees and managers. To make use of this powerful tool, it is indispensable to clarify what information shall be queried in the survey. If this is not well grounded, the retrieved information might conclude into useless actions and fail to achieve the greatest possible impact on the company.

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Engagement and Retention: Essentials of Retention Tools

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Beth Sibly

Contents

Abstract

As competition and skill shortages increase, companies are continuing their efforts to find and keep the best people. CEOs and managers are drawing upon a range of existing human resource practices and tools that have either a direct or indirect impact on decreasing turnover and encouraging greater retention within organizations. Practices such as employee satisfaction surveys, flexible work practices, team-building activities, and employer branding can all influence employee retention and are briefly introduced in this chapter. So too are other, more people-based factors which influence employees such as management style, type of work, organizational image, team atmosphere, and company culture.

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Particular emphasis is placed on the role of employer branding in this context and the need for employers to differentiate themselves as an attractive place to work.

The alignment of the values of an organization with the desired brand image and human resource practices is critical for ensuring the delivery of its brand promise to employees. It is recommended that managers take a holistic approach to managing their human resources and to the development of retention strategies for their organization. Key steps in this approach include: (1) finding out the views of employees (via satisfaction surveys and other tools), (2) designing employee benefits and human resource programs in such a way that they can be tailored to suit the needs of the workforce and the individuals within it, (3) engaging employees from all levels in the development and implementation of specific human resource initiatives and activities, and (4) strongly linking human resource activities to company marketing and branding. Potential benefits include greater employee motivation and engagement, higher productivity, increased innovation, improved customer satisfaction, stronger branding, and lower employee turnover rates in the long term.

Keywords
Retention • Employer branding • Employee satisfaction (surveys)

Introduction

As the nature of the workforce changes, organizations throughout the world are facing increasing competition and skill shortages. The attraction and retention of qualified employees is a critical issue for managers of all levels. Human resource practitioners are working more closely than ever before with marketing teams and management to better understand the factors that influence employee decision-making and satisfaction levels in regard to their workplace and to develop initiatives that will set them apart from their competitors and attract the best people in their field (Biswar and Suar 2013; Wallace et al. 2014).

The benefits of retaining good people are well accepted, and many organizations are investing heavily in initiatives, campaigns, and long-term benefit programs that encourage their best employees to stay with them for as long as possible. For the organizations or companies themselves, they seek payoffs in terms of innovation, employee satisfaction, company growth and profit, enhanced brand power, positive employee engagement, productivity, improved organizational performance, and customer satisfaction.

Indeed, regardless of the type of organization in question (private enterprise, nonprofit, government, etc.), all managers want to keep their best people, and the goal of improving organizational performance and outcomes – whatever they might be – is the same.

Equally, the implications of high turnover in organizations are well understood and include the potential for increased costs in terms of recruitment processes and training; loss of expertise and corporate knowledge; instability in relationships with customers, clients, and partners; negative impacts on company branding in the eyes of both customers and employees (existing and potential); lower levels of innovation; decreased service delivery and outcomes (e.g., for NGOs or government providers); lower profit; and lower competitiveness.

A broad range of human resource tools and approaches already exist that have a direct or indirect impact on decreasing turnover and encouraging greater retention within organizations. Among other things, these practices include employee orientation, training and development programs, compensation and benefit packages, succession planning, employee and management satisfaction surveys, career path development, team building, and flexible work practices. Other important aspects of the work experience such as management style, type of work (work content), organizational image and success, team structure and atmosphere, social contributions, and company culture can also have a significant impact on the satisfaction levels of employees and the likelihood of them staying with their current employer.

In this chapter, the writer seeks to draw together some of the many aspects of existing human resource practices such as the examples outlined above to provide a holistic view of how organizations and managers can positively influence employee retention. In this sense, there are no "new" tools or revelations in terms of retention strategies, but rather a focus on selecting, tailoring, and implementing existing human resource methodologies to have the best possible impact on the employees of individual organizations. In this context, particular emphasis is placed on the concept of employer branding.

It is hoped that this umbrella perspective will provide the context and background to help in the development of a culture which fosters high employee satisfaction, low employee turnover, and good organizational performance in the long term.

Setting the Context: Retention in the Broader Picture of Human Resources

In its basic form, human resource management is concerned with how people are employed and managed within organizations (Armstrong 2009). When managers think about human resources, they often look to its more tangible aspects such as recruitment, compensation and benefits, and training opportunities. These aspects are fundamental to modern human resource management and have an important role to play in the area of employee retention. However, in a broader sense, human resource management involves all management decisions and action(s) that affect the nature of the relationship between the organization and its employees (Beer et al. 1984). In this way, many (if not all) organizational decisions are linked in some way to human resource management.

From a "people perspective," this means that the process and outcomes of virtually all organizational planning, policies, and practices have the potential to influence employee attitudes and behavior. Not only the daily work tasks, development opportunities, and annual leave entitlements of employees but also the management style of their bosses, the external image and prestige of the organization, the atmosphere in their working team, the quality of the products and services delivered, and the broader role of the organization in society – to name just a few factors. If organizations wish to make human resources a real priority, they therefore need to consider the development of employees as an integrated component in overall organizational growth and development.

Strategic Perspective: Employer Branding

One strategy that is designed with exactly these interdependencies in mind (between organizational goals and employee needs) is employer branding. Employer branding is a relatively new concept whose principles are based on those of consumer branding, but have been adapted to consider the needs of an organization's internal market: its employees. It is defined as a combination of functional, economic, and psychological benefits provided to an employee by an employer and includes factors such as compensation and benefits, sense of purpose, opportunities for development, and employee recognition (Ambler and Barrow 1996).

Research shows that effective employer branding has the potential to create competitive advantage, to build employees' connection to the brand, and to improve employee retention (Backhaus and Tikoo 2004).

From an organizational point of view, employer branding refers to the efforts of a company to develop a clear view of what differentiates it from competitors and makes it a desirable place to work – to both existing and potential employees (Backhaus and Tikoo 2004). Externally, it has the potential to assist organizations in the recruitment of a sufficient number of employees and a high quality of employees. Internally, it has the potential to (1) enhance employee satisfaction, (2) increase retention and lower turnover, (3) improve productivity via high employee engagement, and (4) enhance the overall brand image of the company (Robertson and Khatibi 2013).

Internal branding, according to Berthon et al. (2005), encapsulates three things: "communicating the brand effectively to employees; convincing them of its relevance and worth; and successfully linking every job in the organisation to the delivery of the brand essence" (p. 153). This branding framework has been identified as a key strategic approach for managing the awareness, perceptions, and expectations of an organization's stakeholders in the long term (Cooper 2008). When organizations fail to meet the expectations of their employees and customers, or to deliver on their "brand promise," they risk disappointment and losing them altogether.

Employer branding also has the potential to help managers in the recruitment process by attracting the kind of employees that are best suited to their organizations and most likely to support the achievement of their company goals (Backhaus and Tikoo 2004).

Retention is about making people (employees) happy, but it is also driven by organizational goals and successes. In terms of the management of existing employees, employer branding aims to directly improve productivity and retention, therefore also improving employee engagement levels and reducing turnover costs (Ambler and Barrow 1996; Backhaus and Tikoo 2004). Employer branding has potential flow-on effects for the development of identity, image, and culture within an organization, as well as brand associations and brand loyalty. According to Backhaus and Tikoo (2004), these flow-on effects have the potential to impact both the attractiveness of the employer and the productivity of its employees, two areas of critical concern for human resource and broader company management.

From a human resource perspective, Wallace et al. (2014) argue that employer branding comprises three main components, namely, the development of the *employer value proposition*, which characterizes the employer and is based on culture, management style, and brand image; the marketing of the value proposition to *potential* employees; and finally, the marketing of the value proposition to *existing* employees so that they can bring these values to life. In a broader sense, this forms part of an organization's efforts to deliver on its "brand promise" both for the customers and their employees (Maxwell and Knox 2009).

From a strategic perspective, the implementation of employer branding means ensuring consistent branding throughout the organization, from product development to service delivery, marketing and PR, values, human resource practices, and corporate social responsibility. The alignment of the value setting and practices of an organization among the employers and employees allows a consistency to develop in the culture and gives the organization the best chance of delivering this culture to the customer.

In its definition of the employer brand process, employer branding consultants Universum (2014) capture the ongoing strategic activities of a firm such as market intelligence, strategy development, performance measurement, and strategy execution, within a four-pillared framework comprising: (i) understanding, (ii) planning, (iii) execution, and (iv) measurement. They draw many links between the "standard" operating activities of a company in pursuit of its organizational goals and the pursuit of a strong employer brand. This approach demonstrates the manner in which human resource management activities and in particular employer branding are connected and intertwined throughout the "business" of any organization and how the attraction and development of employees is interconnected with organizational growth and development.

To take this strategic viewpoint one step further, Wallace et al. (2014) describe the employer branding process as the formation of "employees attitudes and behaviours so that the brand identity of their organisation is projected through their work behaviour" (p. 23). Miles and Mangold (2005) conceptualize the employer branding process by capturing this same idea in a way that the mission and values of an organization drive the development of the desired brand image. This image is then transmitted to various recipients through internal and external message modes such as human resource management systems, PR systems, culture and coworker influence, advertising and PR, and customer feedback.

The successful transmission and subsequent acceptance of these messages lead to a connection and psychological contract with the brand, and the potential outcomes for the organization can include changes in positioning in the minds of customers, levels of engagement and employee satisfaction, customer loyalty, turnover rates, and overall reputation (Miles and Mangold 2005).

Operational Perspective

From an operational perspective, the closer integration of employee-related issues into the broader aspects of daily business also has implications for the coordination of "regular" human resource activities. Jacobson (2014) suggests that the most important human resource strategies for effective talent management start from employer branding and include recruitment processes, rewards and recognition, performance management, learning and development, change management, and succession planning.

Indeed, employer branding is itself a broad concept and includes consideration and development of factors such as company culture, attributes and values, and perceived fairness within the organization. In addition, employer branding requires a coordinated approach to ensuring meaningful work content for employees, appropriate management style and organizational structure, good performance of the boss, strong relationships with colleagues, and a positive atmosphere with the working team (good social dynamics). Managers also have to be aware that the quality of an organization's products or services, its perceived image and reputation, past successes, current performance, and prospects for the future will also impact the strength of the employer brand and the relationship built between employees and the organization.

Furthermore, the complex nature of human beings means that an even greater range of factors has the potential to influence employee engagement, satisfaction, and retention in an organization, for example, the physical working environment and conditions in the workplace, team-building activities, flexible work practices, career path development, job security, corporate social responsibility initiatives, and mentoring programs.

In this regard, the application of employer branding is useful because it helps organizations to identify the many touch points of their brand with employees. Ideally, this awareness can help them to develop their brand in such a way that it leads to the fulfillment of organizational goals and to a positive impact on both employees and customers.

Using the framework of early employer branding research in combination with these tangible aspects of current practice, Universum (2005) designed a simple model to show the key steps in the development of an employer brand, which they define as follows:

Step 1: Research – The starting point in any employer branding campaign. Organizations should undertake research to gain information about how their brand is perceived internally (among employees) and externally (among customers, potential employees, and the broader community). Interviews, exit surveys, and employee/management satisfaction surveys are a good place to start.

Step 2: Employer value proposition – The employer value proposition (EVP – also referred to as the *employee* value proposition) is the unique rewards and benefits offered to employees by their employer, in return for their skills, experience, and contribution to the organization. The EVP is critical for helping an organization to differentiate itself and to attract (and keep) the best people in the face of competition.

Step 3: Communication plan – The third step in the process involves the development of a communication plan and the selection of appropriate channels for reaching the specified target groups. If an organization wants to ensure consistent branding and the harmonious articulation of its values, communication regarding employer branding must be conducted in conformity with other corporate communication.

Step 4: Communication material – On finalization of the communication plan, the communication material itself should be developed (document contents, graphics, campaigns, etc.), again, in keeping with the overall brand promise, values, and goals of the organization.

Step 5: Action – Finally, step five involves the ongoing implementation, review, and adjustment of all of the activities undertaken in the previous steps (Universum 2005).

If this employer branding model is used as a basis on which organizations should initiate their branding and retention efforts, the first step in the process is research. Research is required in order to gain a real understanding of how a brand is perceived among employees, customers, potential employees, and the broader community. For the purposes of this chapter, the author will focus on the human resource function and the internal market of the organization – the employees.

In order to find out how employees feel about their organization, management needs to start by looking at their existing workforce: are the employees in the organization generally satisfied? Do they feel valued and appreciated? Do they regularly have the opportunity to provide feedback and input into the development of the organization? What is the turnover rate of employees? Why do they leave?

Employee and management satisfaction surveys have the potential to provide management with useful feedback on current employee attitudes to every aspect of their work and working environment, from the performance of the boss to opportunities for development, recognition, perceived fairness, and intention to stay or leave the organization. Of course, such surveys are only useful when the survey design and methodology are appropriate and when communication and follow-up with employees are conducted in a meaningful way (see ▶ Chap. 37, "Engagement and Retention: Essentials of Employee Surveys" for more detail on employee surveys).

In addition to giving management information on how satisfied or dissatisfied employees are with the various aspects of their work, it also has the potential (again, depending on the methodology) to provide insight into which of these aspects is more (or less) important. This is invaluable for choosing which resources should be invested where, when it comes to human resource activities. Do employees value personal recognition over team-building activities? How do they feel about their prospects for development? Are they good? Does it matter, in comparison to other issues?

Satisfaction surveys will also help managers to identify if there are any differences in attitudes among employees of different position levels, departments, educational backgrounds, age, geographic regions, gender, or familial status. Distinction among the various groups of employees within an organization is important because it allows both the identification of the different needs of different groups of employees, as well as the development of tailored human resource management practices and activities that best suit the needs of these different groups.

Once employee surveys have been conducted and results received and analyzed, management will be in a position to review what kinds of actions, in which area, and with which level of investment might be best for their employees. The other sections of this chapter provide practical examples of what steps might be taken in this regard (see, e.g., ► Chaps. 39, "Engagement and Retention: Essentials of Culture and Social Activities,"; ► 40, "Engagement and Retention: Essentials of Employee Care,"; ► 41, "Engagement and Retention: Essentials of Idea Management" and ► 42, "Engagement and Retention: Essentials of Rewards and Recognition").

The subsequent steps in the employer branding model (steps 2–5) have strong links to the area of marketing and must be carried out collaboratively among the human resources and marketing departments within an organization.

The development of the EVP, for example, can follow naturally when an organization knows what its employees like and value about their work and is able to combine this with its values and goals as an organization. Without a clear concept of what it offers, an employer will struggle to convince highly qualified candidates to choose them over their competitors.

The development of a communication plan and communication material (steps 3 and 4) is also captured in the third pillar of Miles and Mangold's conceptualization of the employer branding process discussed in section "Strategic Perspective: Employer Branding." That is the development and identification of different sources and modes of brand messages such as human resource management and public relations (PR), culture and coworker influence, advertising and PR, and customer feedback, all of which are transmitted to various recipients and play a role in delivering the brand image and establishing a connection with the brand.

For recruitment purposes, organizations need to ensure that the company's desired brand image is reaching its target employees. These ideal or target candidates need to develop knowledge of the brand in order to lay the foundation for the development of a psychological contract between the employer and the employee. This means careful selection of internal and external, as well as formal and information advertising and PR approaches and consistent, values-based branding.

When done successfully, the employee brand image will develop, and depending on the efforts and approach of the organization, outcomes can include changes in employee satisfaction, perceived reputation, customer satisfaction, customer loyalty, and turnover rates.

Employer branding is a constant process, and the key components in its development such as employee satisfaction surveys, development of the EVP, and the communication plan need regular updating to account for changes in competition, broader market conditions, and workforce composition. Employees need different things at different times in their working lives, and in addition to their own personal circumstances, the broader context of the industry and the economic environment can have a significant impact on their needs over time.

Risk Perspective

Managers who fail to proactively develop and implement retention strategies risk a range of negative employee-related outcomes for their organization including lower productivity and engagement levels, increased absenteeism, increased employee turnover, and lower product and service quality (Marley-Wallace 2007).

Furthermore, they face potential short- and long-term costs such as loss of corporate knowledge and expertise, loss of established customer/partner relationships, and increased costs in terms of recruitment and selection processes and the training and development of new employees. In addition, the creation of a negative atmosphere through changing teams/constant turnover (for both employees and customers) can result in lower productivity, poorer customer service, lower rates of innovation, and vulnerability in the face of competitors.

Finding and keeping the best people is beneficial for organizations and, as a principle, is not a difficult concept to sell – almost all developed-country managers would agree with this. The challenge is finding a balance in achieving this. On the one hand, organizations need to achieve their objectives: make profit, deliver services, increase client base, find new resources, improve education outcomes, etc., whatever they might be. And on the other, employees need to make a living, to be intellectually satisfied and to find meaning. The right amount of autonomy, flexibility, opportunity, and recognition must be balanced with incentive, pressure to perform, and responsibility. Too much of anything (e.g., continual increases in financial compensation) is unsustainable and will bring its own negative outcomes in the long term, just as poor compensation or lack of recognition will.

Organizations need to use the knowledge they gain from research and employee feedback to make decisions on how to make the best use of their allocated resources in terms of their people. Effective employer branding and tailored human resource measures can help to ensure the biggest impact for the financial resources available.

Dos and Don'ts

Do Tailored Research

Conduct tailor-made research to find out how the organization is perceived both internally and externally: among current and potential employees, customers, and the broader community. Design and implement surveys based on organizational structure, context, and needs, and make sure that research is scientifically based, able to be implemented on an ongoing basis, and comparable.

Be Aware of Employees' Plans to Change

The true extent of employee dissatisfaction often only becomes evident after employees have already decided to leave an organization. At this point, taking action to enhance retention or to "save" good people will most likely result in a waste of resources. Before investing in measures to enhance the retention rate, organizations need to know the reasons why its people leave. Exit surveys and interviews can help provide this information, together with employee and management surveys.

Leverage the Employer Value Proposition

To maintain a competitive advantage as an employer, invest in the definition of an employer value proposition and commit to its ratification across the organization – be sure that you know who you are and what you offer as an employer. Companies who deliver on their brand promise and create the expected working environment for employees are much more likely to develop employees who are able to deliver the brand promise to the organization's customers. This is good for the employer, the customers, and the longer-term future of the organization.

Don't Take "Off-the-Rack" Solutions: Focus on Tailoring Human Resource Efforts

Be sure to avoid the implementation of standardized human resource measures that proclaim to improve employee satisfaction and retention. Use company-specific research results and the input of employees to develop and implement only the measures that make sense for the organization and the people working within it.

Do Gather Input from Employees

In addition to the research results and to the information gathered through satisfaction surveys and exit interviews, encourage employees to take part in the development of ideas (or giving of feedback) regarding human resource activities. Commitment and buy-in are much more likely to follow, and activities have a greater chance of being targeted toward the real needs and wants of employees.

Do Measure the Success of Your Efforts

Keep track of the performance of the organization in terms of retention and human resource efforts. Measure and publicize satisfaction rates, retention rates, and take-up rates of employee events, training programs, or social activities. Set organizational goals regarding gender equality and workforce participation and make departmental heads and individual managers responsible for achieving them. Track the progress of the organization against key performance indicators over time.

Final Comments and Outlook

Retaining good employees makes sense for an organization's bottom line. Lower recruitment costs, higher productivity, and greater customer satisfaction are just some of the potential benefits.

Both logic and experience also suggest that employee attitudes and employee satisfaction *must* be linked with employee retention. It makes sense after all that happy and engaged employees are more likely to be motivated, productive, and committed to their current jobs than unhappy or dissatisfied employees.

Organizations need to consider the needs and wants of different groups of employees across the many tangible and intangible aspects of human resource management activities and to tailor their human resource practices in such a way that it best meets the needs of their specific employees.

Customized research and the facilitation of regular employee input can help organizations to target their human resource spending in a way that brings them the "biggest value for their buck." The development of a distinctive and consistent employer brand will help to ensure that the brand promise is delivered not only to employees but also to customers, shareholders, and broader stakeholders.

The implications of this are that managers do *not* need to develop a whole suite of new human resource initiatives to directly target or influence retention. In fact, there are no real "retention tools" that managers can pick off the shelf and apply with the expectation that retention numbers are going to go up. High retention, or low turnover, is an indirect result of the one or many parts of the "package" that employers offer to employees. Good retention rates can only be achieved when a combination of factors come together in a way that provides a valuable and worthwhile exchange from the perspective of employees – in a sustainable way for the employer.

Organizations should therefore focus on developing a holistic and strategic approach to values and branding which is based upon the needs of their own employees. By ensuring that this approach becomes an intrinsic part of daily operation, the branding and values will filter across the organization and become absorbed in everything that they do.

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Engagement and Retention: Essentials of Culture and Social Activities

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Abstract

This section addresses the topic of cultural and social activities in the context of employee engagement in the workplace. Cultural and social activities are company-organized events designed to improve bonding and communication among team members in a way that will lead to higher levels of employee satisfaction and retention and improved organizational performance.

This chapter looks at the drivers of work satisfaction and provides guidance on finding the right approach for the development of successful cultural and social activities. Recommendations include a bottom-up approach with strong employee involvement, tailoring activities to workforce characteristics, adapting to cultural circumstances, linking events to brand values, maintaining the voluntary nature of events, ensuring management acceptance and support, and maintaining authenticity. A specific example is presented in the form of the retention tool "employee relations," and the section concludes with practical "dos and don'ts" for managers considering the implementation of cultural and social activities in their own organizations.

Keywords

Employee/work satisfaction: appreciation, fairness, brand, team • Bottom-up approach/input/co-creation • Communication • Team spirit • Voluntary participation • Building/strengthening relationships

Introduction

Employee engagement affects the performance and financial results of organizations, as well as the lives of its employees. One of its key building blocks is the interaction and connection of individual employees with co-workers. These connections, or social and cultural exchanges, play an important role in the building of relationships among employees and the development of a sense of team and belonging in the workplace.

At their core, cultural and social activities are designed to bring people together, be it in the work place, the community, or the home. They give people the chance to share experiences, to connect with one another, and to develop interpersonal relationships. Indeed, in the broader context of societies and the people within them, work itself can also be regarded as an important social or cultural activity.

In contrast to team development, which is focused on building skills or competences for individuals within workplace teams, cultural and social activities are designed to facilitate interaction among employees beyond their normal or day-to-day work exchanges. Their goal is relationship building rather than skill enhancement.

In this chapter, the author will look at the drivers of work satisfaction and their role in supporting the achievement of organizational goals. In particular, this chapter will focus on cultural and social activities in this context and how they can be applied to the workplace in a meaningful and effective manner. Different perspectives are presented, from the people perspective to the operational, risk, and economic perspectives. A practical example is presented in the form of the tool "employee relations," which is designed specifically with the goal of employee retention in mind.

People Perspective

Work as a Cultural and Social Activity

Cultural and social activities are terms which are fundamentally linked to the character of human beings. In this respect, work itself should be understood as an important cultural and social activity. It provides people with the opportunity to take part in a global system of creation, exchange of products and services, creativity, communication, and individual, social, and cultural development. Within this context, it gives individuals the feeling of being part of something, whether as a member of a working team where an individual receives appreciation (e.g., in the form of income and education), being proud to participate in something that is meaningful (e.g., working on social or environmental causes), or simply communicating with others through the course of daily work.

Understanding the Drivers of Work Satisfaction

Work satisfaction is incredibly important for the health and life satisfaction of human beings. Commonly known drivers of work satisfaction include a sense of team, income/compensation and benefits, perceived fairness in engagement, loyalty, and appreciation. Despite a generally high level of awareness regarding these drivers, the relevance of the individual items is not necessarily well distinguished. The more tangible factor "income," for example, is often the first to receive attention from employees and management, rather than other more intangible drivers such as "appreciation." But it is precisely these intangible drivers, in particular "appreciation," which should be understood as the more critical underlying factor. Take the following examples:

1. When considering the factor "fairness," it is about the combination of fair salaries and the opportunities granted to employees to acquire higher skills through training or professional studies. In this context, the underlying factor of "appreciation" stimulates an individual's personal wish to develop their own abilities to become more valuable for the company and to be recognized by the company for their efforts.

2. When considering the factor "team," it is about the good relationships among some team members and of the dynamics of the team in a broader sense. The underlying factor of "appreciation" also has the power to significantly and positively influence the sense of team. Respect and awareness, or in other words, a level of appreciation for each other, is a strong force in the everyday communication and routines of a team.

These interrelationships between the different drivers of work satisfaction demonstrate the potential of a single driver to both directly and indirectly affect the other drivers. This chapter describes a distinct tool that influences several of these aforementioned drivers – cultural and social activities.

Why Are Cultural and Social Activities Important?

In the work environment, cultural and social activities usually refer to company-organized events that target mainly general staff in an organization. These events are designed to improve bonding and communication among group members in a way that will lead to improved employee and organizational performance and productivity and higher levels of employee satisfaction and retention. Other benefits can include:

- Improved morale
- Greater sense of vision and purpose
- Enhanced communication among employees
- Greater information sharing and exchange across team or departmental boundaries (and among different levels of an organization)
- Improved problem-solving skills via greater cooperation and stronger relationships

In addition to these "formally" organized activities, informal socialization and networking also play an important role in building relationships and developing a positive sense of team. Organizations can also support the development of these kinds of events by encouraging the involvement of employees in activities, events, or groups in the community (either directly or by providing them with time or resources to do so), so that benefits can be obtained by individuals in the organization.

Resistance Against Cultural and Social Activities

Knowing that work itself can be a strong cultural and social platform for its participants, it is important to understand that there can also be resistance against additional cultural and social activities offered by the organization. In a company where many of the key expectations and desires of employees are already met, it is likely that employee and management satisfaction are already at high levels. In these circumstances, a higher acceptance for cultural and social activities exists, and it should be easy to find the time to organize and engage in such activities. If the opposite is true, however, and employee and management satisfaction is low, discussions are much more likely to head toward “if and what” questions, or the reasons “not to” participate. Furthermore, the participation rate in these kinds of events (defined as attendance without pressure) is both highly linked and an indicator for the retention rate of the organization.

Understanding Cultural and Social Activities as an Internal Marketing Campaign

If there is resistance against cultural and social activities within an organization, the employees’ perception of the company’s reputation is probably already tarnished, and employers will need to find means of identifying and rectifying the source(s) of these perceptions. In order for employees to be really engaged or committed in their work, they need to be proud of the brand or the organization they are working for. Why shouldn’t employees receive the same level of appreciation as customers? Modern human resource-related concepts such as employer branding are built upon the argument that a company’s brand is incoherent if the customers’ well-being is omnipresent, while the employees’ well-being is disregarded. Furthermore, the more successful a brand is in persuading its employees that it is a good employer, the more likely it is to attract (and keep) desirable candidates in the long term. And of course, it is hard to argue the prevailing logic that more satisfied employees (with real belief in the brand) are more likely to present a company and its products in a positive light than those who are less satisfied or less motivated. Employee and management satisfaction correlates positively with customer satisfaction, and higher levels of employee satisfaction ensures greater chances of organizational success in the long term.

This brand-related aspect of social and cultural activities is best placed into the hands of the experienced brand ambassadors that can be found in the marketing department of the organization. They are best placed to take up the responsibility of transmitting the values of the brand into the organization of cultural and social events. In fact, cultural and social activities should be understood as an internal marketing campaign – that is, a “normal” marketing campaign, but one whose audience is more inside the organization than external to it. It’s an additional bonus that such events also have the capacity to reach beyond their internal market in an indirect manner. For example, improved employee morale leads to greater pride in the brand and likely a higher level of connection with the brand. Employees have a role to play in building a brand in the broader market, by how they reflect and perpetuate the values of the brand, not only from the perspective of a company selling products or services but also as an employer.

Operational Perspective

Taking Advantage of the "Self-Perpetuating Impulse" of a Company

Cultural and social events have the power to increase employee satisfaction and engagement and improve the performance of a company. They can be especially important in times of lower commitment and satisfaction, where they can provide employees with positive memories in place of negative ones.

In order to distinguish the need and extent to which cultural and social activities should be developed, the normal distribution of a company's satisfaction survey results comes into use. The idea of normal distribution in satisfaction measurements is described in greater detail in ▶ Chap. 37, "Engagement and Retention: Essentials of Employee Surveys." The following suggestion might appear illogical but bearing in mind the risk that a well-intended effort is not always accepted by dissatisfied employees and can cause the compounding of a negative atmosphere, a company should make use of what is called the "self-perpetuating impulse" (the resistance idea was introduced in section "People Perspective: Resistance Against Cultural and Social Activities"). When comparing the satisfaction across all departments in a company, smaller cultural and social activities should be considered for departments where the satisfaction rate is already high. Their spirit and engagement will create a pull for others in the organization. If other departments feel that it is unfair or inappropriate to provide the funding for those events to the "happy departments," this could be an opportunity for fostering the spirit of initiative among the less-satisfied departments. Employees in these departments then have the opportunity to recommend a better concept that they support and can actually reaffirm. Creating commitment and interest in a project is the first step to installing a company's self-perpetuating dynamic. This approach may look like a reaction, but in truth it is proactive. In other words, dissatisfied departments are activated to become more active. Of course, the management has a critical role to play in convincingly supporting such initiatives if they are going to be taken seriously by employees.

Finding the Right Approach for Developing Cultural and Social Events

There are many perspectives to be considered when developing cultural and social events. These are, for example:

1. Building a strong employer brand
2. Being better than the competitors (better – not more!)
3. Respecting employees' desires
4. Tailoring activities and events to the needs or desires of different groups of employees within an organization
5. Using "self-running" approaches – learn from social networking

Regardless of which of these perspectives is considered most valuable, the most successful approach is an internal market one that aims to answer the following question:

What would you do if your employees were your customers and you wanted to convince them with your "product"?

A trial and error approach involving subjective adaptation of external (customer-oriented) marketing would no doubt eventually lead to an understanding of how cultural and social events should be best designed at a particular organization. A much more strategic approach, however, would be a bottom-up one that takes research, co-creation methods, and need analyses into account. Financial and workload restrictions should also be carefully considered.

The Bottom-Up Approach

Cultural and social activities can only have a meaningful and positive impact on overall employee satisfaction if the participation rate of employees is high. But how are these high participation rates achieved? One way is to involve employees in the course of creating the campaign/events. Pressuring employees into cultural and social activities is not an option, neither in terms of involvement in the events nor by "structural force." Thus, even the suggestion to involve employees in the development of activities could be understood as a structural force.

The best way to obtain meaningful input is to delegate the decision-making process to the organizational team level for discussion. Management should distribute a reasonable budget to these teams and subsequently hold the teams responsible for formulating their own ideas. The "best" ideas can be identified based on consensus and communicated within the organization. This is a great opportunity not only to generate the best ideas but also to gain insights into the different interests of employees. It also allows an acknowledgment of "all" ideas at a higher level. In the end, the goal is to identify meaningful overall company targets for cultural and social events which best fit the organization's brand values as well as its people.

Classify Cultural and Social Activities

Given the unique nature of the workforce and individualized cultures of organizations, it is logical that cultural and social activities be designed with their specific audience in mind. In particular, it is recommended that activities take the specific, company-relevant factors of employee satisfaction into account when making and implementing action plans. In cases where employee surveys are yet to be conducted and this information is not available, the following four main factors are suggested as a basis. These factors are present or relevant for all organizations:

Appreciation

Does the activity give participants the feeling of appreciation or being valued? How is that accomplished? Benefits can already be felt by participants when they are drawn into the development and coordination aspects of event implementation. Appreciation is already given to participants when they are involved in the idea-generation phase as their ideas have the potential to be taken up by the company to the point of realization. Appreciation is not only about money but to convey the feeling to others that they are important, unique, and needed.

Who can give this feeling? It is not the HR manager but the boss, starting from the direct leader down the chain of command. The HR manager's responsibility is to ensure that managers fully understand their role and responsibilities in this regard. Appreciation is the single most important factor for employee satisfaction.

It is therefore a must that all cultural and social activities offered by the organization are endorsed, accepted, and welcomed by higher-level managers in the organization. This is the opportunity to show appreciation for the hard work of your employees. The higher management should not take part in the whole activity. It is a special sign of appreciation if the high management comes to welcome the people, but leaves afterwards. This will ensure that the team dynamics remain undisturbed.

Fairness

This factor includes the perception that "I'm paid fairly for my work!" "I can increase my skills!" and "I can learn!" People aim to develop their own personality by attending cultural activities. Thus, the quality of cultural activities that are provided to employees should be high. It should give new inspiration in arts, music, or literature and contribute in a way that it is substantial or meaningful in terms of cultural richness. Cultural and social activities that respect fairness in this regard will create the base for people's social mobility. This focus on high culture is part of lifelong learning which stimulates the sensibility for new ideas, early recognition, open-mindedness, and the feeling of being part of something significant.

As the activities are supposed to contribute to the main purposes and processes of a company, it makes sense to develop cultural as well as social activities that combine the best attributes of such activities. Every cultural activity is a social activity, but not every social activity is a cultural activity. Meeting together in a pub is a social activity, but not necessarily a cultural activity. Visiting an opera and listening to classical music is a cultural and social activity.

The paid activities (monetary rewards) should also be communicated as such to clarify the value of such activities. This will increase the satisfaction with the factor fairness.

Brand

This factor includes the perception that "I'm proud to work for this employer!" As described earlier, cultural and social activities are most successful if embedded in an internal marketing campaign. It should be discussed if it makes employees proud to meet in a pub for the pleasure of enjoying private small talk or if the admission to sport events or theater performances has a higher impact. Activities and events are not useful if they do not meet interests of the people involved. Additionally, it should be discussed if the activities meet the brand message.

Each cultural or social activity should increase the loyalty to the brand. That is, the brand must be visible somehow – either in the sense of its values or, more tangibly, in terms of product or industry connections – for example, meeting a prominent representative of the company or getting in touch with something representing the brand. It should be a visible expression of the company's core values.

Team

Team events are often seen as the most obvious opportunity to develop cultural and social activities. They are highly visible, tangible, and easy for employers and employees to reference. They offer the potential for a "big bang" impact and often receive positive world-of-mouth feedback from participants, as special events with colleagues are easy to recall and nearly always positive in nature. While the organization of such activities may seem simple, achieving real impact in terms of increasing employee satisfaction is actually very difficult.

The usual roles of individuals and their working processes are not easily transferred or valid in the field of cultural and social activities. The employees (participants) often have a sense of freedom in being able to show their "private" or non-work behavior. And it is for this very reason that some people dislike cultural and social events because they are uncomfortable with the private behavior of their colleagues, or with the possibility of revealing more about themselves through their own behavior. Although it is difficult to encourage employees to get to know each other in a more private sense, it is crucial that the effort is made in order for trust to be established. This trust forms the basis on which a strong team is built and success is highly unlikely without it.

Team building activities are therefore especially designed with this target in mind. It may even be interesting to apply the term "team building" to such activities with the specific objective of creating a certain amount of social pressure to bring everyone together. The old adage that "nobody likes to play against the team" is a good one in these circumstances. In general of course, all cultural and social activities should be strictly voluntary, but the general headline remains team building.

Guidelines for Developing Cultural and Social Activities

Listen to Needs

Prior to implementing cultural and social activities, listen carefully to the needs of the employees and look at the structure of the employee population. For example, a company with a high number of young, single people might appreciate evening events, while a company with mostly married people who want to go home to their families in the evening might not.

Cooperate with Employee Committees

Consider letting employees decide, or co-decide, on chosen activities. In countries with institutionalized employee representation, it is highly advisable (if not required by law) to work with such committees on the selection of cultural and social activities.

Find Partners for Corporate Social Responsibility Activities

If you decide to engage in activities related to corporate social responsibility, it is advisable to find partners (i.e., charitable organizations or social departments of governments) who can help you select the projects and design the event. If the activity includes manual work, ensure that enough precaution regarding accident prevention is taken!

Company Events

When designing bigger events for the whole company (like a family day), make sure that the day has something to offer for all age groups like activities for employees who are both single and married, activities for children, activities for physically active employees and for those who are less active, etc.

No Global One Size Fits All

In international companies, be careful to avoid applying cultural and social activities for countries from headquarters somewhere abroad. Allow local teams to come up with their own ideas that best meet the cultural traits of the region and the employees (and their families) that are participating.

No Forced Participation

Do not force people into participating in cultural or social activities. Unless the activity is part of the agenda of an official meeting, keep participation voluntary. Remember that not all people feel equally comfortable in a social setting, or wish to spend time in a work-related environment outside of normal working hours. Avoid also putting any indirect pressure on them to participate.

Risk Perspective

From a risk perspective, cultural and social activities should generally be of low concern to organizations as risks (in terms of damage or negative consequences) are relatively low.

There are, however, some considerations which should be kept in mind in terms of maximizing positive impact and minimizing the chance for any negative impact.

Ingratitude for organized events, for example, is one possible outcome. For this reason, the delegation of the development of cultural and social activities should be placed in the hands of the most experienced and capable event coordinators in the organization, e.g., the marketing department. The initiator should remain relatively "neutral" and be available as contact or complaint office if something goes wrong.

If it is a social event, groups should be able to share and express both positive and negative feelings and impressions and an open environment should be encouraged. This is not only part of family or partnership building but of team building as well.

There will always be people who like social events more than others, but do not confuse the lonesome ones with those that really disapprove of social events. They are not easily discovered, their attitude is often introverted, and they tend not to favor social events in general, even if they need them. Use the group dynamics to encourage whole teams to act and participate in activities.

It is also important to consider accident and insurance risks, issues around the provision or availability of alcohol, and who should be held responsible for any additional costs, should they arise.

Economic Perspective

Some economists speak about the concept of the "rational human," or *homo oeconomicus*, a person that follows rational, analytical, value-maximizing, pain-avoiding principles of cost and benefit calculation. But what about sensation seekers, enthusiasts, charity organizers, hedonists, creative developers, and leaders of cost centers? From a psychological point of view, the *homo oeconomicus* is only one half of a human being; the other half is the inner child who does not care for rationality. Marketing, advertising, partner selection, and the perceived value or purchase of many products do not necessarily follow rational reasoning. Why did it become so important that HR departments explain the economic benefits of social and cultural events? These are hygiene factors, like food, clothing, or company toilets and amenities. There might even be economic benefits to having company toilets; but of course, these are not the reasons for having them!

There is an economic benefit to having memorable social and cultural events with and for employees. Employees should not only be seen in the context of "happy cows that produce more milk" – a perspective which sometimes prevails when justifying cultural and social activities within an organization. In general terms, human beings like to show their appreciation by making offerings or giving presents without the condition of better performance from the recipient. Employees should be treated in the same manner. If social and cultural events are really part of the company culture, they should be a real benefit for the employees and should express genuine appreciation on behalf of the management and the company.

By increasing employee satisfaction via company-relevant drivers of satisfaction (appreciation, brand, team, fairness), the company will receive loyal, engaged employees in return. The retention rate will increase and creative ideas and conflicts are dealt with in an enabling and supportive environment. This is especially important for living teams and for the broader well-being of employees in their daily lives.

By developing or supporting cultural and social events, the company has the chance to build a more powerful employer brand which in turn will contribute to the growth and development of the company in the long term.

Cultural and Social Activities: Retention Tools

This section introduces the retention tool "employee relations" that is especially relevant in the field of cultural and social activities. The tool may be used to develop the company's strategic alignments and action planning in cultural and social activities.

Contents

What Is It?

Employee relation focuses on communication and cooperation among all employees in order to achieve an efficient team and a positive working environment. It provides suggestions for improving employee relations through special games and events that will strengthen team spirit and improve communication. They can all be easily organized by the HR Manager.

- Target group: All employees.
- Purpose: Retention.
- Business impact: Improve cooperation, communication, overall performance, and team spirit.
- Main responsibility: Organize team activities and events.
- Resources: Minimal preparation time and financial resources.

For an organization to work well, it is crucial that its employees work well together. Good employee relations mean that the employees feel part of the same group (even across functional levels), communicate well with each other, and trust and support each other. They also facilitate the achievement of organizational goals through teamwork and shared targets and are a core element of overall HR development (together with trainings and organizational development).

This tool suggests some simple events and games that can strengthen employee relations at your company. However, if you would like to focus on improving teamwork and performance or if you are facing conflict within a team, you may need to consider team building activities as a more specific technique within the employee relation measures. Team building usually refers to a more strategic approach to improving the communication and performance of employees. It involves engaging a professional trainer who will work with you to help your teams to grow and develop together, to identify the factors that hinder teamwork, and to develop common agreed goals for the future.

Please note that the ideas in this tool are just some of the ways that you can build stronger employee relations at your company, and you could also consider combining these activities with other, larger-scale team building events.

Why Is It Important?

The main purpose of fostering employee relations is to improve cooperation and communication between employees and to raise overall performance.

Improved employee relations can help to:

- Decrease misunderstandings, communication problems, and conflict.
- Develop a positive working atmosphere where employees enjoy their work and interact in a constructive and positive manner.
- Motivate employees to perform better and to deliver better service to customers.
- Retain employees in the long term.
- Attract better candidates by establishing a reputation for excellence as an employer.

Activities

Events

Group events are a chance for employees to get to know each other in a different, more informal way outside the office. They can help to build trust and to improve communication among employees, which will also have a positive impact on communication and efficiency during working hours.

Excursion

- An excursion is a day out with a specific team/group, or the entire company, to a special destination such as a recreation area or interesting sight.
- It is a good way to gain shared experiences with colleagues in a new and stimulating environment and is a form of recognition for the hard work of all employees.
- In addition to visiting a special sight or organizing a recreation activity, you could also consider having a picnic or a barbeque, including any of the games outlined in this brochure, or inviting additional participants to the activity such as family members.

Dinner

- A dinner is a good way to relax and spend time together with colleagues, with a minimal amount of planning and organization.
- It can be organized at a restaurant or at your company, depending on your preference.
- It is an opportunity for employees to mix within and across their teams (and also with the management).
- You can also consider inviting your employees' spouses or families, including one of the games described in this brochure, combining the dinner with other activities or coordinating an annual dinner for a specific event such as New Year or a Long Service Award ceremony.
- Please organize the dinner well in advance so that it will not interfere with any other plans of your colleagues.

Sporting Activities

- Sporting activities are a relatively simple and inexpensive way to build team spirit and help employees to keep fit and healthy.
- They encourage employees to maintain a balanced life and make a good change from daily routine.
- You could consider organizing either a sports day on a weekend where a range of different sports are available or selecting a day each week where interested employees can meet to participate in their favorite sport on a regular basis.
- If you have enough interested employees, you could also expand the activities to form teams and compete with other departments or companies.

Charity Events

- Charity activities are an opportunity for employees and the company to demonstrate social responsibility for the broader community and the environment.
- They enable employees to work together to make a meaningful contribution to the wider community, while also providing them with a sense of satisfaction.
- Involvement in cultural, environmental, and social activities can also help to publicly express the values of your company and to enhance its brand in the community.
- Should you have employees interested in becoming more active in charity activities, you could also help them to find ways of volunteering as either individuals or groups. Possible activities that do not require too much time or resources include:
  - Visiting old people's homes, welfare hospitals, or disabled-person facilities to volunteer or interact with residents
  - Visiting orphanages, village schools, or children's hospitals
  - Collecting money or goods for special causes such as education support for village schools or disaster relief
  - Collecting money or volunteering for environmental causes such as tree planning or animal protection, especially in areas near your company

Games

In this section a collection of games will be introduced which you can consider to conduct with your employees in order to strengthen the team spirit.

- Games are group activities that do not require much material or money and do not take much time (2 h at the most).
- These games and exercises are especially designed to help people to get to know each other better and work together as a team.
- You can offer these games on a "day out," at a dinner or company party, or a workshop. You can also organize a special evening or event for employees.
- Do not worry about the implementation: most of the suggested games are very easy to do, they only require enthusiasm and energy, and they will be great fun for employees!

Multi-way Tug-of-War *Description*: Fun, physically challenging activity. Four teams fight for victory, trying to pull the other teams into their direction until the center ring or knot reaches their finish line.

Time: 30–60 min.

Equipment: Pick a soft location (e.g., grass), four thick ropes, steel center ring, connectors (karabiners) for steel ring, and ropes.

Group size: Use for any group size, and ideal group size is 15–30 people, conducted outdoors.

Scope: Fun, strategy and teamwork.

Instructions

1. Prepare the ropes and finish line.
2. Divide the participants into four groups that seem similar in strength.
3. First command from the tug-of-war master is "take the strain."
4. Second command is "Go!"
5. The goal is for each team to pull the center ring or knot over their finish line. This can rarely be achieved by strength alone and instead will require strategy.
6. Conduct several rounds, e.g., until one team earns three victories and the "tug-of-war title."

Variations

- In traditional one-on-one tug-of-war, it is mostly strength that wins, with few tactics.
- In multi-way tug-of-war, it is mostly tactics that win, with only some strength.
- Teams can swivel to cooperate/compete with other teams, then switch directions, etc.

Caution

- Nobody should wrap the rope around anyone or anything; participants should only hold it with their hands.
- Watch out for rope burn on hands – let go if the rope is moving through the hands quickly. Ask participants to take watches and hand jewelry off.

Big Knot *Description*: “Big Knot” is a nice warm-up game. Participants work to untie a big knot which has been made with their hands.

Time: 15–30 min.
Equipment: None.
Group size: 6–20 people.
Scope: Fun, problem solving, and strategy.

Instructions

1. Ask all participants to stand in a close circle, so that their shoulders touch each other.
2. Ask them to stretch their hands forward into the circle and to close their eyes.
3. Now everyone should take hold of a hand of somebody else with each of his or her hands, so that he/she holds two hands of other people.
4. Ask participants to open their eyes again and untie the knot they got themselves into – without letting go of the other persons’ hands!

Up on the Chairs *Description*: “Up on the Chairs” is a good “icebreaker” to start a workshop or an event. People are asked to stand on their chairs and must sort by some specified criteria – it takes some balance!

Time: 15–30 min.
Equipment: One chair for each participant.
Group size: 8–20 people.
Scope: Communication and cooperation.

Instructions

1. Make a straight line of strong firm chairs (two chairs less than participants) or ask participants to help you.
2. Ask participants to stand on the chairs.
3. Now ask them to sort according to their height: the tallest should be at the left side of the row of chairs, the smallest at the right end. While sorting, participants should not leave the chairs.

Variations

- Ask your participants to sort by:
  - The size of their shoes
  - Their age
  - The first letter of their name
- Use different criteria as well:
  - Ask them to do any of the sorting without talking, only by using their hands to communicate with each other.

All Aboard! *Description*: This game requires cooperation and communication among all participants. The aim is to make a team fit into a very small area (e.g., a folded blanket).

Time: 30–40 min.

Equipment: Circle of rope or newspaper or blanket or tarp.

Group size: Depending on the size of the platform you choose, there can be just two people or up to 20 people.

Scope: Communication, cooperation, patience, and problem solving.

Instructions

1. Lay out a small area, e.g., with a circle of rope, alternatively you can spread out newspaper, a blanket, or tarp.
2. Ask the whole group to try to fit inside this small area.
3. When the group succeeds, decrease the area (shrink the circle or fold the newspaper or blanket) and challenge the group again.
4. How far can the group go?

Variations

- If your group stands on a tarp or blanket, ask them to turn the tarp or blanket over without anyone touching the ground in the process.
- Name game: The activity can be used as a name game by setting the rule that every communication to another person must include that person's name.
- Add a time limit, e.g., 15 min.

Great Egg Drop *Description*: For the "Great Egg Drop," you need creativity and group discussion. The aim is to work in teams to build an "egg package" which will protect a raw egg when it is dropped from a height of around 2.5 m.

Time: 30–90 min.

Equipment: Straws, tape, raw eggs, or any other items you can think of!

Group size: 4–100 people.

Scope: Creativity, communication, discussion, and cooperation

Instructions

1. If you have 15 or more people, divide them into teams of four or five people each.
2. Hand a raw egg, 12 straws, and tape to each team (in addition you can give them any other materials you can think of).
3. Ask the teams to construct an "egg package" around the egg out of the material you gave them, so that the egg does not break when you drop it from a height of 2.5 m.
4. Limit the time to 20 or 30 min for each team to build a package.
5. Now ask the teams to demonstrate their packages and drop their egg with the package from a height of 2.5 m – see which team built the safest!

Variations

- Do not give any materials at all to your teams – just the eggs. Ask them to find material themselves (e.g., from the natural environment or the workshop room, depending on where you carry out this exercise).
- Forbid any talking within the team and only allow participants to use their hands for communication.

Survival Scenario Exercise *Description*: This game addresses communication, group discussion, and decision making. The aim is to make a list of items the group feels it needs for its survival after a plane crash. The team has to find a consensus as to which are the ten most important items.

Time: 60–100 min.

Equipment: Paper and pencils.

Group size: Four to ten people.

Scope: Cooperation, discussion and negotiation, decision making, and prioritization.

Instructions

1. Split a larger group into teams of four to ten participants each.
2. Tell your group the following story:
   "After your small light aircraft crashes, your group, wearing business/leisure clothing, is stranded on a forested mountain in appalling winter weather (snow covered, subfreezing conditions), anything between 50 and 200 miles from civilization (you are not sure of your whereabouts and radio contact was lost one hour before you crashed, so the search operation has no precise idea of your location either). The plane is about to burst into flames and you have a few moments to gather some items. Aside from the clothes you are wearing, you have no other items. It is possible that you may be within mobile phone signal range, but unlikely. Your (the group's) aim is to survive as a group until rescued. From the following list, you may choose just ten items that you can take from the plane, after which it and everything inside is destroyed by fire." (If participants ask further questions, you can think of further facts regarding the circumstances or the environment, or simply leave them unknown.)
3. Now each group has 30 min to discuss and find ten items from the list below that they would take (it is not allowed to split an item or to take only part of it) :
   - Pack of six boxes × 50 matches
   - Roll of polythene sheeting 3 × 2 m
   - One crate of beer (12 l in total)
   - One bottle of brandy
   - One crate of bottled spring water (12 l in total)
   - Small toolbox containing hammer, screwdriver set, adjustable wrench, and large penknife
   - Box of distress signal flares
   - Small basic first-aid kit containing plasters, bandages, antiseptic ointment, small pair of scissors, and pain-killer tablets
   - Tri-band mobile phone with infrared port and battery half charged
   - Clockwork transistor radio
   - Gallon container full of fresh water
   - Box of 36 × 50 g chocolate bars
   - Shovel
   - Short hand-held ax
   - 20 m of 200 kg nylon rope

  - Box of 24 × 20 g bags of peanuts
  - Bag of ten mixed daily newspapers
  - Bag of 20 fresh apples
  - Laptop computer with infrared port, modem, and unknown software
  - Inflatable four-person life raft
  - Compass
  - Notebook and pencil
  - Large full aerosol can of insect killer spray
  - Traveling games compendium containing chess, backgammon, and draughts
  - Sewing kit
  - Whistle
  - Torch with a set of spare batteries
  - Box of 50 night-light 6 h candles
  - Bag of six large blankets

4. If you have more than one group, compare the results of the teams and discuss why they would like to take the items, which they chose. If you have only one team, ask them to explain their list to you.

   Some ideas for discussion:

- How were decisions made?
- Who influenced the decisions and how?
- How could better decisions have been made?
- How did people feel about the decisions?
- How satisfied was each person with the decision (ask each participant to rate his/her satisfaction out of ten, then obtain a group average, and compare/discuss with other groups' satisfaction levels)?
- What situations at work/home do you think are like this exercise?
- Note: This is a good exercise to demonstrate that group decisions are usually more accurate than individual answers.

Recommendation which items should be taken:

- One crate of bottled spring water (12 l in total)
- Small toolbox containing hammer, screwdriver set, adjustable wrench, and large penknife
- Box of distress signal flares
- Small basic first-aid kit containing plasters, bandages, antiseptic ointment, small pair of scissors, and pain-killer tablets
- Tri-band mobile phone with infrared port and battery half charged
- Box of 24 × 20 g bags of peanuts
- Inflatable four-person life raft
- Compass
- Torch with a set of spare batteries
- Bag of six large blankets

Note:

The above list is a suggestion only and there is no “right answer” to resolving this scenario – your colleagues may think of other solutions or ideas not included here. The purpose of this exercise is to be creative, to understand how group discussions work, and to note that working as a group and using “collective expertise” generally produce better solutions than those developed by individuals.

Mine field *Description*: This game helps to build trust. Participants split into pairs and one of them has the task to guide the other – who is blindfolded – safely across a “minefield” using only words.

Time: 45–90 min.

Equipment: “Mines” (e.g., balls or any other objects such as furniture, cushions) and blindfolds (e.g., shawls, cloth) to cover eyes.

Group size: 2–30 people; works well with larger groups.

Scope: Communication and trust.

Instructions

1. Create a field and lay out some mines (e.g., balls, cushions, or other objects). The size of the field depends on your group size (3×3 to 8×8 m).
2. Ask participants to get together in pairs.
3. One person is blindfolded (use a shawl or piece of cloth).
4. The other person can see and talk, but cannot enter the field or touch the person.
5. The challenge is for each blindfolded person to walk from one side of the field to the other, avoiding the “mines,” by listening to the verbal instructions of their partners.
6. Allow participants a short period (e.g., 3 min) of planning time to decide on their communication commands.
7. Then begin the activity and ask all pairs to start at the same time – getting from one side of the field to the other.
8. The instructor can float around the game area to help prevent collisions.
9. Consider introducing more items or removing items if it seems too easy or too hard.
10. If someone hits a “mine,” ask them to restart as penalty.
11. Allow participants to swap over and even have several attempts, until a real, satisfied sense of skill and competence in being able to guide a partner through the “minefield” develops.

Variations

- Ask the blindfolded person not to talk.
- Conduct the game as a competitive task (e.g., which pair is the quickest or has the fewest hits).
- Suggest the participants develop a unique communication system (e.g., they can choose funny words like “ice cream” or “traffic light,” or names of colors instead

of "turn left," "turn right," "stop," "go straight on," etc., so that the commands of one pair do not get mixed up with the commands of another).

If you want, you can discuss any of the following questions:

- How much did you trust your partner (out of ten) at the start?
- How much did you trust your partner (out of ten) at the end?
- What is the difference between going alone and being guided by another person?
- What ingredients are needed when trusting and working with someone else?
- What communication strategies worked best?

Balloon Juggle and Sort *Description*: This game keeps everybody moving and needs cooperation. The challenge is for the whole group to keep as many balloons in the air as possible.

Time: 10–30 min.
Equipment: Three to six balloons per person.
Group size: Any size.
Scope: Fun and cooperation.

Instructions

1. Hand one balloon to each person.
2. Ask everybody to help each other to keep all balloons in the air.
3. Now make it more difficult: Throw in more balloons.

Variations

- Ask the participants to use only one hand or no hands at all to keep the balloons in the air.
- If you have a large group, ask the participants to sort the balloons into colors – but keep them in the air throughout this process.

Catch the Balloon *Description*: This game is good for remembering names. Participants stand in a circle; the person called by his or her name must run into the circle and catch a balloon.

Time: 15–30 min.
Equipment: 10–15 balloons.
Group size: Any size.
Scope: Fun and getting to know each other.

Instructions

1. Ask everybody to stand in a circle.
2. Throw a balloon in the air from your place in the circle – into the middle of the circle – and call the name of a participant.
3. The person must run and catch the balloon before it touches the ground.
4. If he or she catches it, he must throw it into the air and call a name.
5. Adjust the size of the circle if the activity is too easy or difficult.

Variations
- Ask participants not to catch the balloon, but to keep it in the air.
- Throw in more balloons.
- Call two to three names at the same time.

Balloon Dance *Description*: "Balloon Dance" is a fun game which you can play at any party or celebration. Pairs have to dance while balancing a balloon between their foreheads.

Time: 15–30 min.
Equipment: Two balloons per couple and music.
Group size: Any size.
Scope: Fun and coordination.

Instructions
1. The participants should divide into pairs.
2. Each pair gets one balloon.
3. Now they have to dance, balancing the balloon between their foreheads.
4. Each pair that drops their balloon has to drop out.
5. The last pair dancing with the balloon between their foreheads wins.
6. Ask people to find new partners for the second round.
7. Play music for this game if you like!

Variations
- Call a specific word like "cable car," at which two pairs have to interchange their balloons without dropping them.
- Pass two balloons to each pair, which they have to balance between their foreheads and knees.

Balloon Frenzy *Description*: This game tries to create positive stress for participants. The challenge is to work in groups to keep a number of balloons in the air for as long as possible without "penalties."

Time: 15–30 min.
Equipment: Five balloons per person and stopwatch.
Group size: Any size.
Scope: Fun and cooperation.

Instructions
1. Hand as many balloons to the group as there are participants.
2. Everyone begins bouncing their balloons in the air.
3. Every 10 s, another balloon is added.
4. See how long the entire group can keep the balloons bouncing before receiving six penalties.
5. A penalty is announced loudly (to create stress) by the leader when a balloon hits the floor, or once on the floor, if it is not back into play within 5 s. (If the group is small, the leader could be part of it, otherwise the leader should serve as observer.)

6. The leader keeps the score for the group by shouting out "one," "two," etc. When the leader gets to "six," time is stopped.
7. After some discussion, the group tries to improve its record with another attempt.

Balloon Finger Balance *Description*: This game helps to focus and concentrate. The challenge is to balance a balloon for as long as possible on the tip of one finger.

Time: 15–30 min.
Equipment: One balloon per person.
Group size: Any size.
Scope: Fun and concentration.

Instructions

1. Ask each participant to balance a balloon on the tip of their index finger. The balloon must not be held, only balanced, and it must not be tapped. The finger must be in direct contact with the balloon at all times.
2. Have a competition to see who can do it for the longest time.

Responsibilities of HR Manager

All activities contained in this tool are easy to organize and can be implemented without too much effort in terms of time or resources. Maintaining a positive working environment and good employee relations can help all managers in other aspects of their work, and the HR Manager has a key role to play in promoting and organizing these activities at the company.

Key responsibilities for the HR Manager are as follows:

- Read through the tool and identify activities or games that especially appeal to you.
- Think of occasions that already exist within your company, where you could implement some of these suggestions – or plan new events.
- Liaise with your management team to implement different activities or events that will improve employee relations at your company.
- Get management and other colleagues involved in promoting and organizing these activities.

Dos and Don'ts

Dos

Strengthen employee relations. Strong communication and cooperation among employees will pave the way to greater team spirit and an efficient and positive working atmosphere. The resources and efforts needed are usually relatively small, but have the potential for a high impact. Through special activities and events, you will be able to facilitate the strengthening of relationships among your employees and, hopefully, to soon observe genuine improvements in their interactions and attitudes. Excursions, dinners, sporting activities, or games can be organized, depending on the number of employees within the organization.

Discover positive effects of community initiatives. Build a partnership with an organization in your area. You may consider employees' suggestions. One example would be to partner with a kindergarten or nursery preferably where children of employees are accommodated. If you cooperate with a school, you could cater a party for the children of the partner school or organize a joint excursion. Such activities have the potential to improve communication and relationships within the broader community. These links with the community allow the company to demonstrate its commitment to corporate social responsibility and, when events are successful, have a positive impact on company reputation.

Cooperate with employee committees. Consider giving employees the opportunity to decide or co-decide on social and cultural activities. In countries with institutionalized employee representation, it is highly advisable (if not required by law) to work with such committees when selecting social and cultural activities. Furthermore, the co-creation process creates acceptance among employees and motivates them to participate and believe in its purpose.

Avoid one-size-fits-all approach. In international companies, allow local teams to come up with their own ideas that best meet the cultural traits of the region and the employees that are participating, to ensure that events are appropriate for their audience.

Don'ts

Don't expect your employees to sacrifice free time. In the interest of creating a more efficient and positive working atmosphere among employees and to promote productivity and efficiency for the good of the company, cultural and social activities should be understood as an incentive for your employees. Employees should not be asked to sacrifice free time in order to participate; asking them to do so may doom activities or events to failure before they have even commenced.

Don't force people into cultural or social activities. Try to keep participation voluntary. Remember that not all people feel equally comfortable in a social setting or wish to spend time in a work-related environment outside of normal working hours. Avoid also putting any indirect pressure on them to participate.

Don't underestimate the impact of business-partner relationships. Invite business partners to your company to join your team in a special celebration. Such an occasion provides the opportunity to thank both your business partners and employees for their successful cooperation, while fostering positive interaction for the future. Such an event will stimulate the communication among your employees and partners and supports the building of strong relationships. You will cultivate a philosophy of value and appreciation for each other.

Outlook

Despite the changing nature of the workforce – in terms of diversity, geographic dispersion, and the involvement of technology – people remain at the center of everything that an organization does.

The connections between employees and their colleagues, employees and their managers, and employees and their business partners will be critical to the success (or central to the failure) of local and global companies. So long as organizations are run by people and not robots, the importance of building strong relationships and having committed and satisfied employees will remain unchanged.

Cultural and social activities offer companies a relatively “easy” method of connecting with their employees and improving levels of employee satisfaction. Activities which are well organized and executed have the potential to have a significant and positive effect on employee attitudes and behavior.

Cultural and social activities must be shaped on the values of the organization and designed with its specific employees in mind. They need to be dynamic and to offer different and suitable activities for different employees. They must be developed together with the input of employees and they must have the unwavering endorsement and support of management. They must be meaningfully designed in a way that is authentic for participants (so that employees believe activities are not only offered to improve productivity and performance) – and they must be offered consistently and equally to all employees. Although they can be, they need not be expensive or glamorous events involving the investment of significant company resources. Authenticity and appropriateness are far more important.

Engagement and Retention: Essentials of Employee Care

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Jens Peisert

Contents

Abstract

Employee care is omnipresent in human resource management. This chapter not only seeks to emphasize trivial behavior etiquettes which are a precondition human resource managers should possess anyway. First, the chapter indicates the strong influence that leadership style and welfare of top management have on

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the overall perception of employee care in a company. Furthermore, it gives insights on why the best employee is not always the right employee. In addition, the chapter stresses the importance of traditional methods that should be used as supportive tools in order to put a restriction on too much communication (hard to believe, but 100 % transparency is not always the best way to reach high efficiency) or the accumulation of alpha personalities that could possibly pose a threat to reaching the company's targets. When considering all these ideas, it should be absolutely clear that the associated measures are not supposed to be obligatory. They are voluntary measures. Employee care should never create force or obligations. Finally, the section "Employee Care: Retention Tools" introduces three retention tools that show important but small-scale approaches that can be incorporated into the strategic alignment and action planning of a company.

Keywords
Active employee care • Day care • Group intelligence • Home office • Leadership • Solution-oriented leadership • Leadership style • Open door policy • Team • Functioning teams • Group intelligence • Voluntary measures • Welfare • Management • Family

Introduction

Employee care is a conception that is interpreted differently by each company and that leads many companies to the development of obscure, cloudy statements. Still more of these companies do nothing else than to apply the legal requirements and restrictions put upon them by the government or the law. This is how you manage to enforce professional equality, to work well together with the workers' council, and to realize a harm-free environment. The knowledge that the employee is the most important capital has sunk deep into company culture. As you can see here, the employee is regarded as the most important capital, but nevertheless businesses still follow the saying: "capital has to work to gain a proper profit," which is why they apply methods of employee monitoring and steadily raising workloads and goals to get the most out of their staff. This leads to low employee retention, lower satisfaction, and low morale. This model only works as long as an employee has good reason to fear for his or her job – because of a high rate of unemployment – even in Europe, where it is commonly thought that the times and methods of the middle ages have actually been overcome.

If you look at the term "employee care" from a rather historical point of view, it strikes that the ancient Greeks were the first to use this kind of practice. Their ships were rowed by slaves, and soon they found out that only healthy and well-fed slaves were capable of rowing the ship in such a fashion and with such speed that it gave them a chance of winning a conflict at sea. This is why you might say that employee care has been always there.

It gets even better in companies that practice passive employee care. Those businesses usually get into action when the milk is already spilled. There are special contacts, to which the staff might talk, whenever there happens to be an infringement of the company codex. A whole catalog of methods and metrics has also been invented to help struggling staff members out of their problems, if ever they become a victim of mobbing, intimidation, or mistreatment. And special rehabilitation treatments exist for those overcoming a drug or alcohol abuse problem. Each of these special treatments and methods are good and OK, but they come too late, since the problem is already there.

Active employee care is then spoken of when a company builds its care in a way that the physical and psychological suffering of employees is avoided in general. While using that method, it is also important to implement sustainable preventive care. A well-implemented but hardly detectable influence on the life quality of the employees is good, but refrains from manipulation.

The possibilities of doing so are so many that this chapter only explains those that are not already extensively mentioned in other known publications or common literature.

One of those well-known and often explained examples is health care, which is used by companies to succeed in two different areas. They try to hit “two birds with one stone.” The procedure itself motivates the employees since they realize that the company is taking care of them. If they learn something out of it, they might spend their lives healthier in the future, which has a direct influence on their work performance. It is a clear and understandable procedure.

Let’s turn now to the more special themes which require a different kind of thinking and another kind of view.

One Does Not Only Employ a Person but a Whole Family

If you consider hiring a new employee, the process itself should be well known and a routine thing for you, since you have been doing it successfully for some time. This may be true, but who is actually aware that not only a person is being hired but a whole family and that family issues may become a problem for the company too? That is why it is so important for all staff members who, once they are struggling with family problems, are sure of the support that the company will provide them. Another issue is that all kinds of motivation or reward systems have to be aware of the personal situation, such as family status or marital status, of each individual staff member. This can get complicated especially in businesses with a widespread age structure, since the situation of each person is different. For example, a young married couple is more flexible regarding the possibility of going together on a business trip, while for a couple with young children, such an offer is not an option, since they would be needing someone to look after their children. This kind of offer would provide no motivation for employees with kids and would therefore be wrongly placed.

Even when the children – or in case of older staff members, their parents – are ill and need to be looked after and cared for, this usually means a long and stressful period for the whole family. Of course, this also has a deep impact on the job too.

Company day care for children is generally a good thing, but it will not fit all kinds of problems that may occur, because they just look after healthy children. There are state-run and religious kindergartens or nanny organizations covering the span of “normal” cases. In case of long-term health issues, the employees are often left struggling alone, either with their children or their own parents. An offer of special, even unpaid leave may be of help in such situations, as well as the provision of professional care for such persons (by the firm itself), so that the staff member can continue to work without having to provide for his/her relative. In fact, for older people in need of care, there is no care-type facilities at all placed at the disposal of employees by their companies. The question is then, why is that so? Why are there no care facilities for parents funded by the company, where staff members can leave their needful parents during their working time, the way it is for children? A company that wants to bind their high-skilled workers should make it easier for them to do their everyday work without being troubled by their private problems. Only that way can they be sure that the staff is free to be creative and focused. It may be an expensive exercise, but it will bring higher profits in a short time.

Similarly, when staff members struggle with a divorce, or recently lost a loved one, they will also need support. In this case, the company may ask other colleagues to motivate and help such individuals, so as to prevent them drifting into a depression. The target here is “no lonely heart in the company.” Such an action costs nothing, but provides individual care for each of your company members and will therefore bring high profit for you. Even the idea of coming up with a psychological assistant may be a good thing to do, as long as the staff member agrees with it.

The fact that a staff member has always to agree with a certain procedure or treatment is the golden rule of everything you want to implement in the area of employee care. No individual staff member should be forced into something he/she disagrees with. If you do that, even the best initiative for improving the motivation of a group or a team member may backfire and lead to a catastrophe. While under pressure, the engagement of an employee tends to be rather nonexistent.

“A new baby” is for everyone, especially the happy parents, one of the “big events” in their personal life. The company should be able to respect and appreciate that wonder, and it would open a good opportunity to show their respect to the newborn and his/her parents by sending a chauffeur to get the mother and child from the hospital and send them safely home. This is something that is easy to do and will have a deep impact on the way an employee sees the company. But remember: you may only do that, if the staff member wishes it.

Older kids show often a lot of interest for their parents’ jobs. So why not take them to work one week? To see the world and work through their eyes makes one think about the little details and necessity of what one does. Questions like “So, you really think that your colleague needs that summary you are compiling? Why? What is she going to do with it?” may lead to deeper thinking about the way how one works and if some changes in the structure may be necessary. This will lead to optimizing the whole process in the end and will be a sustainable gain for the whole company.

Another issue is the care of employees' children during school holidays. Why can they not eat in the company cafeteria, for example? Parents would be glad to accept that little lightening of their daily burden in terms of caring and feeding their kids, even if they would have to pay for the extra meals. Of course, if the company allows employee to bring the children along to the cafeteria during school holidays, the kitchen would have to be supplied with "healthy favorite food for kids."

The best way of providing support for arranging family life with job responsibilities would be to provide staff members (with kids) with the possibility of working part time from home. That way they might choose a time during which they want to work and during which they will be there for their loved ones. For example, during the afternoons they can take care of their family swimming in the pool, and while their children are asleep in the evening, they can work, if necessary also during the night. For all members of the company, not working in the direct production process, it should be possible to have at least 30 % of their working time as home office. Here you should make use of the very useful modern means of communication. If you allow your employees to work from home, it will be a win-win situation for everyone. The company will pay less for office space, and the employees will be able to coordinate their family tasks with their working tasks.

Last but not least, free your employees of being always on the job or on call through e-mail or other media. Mails or other instant messages are appropriate during work time, not during free time. The staff members do not want to be always on duty, just like you do not want to be. It is not necessary for the boss to know the cell phone numbers of all of his employees by heart.

The Way of Leading a Company

The often-stated style, in which a company is led, either as an explanation for a decision or as an excuse for not making a certain decision, also has a deep impact on employee engagement and is therefore part of employee care. Even so, it is not important to have a strict style of leadership. But it is critical to have one that is consistent. A consistent and consequent style of leading your company will help your staff members to orientate themselves and keep them in a good mood, because they will know how the company will come to a decision, even if the style of leadership is dictatorial, interested in the participation of his employees, or a laissez-faire style. The only important thing is, once the leadership is installed, it has to stay as it is. If you do – in case of a crisis – a "hard shift" in your leadership style, it is unlikely to succeed, for whatever reasons you may do the shift. Of course, it is certain that during a crisis, the management team will not have the opportunity of discussing every little detail with the whole company, just to let them be a part of the decision-making process, but the hard shift will nevertheless upset your staff members, and they won't understand why there is a new way of doing things now. Your management and the rest of the company will be confused and reject the new way of doing things, which will likely end in the creation of problems one could have prevented by sticking to the former style of management.

A small example of this is the following: nearly 40 years ago, a big Swiss company decided to implement "total participation" in the company. The whole management team from the top down to the section managers received intensive training in total participation. The new concept was implemented for some millions of Swiss Francs precisely when an economic crisis occurred. From one day to the other, participation was dead. No one ever spoke about participation, and the most amazing result was that all employees were happy; they got the feeling that "leadership is back."

One should also be aware of the fact that a "pure" style of management is too inflexible to cope with everyday problems and should therefore be avoided by company leaders. A clear and pure style of management is not able to react to changes in/on the market and can therefore not be upheld for a long period of time. Against all theoretical explications and knowledge, the dictatorial management style with a certain amount of participatory elements seems to be the best way of leading one big company. That way the decision maker would be informed by his or her employees before concluding on a problem and taking a decision. With this way of finding solutions, every staff member is even more satisfied, when the one making the decisions is standing up for them. If you keep consequently this leadership style, it will help the employees to be motivated and to trust their management. The investment for such a thing tends to be zero. The profit you gain will be 100 % and might be crucial for your business.

Today's leadership requires being open toward staff members and having the presence of a leader. It is good if employees know that they can always go to the leader to talk about their problems and difficulties and that the leader will find a solution with them, so they won't be left alone with their hardships. The "open door" policy of former times should be practiced more. Especially in the times of modern communication such as e-mail, Twitter, WhatsApp, and other media, the good, old-fashioned way of talking to someone in person provides the support for emotional needs that all the modern media cannot afford. This is why this measure is a benefit and has no negative consequences.

Welfare of Top Management

A very important point in the area of employee care is consideration of the welfare of the top management, as this will have a direct influence on the welfare of the employees.

The moods, frustrations, hopes, and success and problems of the top management are going to directly influence the whole organization and structure of the company, starting with the top secretary and going down to the "gates men." If a top manager is proud to work in his/her company, then why should their employees be less proud or happy to work with them in the same company? So the success or failure of an action concerning the employee care system is always bonded to the mood of the top management. To explain further, a small example is presented:

Fifty years ago, one top manager became aware of this correlation and started to give the first seminars where top management welfare was regarded as the basis of employee care. It was in the middle of the 1960s when the boss of a Swiss-American business consulting agency interviewed a young man, who he wanted to employ in his company. After getting answers to all important questions the boss could ask in the course of the interview, he turned to the candidate and asked him: "if you would have one more question and if you would have to decide on the answer to that question whether or not to take that position, what would you like to ask me?" Of course, the young man thought carefully about which question to ask. He knew that asking for such trivial things like payment or how many days he would have off was not the right thing to ask at that moment. So that's why he asked, "please, can you tell me this: are you or are you not happy with your job?" His boss looked at him and said, "why do you ask me such a thing?" "Well," said the young man, "because, if you are unhappy in your job, then I don't wish to work for you, because that would be a hardship. But if you are in fact happy to work here, that would be a way for me to be happy in my job because working for you then would be a pleasure." This was the moment when it clicked with the boss, and that is how a new consulting offer was invented.

A management care program is the solution to help managers to become free of everyday life's issues. A broken table lamp has to be refurnished straight away; the company's car pool may come up instantly with a new car for you if yours should be, for whatever reasons, out of order. Even a top manager likes to acquire attraction and recognition at home. That is why the company should send him or her tickets for concerts or the theater or other social events, such as sports games. Even if the management employees would have to pay for those tickets, they would still be likely to do it. The most important action or approach is solution-oriented leadership. That means that if ever issues, problems, or struggles appear, the management team has to radiate trust and self-confidence. They should avoid looking for fault or culprits, because doing so won't lead to a solution, and it only makes the employees who turn against the management feel ashamed and upset. Trying to find a solution in a short time is exactly what you want, so act like it, starting with the top management down to the last worker in the production line. This is an approach which will cost you little but helps you a great deal in the long term.

Is Only the Best One the Right One?

The best one is not always the right one, but the right one is always the best one to do the job.

Although this sounds like an old wives' tale, it still holds a rare truth. Employee care starts not only after hiring an individual for your team. It starts even before hiring. That is because many significant problems are created by the thought that only the best are good enough for the team. Team members are supposed to be working together, in teams or groups, not solitary as single combatants on their own.

If in a team of nine individuals you find four “best” workers or alpha beings, then the chance that the focus of the team and the project, as well as its targets, cannot be achieved is very high. On the contrary, the chance to get into a lot of trouble will be significantly higher. In the animal realm, such a thing as a group of only the best individuals does not exist. It is more likely to be the case that there is a group of animals led by one or maybe two of the best individuals, while the rest of the group is made up by inferior members. A pack with too many alpha dogs will never work and will split up, because those alpha dogs will rather fight each other than work together and will therefore neglect the care of the pack. For example, a wolf pack is led by only one alpha male, who governs the rest of the pack, while the rest are submissive to that authority. What is working for wolves can also be seen in groups of humans who are working together to achieve a goal.

Thirty years ago, many companies gave a great deal of thought to those problems created by working together in groups. Group dynamics was an important phrase by that time. They even started working on how to build groups that worked well together, so that they would be in the position to create new and good solutions for the problems that occurred. Now after some crises and after introducing the modern PC for every worker on your team, these functioning structures start to be undermined. The group never exists, instead there are a lot of individuals all working on their own, not fighting together for one goal. Only the best is applied on a job. And it is only the best that tries to implement his/her point of view or his or her solution for a problem within the group by bombarding the rest of the team with mails and other ways of implementing his or her opinion. Of course, the other best employees are using the same way of making their opinion known to the group. What will lose out in this fight are the project itself and the rest of staff members that are not good enough or obsessed enough by power to project their point of view on the whole team. In the end the failure to bring long-term projects to an end becomes imminent. Neither the government nor the industry itself can achieve their goals in this situation, because the rotten core is inside the system itself. The lone warriors get the power and influence, and group intelligence is stunned by them and not respected anymore. Take care of that within your company and intervene to make sure it doesn’t take place.

Employee care also means installing functioning teams where each need of the group may be answered by a staff member and that do not contain only lone warriors. Choose the right ones, not only the best ones, and allow them to feel and have emotions and needs that are provided for by the team and through the team.

Teach the importance of face-to-face communication to your employees. The best way of getting through problems is to talk to one directly. Go to the next office and talk to someone to find a working solution, instead of sending multiple e-mails while not getting the problem solved at all. Encourage old-fashioned common sense among your team members. You should use modern technology, but only as a way to stay in contact and to communicate, not as the only way of solving problems.

And please, do not think a team should work like a family – it would be a great mistake to think that way. "We are like a big family" is often heard in organizations. This is not only nonsense, it is utter nonsense. A company, teams, project groups, and all the rest do not function in that way and are not supposed to work in that way.

A family does not work in a goal-oriented manner. A family does not react to market shifts and is a nonprofit organization, which means it is not made to make economic profit out of its resources. A family only works best, when love is one of its main motivators. If the love is gone, then it will break. The only common thing between a family and a working team is that communication is a necessity. If communication fails, your team is lost. Communication means active as well as passive communication. Active communication would be to discuss the needs and problems as well as future projects of the team. Passive communication means listening to the staff or team members.

Passive communication is one of the biggest issues of these times. It seems that no one is able to listen to anybody else anymore. While seeming to listen, the opposite is often true as the listener is actually engaged in the next mail or message he or she wants or has to write to someone else. Listening is one of the most ancient human characteristics and now it may be re-learned through the help of professional teachers. Use it! Employee care is a widespread field that needs intensive care and preventative actions.

Why Do the Best Always Leave First?

It is because they can afford to leave your company! Probably you've seen it: 6 months after announcing a reorganization that would also bring with it certain job cuts, there happens to be – even if no details are known how the reorganization will take place or what it will look like exactly – a wave of reassignments with significant consequences for the company. The future development of the company will be more of a struggle, because as odd as it seems, the highly skilled and promising staff members are always the first ones to hand in their resignations. That loss of highly skilled workers is one of the reasons why such announcements are unlikely to be successful. The reasons why your best staff members want to leave the organization are most often varied. The announced actions are never accepted; they are most of the time seen as defensive; staff members may think their career is endangered, or the thought of looking for a new job was already in their minds for some time. The individual reasons for departure are themselves not the most important issue, but rather, they are an indicator of a serious failure of the company to gain the commitment and loyalty of its staff. This bond cannot be won with money or by granting more paid holidays. Those offers are made everywhere for skilled workers or staff members. If you are looking for real and long-term identification of the employees with the company, you will need a two-phase model.

The first phase comprises long-term training of the staff member or worker. That training should be paid by the business, not by the member of the business, and it should not only contain a normal workers' apprenticeship but also cover high academic grades such as a master's or a PhD which might be useful for the company. After taking part in that training, even for only a short time, the staff member is thereafter bound to the company.

After that first phase, the second phase takes care that the personal goals of the individual staff member (that were developed during the educational phase) are realizable. Of course, the personal needs should be in harmony with the higher goals of the business, but as they were developed during the first phase of the bonding, that should not be a problem. If the second phase is successfully completed, the staff member will be further bonded to the firm. Therefore, the wish for a change will not occur, and your employee will be highly motivated and will identify with his or her business.

Of course there are hundreds more measure that might be interesting to proceed with or that have already been implemented in the area of employee care. In this article, the author only intended to look at special aspects of the field of employee care, to encourage you to find your own solutions for your own business problems.

Even with the insights you have gained after reading this article, you should be aware that during your next presentation, the limit of the price that must be paid for each member should not be stretching the limits of the tax regulations relevant for your region, because it will be then necessary for the employee to report these benefits to the tax office – which will result in frustration – and should be avoided at all costs.

Four Company Relevant Perspectives

People Perspective

The importance of activities in employee care is different from country to country. In countries where the traditional family with grandmother and grandfather in the same household exists, many aspects of family care are not necessary. The problems are managed through the family. In most European countries, however, you have small families, a significant difference.

Employee care is also quite a different thing in highly developed countries with good education, salary, and health care, when compared with underdeveloped countries.

Economic Perspective

In most cases, it is not high investment which gives the employees the feeling the company cares for them. "High-minded" little things are often very well accepted. Naturally some activities in employee care will ask for some investment. But, think about what you are willing to pay for the elimination of liquidated damages. Highly engaged and happy employees will help you not only with damages but also with new ideas, products, marketing, sales concepts, and so on.

Risk Perspective

The only two risks in the area of employee care are that you force employees to be part of your care activities, even if they don't want to be involved (that will have a bad result), and that you overlook a case you should have managed.

Operational Perspective

The HR department itself is in most cases not directly involved because things were reeled off in the various departments. In cases of exceptional need and where money is available, HR may face additional burdens because of operational needs.

Employee Care: Retention Tools

This section introduces three retention tools that are especially relevant in the field of employee care. The tools may be used to develop the company's strategic alignments and for action planning in area of employee care.

1. Employee Orientation
2. Caring Employer
3. Small Important Things

Tool 1: Employee Orientation

What Is It?

Employee Orientation provides new employees with a formal introduction on all major aspects of your brand at your company. It is a program based on general information about brand heritage, brand, business, and products.

- Target group: all new employees
- Purpose: introduction of new employees and alignment with company expectations
- Business impact: smooth employee integration, improved productivity, and lower turnover
- Main responsibility: organize orientation program company tour
- Resources: takes time for preparation of program and minimal financial resources

This Employee Orientation should provide you mainly with information for the introduction to the company brand, including history, brand statement, structure, and products. A range of materials must be provided to you to help you conduct a comprehensive (but not overwhelming) introduction for your new employees. A suggested structure for your employee orientation program and some further tips for designing a program that is most suited for your company will be given in this section. Beyond the introduction to your brand suggested, your employee orientation may involve:

- Introduction to the General Manager, department managers, and colleagues
- Tour around the company facilities, including all functional areas and communal spaces such as the canteen, bathrooms, etc.
- General HR information such as working hours and conditions, employee entitlements, holidays, HR procedures, training and development opportunities, appraisal processes, etc.
- Information on the dress code for the relevant workplace
- Security, first aid, and emergency procedures
- Specific information on the values and mission of your company and any other information for employees on the background, setup, procedures, and benefits that are offered via company
- Any further information that may be useful to employees such as public transport and nearby facilities

Why Is It Important?

Employee Orientation is designed to welcome new employees and to provide them with a well-rounded introduction about the company.

It will help them to have a smooth start in their new working environment so that they are well informed and well prepared to take up their new role and become part of the team as quickly as possible.

The purpose of Employee Orientation is to:

- Create a comfortable atmosphere and reduce anxiety on the first day
- Support realistic job expectations and positive attitudes of new employees
- Instill the values of the brand and your company from "day one"
- Give employees an overview of your company, business, and people
- Showcase how attractive it is to work with your company to motivate employees for the work ahead
- Give employees an understanding how important they are for customer satisfaction and overall company performance
- Save time of supervisors in their induction processes
- Reduce employee turnover and encourage long-term retention

Structure and Content of the Employee Orientation Program

The following is a suggestion for your Employee Orientation program. Please adjust the proposed structure and timing according to the information you would like to provide about your company that goes beyond the content of this section (see Table 1).

The Employee Orientation program can be run on a regular basis for either individuals or groups, depending on your needs. You can also adjust "icebreakers" or introductory games (see ► Chap. 39, "Engagement and Retention: Essentials of

Table 1 Employee orientation day

Time	Topic	Description
Morning	History	What are the origins of your company?
	Break	Suggestion: icebreaker (self-introduction, group exercise, or show humorous video)
	Brand introduction	Brand values and statement
	Company structure	The structure of your company
	Lunch	Suggestion: arrange lunch with the GM or management team
	Product introduction	Introduction of major products suggestion: combine with the company tour
	Company round tour	Suggestion: provide floor plan
	Other company information	Whatever is suitable for your company
Afternoon	End	Suggestion: consider helping employees to have a memorable first day by providing something extra, e.g., a lift home in a company car or a small gift

Culture and Social Activities"), so that they can also be included or used in the orientation process.

New Employee Orientation Checklist

So far this section mainly talked about the brand and company introduction. However, there are also other organizational matters which are important to remember, such as HR information, security and first aid, and company-specific information.

The following checklist has been developed in a general format so that it can be adapted for use at your company, depending on the specific content and timing of your Employee Orientation program.

Name	
Department	
Date of birth	
Start date	

I am aware of the company regulations and confirm that I have received an introduction to:

- HR department
- Immediate team leader/supervisor
- Other departments
- *Your brand name*
  - History
  - Brand
  - Products
  - Working culture

- Company facilities including the canteen, bathrooms, and emergency exits
- Corporate dress policy
- Confidentiality policy
- Disciplinary regulations
- Company organization chart
- Internal key procedures
- Working times
- Security measures in case of an emergency

Company specific information

- Please include your specific company information here

Optional information

- Employee handbook
- Overview of training and development
- Delivery of work clothes
- Keys and access information
- Nameplate

To be filled out by the HR department:

- Registered employee's start date
- Recorded employee in birthday database
- Included employee in department/company organization chart

Responsibilities of the HR Manager

The HR Manager's responsibilities include:

- Familiarizing him-/herself with the full program and its content (including the presentations and videos)
- Coordinating involvement of the General Manager, functional managers, or other employees for introductions, product information, or company tours
- Preparation of any background materials for participants
- Provision of general HR information
- Review of the program and collection of feedback on the orientation process
- Hand-out of presentations beforehand to encourage employees to take notes and do further reading

Benefits of Employee Orientation

Employee Orientation especially addresses the employee comfort. If a new employee feels well informed and receives a warm welcome, he or she will feel more comfortable in their new environment and is more likely to become a loyal part of the brand family.

Employee Orientation also addresses his or her brand loyalty as it is the employee's first formal introduction and familiarization with brand, history, philosophy, and products.

Tool 2: Caring Employer

What Is It?

In this section examples of social welfare measures will be presented, which may help to improve the working environment and social security of your employees.

It is designed to support you in your efforts to provide a positive working environment where employees feel valued and are more willing to contribute in the long term.

- Target group: all employees
- Purpose: retention
- Business impact: increase dedication and motivation and reduce turnover and absenteeism
- Main responsibility: be aware of the different social welfare measures available and their potential impact for your company. Assess their feasibility for implementation
- Resources: vary from project to project – minimal financial input to medium investment

What Characterizes a Caring Employer?

If dedicated, motivated, and caring employees are the aim, those who wish to find these attributes in their employees must show them the same dedication and care. From an employers' perspective, this means showing recognition for work-related performance as well as demonstrating care for the employees' physical and mental health: Providing a good working environment is a core characteristic of being a caring employer.

There are a number of existing government laws and regulations that ensure basic social welfare, such as endowment insurance, medical insurance, work-related injury insurance, unemployment insurance, or birth insurance. A caring employer goes beyond governmental requirements.

This section will provide you with some ideas for additional social welfare measures that can help you to improve your employee's perception of you as a caring employer. Some of these ideas might already be implemented in your company, others you might like to discuss with your General Manager. And maybe you have other social welfare programs in your or ideas of your own: So none of the following is compulsory!

What Impact Does Improved Social Welfare Have on Your Company?

Although none of these measures are compulsory, each of them has the potential to have a specific impact on your company. They also give you the opportunity to demonstrate your commitment as a "caring employer" in different ways. Some ideas for improving social welfare and their potential benefits include:

Direct impacts:

- Regular and healthy meals support the health and well-being of the employees, which has an immediate impact on their performance.
- Clean living and working conditions influence peace of mind and motivation.
- Acknowledgment and support of private life and work-life balance increase comfort and loyalty.
- Pension plans and basic health insurance reduce anxiety with regard to the future and provide a sense of stability.
- Additional health insurance reduces financial anxiety in case of serious illness.

Indirect impacts:

- Employees feel valued, contented, and motivated to show the same dedication which they receive from their employer.
- Stress and anxiety will be minimized and it is easier for the employees to strike a healthy work-life balance.
- Absenteeism and employee turnover rate will be reduced.
- The company will become more attractive for new employees and can establish a reputation as an excellent employer.

Suggestions for Social Welfare Measures

Basic Needs

Basic needs are those human needs which are the most urgent and important for long-term physical well-being. These needs are generally considered to be adequate food, clothing, shelter, sanitation, or household equipment. As a caring employer, you might take care for basic needs such as food or shelter because:

- Only if these basic needs are taken care of is it possible for employees to properly develop their skills and performance.
- You want to support a long-term physical well-being of your employees.

Canteen

Providing a canteen for staff meals is a common method for demonstrating care for employees in large companies. Regular warm and healthy meals are not only essential for the satisfaction of the employees but also for their overall performance.

Although canteens are mostly standard today, you can still make a difference by providing more than one meal a day or better quality. Regular quality checks will help to ensure that good standards are maintained.

Provide a means for employees to give feedback on the quality and service of the canteen and help to motivate the kitchen employees by transmitting this feedback in a positive way.

Outcomes:

- Save employees' time and money in looking for meals outside the company.
- Hygienic and healthy food will support health and well-being of employees and will contribute to their overall satisfaction and performance.
- Strengthen community spirit – eating together enables employees to interact and communicate in a more informal, social setting.

Also consider:

- Having a canteen opens a lot of possibilities for employee involvement and team activities; please also see the section "Tool 3: Small Important Things" and ▶ Chap. 39, "Engagement and Retention: Essentials of Culture and Social Activities" for further information.
- Offering a range of options or making regular changes to menu selections to suit the tastes of all employees.
- Please also consider your local government's regulations for further information on food and hygiene.

Health

Looking after your employees' health is one of the most important areas of social welfare. It is suggested to provide additional health insurance as well as annual health checks and vaccinations. To be a caring employer in this area is important because:

- Health care does not cost much, but raises the level of overall employee well-being, which in the end includes customers and employees' families.
- It reduces absenteeism.
- Health is the basis for motivation, commitment, and good performance.
- This topic is relevant for all employees and strengthens commitment and bonds.
- It shows that you are a modern employer, who emphasizes the trend of a healthy lifestyle.

Additional Health Insurance

Employees often have only a basic health insurance, which does not cover all medical treatment costs. As a caring employer, you can go beyond that by offering additional health insurance in order to expand the coverage of the basic insurance.

A number of insurance companies offer such additional health insurance, which is often not very costly. It is suggested to collect a range of offers that you can review together with your management for costs, reliability, service, etc.

You might be able to negotiate and contract additional health insurance for every employee in your company in a way that is tailored to your needs, without investing too much money.

Outcomes:

- Improve overall health and well-being of employees
- Prevention of illness
- Decrease absenteeism
- Decrease financial anxiety in the face of illness
- Improve satisfaction levels due to sense of appreciation and by satisfying a basic need
- Please also consider your local government's regulations for further information on additional health insurances.

Annual Health Check

Providing all employees with an annual health check can produce benefits for both the employees and the company as a whole.

You can either ask a doctor to come to your company or arrange appointments at a local hospital (note that a checkup at the hospital can be more thorough). This service can be made available to employees once or twice a year, depending on your preference.

Be sure to communicate the purpose and timing of the health check to all employees and encourage them to take advantage of the service.

Outcomes:

- Increase awareness of the importance of good health and a balanced lifestyle
- Improve monitoring of personal health by individual employees (especially those who may not normally access this service)
- Reduce absenteeism
- Improve general health in employees and reduced incidence of serious illness.
- Ensures the health of your customers through decreasing any infection risks in your company
- Please also consider your local government's regulations for further information on occupational health.

Annual Vaccination

Annual vaccinations are a relatively simple and inexpensive way to provide greater care for your employees. You can offer a vaccination service to your employees as a separate benefit or in combination with an annual health check.

The vaccination needs of your employees can be assessed prior to offering the service so that you are providing only what the employees will really use. You can either ask a doctor to come to your company or arrange appointments at a local hospital.

It is recommended to provide only basic vaccinations. Note that several visits may be required, as not all vaccinations can be given at the same time.

Outcomes:

- Prevention of serious illness
- Improve overall health and well-being
- Please also consider your local government's regulations for further information on mandatory vaccinations.

Mobility

Mobility is a necessity in daily life as cities grow fast and places such as work, home, shops, or schools are sometimes far away from each other.

Many employees also work away from their homes and need to travel back to their families. Offering your employees support in this area can be a great help to them, because:

- It reduces stress and tiredness incurred through extended travel time.
- It will improve productivity and concentration at work.
- It will improve respect and bonding if employees are aware that their daily concerns are recognized and cared about.

Shuttle Bus

Organizing a shuttle bus for employees is a nice gesture to improve the quality of their daily life by reducing transit time and travel costs and can have positive flow-on effect for employee performance.

You can arrange a free shuttle bus for employees both to and from the company every day. Pickup locations could include two or three bus stops (e.g., at the city center).

It is suggested to prepare and communicate a timetable which will accommodate as many employees as possible. You can also consider a second or third rotation to allow for employees who work late or travel different distances.

Outcomes:

- Reduce transit time for employees
- Improve timeliness and productivity
- Reduce stress for employees
- Enhance the image of your company in the broader community

Family

Family is the most valuable part of life. Happiness, support, and satisfaction, as well as troubles which take place in the family, are likely to have a greater impact than anything that happens at work. In the following section, two additional social welfare measures which support parents during childbirth and the education of their children are being introduced.

It is important that you as employer recognize the value which the families have, because:

- This is a way to show your employees that they are appreciated with the completeness of their lives and not only as good performers at work.
- Families are often the best support of a healthy work-life balance.
- Families should also feel comfortable and proud to be a part of the company family – because only in this case will they respect and support your employee for his or her job.

See also section "Tool 3: Small Important Things" and ► Chap. 39, "Engagement and Retention: Essentials of Culture and Social Activities."

Basic Equipment for School Children

Your company can demonstrate that it is a caring employer by extending its social welfare initiatives to the families of your employees.

In order to show special attention to the children of all employees, invite them to the company and distribute basic school equipment to them once a year, before the new school term starts. These materials could be basic items such as pens, pencils, books, or school bags.

Outcomes:

- Show appreciation to your employees by supporting their broader families.
- Raise awareness of the brand and its values among families of employees (make "brand ambassadors" not only out of your direct employees but also their family members).
- Encourage children to be proud about their parents' employer.
- Enhance the image of your company in the broader community.
- Make sure all presented items are safe for children.

Paternity Leave

Many companies already provide limited parental or paternity leave for new fathers, on the birth of their first child. In addition to existing maternity leave entitlements on offer in your company, you can also consider providing paternity leave (of a set number of days) for new fathers. You could offer paternity leave of 2–4 days to provide new fathers with the opportunity to spend valuable time with his family (to be taken directly after child birth, or within the first year at a time of the employees' convenience) – depending on what is already stipulated by law in your region.

Outcomes:

- Show appreciation for both employees and their immediate families.

- Recognition of the importance of work-life balance and a culture where employees are actively encouraged to achieve this.
- Improve the image of your company as a progressive and caring employer.
- Please also consider your local government's regulations for further information on maternity and paternity leave.

Responsibilities of the HR Manager

- Be fully informed of the social welfare measures that are already in place at your company and identify gaps or areas of additional need.
- Use the ideas in this section (together with any other ideas you might have) and discuss their implementation with your General Manager.
- Be inspired by other ways your company might appear as a "caring employer" and seek input and feedback from employees on this.

Benefits of the "Caring Employer"

An additional benefit will always be perceived as a fair gesture and increase the employee's sense of being treated fair. Moreover, it will enhance the feeling of fairness between the employees as they all will receive the same service and none should be privileged or left out.

It is a very good feeling to be recognized and cared for – even in other areas of life such as health, family, or living comfort. Taking care of the employee as a "complete person" with needs in different areas of life will greatly increase his or her feeling of comfort and loyalty.

Tool 3: Small Important Things

What Is It?

There are many high-profile ways (awards, events, benefits, etc.) to improve employee satisfaction within a company, but there are also many small gestures that can have a big impact on all employees.

In this section a collection of ideas for small things that you can consider implementing in your company.

- Target group: all employees
- Purpose: retention
- Business impact: improve working atmosphere, cooperation, and team spirit
- Main responsibility: organize small activities, encourage employees to take initiative, and be involved
- Resources: communication to management and employees, easy to organize, minimal financial resources

The small things in life are the things that are normally taken for granted in the pursuit after the "larger things." They can be a birthday card, telephone call, recognition, or a special event with colleagues. All of these “small” things can make a big difference to the lives of your employees.

In time, these small things can help you to build a strong, people-oriented culture that guides the way your employees interact with each other and your customers on a daily basis. At the end of the day, your customers wish to be served by dedicated employees, who promote your company as the best place to work.

The ideas in this section are designed to motivate your employees and to express personal recognition to them that goes beyond the usual incentives offered by an employer.

The Small Important Things are mostly activities which, with a small amount of direction, employees can coordinate by themselves. These activities also encourage them to take responsibility and to apply and develop skills which go beyond their usual job scope (e.g., organization, communication). The role of the HR Manager and management in this area is mainly to assist employees in the idea finding and implementation of the Small Important Things.

Why Is It Important?

Like all of us, each of your employees wants to feel recognized and appreciated as a person and individual member of your team. The “small things” suggested in this section are important for showing your employees that they are a meaningful part of your company.

They can help to:

- Develop employee collaboration and a sense of belonging
- Cultivate and guide employee behavior in line with the company culture
- Recognize your employees as unique individuals
- Provide a creative basis for employees for self-directed exploring/learning through actively participating in the implementation
- Create a lasting memory of your enterprise for your employees
- Enhance the image and reputation of your company as an employer

Examples for Small Important Things

Small Important Things for individual employees:

- Happy birthday!
- Just married!
- Get well soon!
- A new baby!
- Condolences

Small Important Things for teams:

- No “lonely hearts”
- Favorite foods
- “Potluck”

- Friendship
- Community initiative

Examples of Small Important Things for Individual Employees

The items below are suggestions for recognizing employees through "Small Important Things" that come up on a regular basis. They are applicable to every employee regardless of their current position and levels of achievement.

Happy Birthday!

- Provide birthday cards for employees and encourage immediate team members to sign.
- Suggestion: ask a superior to congratulate in person.
- Suggestion: provide small recognition (e.g., leave work earlier, give a small gift or cake).

Outcomes:

- Feeling of belonging and honor for the employee
- Motivate employees through something special outside the daily routine

Just Married!

- Provide recently married employees with cards of congratulations and ask team members to sign.
- Arrange a luxury passenger car (and driver) to be used as wedding car.
- Provide flowers or decoration for the car and/or organize a photographer for the wedding.
- Ask your General Manager to write a small speech, which a guest may read out at the wedding.

Outcomes:

- Feeling of appreciation and honor for the employee.
- Recognition in front of peers.
- Family and friends will see that the employee is valued by the company.

Get Well Soon!

- If an employee is sick for a lengthy period, arrange or suggest a visit from his or her closest colleagues.
- Suggestion: take a small present along (e.g., flowers, fruit).

Outcomes:

- Encouragement to the employee to get well.
- Feeling of belonging to the company family and joy.

- It shows that everyone is important – even if he or she is temporarily unable to fulfill his/her job.

A New Baby!
- Provide a card of congratulations and arrange for the General Manager and other staff to sign it.
- Suggestion: maybe the immediate team of the new mother or father would like to pool some money to contribute toward a gift.
- Suggestion: have a pinboard with family photos/kids photos, for example, in the canteen.

Outcome:

- Feeling of recognition and support for employees and their family

Condolences
- In the unfortunate event of the death of an employee's partner, friend, or relative, tactfully consider providing support to the affected employee. You could consider providing a bunch of flowers for the funeral or other things you think would be helpful for the colleague to make his/her life easier during this difficult time.

Outcome:

- The employee will experience empathy and respect and will feel valued by their employer.

Examples of Small Important Things for Teams

All employees – from all departments and positions – are welcome to participate. The activities are designed to strengthen team spirit and to improve communication, cooperation, and productivity in the company.

No "Lonely Hearts"
- Find a company in the neighborhood of the company, which counts a lot of singles among their employees.
- Contact this company at the HR level and consider the organization of "joint singles parties."
- Ask a group of employees to get together in order to develop creative ideas (e.g., karaoke) and plan the party (for further games see also section "Employee Relations.")

Outcomes:

- Improved work-life balance among employees.
- Enjoyment and maybe a happy partnership (or two?).
- The organizers collect experience in event organization and communication.

- Recognition of the importance of each employee's private life.

Favorite Foods

The suggestion is that you can give employees a chance to influence the menu of your canteen by handing in their own favorite recipes.

- Install a "letter box" in the canteen of the company, where employees can submit their favorite recipes. Through this the chef can get to know the taste of the employees.
- Suggestion: organize regional cuisine menus for lunch based on selected recipes and communicate special menus through posters.
- Suggestion: use this "letter box" also for feedback on the quality of the meals.

Outcomes:

- To help ensure that employees are satisfied with the canteen, provide them with the opportunity to give their input. Handing recipes to the chef or conducting a feedback among the employees can motivate the kitchen staff to do their best.
- Good food is a great source of satisfaction (and motivation at a very basic level)!

Potluck!

The idea of potluck is that everybody contributes a dish of his or her choice, which will be shared by all participants.

- Organize a buffet on team basis.
- Arrange for all employees to contribute a dish (e.g., main dish, desert, or drink).
- Pass a "potluck list" around beforehand where everybody can suggest the dish he or she wants to bring.
- Suggestion: create a nice atmosphere for the event (e.g., decoration or music).

Potluck variation:

- Sell dishes and drinks to company staff and donate the collected money for a good cause (e.g., an employee in need, setup of playground for children in the neighborhood, or organization of a team event).
- Potluck is also a nice idea for your other events (e.g., birthday).

Outcomes:

- Nice change to the ordinary working day
- Fosters communication and team sprit
- Provides an experience that shows what can be achieved as a team, or that "the whole is more than the sum of its parts"

Friendship

This activity is played in the immediate working team. Every employee draws the name of somebody else by lot (or lucky draw) and becomes his or her unexpected friend for a specified period of time (e.g., two weeks, 1 month).

- Write the names of all employees on separate pieces of paper.
- Each employee draws one name.
- Everybody should keep the name of his/her friend a secret.
- For 1 month (or the specified period), each person should fulfill two tasks:
  1. Treat the respective person with particular friendliness, courtesy, and helpfulness for 1 month.
  2. Bring a small present with the name of the friend on it on the last day of this month. Put all presents into a box or sack. During a break every colleague can receive his/her present and has to guess who their secret friend is.

Outcomes:

- Sense of appreciation and recognition for individuals
- Improved communication among team members

Community Initiative

Build up a partnership with an organization in your area.

- Ask teams from within your company to propose partnerships (e.g., with a nursery school (preferably where children of employees are accommodated), with a school or school class, with a training institute, with a college department, or with a hospital).
- Discuss proposals with the management at that organization.
- Decide on partnerships either at management level, at the level of individual departments, or at team level.
- Prepare a letter of partnership in which you specify which activities will take place between the respective organizations.

Examples:

- School: employees can offer support and practical advice based on their experiences.
- Cater a party for the children of the partner school or nursery school to celebrate Christmas.
- Visit the school when reports are handed out or organize a joint excursion.
- Representatives from the partner organization can be invited to company festivities.

Outcomes:

- Improved communication and relationship with the broader community
- Inspiration for new ideas and projects
- Challenge and fulfillment for employees to take on responsibilities in this field
- Contribution to the broader community

Responsibilities of the HR Manager

- Think of “Small Important Things” that the employees in your company might enjoy most.
- Discuss possible ideas and implementation with your General Manager.
- Communicate selected activities and their implementation to employees.
- Coordinate smaller activities with the respective teams (e.g., visiting a sick colleague, birthday cards, etc.).
- Encourage employees to take over responsibility for tasks.
- Provide feedback on the “Small Important Things” in your company to your Regional Competence Manager.

Benefits of “Small Important Things”

“Small Important Things” strengthen the team feeling and raise the comfort of employees as they help to create a warm atmosphere and support the feeling of being part of one family. Moreover, these wide-ranging activities, which go beyond the normal work responsibilities, allow employees who do not hold a leading position to contribute and develop their organizational skills. The appreciation they receive for their contribution again raises their feeling of personal comfort.

Dos and Don’ts

Dos

You hire a family. When hiring a new employee, consider that in most cases, you are not hiring a single person, but rather a whole family with all of the problems that families have. Include in your employee benefit package sensible measures for family welfare, with consideration of different life phases.

Seize important moments in employees’ personal lives. It is much more important to be attentive to such significant occasions as birthdays, childbirths, and weddings than to provide generous gifts which require (in most countries) taxation. In the long run, these gestures count much more than monetary value.

Conduct health-care seminars. Effective health-care seminars can reduce health-care costs and be an expression of the company’s attention to personal well-being. As a format, established lunch or evening lectures can be used if time is the essence as it allows you to kill two birds with one stone.

Consider paying special attention to top management and top performers. Certain aspects of employee care should apply equally to all employees, but consider also special programs for those whom you want to retain most, for example, your top management and/or your top performers. One option for enhancing work-life balance for these target groups are concierge programs.

Don'ts

Don't use company money for overly generous gifts as this might be seen by investors as a loss of control over finances. It might also turn into something negative for employees, if the employee has to bear the taxes for the gift. In some cases, the net value of the gift might be negative for the employee.

Don't forget people. If you start any of such activities, establish a reminder process to avoid forgetting anyone. A positive intention can quickly turn into a de-motivator if such a process lacks equality!

Final Comments and Outlook

Finally, a short overview on the potential costs that all of these actions might provoke is taken. Of course, employee care costs money and work time. Many of its outcomes (including of those measures mentioned in this chapter) cannot be proven or justified in a tangible way in the sense that directly influence or enhance the capacity or success of your business. It is more likely that they will cost you, but if you do not provide any employee care of any sort, then it is proven that you risk your company. That is why the statement "employee care has to be done" can only be supported. Happy staff members are the best premise for a successful, sustainable company.

Employee care has reached a quality level that most employees can accept in Europe. Naturally, there are many more open wishes that will be probably addressed within the next 10 years. This will also lead to new challenges. The future has to cope with the split of lower-qualified workers who are taking the position of supporters and highly qualified workers who undertake more sophisticated tasks. The high-qualified and experienced employees represent a small group of absolutely vital importance for companies. This will incorporate the necessity for more distinguished employee care approaches. One part will be taking care of the needs and wishes of highly qualified and experienced employees, and the other will be taking care of the needs and wishes of lower-qualified workers. Regardless, both groups are important for companies. The shortcoming in the future might look as follows: one group of employees will be extremely looked after and pampered, while the other has to live with reductions and inequality.

Engagement and Retention: Essentials of Idea Management

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Abstract

This chapter aims to give first-hand information and valuable insights for establishing an idea management process and for accelerating the development of a truly innovative spirit in a company. To stay in business, it is indispensable for companies to come up with customer-relevant innovations. However, many innovation projects fail, not because of a shortage of ideas but because of the inferior quality of the ideas generated. In order to avoid this particular mistake, it is crucial to establish a structured idea management process from the beginning.

The authors explain the seven steps of the high-value idea management process that should be taken into account in order to avoid the mistakes companies tend to make. This also helps to establish the idea management process as an integral part of a company. Important high-value idea management techniques are explained in detail. This gives managers a good overview of how to develop a regular idea into a high-value idea taking into account that idea management is not limited to research and development departments, but uses the potential of all employees.

Companies where innovations are valued and encouraged are inspiring places to work. Employees are much more engaged in their daily tasks because they are able to bring in more of their strengths and abilities. This is a greater motivation than financial incentives and has a lot to do with the culture, the organizational structure, and the type of leadership in an organization.

Keywords

Idea management • Idea generation • Innovation culture • Innovation techniques • Organisational Innovation Structure • Innovation leadership

Introduction and Overview

The daily struggle of a company to achieve growth and profit becomes even harder because of the increasing pace, complexity, and reach of the global marketplace. Managers feel this in the negotiations with customers and suppliers. The wheels are turning faster from year to year. To stay in business, it is vitally important to have a clear competitive advantage, to increase profitable growth, to improve efficiency, and to reduce costs. The only way to win in this dynamic and complex world is through customer-focused innovation. So far, innovations have too often been the domain of technical experts or were interpreted as coincidence or luck. And here lies the problem: do not wait for a "ready" idea to lay itself miraculously at your doorstep. Instead, set up the ability to generate high-value ideas, to develop them quickly, and to launch them as innovative, marketable products, services, business models, or processes. High-value idea management has to become an integral part of how to run a successful business.

In this chapter, the authors distinguish between three types of innovation: incremental innovation, radical innovation, and breakthrough innovation. One type is not better or worse than the other, they are just different.

- Incremental Innovation
  (a) Make an improvement on an existing product or service. For example, adding a new ingredient to a detergent formulation to increase the washing power.
  (b) Improve a Process. For example, implementing a lower-cost manufacturing process for the production of detergents.
- Radical innovation
  (a) Develop a new product or service which is based on a completely new concept that did not exist before. For instance, an entirely new surfactant that does something existing one could not. Another example is the iPod.
  (b) Introduce a new way of doing things. For instance, the idea of car-sharing services in cities for people who only need a car on an occasional basis.
- Breakthrough innovation. This type of innovation changes the rules of the game completely. For example, the invention of the car in 1886 by Karl Benz. The development of this type of innovation requires visionary thinking! Customer insights or market research is enough.

Anybody can have a great idea but it needs a team and structured processes to follow up on it, if it is to have any impact.

With idea management, the generation, identification, and follow-up of ideas within a company are professionalized.

What Is Idea Management?

Potential and Requirements

In the consumer goods industry, only a small percentage of all innovative ideas are launched successfully in the market. From 2000 ideas evolve around 400 projects. Out of these, approximately 200 product ideas are developed. 150 of them are not pursued for various reasons. Only 50 products are introduced into the market – and the market is merciless. Out of these 50 launches, around 40 were rejected. Only 10 products are accepted by the market and can be counted as successful innovations. That means that employees spend a lot of time and money working on many different ideas, most of which are not successful in the market. At the end of the day, there are a lot of people who have believed in their ideas, but they have turned out to be not quite good enough. That is a lot of wasted time and money and a lot of frustrated people. A hit rate of 2000:10 is a disaster! What is a feasible or acceptable rate? 200:10 seems a lot better, but is it possible? What about 100:10? Twenty times less effort wasted and less people demotivated seems like a very good result. What sort of hit rate is achievable? What about 1:1? Is that even possible? As a matter of fact, it is! With a systematic and consistent approach, a company can achieve a hit rate of 1:1.

Innovation is risky. At the beginning of the process, there is no real way of knowing where to find high-value ideas and how to convert these ideas into profitable products, services, or business models. However, an ongoing idea management process minimizes the risks. It can be successfully implemented with some discipline and innovative idea-generating techniques. But even the best process is useless if it does not fit the company culture and structure. Therefore, each solution developed has to take the companies' specifics into account.

Idea management is a structured process of defining, generating and collecting, enhancing and improving, as well as evaluating and prioritizing ideas. Through a "normal" process, the valuable insights and innovative thinking that are the specific focus of idea management have a much greater chance of being lost. The process uses the potential of all employees no matter what their job description is.

How is it possible to generate a continuous flow of high-value ideas as opposed to drowning in a flood of low-value thoughts? There is a simple way by following the high-value idea management process, and even potential mistakes are easily prevented.

The High-Value Idea Management Process

In order to avoid the mistakes companies tend to make, each of the seven steps of the high-value idea management process has to be taken into account. They are listed in Fig. 1:

1. *Define Ideas: What Is a Good Idea?*
   The first step in the process is to define what makes an idea a relevant, usable one. In order to find out, it is important to know exactly what a promising idea looks like and how it must correlate with the requirements, priorities, and strategies of one's own business. Every employee of the company needs to know the specific requirements for improvements in a certain area and needs to have a clear picture of how their ideas can contribute to future innovations. This must be communicated to all personnel in a way that makes sense to them. As a result requirements for a high value idea are defined.
2. *Define Sources: Where to Find Inspiration?*
   The second step is to define where innovative ideas are most likely to be found and to motivate employees to systematically search these areas on a regular basis. The following five primary sources are a good starting point:
   - Source 1: Customer or end user. Find out and understand what they really want, need, and value. By systematically observing, interacting with, provoking, and being the customer, innovative ideas can be easily generated. They know the products with all its requirements for usage best and can provide valuable insights that are crucial to listen to.
   - Source 2: Technology. Sources of new and emerging technology at universities, start-ups, suppliers, and competitors are investigated and systematically checked for new input.
   - Source 3: Simular-industry. Exploring neighboring markets and industries will provide valuable ideas and insights. Find and consult experts who have a unique and valuable view of what is new in their area of business.

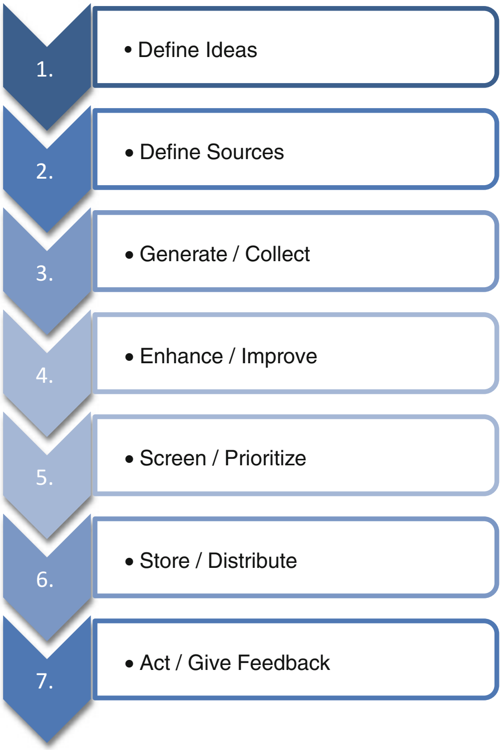

Fig. 1 The seven steps of the high-value idea management process

- Source 4: Cross-industry. To look at something that seems to have nothing to do with your business might be a great source of inspiration.
- Source 5: Coincidence. In order to support the process, an ideal environment has to be created in which high-value ideas emerge spontaneously, paving a way for luck to happen and serendipity to take place.

3. *Generate and Collect*
   In the third step, ideas are being generated and collected. Different idea-generating techniques such as brainstorming, brain-walking, 6-3-5 method, mind mapping, Walt Disney method, and role plays can be used. For idea management techniques, please refer to operational perspective high-value idea management techniques.

   Training key personnel in systematic, high-value idea management techniques, however, leads to a significant increase in high-value ideas right away. But be aware that the outcomes out of such creative sessions are only idea fragments that need to be further explored.
4. *Enhance and Improve*
   At the fourth step of the process, ideas are enhanced and improved. It is very important to realize that the ideas generated in the third step are only idea fragments and not fully formulated ideas. By refering to the requirements of a

high-value idea, it is easier to combine fragments, identify the gaps, and generate new idea fragments that will fill the gaps. By a process of enhancing, screening, generating, enhancing, screening, etc., low-value idea fragments become fully formed high-value ideas. These fragments can be combined in many different ways to significantly improve the value of the original idea.

5. *Screen and Prioritize*
   Screening and prioritizing the newly found ideas are undertaken at the fifth step of the process. This is an easy task if the first step has been carried out properly. If the criteria for a good idea have been clearly defined, it will be easy to check the idea against these criteria. At this step of the process, these criteria should be used for improving a promising idea instead of eliminating an idea right away.
6. *Store and Distribute*
   The most promising ideas selected are distributed to key personnel in an organization for further development. Any high-value ideas or idea fragments not selected in this process should be stored for future use. They may be recycled at a later date or sold externally.
7. *Act and Give Feedback*
   After all, idea management does not lead to innovation until the most promising ideas have been implemented. Therefore, the high-value ideas generated need to be further explored. The selected key personnel need to be provided with the resources and competence to follow up on the ideas. To find out which product or service offers the most potential to the company, the process of designing, engineering and prototyping, and continuously testing begins.

   It is crucial that managers give feedback and appreciation to all participants who generated and improved the ideas. This is essential to ensuring a continuous flow of high-value ideas. It is important that feedback is timely, relevant, and honest. Otherwise people soon stop giving ideas.

Shortcuts and Other Mistakes

Only the best and most innovative companies start their idea management with the seven steps described above. Many begin at step three and skip step four altogether. Steps one, two, and four are the most critical steps in the process, and they are widely ignored or poorly executed. Consequently, step five becomes difficult to deal with. This will often lead to inconsistent results, the low output of high-value ideas, and the inferior hit rate already mentioned above.

In order to be able to deliver high-value ideas, there are two essential questions: what is it that turns an idea into a good one and where can they be found most often? If these questions are not answered properly, the following problems arise:

- The idea giver constantly disagrees with management, customers, and other key personnel on what is a good idea.
- A large number of low-value ideas are generated and the output of high-value ideas is small.
- Using the process inadequately is a huge waste of time, money, and effort.
- All people involved experience a high level of demotivation.

Another critical mistake often made is to ignore step four, i.e., enhance the idea or the idea fragment, respectively. Fragments from the brainstorming session are immediately screened and rated instead. Normally, there is a long list of a variety of fragments to choose from. People show a tendency to eliminate all ideas that appear to be of low value at first glance, leaving only the ones that are most familiar and precisely formulated. In order to be able to work more intuitively with the newly generated material, it is essential to keep in mind that these are fragments that have to be combined with others and can be changed into bigger and better ideas. When checking these ideas against the criteria developed in step one, it soon becomes clear what else is needed to finally come up with high-value ideas.

People Perspective

Innovation Culture

Companies who put innovation in the foreground are great places to work in. People who work there are inspired by a higher purpose. A company that has a sense of purpose larger than paying the employees to only "make their numbers" on existing business gives meaning to one's work, inspires people to act, and unifies an organization. Employees enjoy going to work because the working atmosphere is good. They like Monday mornings because they know they will get appreciation for a job well done. They are much more engaged in their daily tasks because they are able to bring in more of their capabilities and strengths. This is a greater motivation than financial incentives.

One of the most important assignments is identifying and communicating a clear vision. It is not only beneficial for defining values, setting goals, guiding behavior of all employees, and improving productivity and efficiency. It also serves as a foundation of culture.

Culture is invisible. And culture is inherently different and unique for each and every company. The culture of a company evolves from the interplay of values, beliefs, norms, ways of thinking, and paradigms which the employees share collectively. As always, it starts with the right mind-set: accept that the world has changed and be open to many more changes to come. Who in the early 1990s would have thought that mobile phones are going to replace landline telephones? Who would have thought in mid-2005 that cameras and music players would be integral parts of cell phones? It is of the utmost importance that this open mind-set begins at the top of the organization and permeates top down. To align the company goals and strategies with the way people actually interact and cooperate with one another – and with the company as a whole – is also an essential part of the process.

Here are a few suggestions for developing the right culture:

1. **Put the Customer at the Center**
   How can the value of ideas be estimated? Regarding products and services, there is only one answer: put the customer at the center of all considerations. Otherwise

it is likely that market share, sales, and profit will be lost. Open up, spend time with the customers, and watch them using the product or service.

A lot of missions and visions sound alarmingly alike: become the #1 provider of blah, blah, blah. These generic, broad-based goals might have a nice sound, but they are not at all appealing or even inspiring to employees and customers. A much better and promising approach is to define what should be changed in the world and to put the customer at the center of everything.

Editors of the Harvard Business Review analyzed the performance of 832 CEOs around the world with regard to the development of their company's stock and market capitalization. According to this ranking, Amazon founder Jeff Bezos is the most successful CEO worldwide. Under his leadership, Amazon was able to increase its value by $ 140 billion. Jeff Bezos explains his key success factor as focusing on the customer, not on the competition. This leads to innovations that are in the interest of customers and simultaneously brings Amazon a big step ahead of the competition (Ignatius 2014).

2. **Make Room for Unstructured Time**
People need time to innovate. Employees are devoured by their everyday workload and their pursuit of short-term goals. Most of them do not have the time to even think about the future. Give business innovators a certain amount of "free" time to think of something new and to experiment with new ideas. This amount of "free" time can either be used in one chunk or spread over a year for time to time exploration of new business opportunities, new technologies, new products, or services. Engage people to meet and talk about innovations. For example, in "innovation forum" meetings, employees can suggest topics which are then discussed by interested coworkers.
3. **Give Assistance and Then Step Back**
Do not overengineer the innovation process. Give just enough structure and support to help people navigate uncertainty and tap into the creative process of idea management without stifling it. Just let go and give space for unstructured time.
4. **Define Meaningful Key Success Indicators**
Clearly describe what a good idea looks like and why it is good. This must be communicated to all personnel in a way that makes sense to them. Very often, systematic experimentation which involves testing several assumptions associated with the ideas is at least as challenging as developing high-value ideas. For converting promising ideas into marketable products, customer-focused numbers are clearly essential.

Key success factors that promote organizational innovation can be the facilitation or development of an innovation pipeline of new ideas that includes a set of short-term products or services (e.g., 60 % of all ideas), as well as midterm (ca. 30 %) and long term (ca. 10 %).

Some other indicators can also drive innovation. For example, Procter & Gamble (P&G) realized the importance of externally driven partnerships in developing a market breakthrough. They made a point of using technologies from external partners instead of relying only on their own research. This saw an increase in collaborative innovation and resulted in innovative new products, such as Mr. Clean Magic Erasers and Tide Pods.

5. **Allow for Mistakes and Failure**
   Remember how many times Edison failed with his attempts to invent the electric light bulb? He supposedly tested 2000 materials until he tried a carbonized cotton thread. What a breakthrough innovation after so many trials and errors. Enable a company culture which supports and values innovation; foster a culture that allows mistakes and failure for learning purposes. Mistakes can often be used to create extensive insights and stimulate innovation because they allow for variations far beyond what was expected. Created by accident, society now profits from such medical innovations as the discovery of penicillin. 3 M's Post-it was also the result of an accident in the lab. Vulcanized rubber was discovered when Charles Goodyear accidentally dropped a lump of the polymer substance he was experimenting with onto his wife's cook stove. Thomas John Watson, the founder of IBM, understood the importance of happy accidents deeply when he said, "So, go ahead and make mistakes. Make all that can be made, because that's where to find success: on the far side of failure."
6. **Give Feedback and Appreciation**
   By giving and receiving appreciation, everybody wins. Appreciation is essential for attracting, retaining, and motivating people. It hardly takes any time and costs little or nothing. Although appreciation is critical, most companies miss this effective and efficient way of motivating employees. Appreciation is especially critical during the idea management process because this process is linked with a lot of uncertainty, complexity, and confusion where people have "to go the extra mile." Appreciation and reward is most desirable in confusing or unclear situations where people are trying to get it right but are uncertain of the actual performance level.

   An annual innovation award is not enough to engineer a culture of innovation on its own. The same applies to success stories in the company newsletter. Of course, formal rewards are a good visible sign for everybody in the short run, but they do not keep people truly committed. The most powerful appreciation often happens in a more informal setting. Give employees the feeling that they are viewed as valuable members of the company; create and reinforce a positive self-image and pride; promote an atmosphere of open-minded and new ways of thinking; and make your employees feel like winners. This will influence them in a positive manner and will motivate peak performance in the long run.

   Get symbolic: to underline the importance of the idea management process, one option could be to install a special innovation room. The company's top management uses this room to get in contact with employees, and employees are encouraged to meet there for idea generation sessions. Another option is story telling: explicitly shape stories to convey key values and success stories regarding customer-focused idea management.

   To sum up, cultivating innovation goes along with cultivating a unique culture. The approach should be aligned with the companies' values and goals. Successful companies balance performance and learning cultures. In each case, make it easy and rewarding for the employees.

Organizational Innovation Structure

Culture is a complement to the organizational structure. The structure aligns the energy of employees.

There is no one best way to structure a company. However, the structure of the work environment has a significant impact on the idea management process and the commercialization of high-value ideas. Creative thinking and collaboration can be encouraged and rewarded or, in many formal and subtle ways, discouraged. If the organizational structure is formal and rigid with little external stimulus, ideas form slowly and tend to be low in value. If the organizational structure is too informal and flexible, ideas form quickly but they are often difficult to implement. An organizational structure which balances formal and informal, rigid and flexible provides an ideal working environment for the systematic creation of high-value and actionable ideas.

A flat management structure is the best way to start with idea management processes. Avoid long approval processes and unclear lines of communication. They only get in the way of a successful innovation process. If an organization cannot implement a flat structure, it can make an exception by empowering the members of the idea management process to act independently.

There is the danger of double work. Instead of each business unit doing its own idea management process, an organizational structure can facilitate speed and internal connections.

Another topic to consider is whether the organizational structure should be internally oriented or should be open to ideas from the outside. Collaboration with partners from the outside such as complementary companies, universities, design agencies, think tanks, and companies from other industries very often brings new perspectives and ideas to the innovation process. This could result in more high-quality innovations than can be produced with the company's own sources, much like the above mentioned example from P&G.

All too easily, companies fall into the "analysis trap" and focus on process, measurement, and execution. Companies who put innovation in the center embrace soft skills like creativity, imagination, analogy generation, and empathy. In many companies, individuals with these skills are separated, like marketing personnel versus technicians. Innovative companies establish teams in which they bring the different characters together, so that they can benefit from each other. This is especially important when it comes to idea management: this process is creative and analytical teamwork. Each employee often has tremendous insights. Bringing together the different views, insights, and knowledge offers huge potential for high-value ideas that lead to innovations. Also, it helps with avoiding silo thinking and stimulates supportive internal collaboration.

Designing the innovation team structure is the very beginning of a structured idea management process. Research shows that the most effective team for innovation consists of between five and eight people. Each person represents one or a maximum of two of the areas which are defined for the roadmap, e.g., customer, competitor, company, brand, technical, and legislative.

Areas are not represented by formal functions; they are represented by the person best equipped to be the ambassador for the area. For example, "technical" involves representing research, product development, packaging, etc. It should be represented by someone with a good overview of each of these areas. Another example is "external." It involves representing the relevant legal, regulatory, environmental, health and safety, and industry perspectives and should be done by someone who has experience in these areas and has good connections with company lawyers, health and safety officers, environmental agencies, and other external agencies. The area "competitor" should be represented by all members of the team, since intimate knowledge of what competitors are likely to do is only possible by putting together insights from all other areas, for example, insights on competitor patents from "technical," changes in advertising from "brand," knowledge of a new plant being built, a new supply agreement on surfactants from "supply chain," etc. Only the participation of everybody can create a clear picture of important competitor activities.

There are some questions to be tackled like: should the team be separated from the business or integrated? And should this be done in terms of organizational structure as well as location? Another topic to tackle is whether employees should be fully dedicated to the idea management process or involved in it as part of their job. If fully dedicated, should all team members be fully dedicated, or only some of them? What about the leader? There are no right or wrong possibilities; it depends on the specific circumstances in the company.

Additionally, the ideas of all employees should be integrated in the different phases of the idea management process. However, this is much more than a simple suggestion box. They should be involved right from the beginning via, for example, workshops, forums, and creativity meetings.

In the end, an open-learning, forward-looking culture as well as an appropriate organizational structure that supports innovation is indispensable for sustainable innovation. Bear in mind that the culture as well as the organizational structure has to be continually managed, refreshed, refocused, and aligned with the company values.

Innovation Leadership

Creativity alone, however, is not sufficient for the idea management process. This process also requires the development and enrichment as well as the screening and prioritization of the ideas. It is creative and analytical teamwork. Therefore the leader is immensely important. It is the leader who energizes the team and who inspires it to new heights. True leaders are initiators. They have the ability to push others toward successful innovation. It is their job to get it right. They continuously realize the changing landscape of their industry and to set the goals accordingly. For this they need a different mind-set than when reviewing budgets or figures.

The psychology and behavior of the leader and the team have to be in line with the requirements of an innovation culture. The appropriate mind-set will influence the culture and vice versa.

Idea management involves a much higher degree of uncertainty than the normal everyday job. It needs a certain character to deal with the unknown. To be ahead of the market can cause a lot of insecurity as well as loneliness. A special blend of inner qualities that allows team members to succeed when others have already resigned is critical. Tools, techniques, and methods are necessary, but without the people using them, and with the right mind-set, they are more or less worthless.

Entrepreneurship is needed. Entrepreneurship turns an idea into a successful product, service, or business model. The obvious question to ask is then: what core characteristics do entrepreneurial people have?

Several key characteristics for idea management leaders are:

- Challenge the status quo, be passionate and visionary: Always look for better ways of doing things and go for it – an opportunistic mind-set helps to identify gaps in the market, seek variety in all aspects of life, question routine, and confront others with new opinions and attitudes; be highly imaginative!
- Be curious, self-motivated, and reflective: Actively investigate new possibilities, appreciate surprises, be intrinsically motivated, proactively initiate new projects, accept problems and challenges, and have a hungry mind!
- Be flexible and adaptive: Be open to new experiences and change, be able to quickly adapt to new circumstances.
- Make new connections and recognize patterns: See connections between seemingly unrelated situations, observe principles and trends, and see the "big picture."
- Balance lateral and vertical thinking: Deal with an issue or problem through alternating between unsystematic, experimental, and playful versus linear, strictly rational, and logical thinking.
- Be communicative: Use connections and networks to mobilize resources, build strong alliances – internally and externally, sell ideas and strategy effectively, and communicate the core mission to the team.
- Be motivating: As mentioned before, motivation and appreciation are key for employee satisfaction and supporting idea generation.
- Be educated and well trained: Commit to continuous learning, distinguish between relevant and irrelevant information, and see new opportunities as promising.
- Be persevering and resilient: Be proactive, exploit opportunities, be energetic, deal with failure in a positive way, and recover easily and quickly from disappointments.
- Be realistic and honest: If the resources outnumber the potential benefits, it is time to call it a day and look for another solution.

Even when people possess these characteristics, real innovation is unlikely to happen in the absence of a clear and meaningful vision. Therefore, it is indispensable to form the right culture and to develop leaders of the future to support establishing idea management and creating innovation. Without the knowledge of how to be innovative and to form the future, no company can excel – or even survive.

Economic Perspective

Innovation is linked with resource allocation and reallocation, with people development and promotions, with appreciation of performance and rewards, as well as with cost targets.

Still, as stated earlier, it is the innovations that ensure long-term business growth. Innovation management is therefore a long-term investment for the company.

In innovation, the risk of failure is inherent. It is always vital to balance success and failure.

The economic risks of innovation can be minimized by setting up the idea management process properly. An important task is it to find effective ways to ensure that the idea management process gets the required resources and attention while ensuring it delivers business growth. This also eliminates the risk of investing in nonprofitable ideas.

Measurements to evaluate the economic risks are the following key performance indicators for idea management:

- Cost of employees who have been trained and given techniques for innovation
- Percent of earnings from innovation introduced within a given period of time, e. g., the last three fiscal years

Risk Perspective

Risks from idea management are often due to poor preparation. Very frequently, the innovation strategy is not linked to the business strategy. Failure is inevitable. Therefore it is vital to clearly define the needs in detail so that the search for ideas can be focused.

Furthermore, organizations establish innovation programs with great fanfare, succeed at generating ideas fragments, and then have difficulties sustaining the momentum. One reason for this is the lack of enabling organizational structures. Another one is cultural issues such as not allowing mistakes and not considering the company culture enough.

There should be a process for selecting an idea management team leader and team members. They escort and monitor the process from developing the idea to commercialization by moving it through its several phases. Additionally, the idea management process should be transparent enough to welcome ideas from employees not in the core team.

Often there is not enough time for idea management. Managers are responsible for achieving operational and financial goals. Innovation gets sidetracked as something they do when they have the time.

There are often too many ideas in the pipeline in relation to man power and budget of the company, and no decision is taken on which idea should be taken forward. This is also often the case when using technical idea management tools as they support the development of idea fragments, but often the follow-up is not feasible due to the sheer amount of not structured ideas.

Operational Perspective

Ways of Setting Up Idea Management

There are different ways and combinations of how idea management becomes an integral part of a company.

One way is to introduce a database for ideas: an ideas bank is a widely available shared software tool where people post, exchange, discuss, and improve new ideas. The objective is to gather the input from a large group of employees to effectively run the idea management process. At first glance, such a collaborative tool nurtures an organization's culture of innovation. Everyone can log into this system, post objects of interest to the other users, search for information, comment on information, and discover experts in the organization when needed. As a result, everyone is well informed and the collaborative tool serves as a knowledge management system.

There are a couple of advantages and drawbacks to this approach. Advantages are that every employee who likes to be involved can get involved and ideas from people who otherwise would not be considered are also collected. Still, the motivation of the employees is normally less than through direct involvement.

Drawbacks are that there is often a suggestion overflow and that many irrelevant idea fragments are collected. They are very often not at all in line with the company's business strategy; sometimes they are even not understandable. Furthermore, many duplicate ideas are submitted, and once an employee submits an idea fragment, he is no longer involved in the process.

A better way is to set up a systematic and continuous innovation process with an innovation team to get incremental, radical, and breakthrough high-value ideas. Clearly, idea management in an innovation team is much more effective than idea management by an idea bank. It involves employees emotionally and cross-links different insights and points of view.

In setting up such a process, there are some topics to be taken into account:

- Strategic guidance is needed to set up such a team idea management process.
- Definition of resources in terms of man power.
- Setting goals: Creates clarity in focusing on strategies that win and align everyone's energy.
- Define strategies: Once goals are set figure out how to achieve them.
- Enabling structures: The execution of the strategies requires the design of an organization structure that supports innovation.
- Provide an innovation budget and define how it is linked with the budgeting process.

- Design a consistent and systematic approach: Innovation is creative but not chaotic. It is a systematic way of moving from idea fragments to ideas and to commercialization. The process has well-defined success criteria, milestone, and measurements.
- Enable and train employees: How to set up such a process and how to run high-value idea management processes.
- Time: Release employees fully or temporarily from their daily work.

Unless ideas are not commercialized, there is no innovation. When the very best ideas are discovered, they should be managed with a stage gate-oriented project management system, where the work flow is defined. This systematic new product process drives projects from idea to launch. It helps when this process is both fast and effective.

Often the support of external experts delivers valuable inputs in the idea management process and provides breakthroughs.

High-Value Idea Management Techniques

The following high-value idea management techniques enable the professionalization of the different phases of idea generation:

- Innovation Step Approach
- Idea Development Excellence: The Road Map
- Parallel Thinking

Innovation Step Apporach

Innovation step apporach is a tool that uses input by customers and converts it into breakthrough products and services. There are seven steps in this process, which can be seen in Fig. 2:

Step One: Vision and Strategy
The first step involves defining a company's vision and strategy, taking the unique selling propositions and strategic direction into account, and agreeing on the area in which the innovation is wanted.

Step Two: Identify Current Products
List the products currently available in the chosen area from the customer's point of view. It is very important to always keep the customer's vision in mind and not to work with own assumptions on what is essential at this point in time.

Step Three: Identify Customer Needs and Values
Step three is about what the customer's needs and values with regard to the innovation. This may be different from what the customer says he wants. There is a famous quote from Henry Ford: "if I had asked people what they wanted, they would have said faster horses." Therefore understanding the real motivation of the customer is essential for the process to unfold properly.

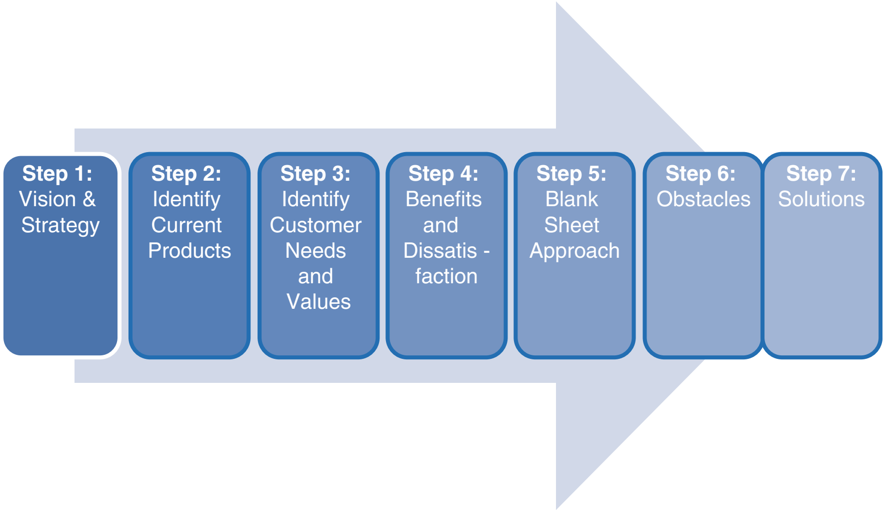

Fig. 2 The seven steps of the innovation step approach

Step Four: Benefits and Dissatisfaction

In step four, all benefits of the current product are listed as perceived by the customer. A second list is prepared naming all the things that people do not like about the chosen product.

After having completed these four steps, the following five points should be obvious:

- The area in which the innovation is to take place
- The customer's perception of this area of business
- The needs and values of the customer and what dissatisfies him
- The trade-off that the customer has to make when buying different products
- How a new product can meet all of the customer's needs and values without having any of the dissatisfying elements

Step Five: Blank Sheet Approach

With all the details gathered so far, take a blank sheet of paper and begin to describe, in words and pictures, what the ideal product looks like. In this step, existing products and their possibilities and limitations are not taken into account.

Step Six: Obstacles

After having designed the ideal product, look at the obstacles that stand in the way of actually creating this product. Some of the obstacles will be real; others, however, will only exist in the mind. It is important to check the reality of each obstacle and remove all that are only imagined from the list. All the obstacles that are rated as real will be dealt with in the next step.

Step Seven: Solutions

In this final step the main focus is on systematically checking the obstacles perceived as real on the way to creating the ideal product. The ideal product will be achieved as soon as all the obstacles are removed. Working creatively is turned into a problem-solving process that is highly motivating for people and keeps them focused on the right target.

Road Map

Road map is a tool that provides a holistic overview of all the relevant impact factors regarding the category of products considered. It helps to understand the portfolio on a holistic level. A road map consists of the areas which are vital for a company such as customers, competitors, branding, technical factors, and external factors.

Depending on the industry, road maps provide a picture of the next 1–20 years. This is achieved by revising information and input from each of the areas so far defined as essential. The road map enables an organization to plan ahead. Instead of only reacting to new product launches by competitors, changing customer demands, and innovative technologies, the road map allows company managers to accurately predict and provide what customers are most likely to need and what competitors are most likely to do.

Road maps help with:

- Creating longer-term visions and strategies
- Creating a pipeline on innovative products in the defined area of business
- Anticipating new trends and providing for them accordingly
- Anticipating innovative activities by the competition
- Gaining a broader view and overall perspective of external processes
- Developing new and using old business connections in order to generate a continuous flow of high-value ideas

Creating a road map involves gathering insights from both inside and outside the considered business field so that all the details can be integrated, connected, and used to create high-value ideas.

At first, information and insights are gathered and allocated to the respective business areas. All relevant information that already exists within a team or company and from regular external contacts is put in writing. Then key sources of market and technology intelligence are identified and investigated. As the road map develops, different insights can be easily connected until they form opportunities and new product ideas. The hit rate for high-value ideas will rapidly increase if high-quality information and insights are available and when an increasing number of high-quality connections can be created. Working with a road map will eventually provide an extensive and regular supply of high-value ideas.

Cross-Industry Thinking

Cross-industry thinking is a tool that uses existing competences in the market. Scanning other industries for new ideas in innovative products, promotion, packaging, concepts, and ideas is called cross-industry thinking and an excellent tool for solving problems that appear to be impossible to overcome. A good example is the upside-down plastic bottle that was first developed for honey and is now widely used for all sorts of liquid products like styling gel, shampoo, and ketchup.

Years ago, another success story was how the rapid way of filling bottles with milk was adapted to filling cans with paint at high speed. With the aid of some technical changes, the filling rate had been increased from 140 to 160 tins per minute over a period of several years. At this point, a further increase seemed physically impossible. But after visiting a dairy farm, it was possible to increase the filling rate to 450 tins per minute. The paint was no longer poured into the tins vertically, relying on the force of gravity, but the tins were put on a circular line and rotated so that centrifugal forces were influencing the process and much higher filling speeds were possible with only a few technical changes.

There are two different ways of gaining insights with the help of cross-industry thinking. The first one deals with simply looking for anything that is worth copying from other industries and areas of business, as was shown in the examples mentioned above. The second involves reviewing new trends in the industry to predict whether and in what way the company may profit by following these trends. Ask the following questions: what did they do? Why did they do it? How and what can I learn from them?

Dos

Idea management is more than the one big idea. Do not wait for the one big idea to pop up and solve all the problems facing the organization. Idea management helps in many ways; think about product development, problem solving, or process optimizing. It does not always have to be the one big idea; many small ones also generate ongoing results and enhancements.

Create an open culture. The generation and identification of good ideas is only promising when top management is open to new ideas and suggestions. Create a company culture in which ideas are welcomed. Managers need to be initiators of an innovation culture.

Set up organizational structures. The structure of the work environment has a significant impact on the idea management process and the commercialization of high-value ideas. An organizational structure which balances the formal and informal, rigid and flexible provides an ideal working environment for the systematic creation of high-value and actionable ideas. An ideal structure purposefully involves all employees in different phases of the idea management process.

Ensure resources are available. Managers responsible for achieving operational or financial goals often put innovations aside as something they will do when time is available. Be sure that adequate time and resources are available to support idea management in an ongoing way.

Think cross-functional. Use all of a company's potential for generating ideas. Cross-functional working groups are a great way to do so. Be sure to include customers and/or suppliers.

Consider the idea management process. A strategic view on the idea management process is critical for ensuring that something meaningful comes out of it. It is vital to come up with a structured and continuous idea management process which considers all phases of the process, starting by defining what a good idea is.

Use idea management techniques. Training key personnel in systematic, high-value idea management techniques leads to a significant increase in high-value ideas right away. This ensures the cost-efficient development of successful ideas.

Follow up on ideas. Name persons responsible for following up on ideas and give them the resources to do so. To evaluate the value of an idea and make the most out of it can be harder than generating the idea itself. A lot of ideas are lost because they are not followed up on properly or are not brought forward to the persons that can benefit from them.

Don’ts

Do not force ideas. Employee ideas are a valued asset for a company, but ideas have to come freely. And while there are employees who generate valuable ideas on a string, others may be unable to bring up a single good idea. Therefore, be careful with including idea generation into target agreements; it is better to work with inspiration and appreciation.

Do not exclude. Innovation management is a process in which all employees should be included. Do not leave somebody out because his/her job description might not fit, but also do not leave it to everybody. Responsible key personnel which monitor the process from idea development to commercialization need to be established. But the process should be transparent enough to welcome ideas from employees not in the core team.

Final Comments and Outlook

Waiting and just hoping for new ideas to happen is a waste of time. It is vitally important to generate many ideas, to find the right ways of developing them, and to act with purpose and determination to generate the most promising ideas. A key success factor is that idea management becomes an integral part of a company. Otherwise, the success only lasts for a limited period of time. It is not the idea that makes people successful – it is the people that make ideas successful.

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Engagement and Retention: Essentials of Rewards and Recognition

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Abstract

Well-designed recognition programs respond and deliver on the key motivational drivers of human beings; they support a lively feedback culture and employee engagement. While the financial value of recognition programs is rather limited, the key value driver of recognition programs is delivered on the motivational and cultural side.

Particular for global or multinational operating companies, a company-wide recognition program can provide all employees with a kind of "cultural glue" and allows anyone to reach out and express recognition to any other employee or team around the globe. These programs will support a culture of feedback and collaboration beyond regional and/or organizational boundaries.

This chapter covers the various perspectives on recognition to be considered from an organizational and corporate HR point of view and provides recent statistics and market insides.

Keywords

Awards • Best performance • Long service • Culture • Company culture • Corporate culture • Recognition culture • Feedback • Engagement • Motivation • Neuroscience • Recognition • Rewards

Introduction

What Is Recognition?

Recognition, as used in the context of this chapter, is limited to all forms of recognition given to a person or group of people without any predefined entitlement. Thus, "wider" forms of recognitions such as incentives or any kind of bonus payments are not covered in this chapter. Incentives and most other rewards are usually based on predefined conditions and entitlements, for example, if you do "x," you will be entitled to do "y," or you can expect to get "z."

Recognition in its more limited meaning can be a gift or a personal "thank you!" or be expressed by various forms of social recognition. Nevertheless, it can have a financial value or benefit attached to it.

The emotional and motivational impression on recognition is created because of its personal and visual nature. This is much more important than an attached financial value.

For budgeting, accounting, and tax purposes, the financial value of recognition is treated as an element of the company's total rewards – while its "real" value can be found in the motivational and intangible sides of the business.

Recently, the interest in recognition programs remarkably increased, and it is likely to gain even more importance in the foreseeable future. The underlying reasons for this development are cultural and demographic changes; people (employees, managers, leaders) like to be recognized for what they do and have done, and they would like other people to know about it. Today's social media offers society numerous like/dislike feedback channels. People actively seek feedback (recognition is a form of positive feedback) to navigate their way through a continuously increasing complex world they have to work and live in.

When HR departments discuss about recognition programs, they focus more on administration, processes, governance, and financial aspects. In any case, these aspects are very important, and a poor program execution can torpedo even the best strategically intended program. However, these aspects only represent one significant component for a successful and sustainable recognition culture in any given organization.

While in former years many managers were raised to believe that not to be blamed is praise enough, Millennials and even younger generations believe that this is by far not enough. They want to be recognized and appreciate opportunities to provide feedback in an easy accessible and playful way, often in combination with a social and/or memorable element. Recognition is a form of positive feedback and a great start to build the feedback culture within an organization.

People Perspective

Recognition programs are famous for their motivational effect which is why this chapter first concentrates on the questions what are human beings' motivational drivers or why does recognition work. Second, the chapter also covers questions regarding program design and operation.

Why Does Recognition Work?

Neuroscience research on human motivation and behavior is shedding a new light on people's behavior. In 2002, Harvard Professors Paul Lawrence and Nitin Nohria published an influential book titled *Driven: How Human Nature Shapes Our Choices*. Eight years later, Paul Lawrence published *Driven to Lead: Good, Bad, and Misguided Leadership*. The underlying research refers to Darwin and includes a review of decades of evolutionary biology, economics, and psychology research with more recent neuroscience studies. They developed the theory that human nature focuses on four biological drivers – it is called the ABCD model:

(A) Drive to Acquire – the desire to obtain material things as well as the status that is derived from them.
(B) Drive to Bond – human beings are social animals, with a deep-seated need to connect, share, and build a community of common values.
(C) Drive to Create – the urge to learn, understand, and give meaning to the world around us, including the desire to be part of something that is bigger than ourselves.
(D) Drive to Defend – once we have acquired something, be it material objects, prestige, relationships, or any other thing we value, there is an innate drive to hold on to them. A sense of fairness in how benefits are distributed is also associated with this drive.

    According to this model, these drivers are active in the limbic region of the brain, located in the lower central brain. This area, also known as the "seat of emotions," is the gateway between the senses (sight, hearing, smell, touch, taste) and the prefrontal cortex, where rational thought processes take place.

The four drivers filter the impulses and sensation which come via the senses from the outside environment to the decision-making centers in the brain. Stimuli which are relevant to these drives are transmitted further, while others are filtered out.

No two people experience the very same situation exactly alike. Depending on which drive is activated during an experience, two people may witness the same event and take home very different memories and messages. The personal touch and emotional color can often outweigh the factual occurrence – and drive people's behavior.

This model was revolutionary as it broke the so far prevailing theory on social and economic behavior seeing people as "rational maximizers" that were also described as "homo economicus" primarily motivated by self-interests and mainly driven by the cortex region and hence rational thought processes.

The work of Lawrence and Nohria has been confirmed by many more research and empirical studies thereafter. Today, many more people accept that emotions influence human behavior – including individual as well as collective behavior – to a much higher degree than it was traditionally assumed.

By applying the ABCD model, one has to understand that in reality people will come with all four drives to work. The question is which one of these is the primary force, in combination with the others. Rather than A, or B, or C, or D, it is A, and B, and C, and D at the same time, with potential changes in dominant drives over time – and it is this emotional filter which influences the rational decision making to a large degree.

The work of Lawrence and Nohria is universal as it is based on human beings. This leads to the questions if, how, and why recognition cultures are comparably different around the world.

Cultural and Generational Differences

When introducing a global recognition program, one will face various preconceptions about the need and the value of it as well as argumentations on why and why not it is considered to be necessary. Based on experience and available data, it can be said:

(A) Yes, there are cultural differences in the use and value of recognition programs.
(B) Those differences are much smaller when considering geographical regions.
(C) And those differences should rather be seen within various age and/or social groups.

From research and the last decade's history, we know that the way how recognition is given has changed dramatically over the last 50 years. The leading force in this respect has been the USA. During and after the 1960s, the traditional way of life has been challenged and changed – not only in the USA but all over the globe. This became possible due to global media access and changing younger generations.

For the first time in the history of the modern workforce, four generations are working side by side toward shared goals. Generational diversity is evident when observing the makeup of committees, teams, work groups, production lines, boards, and any other way that people rely upon each other. Organizations now must align people of multiple generations who hold conflicting beliefs, attitudes, values, perspectives, and desires.

Members of each generation bring distinct sets of values, attitudes, and behaviors to the workplace. Historical events, social changes, life stages, and other factors (e.g., gender, ethnicity, education, and socioeconomic status) are all thought to have influenced generational workplace characteristics and motivational perceptions.

The four generations in the workforce today come to work with different expectations, assumptions, priorities, and approaches to work and communicate. For example, today's younger generation of workers has a much different perspective on work, life, and culture in general than older employees.

Rewards and Recognition

With the multigenerational reality experienced by most organizations, many are beginning to focus on ways to support the unique wants and needs of separate generations while trying to make their workforce more cohesive. The development of benefit portfolios is an approach recognizing that employees have different benefit needs based on age, life situation, and personal preference. For example, if a company offers on-site childcare, why not also host eldercare?

A good workforce recognition system will have components and modules that allow for individualized recognition and rewards that reflect their personal lifestyle choices. The system will recognize specific performance through the process of

Table 1 Motivational factors for different generations

	Traditionalists	Baby boomers	Generation X	Generation Y
Monetary factors	Money	More money	Bonuses Stock options	Stock options
Nonmonetary factors	Public recognition Desire to lead Organizational loyalty Responsibility Accomplishment Control	Public recognition Desire for subordinates Loyalty to self Promotion Peer recognition Control	Meeting organizational goals Recognition from boss Do well by doing good	Meeting own goals Recognition from boss Time off Skills training Mentoring

Table 2 Nonmonetary rewards that appeal to different generations

Traditionalists	Baby boomers	Generation X	Generation Y
Flexible schedule Part-time hours Temporary hours Formal types of recognition	Retirement planning Flexible retirement options Job training Sabbaticals Formal types of recognition	Flexible work schedules Professional development Feedback Tangible rewards Work environment Formal and informal types of recognition	Flexible work schedules Professional development Feedback Tangible rewards Work environment Attentive employers Informal recognition Day-to-day recognition

performance measures, on-the-spot recognition by managers, and peer-to-peer recognition. Awards and rewards will be part of the process and speak to the generational needs and organizational values (see Table 1).

Motivational Factors for Different Generations

The purpose of nonmonetary benefits is to reward employees for excellent job performance through opportunities. Nonmonetary benefits include flexible work hours, training, pleasant work environment, sabbaticals, and sincere appreciation and recognition for good work.

The differences in nonmonetary benefits between generations are affected by career stage and proximity to retirement. The older the employee, the more the focus is placed on retirement or supplementing retirement income with part-time or temporary jobs. The younger the employee, the more the focus is placed on job satisfaction and work environment (see Table 2).

Nonmonetary Rewards That Appeal to Different Generations

Some traditionalists and baby boomers like symbols and logos of their organizations on their awards; at a minimum, many want displayable recognition. Generation X and Millennials are not interested in logos and symbols. What is important to them is an award that fits their lifestyle. This could be electronics, iPods and iPads, camping equipment, or a mountain bike.

Traditionalists respect authority and place a lot of value in receiving financial rewards and having security. A good example for security needs can be seen in how important health care is to this generation. Traditionalists seek no applause but appreciate a subtle acknowledgment that they have made a difference.

Traditionalist might be best served with a package that includes long-term care insurance, catch-up funding, and other benefits more in line with their age.

Baby boomers are influenced by money. Therefore, baby boomers prefer tangible rewards like bonus instead of vacations. Baby boomers like to be acknowledged by raises and promotions. They respond well to coaching and look for learning opportunities. Continued training throughout their careers is a great way to keep the baby boomers happy with their work.

One way of recognizing and rewarding baby boomers is to have them handle the company presentation at an industry trade show. Another way would be to ask for their input on issues related to the company strategy and/or getting their consensus on issues that seem to be important to them.

Baby boomers enjoy and want personal gratification. Motivational messages such as “You are important to our success!”; “Your contribution is unique and important to us!”; or “We need you!” are likely to go a long way with them.

Baby boomers could be offered a health plan with more comprehensive coverage and lower deductibles, as well as the maximum life insurance coverage.

Generation X prefers informal, rapid communication. They like to be openly recognized and given rewards that they can use in their free time. They value flexibility in their work, and many would refuse a promotion if they feel the quality of their home life would be compromised. Generation X likes immediate recognition through title, praise, promotions, and pay. Companies who have been able to successfully retain Generation X employees have created job conditions that are compatible with family life, including on-site childcare, tuition reimbursement programs, and telecommuting.

Generation Y is highly involved in social networks. An organization that wishes to attract this talent category should provide a work environment that enables social interaction. Things like virtual water coolers, online cafés, and company picnics find a favorable reception among Generation Y talents. They like real-time communication, e.g., instant messaging, text messaging, and cell phones.

To make **Millennials** feel important and part of the team, managers and supervisors should ask them for their opinions. One of the best ways of motivating them might to give them more responsibility as a reward for their accomplishments. To improve their team feeling and their social skills, companies may organize outing events such as picnics, sporting events, or dinners. These events are likely to help Millennials to feel that they are part of a bigger family, which is likely to increase their loyalty to the company.

If and how a recognition program influences a given corporate culture is heavily depending on the design of the program and its usage (e.g., how many people are affected by it?). Those two aspects strongly relate to each other and are interdependent from each other. Design aspects are discussed in more detail in the section "Operational Perspective." The focus is placed on one key aspect concerning the cultural influence.

Assuming one does intend a recognition program to influence a company's recognition culture on a high level – the company needs a high degree of eligible employees and have all employees empowered to nominate other employees or directly give other employees recognition awards. In other words, such programs will bypass to some extent the given hierarchy and rather use "crowd" or "swarm" intelligence to spread recognition within an organization. Whenever a program intends to use the traditional chain of command, recognition will be rather limited in its character to actually support a cultural change. The decision to what extent employees are expected to participate and empowered to play an active role in a recognition program determines if and how the program can effectively influence and change a corporate culture.

Economic Perspective

As a rule of thumb, most companies with structured recognition programs budget about 1 % of salary for recognition programs (see Fig. 1). In any case, the allocated budget size differs among companies due to what is accounted into it and what other cost items already cover, such as travel and various ongoing business expenses, respectively, when given in form of social recognition. One way or another, the relative as well as absolute amount invested into recognition efforts is a low single-digit percentage number and thus rather small. This is nothing compared to the emotional effects recognition entails.

Traditionally, recognition budgets are held at higher levels of the organization. Hence, it is not delegated downward to each and every HR manager as this would blur the nature and intent of a recognition program. In recent years and supported by specific technology, some companies have given parts of the overall recognition budget to their employees calling it "his/her recognition amount." This could be $100 he/she can spend for recognizing any other employee.

For global and even multinational companies, the question of fair financial recognition has to be considered. This is especially important if a recognition program is run in different countries, regions, or continents, be it within one or more global divisions, functions, or even the entire company.

To address equitable awards around the globe in one program, the concept of purchasing power parities has to be incorporated into the recognition process. This is

Industry Research on Workforce Recognition Spending

Percentage of payroll Budget for Recognition Programs

Mean	Median	Mode
2.0%	1.0%	1.0%

Distribution of Responses	
0%	12%
0.1% - 1.0%	58%
1.1% - 2.9%	12%
3.0% - 5.9%	12%
6.0% - 10.0%	3%
>10.0%	3%

29%

of participating organizations budget exactly 1.0% of their payroll budget for recognition programs

Fig. 1 Industry research on workforce recognition spending (Reprinted with permission, 2014 Maritz Motivation)

most effectively handled by defining a common denominator or program currency, for example, points or units.

On what basis the purchasing power parities are calculated and derived from is dependent on the program design and the underlying company structure including the company's affiliates around the globe. The following example illustrates the odds one has to cope with when defining a common denominator. In a company, there is one country with a rather low-paid mass production unit, and another country with a rather high-paid headquarters unit. An approach that is solely based on published purchasing power indices would not be applicable as the underlying population is not comparable to the respective general population (which is the basis for published purchasing power indices). In such cases, other factors like effective salaries of participating employees should be included into the calculation and will lead to much more realistic results and conversion tables.

Ideally, the recognition program will automatically convert the awarded points or units from one line manager in one country to the equitable points in the respective countries the various employees are working. This could be particularly helpful for global operating companies and their divisions or functions as it would support a recognition culture on the one hand and an effective collaboration beyond regional and/or organizational boundaries on the other hand.

Concerning taxation, the landscape significantly differs around the globe and has to be handled locally. As long as no cash payment is delivered by the program, the recognition awards may be applicable to benefits in kind. The taxation on benefits in kind or employee fringe benefits may be even tax-free in one place and fully taxable in another place.

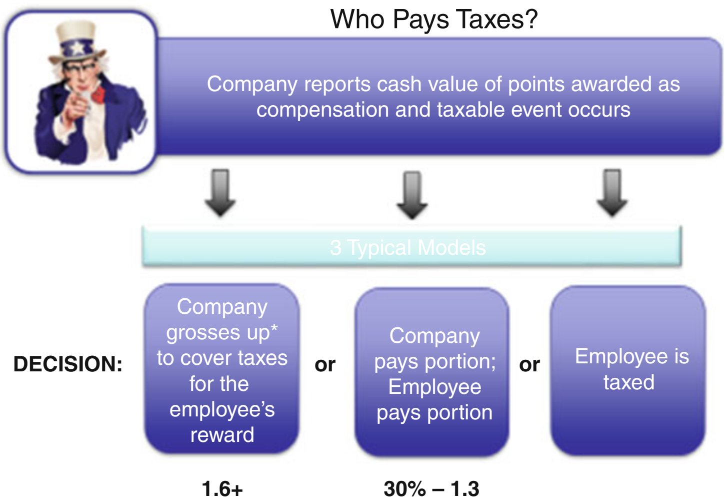

Fig. 2 Who pays taxes? (Reprinted with permission, 2014 Maritz Motivation)

Considering that recognitions are perceived to be a gift, employees would appreciate to have it grossed up by the company making it tax free for them. Delivering the recognition tax free to the employee not only supports and underlines the gift nature of the award; it also saves the company an unpleasant process if the employee does not accept the award, to name but one reason, to avoid taxation on a gift item employees do not like. If an employee has to pay tax on an award, this will also give him/her the right to withdraw and turn down the award. For all these reasons, the recognition program should avoid any taxable event.

While in principle many arguments are in favor of grossing up awards, the main disadvantages are that the company has to run the gross-up process and in particular bear the gross-up costs for the award which should be factored into the overall costs of the recognition program.

Figure 2 gives an overview on the previously mentioned three models of grossing up employee awards.

In recent years and some jurisdictions, the gross-up practice triggered "fat-cat" discussions on obsessive executive pay practices. They were banned by rather prohibitive taxation on any gross-up payment. In most places, this includes also small amounts for the ordinary worker and makes the recognition awards more expensive.

In summary, the economic aspects and implications of global and multinational recognition programs, respectively, are more complex than any top-line budget figure might indicate. This includes the potential introduction of a common currency like recognition points or units to allow equitable awards and the functionality of local gross-up taxation to reflect the gift nature of a recognition award.

Operational Perspective

The recognition program operation and design have to be closely aligned in order to make the best possible user experience. Today's technology allows for a highly effective setup and operation of recognition programs. One may find a different range of principle operation models currently used for various designs of recognition programs.

There are programs which are worksheet, paper, or template based and often centrally administrated. Those are rather low tech and local scope and require substantial manual work. However, those are very easy to be set up and changed.

You furthermore find recognition programs run via a dedicated server-based IT application, with a high degree of automated processing and even recognition programs based on dedicated mobile applications which allow quicker response times and closer on-the-spot feedback/recognition.

The operational complexity depends on:

- Geographical scope and span
- Whether goods and gift cards, etc. will be delivered or not

The majority of today's programs are operated via dedicated IT applications (in particular, with multinational operating companies and recognition programs where all employees are eligible); however, depending on the specific case and strategic intent, other operation models may be more appropriate. The guiding principle for that decision should be the strategic intent (for the design) and the user experience (for implementation and operational processes).

When it comes to IT-based program operations, another question is if the program should be run in-house or via a third-party provider. There are a number of third-party providers who offer more or less customized solutions including a wide range of program operations.

Considering the design of a recognition program, nearly everything is (technically) possible. However, the costs involved will increase based on complexity. And for the majority of users, the increased complexity of a recognition program will rather not convert into a better user experience and higher usage.

A program should rather be "quick and easy" to be used, with as little rules as possible, and the user should be able to nominate someone for a recognition award with only a few clicks. This leads to certain key design questions which determine the later operation of the program:

Who can participate in the program?

- All employees (how will those be defined and identified)
- Only special groups, e.g., sales programs

Who can nominate someone and who provides approval?

- Only line managers can nominate or all employees can nominate (see above).

- Approval by the line manager of the nominating or receiving employee or by qualifying defined criteria.

What kinds of awards are available?

- Social (e.g., public awards often in combination with special events)
- Financial, cash, or cash equivalent
- Goods, gifts, gift cards, vouchers
- If goods: selected from a global/regional/local catalog

What is the program scope?

- Global vs. local/regional or affiliate based
- If global: are there existing local/regional programs to be deployed?

What is the overall budget and who decides on this?

- Budget in percent of, e.g., overall salary cost or any defined amount or ratio
- If financial awards: minimum/maximum of individual awards, any limit on frequency

How will the program technically be operated?

- Template-based, IT server-based, mobile solution
- In-house solution or third-party provider

Will the program be one of many or the only recognition program?

- Including implications on existing programs and change management

As mentioned before, these design decisions determine the later operation efforts for the program and the user experience from the HR manager's and employee's point of view.

Program operations tend to be a team effort. The internal operations team that a company entitles to support the platform could include a project owner, program owners, communication owners, HR, finance, and a group of ambassadors or internal champions. Figure 3 gives a more detailed overview on such a project team.

In the end, the design and operations of even a relatively complex recognition program are not rocket science but properly handled with certain parameters which can impact the operational effectiveness and/or the user experience in one way or another. Reviewing the interrelations of those parameters should pave the way to a well-balanced and sound program.

Suggested Recognition Project Team

Role	Typical Team
Project Owner: Owns project for Company, Central coordination and keeper of the project plan.	Human Resources,Total Rewards
Recognition Program Owners: Provide guidance on program structure, rules, workflow	Business Unit Leaders
Launch & Site Communications: Direction on communication guidelines, messaging and available mediums	Communications
Platform Rules & Policies: Core platform rules, employee Iisues	Human Resources
Financial Policies & Procedures: Budgeting, taxation, reporting for imputed income.	Finance
Communicators, Excitement Builders, Change Leaders	Ambassadors, Advisors, Executive Sponsors

Fig. 3 Suggested recognition project team (Reprinted with permission, 2014 Maritz Motivation)

Risk and Compliance Perspective

Concerning compliance, the most relevant questions are who owns the recognition program or platform and who is the governing body to decide on the design and any potential changes. Figure 4 provides a first overview on this matter.

As most recognition programs are targeted to have a high number of interactions and usage and as they are emotionally charged as well as highly visible, one can expect to get a large variety of feedback and requests concerning the various aspects of the program. To ensure a constructive environment, clearly defined roles and decision-making processes are very helpful. In most cases, it is a question of design, cultural fit, or even taste than a question of what is right or wrong. There is a fine line between managing a responsive program and keeping the program simple, easy, and cost-effective.

As any other HR programs run by companies, recognition programs come with similar risks and compliance implications. This aspect is not discussed in detail though. Recognition programs however do carry some special risks; most of them relate to reputational risks.

Respectively, if goods are involved which are selected from a third-party provider catalog, reputational risks can occur, for example, if items are in the catalog which are not appropriate or even perceived as offensive or pricing is a way of current going rates.

One should bear in mind that providers of recognition programs do not have the bulk of their business solely on employee programs. The majority of the recognition

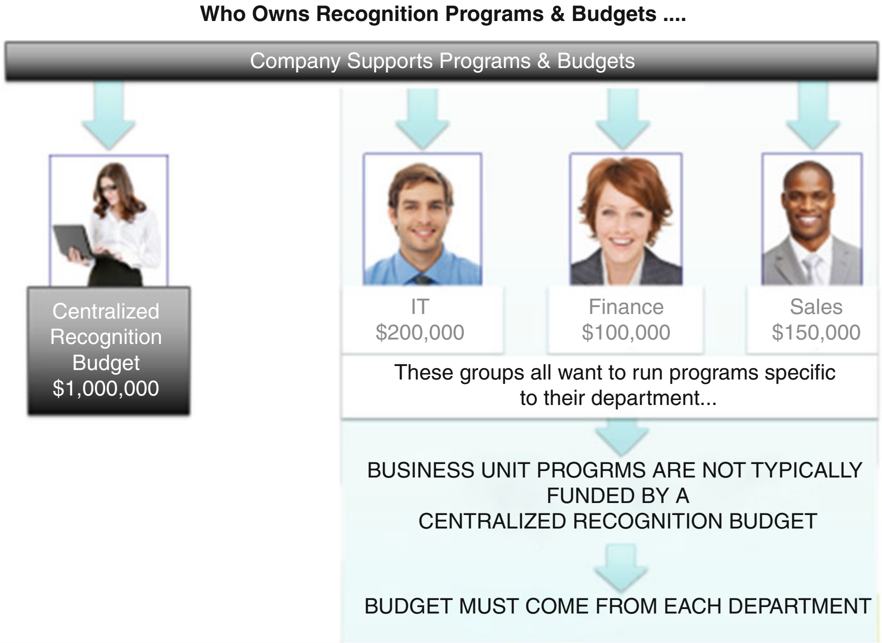

Fig. 4 Who owns recognition programs and budgets? (Reprinted with permission, 2014 Maritz Motivation)

business originates in client retention and client bonus programs. In addition, there are special sales programs. All employee recognition programs were added in recent years, but they do not represent the majority of the potential user group.

All users from one provider practically share the same underlying items and catalog logistics – even if the websites look completely different. This allows the provider to generate the needed economy of scale and buying power on the product provider side of the business model.

In the USA, this industry is well developed as catalogs offer a wide selection and goods are competitively priced. While outside the USA, practically no provider runs an own catalog and logistics on a global basis. Hence, from the USA perspective, the so-called rest of the world (which by any means and measurements is representing the majority of this planet) operates the catalogs and logistics on the basis of business-to-business (B2B) agreements.

Those B2B agreements will give the external provider access to the respective local catalog and logistic facilities but usually no direct decision power on the selection of the goods offered as such. For example, one may find products from a competitor in the catalog or a very expensive offer (e.g., from another company’s top-notch sales representative program). Practically, no one will ever be able to afford a typical overall employee program.

Given the recognition industry setup, companies using external providers for employee programs which are developed to deliver items via a catalog might run the risk that the offered selection of goods is not perfectly representing what the majority of employees would like to see. Employees might redeem their points or units for or in extreme cases on items which the company does not like to be associated with at all.

There are various ways to reduce potentially reputational risks which are new to HR and specific to externally run, catalog-based recognition programs. Besides contractual arrangements with the provider, an ongoing dialogue with various users, as well as an ongoing monitor and review process of the catalogs, can help to effectively handle the risks.

Employee Motivation Study by Maritz

As discussed in the previous chapters, well-designed recognition programs shape a company's culture through positive feedback and employee engagement. Information gathered in the 2014 Employee Motivation Study by Maritz Motivation Solutions and The Maritz Institute offers specific insights into these assertions. The survey was conducted with more than 2000 participants across the USA from all employment levels and industries.

Notably, the study indicates that most companies have implemented recognition programs within their organizations with seven in ten respondents (71 %) saying they have the opportunity to participate. Interestingly, the opportunity to participate in a wellness program is second highest with 59 %, up more than 10 percentage points from the same survey results in 2011.

The various types of recognition programs are drivers of employee satisfaction and engagement. The 2014 Employee Motivation Study results indicate that companies that make rewards and recognition a part of the overall company values and everyday life have more engaged employees who are happy to be with their companies. Specifically, three of out of every four people (76 %) agree that reward and recognition are important to their satisfaction as an employee. And more than half of the respondents (53 %) said they would find recognition from customers and senior company leadership extremely meaningful. However, only 51 % are satisfied with their manager's efforts to reward and recognize employees.

Rewards and recognition programs are also drivers of positive dialogue and feedback with others. When it comes to positive feedback from coworkers, results indicate that having a peer-to-peer network of communication about rewards and recognition is vital to developing a company culture of rewards and recognition. In fact, 60 % of employees have initiated a discussion about rewards and recognition with coworkers, 46 % with a manager or supervisor, and 41 % with their family. Additionally, 1 in 5 has initiated a rewards and recognition discussion with peers outside of their own company. And when employees are talking about rewards and recognition, 45 % are doing so with groups of 1–5 other people. Respondents said those discussions are most often offering congratulations to others (53 %), followed by mentioning what rewards and recognition employees have the opportunity to earn (50 %), and thanking someone (48 %). In relation, the study found 71 % of employees wanted further training for how to better recognize others.

The study results show that effective recognition strategies and programs lead to several positive outcomes for companies. Employees agree that most recognition programs contribute to making their companies a fun place to work, provide an extra push to perform to their potential, and have encouraged the employees to learn and grow, so they could raise their potential to a new level. In fact, 4 out of 10 respondents agree that their companies' rewards and recognition opportunities are important relative to their decisions to stay with their employers; 1 in 4 said they feel the programs influenced their decisions to come to work for their employer.

However, it is important to understand that not all rewards and recognition programs are created equal. The study tested 24 program design elements that are aligned with The Maritz Institute's science-based understanding of what drives motivation and behavior. The more of these elements are integrated into a company's program, the higher the program performs in terms of greater employee motivation, effort, and satisfaction. The top five design elements noted were:

- **Purpose**: A program name or theme that easily conveys the purpose/meaning of the program
- **Executive-Level Leadership and Communication**: Messages from a key leader or program owner (someone's name instead of a generic email mailbox only)
- **Local-Level Leadership and Communication**: Program reminders or other mentions in group/team meetings
- **Program Communication**: A program website
- **Top Performer Status**: Earning opportunity for being best or belonging to an elite group (top performer)

Do you want better employee engagement? A key strategy is to implement an effective rewards and recognition programs within your organization. This delivers important outcomes to the business, including employee satisfaction, a fun place to work, employee retention, and an environment of positive performance feedback. However, not all recognition is created equal. There is a science to creating great programs that tap into all four motivational drives.

Rewards and Recognition: Retention Tools (Provided by E.R.P. GmbH, Manfred Schönebeck)

This section introduces two retention tools that are especially relevant in the field of rewards and recognition. The tools may be used to develop the company's strategic alignments and action planning in rewards and recognition:

1. Best Performance Awards
2. Long Service Award

Tool 1: Best Performance Awards

Contents
(A) What are they?
(B) Why are they important?
(C) Award formats
(D) Responsibilities of the HR manager
(E) Benefits of the "Best Performance Awards"

What Are They?

The Best Performance Awards demonstrate special appreciation to department managers and their employees who have shown outstanding performance in overall business and in specified work areas.

The awards specifically focus on the best overall performance, on excellent soft and business skills, and on outstanding achievements in the area of customer satisfaction.

- Target group: All employees
- Purpose: Retention
- Business impact: Motivate best performing employees and reward "going the extra mile"
- Main responsibility: Inform all employees about the available awards and encourage them to work toward winning the awards
- Resources: Communication to management and employees. No financial resources required

The Best Performance Awards are a collection of ten awards covering all key operational areas of a company. They are designed to reward the outstanding efforts of a department or a specific employee and to recognize them in a public forum.

Key characteristics of the Best Performance Awards are as follows:

- Based on predefined, transparent criteria
- Available in different functional work areas of the company (e.g., finance, marketing, HR), as well as on a broader, overall performance level
- Open to all employees and departments

Why Are They Important?

The Best Performance Awards demonstrate the high value that your company places on the efforts and achievements of its organization and provide special recognition for employees.

For your company, they are also important because:

- They recognize your employees and your departments for excellent achievement.
- They encourage all employees to strive for greater success and improvements.
- "Winning" employees or departments are motivated to continue their hard work, and a healthy sense of competition is fostered among the remaining departments in the organization.
- Employees and departments will receive both internal and external recognition (e.g., colleagues, customers, and superiors).

In the long term, the awards have the potential for even more positive outcomes including:

- Improved retention of best performers
- Enhancement of the reputation of the company brand in the eyes of current or potential employees as well as customers
- Improvements in the overall performance of the organization through increased focus on key performance indicators

Award Formats

On an annual basis, the following award types could be given to whole departments and/or single employees:

- Trophy
- Certificate
- Central media press release and advertising
- Brand experience trip, another subsidiary of the company
- Award trip (e.g., to the F1 Grand Prix)
- Gifts such as luxury fountain pens
- Special bonus
- Discount coupons for own products

Responsibilities of the HR Manager

- Be fully informed on all of the available awards, as well as their criteria and the eligibility of a department/employee.

- Communicate the purpose and importance of the awards to your colleagues and encourage them to work toward winning the award/s.
- Incorporate reward-related targets into overall planning and set short-term goals for special awards as they become available.
- Utilize the award measurement process to review training and development needs at your company.
- Facilitate the recognition of winning employees in your company through coordination of appropriate communication and/or events.

Benefits of the Best Performance Awards

The Best Performance Awards have the potential to increase an employees' sense of appreciation by recognizing their efforts and successes.

The Best Performance Awards also address the brand loyalty, as competition for the award contributes to a culture of high performance, which is the secret to the success story of a brand. This culture applies to customers as well as employees, and awards such as this can build on the pride they feel for their association with the company brand.

Tool 2: Long Service Award

Contents

What Is It?

This award shows special appreciation for long-term commitment and loyalty to the company and brand.

Every employee is eligible to receive the Long Service Award for an aggregated record of 5, 10, 15, and 20 years of service with your company.

- Target group: All long-term employees
- Purpose: Loyalty and retention
- Business impact: Retain loyal employees and preserve intellectual capital

- Main responsibility: Annually review years of service of all employees and organize recognition events as required
- Resources: Low-level administrative burdens, minimal financial resources required for event, and gift

Structure

Aggregated years of service	Award	Recognition and reward
5, 10, 15, or 20	A special gift with company logo (e.g., pin) in silver, gold, or platinum, depending on aggregated years of service	A framed certificate presented by a high executive from your company Annual ceremony organized by your company with participation of your general manager

Certificate

Every awardee should receive an individualized congratulatory certificate. The certificate will indicate the years of service and will be signed by the senior management of the company.

Ceremony

As HR manager, you are responsible for organizing the event for the Long Service Award for 5, 10, 15, and 20 years of service.

- The ceremony for the Long Service Award should take place once a year. It should be a special event at your company, a restaurant, or a nice setting of your choice with all employees of your company and the management (e.g., annual dinner).
- The ceremony is an opportunity to provide all employees with a tangible and unforgettable experience which will encourage the staff of your company to be part of it for a long time.
- The presence of the management shows the staff that long-term commitment is recognized and appreciated by leaders of the company.
- If you like, you can also think of a special gift or event, e.g., a small concert or show in order to show special appreciation.
- At the end of the ceremony, you can also take a picture of the awardees together with your responsible senior management to capture this special moment.

Optional Gifts

In order to make the ceremony a more memorable event for employees, you could also provide the awardees with a small gift when the congratulatory certificate is handed over, such as:

- Flower bouquet
- Gift voucher
- Gift basket

Why Is It Important?

The main purpose of the Long Service Award is to acknowledge and reward the loyalty and commitment of every employee to the company and brand.

The Long Service Award shows that a long-term commitment to the company and brand is highly appreciated and does not remain unnoticed by the management.

It is also important because it:

- Reduces employee turnover in your company
- Encourages high performance from employees through public recognition
- Preserves knowledge within your company
- Saves costs for recruitment and training incurred due to employee turnover
- Improves the levels of employee satisfaction in your company
- Supports your company to become one of the most attractive employers

Who Is Eligible for the Long Service Award?

In general, it is an equal benefit available to all full-time employees no matter whether they are employed as security personnel/cleaning staff, mechanics, or managers and regardless of how much they earn or their levels of achievement.

All awardees must have an aggregated and proven track record of 5, 10, 15, or 20 years of full-time service with the company. The required years of service must not necessarily have been accomplished consecutively by the respective employee. Every service year with the company is counted, no matter whether the employee:

- Returns to the company from a competitor
- Comes back after a job break to resume his or her career at the company, e.g., maternity leave

How Are Candidates Nominated for the Long Service Award?

Step 1: Collect information on the years of service of every employee in your company and input the data to a suitable template (refer to your company's HR database). It is important that the database is kept up-to-date with new and departing employees on an ongoing basis.

Step 2: Once or twice a year, analyze the database and short-list all eligible employees for the Long Service Award. Review the CVs of the short-listed employees and discuss the eligibility with your management.

Step 3: As required, nominate the chosen candidates directly or via their department. Nominations should be made several months in advance, in order to organize the certificate and ceremony preparations.

Responsibilities of the HR Manager

- Keep a detailed record of the aggregated years of service which every employee of your company has accrued.
- Follow the nomination process and communicate with all relevant stakeholders as described above.

- Organize the annual award ceremony event.
- Seek the support of your management and openly communicate the Long Service Award benefit to all employees to encourage them to aim for longer years of service in your company.

Checklist for the award ceremony:

Status	Task
☐	Inform the management in advance and arrange an appointment to hand over the award in a ceremony (once a year)
☐	Organize the ceremony: decide on the format (e.g., dinner) and plan the location/venue and date. Suggestion: ask the awardees' colleagues for creative ideas for a nice evening
☐	Organize the pin and certificate and coordinate an additional gift (if you like), such as a flower bouquet, gift voucher, or gift basket
☐	Communicate arrangements to your company's employees

Benefits of the "Long Service Award"

The Long Service Award supports a long-term commitment to the company brand and raises the employees' brand awareness and loyalty. Showing appreciation is important for every brand – whether it be for employees or customers.

It addresses the feeling of comfort by showing and giving this appreciation, which is given to committed employees. It shows the employee that he or she finds support and his or her loyalty is noticed, valued, and rewarded.

Dos and Don'ts

Culture Counts More than Financial Value

The basis for any effective recognition culture (regardless of what kind of award programs are implemented) is the personal, small, and often well-meant expressions for appreciation, like a sincere "thank you!" or a congratulation for a job well done. This may be accompanied by a card or some small gifts (e.g., a preferred chocolate bar or a ticket to an event). It is not about the financial value; it is about personally taking the time and appreciating what has been done. Recognition programs can be added on this basis in many forms and will complement existing financial-driven reward programs in a very efficient way.

Make Decision Process and Reasons Transparent

In contrast to normal individual compensation and benefits, the granting of rewards and recognition is often public. Due to this fact, a fair and transparent decision process is necessary to avoid a feeling of inequity and favoritism between employees. Therefore, companies should consider letting mixed committees (mixed according to diversity categories and position level in company) decide on rewards and recognition.

Consider Nonmonetary Recognition

Nonmonetary recognition can be more effective than monetary recognition, but this certainly depends on the type of nonmonetary recognition. In a rather hierarchical company culture, a personal “thank you!” from the CEO can have a very strong effect, while in a more collective company culture, applause from all employees in a town hall meeting might be a more motivating recognition.

Invest in Communication

The announcement and communication about a recognition program should be made in an inspiring, motivating way, not in a “we hereby inform you. . .” type of way. A certain internal branding (logo, catchy name) may effectively underline the commitment of the company and the special character of the program.

Handover in Public

Use special award ceremonies or embed the handover in a town hall meeting. Communicate the reasons why the employee received the award, ideally linked to your company values and strategy.

Don’t Mix with Compensation Tools

Particularly, when merits increase and budgets are low, rewards and recognition payments can be (mis)used as a setoff for a low merit increase. The problem arising when rewards and recognition are used in that way is that they lose their original intention and uniqueness. They become a commodity which will be emotionally difficult to take away in the following years. Depending on the country’s labor laws, repeated payments of such rewards and recognition without special, outstanding reason might even lead to the legal right of employees to receive them also in the future.

Don’t Underestimate Workload and Attention

A recognition program, if widely announced, creates many transactions and leads to a high awareness within the company. This is particularly the case if many employees are invited to nominate/select employees for awards. HR will only be able to handle this process without need for additional headcount, if there is an easy-to-handle IT solution in place which covers most of the transactions.

Final Comments and Outlook

Well-designed recognition programs respond and deliver on the key motivational drivers of human beings; they support a lively feedback culture and employee engagement. While the financial value of recognition programs is rather limited, the key value driver of recognition programs is delivered on the motivational and cultural side.

Particular for global or multinational operating companies, a company-wide recognition program provides all employees with a kind of "cultural glue" and allows anyone to reach out and express recognition to any other employee or team around the globe, beyond regional and/or organizational boundaries. This kind of recognition programs will support not only a culture of feedback but also collaboration beyond regional and/or organizational boundaries.

From a strategic HR point of view as well as from a straightforward business interest, it makes a lot of sense to support a lively feedback culture. Particularly, recognition, a form of explicit positive feedback, is a great starting point for that journey and the often needed change an organization should initiate.

Further Reading

Lawrence PR (2010) Driven to lead – good, bad, and misguided leadership. Jossey-Bass, San Francisco

Lawrence PR, Nohria N (2002) Driven – how human nature shapes our choices. Jossey-Bass, San Francisco

Recommendations for Further Readings

41 % of companies that use peer-to-peer recognition have seen marked positive increases in customer satisfaction. (SHRM/Globoforce Employee Recognition Survey, 2012)

46 % of senior managers view recognition programs as an investment rather than an expense. (WorldatWork, Trends in Employee Recognition, 2013)

"60 % of Best-in-Class organizations stated that employee recognition is extremely valuable in driving individual performance." (Aberdeen Group, The Power of Employee Recognition, 2013)

A full 14 % [of companies] indicated that their organization features [recognition] programs regularly when recruiting." (WorldatWork, Trends in Employee Recognition,2011)

"Being able to track the effectiveness of engagement and recognition efforts can help organizations better align engagement with business objectives and improve performance." "43 % of Best-in-Class organizations have access to metrics on recognition efforts, compared to 18 % of All Others." (Aberdeen Group, The Power of Employee Recognition, 2013)

Career opportunities, recognition, and organization reputation are consistently top engagement drivers. (Aon Hewitt, 2012 Trends in Global Employee Engagement)

Companies with strategic recognition reported a mean employee turnover rate that is 23.4 % lower than retention at companies without any recognition program. (SHRM/Globoforce Employee Recognition Survey, 2012)

In 2013, “67 % of Best-in-Class organizations have a formal recognition program in place, compared to 58 % of Best-in-Class organizations in 2012.” (Aberdeen Group, The Power of Employee Recognition, 2013)

In these environments, [where opportunity and well-being are part of the culture) strong manager performance in recognizing employee performance increases engagement by almost 60 %. (Towers Watson, Turbocharging Employee Engagement: The Power of Recognition From Managers, 2009)

“In those organizations in which individual employees or teams are recognized, the entity’s average core for employee results was approximately 14 % higher than in organizations in which recognition does not occur.” (Bersin by Deloitte, The State of Employee Recognition, 2012)

“Nearly 75 % of organizations have a recognition program (despite the fact that only 58 % of employees think that their organizations have recognition programs).” (Bersin by Deloitte, The State of Employee Recognition, 2012)

“Only 14 % of organizations provide managers with the necessary tools for rewards and recognition.” (Aberdeen Group, The Power of Employee Recognition, 2013)

“Organizations invest in recognition in a big way – spending roughly 1 % of payroll on recognition activities.” (WorldatWork, Trends in Employee Recognition, 2011)

“Organizations that rated themselves “proficient” in workforce data analysis were far more likely to rate their business leaders as “satisfied” with workforce data, to draw connections between retention and recruiting, to calculate HR’s impact on business strategy, and even, among publicly traded companies, more likely to financially outperform those who rated themselves as “deficient” at workforce data analysis.” (HCI/Taleo, The Business Impact of Talent Intelligence, 2012)

“Organizations with recognition programs which are highly effective at enabling employee engagement had 31 % lower voluntary turnover than organizations with ineffective recognition programs.” (Bersin by Deloitte, The State of Employee Recognition, 2012)

Organizations with strategic recognition programs in place exhibit 28.6 % lower frustration levels than companies without recognition programs. (SHRM/Globoforce Employee Recognition Survey, 2012)

Organizations with the most sophisticated recognition practices are 12 times more likely to have strong business outcomes. (Bersin by Deloitte, The State of Employee Recognition, 2012)

Our research finds that those organizations with the most mature employee recognition approach are 12 times more likely to have strong business results (Bersin by Deloitte, The Employee Recognition Maturity Model, 2012)

Peer-to-peer is 35.7 % more likely to have a positive impact on financial results than manager-only recognition. (SHRM/Globoforce Employee Recognition Survey, 2012)

Praise and commendation from managers was rated the top motivator for performance, beating out other noncash and financial incentives, by a majority of workers (67 %) (McKinsey Motivating People, Getting Beyond Money, 2009)

Recognition for work was one of the top five drivers of (candidate) attraction in the UK, and was tied as the top attraction in the EU. (Towers Perrin, 2004 European Talent Survey)

Recognition is an important psychological need. Employees who know that they will receive recognition for acting on the brand promise will have a strong incentive to do so. (Gallup, 2013 State of the American Workplace

“The number-one reason most Americans leave their jobs is that they don’t feel appreciated. In fact, 65 % of people surveyed said they got no recognition for good work last year” (Gallup, Tom Rath and Donald Clifton, How Full Is Your Bucket? Positive Strategies for Work and Life, 2001)

When asked what leaders could do more of to improve engagement, 58 % of respondents replied “Give recognition.” (Psychometrics, A Study of Employee Engagement in the Canadian Workplace 2010)

When companies spend 1 % or more of payroll on recognition, 85 % see a positive impact on engagement. (SHRM/Globoforce Employee Recognition Survey, 2012)

Engagement and Retention: Essentials of Employee and Labor Relations

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Cherie Lou P. Ocampo

Contents

Abstract

Over the decades, human resources professionals are expected to also be expert as labor relations professionals and must know and understand the union environment in the country they operate on. This chapter provides insights on what are the relevant components that promote industrial peace and smooth working relationship between management and its employees. The focus is to qualify what an effective relations program should be and how it can prevent and resolve problems involving individuals which arise out of or affect work situations from a

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M. Zeuch (ed.), *Handbook of Human Resources Management*,
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human resources standpoint. This would mean understanding first the components in the organization that may promote or hinder employee and labor relations. The main goal of employee and labor relations is to maintain employer–employee relationships that contribute to satisfactory productivity, motivation, and morale.

Introduction and Overview

Employee and labor relations is simply balancing the employer's resources and responsibilities with that of the needs and rights of the employees in order to have a meaningful and productive engagement of both parties.

There has been evolution when it comes to one of the core function of human resources. With the proliferation of the union in the 1970s, employee and labor relations are not explicitly specialized as a vital function of personnel department. In addition, this activity normally is present in a unionized company and is the role of the union because of the perception of its role to protect employees' right in accordance with law.

However, with the decline in the 1980s and 1990s, human resources practitioners have then taken a proactive and strategic role in managing the employer–employee relationship. This includes formulation and communication of administrative policies, proactive programs to maintain industrial peace and regular audit on compliance on labor or work practices that promote productivity, and effective relationship between management and its workforce.

It is also important to understand that the decline of the labor union was mainly driven by economic factors such as slowdown in employing large numbers of workers and a shift in preference and gives equal opportunity for women, thus making the labor market more competitive. This also created awareness on the impact of possible unemployment not to mention the emergence and growth of service industries with that of manufacturing industries that are traditionally unionized. As a response to the changes in the labor spectrum, the unions implemented mergers to strengthen their network and resources to support recruitment drives in nonunionized organizations. Most labor unions have also reinforced their "marketing" strategy presenting themselves to management as valuable partners to help manage productivity of its workforce, but most employers were not convinced.

People's Perspective

Nowadays with the evolving trends in employee engagement, employee and labor relations have become the heartbeat strategy in human resources management in order to promote and sustain employee morale, productivity, and industrial peace. Human resources professional should be able to gauge and predict the health of the organization when it comes to industrial peace or management and employee relationship by looking at the four areas of the company as illustrated below (Fig. 1):

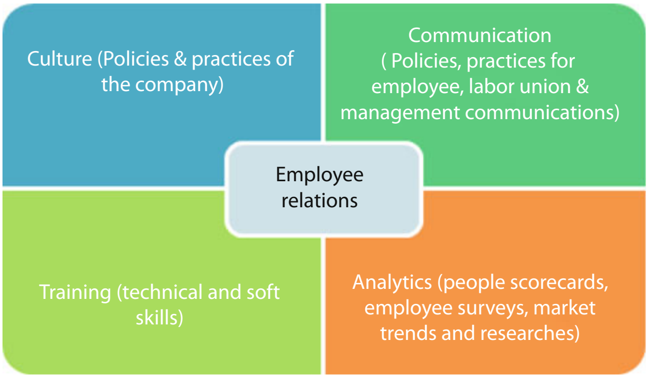

Fig. 1 Drivers of employee and labor relations

The main criteria to affirm that employee relations program in a company is effective especially when a company is unionized is when the management is able to win the "hearts and minds" of employees to get them to identify with the organization. The emphasis should be on a win–win mind-set where employees demonstrate discretionary efforts and exert themselves more on behalf of the company. Likewise, companies must evolve their employee value proposition in order to reinforce this relationship. Another one would be retention, and some may even refer to this as loyalty to the company. Human resources must be able to navigate the collective bargaining sessions in the arena that "we are all in this together" so that both the interest of management and employees coincide instead of conflicting.

The Culture of the Company

Truly, it is the culture that will define how employees are treated. It has been observed that union-free organizations have always maintained employee-centric programs such that employees feel valued. The first thing that quality applicant will look for is the corporate principles which would include the vision, mission statement, and core values of the organization. The need to identify with these corporate principles is a basic self-check for any

Employees want to identify with corporate principles. Today employees are very opinionated about the moral and ethical issues in business. They care about such things as employee privacy and employee rights. By having a set of guiding principles, and following these principles, your organization creates a framework within which to develop principle-centered policies and procedures or make principle-centered decisions regarding difficult employment-related issues.

Employees want to know their employer cares about their opinions and concerns. If you're going to create a good employee relations program, you need to have a mechanism for finding out what your employees care about, what they are concerned about, and what they think of you as an employer.

This is the reason why some companies invest in employee surveys such as satisfaction, engagement, and opinion surveys, but this is not an end in itself. However, some pitfalls of these companies are that they do not know what to do with the results of the survey and, worse, either some do not feel compelled to do anything if results do not have any red flags or are not committed to address the results of the survey.

Whether or not a company is unionized or not, universally human resources practitioners should be able to drill down and analyze the results of any employee survey. Focus group discussions are normally employed if one would like to understand further the data and normally would lead to a few or more surprises in the gaps of assumptions versus perceptions which are a good sanity check for management before acting on the data. Note that focus group discussions ideally should not be within a manageable size of 8–12 employees. One can define the grouping either by department or by pay grades or by job category. Below are some guide questions for your focus group discussions.

Area	Questions	Remarks
Clarify perceptions of each item	What is the understanding of the employee about the said statement?	Note that the answer to each statement is how the employee understood it, and we should be able to see the perspective of the employee
Seek to understand the perception	Why was this perceived as such?	It is always helpful to see where the employee is drawing his understanding and what is influencing such perception
Ask for ideas (perspective)	How can such perception be further improved?	This strategy is to promote valuing ideas allowing employees to share how things can work out better; caution should be taken that employees should not interpret this is as action planning but more of brainstorming on understanding their
Summarize	What are common and what should be prioritized?	As facilitator you should be able to capture trends or commonalities; you may want to ask someone to take down notes for you

Understanding and analyzing the results of employee surveys is just the first step. Equally important is to validate and look into the gaps on what management's perceptions and the culture that it aims or perceived to be. Most often than not, some companies would justify these perceptions rather than trying to strategize how these perceptions can be corrected. This is what is stated in the book *Good to Great* by Jim Collins when he mentioned about confronting brutal facts. Therefore, companies should have various mechanisms to get employee feedbacks. For unionized companies, normally they would have various channels and mechanisms to obtain information such as periodic meetings with officers and its members. They also have different committees to handle specific areas such as sports and recreation, community relations, grievance, etc. This strategy has likewise been adopted by nonunionized companies by creating various employee councils to encourage feedback and participation of employees, preferably in a nonhierarchical manner otherwise known as an “open door” policy. This policy has been received well and practiced by most of the top Fortune companies because this has eradicated the perceived barrier between top management and its employees and the filtering of mid-level management of feedback given by the workforce.

This is where the human resources plays a strategic role to be able to communicate to management about such gaps and how this can be taken with openness and commitment to create changes as necessary in the way things are done. Therefore, HR practitioner should be able to demonstrate at least three forms of leadership competencies as follows:

- Thought leadership: Validate and analyze data such that information is not based on opinions and speculations. This should be coupled with the ability to compartmentalized information and how this is related to a bigger picture such as business goals, mission, vision of the company, company values, and even to the external elements such as industry trends, market practices and union movements, and labor updates.
- Collaborative leadership: This would help develop influencing skills to be able to get buy in from management on their accountability and commitment to act on the data.
- Emotionally intelligent leader: This is to be able to effectively negotiate and communicate in all levels of the organization, being sensitive to what will work best in every situation and every employee.

In summary, employee perceives things based on what they see, know, and experience. This is what is normally validated in employee attitude surveys. As a whole, what the majority perceives at work defines the culture of the company. Therefore, as a starting point it is imperative to be able to hear what employee has to say about the culture and check this against the values, mission and vision, and the long-term goals of the organization. The culture is the heart of employee and labor relations because it will dictate the level of passion of your workforce either in a positive or negative direction; either employees will trust management or turn to other mechanism such as labor unions to convey and help address their concerns. It is, therefore, critical that human resources professional be able to see within and outside the prism of organizational development and be able to imbibe the three leadership competencies.

Communication

If there is one thing that a company must do religiously, it is to communicate in whatever medium, form, and styles. Not only is communication important, but every company should know the relevance, content, and timing of communication. Communication programs should not be done for the sake of doing it as it may create dissent and misinterpretation which lead into rumor and, eventually, ill will as your employees come to believe that you must not see them as important enough to communicate with them. By communicating your company's effectiveness and its activities, you promote inclusiveness and enhance the feeling of belonging to your organization.

Indeed, there is no such thing as overcommunication regardless of whether the subject matter has been repeatedly discussed over a short period of time. Human beings operate based on perception that leads to understanding that influences behavior. The following are some of the topics that human resources should continuously communicate and verify employees' understanding:

Employment practices (hiring, work schedules, working conditions, safety requirements and compliance, hygiene and sanitation, tools of trade, etc.)
Company rules and regulations (code of conduct or discipline including the process of administrative hearing)
Corporate governance (business conduct, work ethics, privacy rights, intellectual property and propriety, etc.)
People processes (performance management, cycle and timings, promotion, transfers, training and development)
Local labor law or recent legislations on working conditions and employment
Company policies and business processes
Compensation and benefits programs and practices
Rewards and recognition

Human resources must ensure that when these topics are being cascaded, they should take note of those questions and objections that employees may have as these are possible issues or concerns.

Training

Several engagement surveys yielded that training and development boost employee morale. A company that provides a deliberate program on competency-based training is more engaged, productive, and empowered in their respective jobs. Nowadays, the concept of training has been tied into on-the-job training, meaning most of the learning takes place on actual job experience. However, many managers have difficulty putting this on a training perspective for employees to be able to assimilate the learning which is more powerful than your traditional classroom training. Human resources should be able then to help teach managers on facilitating on-the-job training through coaching and mentoring. On a bigger picture though, training should all be based on the identified critical and important competencies required for the job and must be documented and tied into the employee's development goals and integrated to performance assessments. From an employee relations standpoint and in order to leverage training as an aid to counter resistance or negativity of some employees that may result to disrupting industrial peace, the following should be avoided and look out for as enumerated by James M. Jenks from the Alexander Hamilton Institute:

- Don't use training as a screening device. Training should challenge your employees but not be a hurdle. The goal is for all trainees to succeed.
- Don't try to cover large areas at once. People learn best when information is presented in small bits.
- Don't confuse training with education. The purpose of training is strictly to produce a measurable improvement in productivity. Encourage your employees to continue their education – at their own expense and on their own time.
- Provide short-term rewards. These can be simply praise and encouragement of managers or trainers.
- Set training priorities. Don't limit training to areas where the solutions are most obvious. Look at problems where the biggest gap between desired and actual performance exists – for the behavior that is the most common or most costly in terms of lost productivity – and seek solutions there. You cannot set up training systems to address all performance problems. Choose those that will be most cost-effective.
- Don't expect immediate results. While short-term training needs sometimes do arise, the training efforts of some companies consist of nothing but "quick fixes." Too often, this amounts to aimlessly throwing money at a problem, money that is usually wasted. Thorough needs analysis and systematic training design are the only cost-effective approaches to solving these problems.

Analytics

Nowadays many companies are investing on systems to collate data and eventually predict outcome based on trends and analysis. *(Chris Nerney) Big data also has attracted the attention of human resource managers who now can analyze mountains of structured and unstructured data to answer important questions regarding workforce productivity, the impact of training programs on enterprise performance, predictors of workforce attrition, and how to identify potential leaders. With so much at stake, you'd think more enterprises would be trying to harness HR analytics for talent identification, recruitment, development, retention, and workforce planning. But according to a 2013 survey by talent analytics software vendor SHL, more than three-quarters (77 %) of HR professionals are unable to determine how their enterprises' workforce potential is affecting the bottom line, while less than half (44 %) use objective data regarding talent performance to guide business decisions.

- Define your people metrics: You might want to understand what other companies are doing and measuring for this purpose. However, it is also important to note that the people metrics are primarily driven by the company's defined scorecard which is linked to overall business goals. For example, if a company is measuring attrition, one company can drill this down to measuring only the undesired attrition of their high performing, high potential employees.
- Find a system/platform that would support your metrics: A company should allocate enough resources to invest on software that would help measure and

monitor the people metrics. If it's for something relatively specific, it's probably best to focus on smaller vendors, who not only likely would cost less but would be more likely to customize solutions for clients.

- Hire or train a dedicated HR in charge who should be competent on data collection and analysis. Nowadays, with the trending use of analytics as part of human resources management, some companies have profiled technical competencies not only in information technology but also in statistical analysis.

Economic Perspective

Employee relations often referred to as industrial relations, but over the years, it has been recognized that whether a company is unionized or not, it encompasses all areas that will create a work environment which delivers what people want today. Employees want to feel good about who they are, what they do, and where they work. Human resources should be able to drive and ensure the three elements supports and reinforce each other. This is illustrated below where the overlapping areas are those where HR professional should be able to connect and integrate to the total culture building that supports a healthy organizational climate and industrial peace.

Employee Involvement

First, let us first understand what are the initiatives and programs of the company with the hope that it will increase productivity and employee satisfaction. There have been some interesting surveys results that there are actually gaps between what employers think is relevant for their employees, and vice versa. The irony is that employers may be investing their resources that are not likely to be appreciated by its employees. In this context, human resources should be able to validate such investments and programs, and over the years, employee relations effectiveness has been based on employee-driven initiatives, ideas, and involvement. In addition, when promoting employee involvement, parameters should be explicit to make it work. Some of these parameters may be on productivity, process and quality improvement, and innovative ideas to address perennial or recurring issues at work. The premise here is that the employee who does his job well is the one who knows best how to make his tasks more effective. It has been ascertained that when employees are involved in decision-making on matters that will affect their job are more engaged, happier which means more productive. HR professionals have already learned that they do not have all the answers. Involving employees in programs that will impact their work and influence organizational climate rather than assuming what management thinks would work for the company has already been recognized as an effective way of preserving smooth employer–employee relationship and cultivating trust and empowerment.

For unionized companies, employee participation or representation is not just limited to social events and programs on work environment but would also include collective bargaining which is a process of negotiation between employers and a group of employees aimed at reaching agreements to regulate working conditions. Another best practice of management is to create work councils which comprise of representatives from both workers and management to look at better ways to improve productivity, safety, working conditions, and others, but management reserves the right for final approval.

Compliance

The second ingredient that is nonnegotiable to ensure an effective employee relations strategy is the strict adherence to specific country labor laws, employment rights, and/or other applicable laws. It is important that human resources should continuously be updated on new labor regulations and updates as well as keeping a track of items included in periodic labor audits and jurisprudence of labor cases within their industry or with similar business and practices.

The other part of compliance is when it comes to the company rules and regulations which are usually published in the employee handbook. The handbook is given to all employees or for some have website or HR portal may just access this online for electronic copies that is that employees may refer to or download the file for easy reference. Regardless of whether it is the form of printed copies or electronic copies, what is important is for each employee to acknowledge that they have read and understand the code of conduct and other company policies and employment practices. This is normally done by printing an agreement contract and affixing the signature that will be kept in the personnel file.

Human resources must also ensure that there is a system in place and various checkpoints and sources to ensure that company is updated on most recent labor laws and employment practices and a mechanism to promote openness and reporting of possible noncompliance. Most companies have a whistle-blower hotline and a non-retaliation policy. It is also important to have a regular refresher on the awareness and understanding of corporate governance where employees are required to complete online courses and personalized sessions for this purpose. Documents associated with this would include affixing their signature as an affirmation and commitment to compliance.

Transparency

The next element is transparency and as defined by Transparency International "as a principle that allows those affected by administrative decisions, business transactions or charitable work to know not only the basic facts and figures but also the mechanisms and processes. It is the duty of civil servants, managers and trustees to act visibly, predictably and understandably."

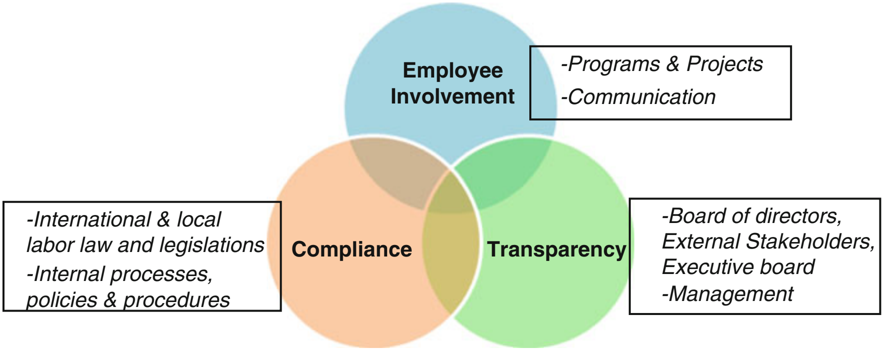

Fig. 2 Key elements to an effective employee and labor relations program

To illustrate, if something is transparent, it allows light to pass through thereby enabling people to see through it. This can be assimilated with integrity. The more the integrity, the more transparent an entity or person will be. Because of the aforesaid closeness, many people even tend to think transparency is integrity. However, in the context of employee relations, the concept of transparency is basically a deliberate effort of management to communicate business updates or how well the company is doing. In the earlier days, such information has only been confined with company executives, but this has evolved with the realization that companies who are transparent in their financial standing package this to its employees where they play or contributed in meeting their numbers. Whereas, if company is having challenges, this is also shared with its employees, and this is coupled with the strategy or action plans, using this as a platform to rally its workforce to help achieve the company. During the global economic crisis in the 2000s, it was noted that most of the companies who survived the crisis adopted the strategy of transparency and involved their employees in coming up with suggestions on how to overcome such challenges. While there were companies who were closing down contributing to the increase of unemployment, others who practiced transparency were overwhelmed with ideas coming from their workforce to mitigate the possible impact of the crisis like instead of company downsizing or closing down, employees volunteered to have shortened working days resulting to lesser income due to no work no pay. Other ideas were as minor as regulating utility usage, postponing or canceling company celebrations, etc. What is powerful about this is that management does not feel the burden of having to think of ideas and explain cost-optimizing projects and getting buy-offs from its workforce. This is where HR plays a vital role in terms of getting a sense from the workforce of the overall climate in terms of the readiness and maturity of its employees to be confronted with transparency of sensitive information that may impact them directly. In addition, the need to carefully review that messaging and talking points which would be understood by employees is equally important.

In view of compliance, note that in Fig. 2, there is an overlap of employee-centric participation and transparency, and this is what makes the employee relations most effective as it comprehends the following:

Items	Employee involvement	Compliance	Transparency
Company rules	Conduct focus group discussion on what areas they think would need to revisit, which needs clarity or is not relevant	Ensure that HR is updated with most recent labor laws and employment regulation and workers' rights, and this must be documented in employee handbook or employment manuals	Constant communication to ensure that there is alignment on the understanding of company rules and regulations
Workplace practices	Establishment of work councils focusing on productivity, quality, process improvements, health and safety, hygiene and sanitation, etc.	Ensure that HR is updated with local country legislations or laws on occupational health and safety and corporate governance on workplace policies. It would be also helpful to have third-party audits to earn certification or recognition especially when it is driven by employees	It is important that leaders walk the talk when it comes to workplace practices. Supervisors and managers must be able to explain why and how
Rewards and recognition	Employee surveys or small focus group discussions are good sources of what would be relevant programs on rewards and recognition	HR must be aware of some local labor laws and careful not to violate any potential form of entitlement claims of employees	Everyone must know the various rewards and recognition of the company. It is also important to observe timeliness and proper communication of the awardees. This should be coupled with how the awardees were selected to ensure that there are no misperceptions of alleged favoritism among employees
Employee activities	There are various premises on selecting employee's participation as this will depend on the nature of the activity such as: sports and recreation, corporate social responsibility, health and wellness, company celebrations, team building, etc., and this may be voluntary, by invitation by committee head/sponsor, or selected by manager	HR needs to watch out the tasks or roles assigned to employee representatives adhering to corporate governance on corrupt practices, safety policy, finance, and purchasing policy as applicable	Employees need to know what are the activities that they can look out for, and this should be reinforced with clear objectives for such activities. In case of any postponement due to unforeseen reason by management, appeal for understanding and support to neutralize any form of discontentment

Risk Perspective

It has been emphasized that employee relations

There are several components that have to be investigated and evaluated in terms of employee and labor relations:

1. Compliance to the labor law and safety regulations of the country
   Over the years, legislations on work and safety practices have been implemented to provide as a guideline and basis for compliance of employers. Depending on the number of government provisions in a country, such have contributed to the decrease in the number of union members and penetration rate in nonunionized companies. This has changed then shifted the expectations of both employees and employer to rely on the legislative bodies of the government to author and enforced statutory laws as evident in the numerous labor arbitrations and escalated labor cases. In addition, international laws have also reinforced or supplemented these laws to ensure that the rights of employers and employees are protected. However, this can also complicate the compliance if combined with regulatory or local laws for companies who employ nonlocal or nonresident employees.

   It may be difficult to identify and have a comprehensive hand on the local labor laws on a per country basis; however, human resources practitioners at a minimum should have basic knowledge of the following:
   - Regulated provisions on wages, benefits, and job security
   - Governing employment laws and workers' safety provisions
   - Procedural labor-management agreements regulated by existing union or local legislations of their country. In addition, their role and competency should be in the knowledge of employee communication at all levels of the organization.
2. Fairness and equity on policies and decision-making practices
   One of the reasons why employees join union is due to dissatisfaction on how management makes decisions pertaining to employees' welfare. Over the years, human resources have been sensitive on this issue and have put up mechanisms on how to cascade policies, rules, and regulations. The need to continuously revisit and revise these has also been based on employee engagement survey results to make it more relevant. Equally important is putting up an administrative procedure in addressing alleged violation of an employee. For union-free companies, most have adopted the structure of allowing the employee to have his representative present during the administrative hearing to ensure that he has a witness of the fairness of the process.
3. Clarity and effective communication to employees
   The role of human resources is also to define the best way to roll out information that applies to majority if not all employees. Talking points and alignment with management are also critical. Relevant information is made available to employees to promote a better understanding of the business and management's goals and policies. Information is also provided to employees on rules and regulations, how violations or misconduct are addressed, and are also advised

about the process in grievance handling, their rights and appeal process. In the same manner, employees are advised about applicable regulations, legislation, and bargaining agreements where applicable. Other significant information is to let employees know other channels that may assist them in their personal issues that affect work productivity. It has also been noted that several companies already have instituted a rigid regulations on human rights, ethical practices, discrimination, and harassment and would have an annual compliance refresher on such regulations to all its employees. This is coupled with encouraging reports from any of its employees about possible violations of any business conduct by identifying a whistle-blower channel and protection rights.

4. People leaders skills on people management
   HR practitioners now recognized the importance that the people management skills directly impact the employees' morale in the workplace. It is also an asset if managers are competent on excellent people skills as they become the spokes-person of management when it comes to cascading policies and changes in the organization. Therefore, employee relations, as it would imply, build heavily on relationships in the workplace most especially by people managers and balanced with human resources function.

Operational Perspective

Most of the start-up companies are now conscious about crafting their employee relations program even prior to operations. There have been several researches of reasons why companies have labor unions that were organized and successful and its impact on the sustainability of the business. Therefore, human resources practitioners need to look into the two areas in terms of strengthening employee relations and labor relations.

Hire to Retire Employee Relations Touch Points

- Hiring
  As advocated by Jim Collins, you need to apply the "first who then what" philosophy. This is akin to looking for someone you want to live at your house and not only on short stay but for the longest time. There are two areas in hiring that must support the employee relations strategy of the company:
  1. An HR professional should then be able to facilitate the identification of critical competencies, and these are the nonnegotiable versus the important competencies which are important and "nice to have" but can be tolerated in its absence. Note that there are also two classifications of competencies: one is functional or what is often referred to as technical skills required for the job, and the other one is the behavior or traits that would define the character of the person based on these values and principles in life. On top of this, the company also has to define a common behavioral competency that cuts across the

organization for its employees to have and develop to conform to the values and mission/vision of the company.

In addition, the critical competencies are not only limited that have been acquired or learned through experience but more importantly have been validated as “transferable” skills. For example, you are hiring a project manager who has been replaced for the third time in only 2 years. One left the company because he did not take well the lapses in the project handled, and one was asked to leave because he was not able to perform when pressured for time to meet project deadline. As a HR professional, and based on exit interview, you have recognized the rigors of the job and that the missing competency of the two former employees is tenacity. Therefore, you would want to look for someone who have not only had a one-time big-time event that he was able to demonstrate such competency, but that he was able to apply it in various situations or opportunities either at work, school, or even in his personal life. The transferability of a particular competency is important because this can mean consistency and has become a behavior pattern of the person.

2. The other aspect in hiring is that HR professional should be able to capture the critical nodes in the organization on how things are done and where some individuals left the company because they were not able to acclimatize those that are critical to the organization’s success. An example would be if organization is strict on adherence to business processes and will not tolerate any deviation. If the applicant who is used to flexibility rather than process driven and this was not in the lookout during the hiring and gets hired by the organization, this may cause some issues not only on the part of the employee but also to his supervisor and potentially to the whole organization. Therefore, HR professional should be able to assimilate culture fit of the applicant in the organization and institutionalized functional competencies so that there are rational ways of evaluating and hiring an applicant. This would tend to prevent referring to personal standards rather than that what is required for the job.

- On-boarding

Another process that needs to conform and support employee relations is on how the company inducts the new member in their organization. Over the last decade HR professionals have recognized that on-boarding is an important process, and so they have started to put more structure. Some companies would even be very strict for their new hires to first undergo the orientation before endorsing them to their supervisors. The program would range from 1 day to as long as 1 week. Clearly, a new hire needs to have a clear understanding and appreciation of the organization’s business, rules and regulations, what the company expects of employees, and, in turn, what are the rights of employees. Nowadays, almost all companies have universal policies incorporated in their code of conduct pertaining to equal employment opportunities, diversity and inclusion, business ethics, and other legislations pertaining to employer compliance and employee rights. HR professionals should be able to develop a comprehensive on-boarding program to immediately align the new hire of what he needs to know and how to succeed in the organization. In addition, it is vital that a company should have a vision, mission, and values those employees can follow. This can be used as an employee relations strategy to check whether your new hires are comfortable and can align with the business of your organization. A company without a formal on-boarding program may potentially have some issues about new hires compliance and even nonperformance due to lack of awareness and knowledge on the basic what, how, and why of the company in general.

- Performance and Career Management
  A strong employee relations program is when employees deliver what they are expected to do thus supporting business goals. Human resources should be able to have a comprehensive process, policies, and system in place. This should include the whole gamut of managing productivity from job architecture, functional competencies per position per level, goal planning and cascading, periodic performance reviews, and rewarding performance as reflected in either salary increase, career movement, change in incentive level, or the like. Overall this should also be communicated with clarity to all employees and most importantly to the people managers. It is not uncommon that what most managers dread doing is performance evaluation of their direct reports. This is understandable most especially if a company does not have clear policies, parameters, and a system to drive performance management. However the other aspect is the lack of courage and skill on how to do performance appraisal and how to communicate and deal with employee's objection during performance reviews. This is where the HR professional should be adept in helping mangers do an effective performance appraisal. Obviously, if this process is not robust enough, this can be a potential concern for the managers and employees alike. Plus, this is the engine to ensure that employees are aligned to the business goals and on how they are measured. Employees need clear goals and expectations and what success looks like. They need to know how much they have contributed and achieved and how well they did it.
- Compensation and Incentive
  Among the basic universal drivers of employee productivity is to ensure that performance is rewarded and recognized, otherwise known as meritocracy. Employees want to be appreciated and recognized when they did well on certain task or do an extra mile, which means exceeding more that what is expected or what the job requires. While HR recognizes that there are other motivators at work, there is no reason to negate Maslow's principle on basic need and relating this at work would mean the equation of pay for performance. In return, employees want to be paid competitively. Human resources professionals should know that a principle element of a sound employee relations program is to ensure that managers value the knowledge, skills, and abilities of their staff, and therefore, they are appraised and paid accordingly. One way of doing this is to ensure that your salaries remain competitive with either your competitors or similar industries where you are hiring your talents. Participate in annual salary surveys, establish fair, consistent pay practices, and ensure the entire compensation

package is competitive, not just the base pay. However, if the results of the survey show that the company is not competitive, this should be communicated and the reasons, i.e., size of the company, classification, EBITDA, etc. Likewise, if the company has shown competitiveness in pay, this should be capitalized on and reinforced from time to time. It is important to define a compensation philosophy, and people managers must understand and know this information can be reference to communicating merit and promotion increases and other reasons for salary adjustments. The power of delivering whatever you measure promotes merit and not on seniority or tenure, education, background, etc. What is important is the employee's ability to achieve that is expected at some forms of standards and his talent to expand his areas of responsibilities. Such culture then would incentivize both new and tenured employees at the same playing field so that they may continue to do their best work and that is what companies invest on in terms of people capital. This can range in the form of basic incentive programs to long-term incentive programs such as stock grants. Linking performance with rewards also promotes the entrepreneurial spirit and encourages people to work as a team.

- Talent Management

  Human resources professional must recognize that, ideally, employees want to achieve their full potential both as a professional and on personal capacity as indicators of career growth. Studies show that there is a link in talent retention with employee development. Companies with high employee turnover train less and spend less on training than other companies. For evolving companies, talent retention of high performing or high potential has also become a challenge, and training has played a major role. This can be in the form of providing challenging work, team interactions, and coaching, mentoring, and formal classroom trainings. High potential employees like to be challenged more so when they are supported by their leaders to succeed. Most companies articulate this as on-the-job learning experiences, and people managers must know how to structure and communicate such as development strategy. People inherently want to do well, and by providing management training or skill-based training, you send the message to your people that you are interested in their success. From an employee and labor relations standpoint, human resources should be able to identify the country's federal and/or labor laws for which employee training is either required or recommended. Some possible common training would be occupational health and safety, women's employment act, sexual harassment, and other ethical acts. Internal trainings such as business or code of conduct can also reduce the company's liability if an employee is found guilty of criminal misconduct. It is also noteworthy that for unionized companies, they have customized their team building programs between union officers and management focusing team effectiveness and negotiation which have been found helpful. This can be further reinforced with values and work attitude programs linked in to the company's mission statement where the recognition of diversity can achieve the goals of the company. It is always good to invest in providing competency-based and soft skills training and development programs necessary for the employees to achieve their full potential. This is one of the best ways to make employees feel that the companies care for their success at work.

- Employee Services
  With the evolution of companies from being product focused shifting to customer focused, human resources management has likewise recognized the importance of treating their employees as customers and providing a consumer-based experience. Employee services generally augment an organization's existing HR functions, such as payroll and benefits administration, with additional services including childcare and educational reimbursements and employee recognition. Companies who have been recognized as "best place to work for" have been found to provide comprehensive employee services such as recreation, community services, events planning, eldercare services, convenience services, shuttle services, catering, and concierge services. In addition, these companies have also invested in self-service platforms where employees can seek assistance in whatever needs they would have to make them more productive as work. Provision of such can indeed help retain quality employees with the organization, yet on the downside some companies have started to revisit the cost of such services and how they can be more creative in keeping the cost low. Hence, human resources have equipped their staff to develop their customer relations skills focusing on effective delivery of information to employees and building on deepening the relationship they have with each of their employees, treating them as customers. This will boost the employee relations since one of the key to effective employee relations is on the effectiveness of our front liners in HR, those who interface and deliver effectively (timeliness, quality, and accuracy) the services and necessary information to employees.
- Employee Discipline
  Among all the touch points of employee relations, this area is mostly important as it relates to setting the tone on how fair and compliant is the company on rules and regulations. This is also the part when there are perceived behavior issues that must be corrected which involves but not limited to work productivity issues, performance issues, nonconformance to company policies and procedures, and other forms of misconduct. Having a set of sound rules and regulations and a well-defined process in handling disciplinary issues are keys to promote compliance and fairness. The company policies must encompass productive standards of conduct, have a system to deal with compliance, eliminate miscommunications, and ensure consistency in discipline, safety, and work rules. Having a clear set of rules and disciplinary procedures also eliminates misperception on favoritism and unfairness. Penalties must also observe a rationale of fairness by employing graduated mode of sanctions from verbal reprimand, written warning, suspension, and finally dismissal. Included in the procedure should be a clear-cut delineation of responsibilities of human resources, the supervisor, the employee, and the management. The rules of conduct should also be classified according to the gravity of possible sanction. This would mean that for the offense of a certain violation that may be classified in the range of light, moderate, and high. Other best practice of organization is also to provide an appeal system to deal with employee request and strong objection to the proceedings, findings, and sanctions.

Labor Union Organization

It is a fact that every worker has the right to join and participate in a trade union as indicated under the labor legislation. However, labor legislation may specifically define what type of employee can do so in a particular jurisdiction. For example, in some countries, there are jurisdictions that prohibit managers to join or participate in the trade union.

As such, it is important to note that human resources practitioner should be knowledgeable in the local rules of their country on labor union organization. This is a group that has the right to represent a group of employees who normally will be their members. However, the union should first be recognized by the company. This means the labor organization must comply with the local legislations and in some countries would also be dependent on what industries in order to be recognized by the company including certification of election.

It is public knowledge that union organizing starts when there is discontentment, disillusionment, and dissatisfaction with the way the company is being managed particularly on the part of employees' concerns on work environment, treatment of workforce, and how decisions are made that pertain to employees' welfare, request, or queries. If these perceived disenchantment will be validated and is present to a good number of employees, this will already create interest to seek assistance from a labor organization. Therefore, it is important that human resources professional is able to sense early on such discontentment from its employees no matter how minor or less the number of employees involved. What is critical is also to keep an eye on an employee who has association to labor organizations either in their previous work or in the demographics mapping and to those that are residing where there is most active union involvement. Hence, it is not always the case that there should be a significant number to perceive a possible threat in union organization.

Historically, most effective union organizing happens inside the workplace by disgruntled employees. It is easier for a union to organize if they have insider support. In most cases, once the union campaign becomes known by management, there are certain limitations that management can respond to such. Some companies have already included in their work policies that any meetings and materials that are not business related should be done outside of office hours and premises. Solicitation or distribution of campaign materials by employees and nonemployees alike can only be prohibited when done inside the company premises and most importantly must be consistently be applied to all causes or organizations such that union organizing have been discriminated. This is to prevent with an unfair labor practice if a company would allow a fund raising activity for a social concern project during business hours but does not allow union solicitation on a similar time frame. In this case, human resources professionals should be always be conscious to ensure fairness and equal treatment in all aspects of employee involvement and participation on whatever projects, programs or committees.

Another mode of union campaign is the distribution of materials where normally contains anticipated questions and answers to educate employees. This further indicates that unions have gained some employee interest. On this aspect, human resources must not respond to its content without the advice from legal counsel. In addition, unions can also go to the extent in conducting house visits and/or meetings outside of the company premises. The purpose of these face-to-face meetings is to discuss issues of employees at work and how union can help thus influencing and convincing employees as partners to ensure their welfare. In addition, with the popularity of internet and power of social media, union organizing has also considered these to reach to a larger audience and ease of communication. On this note, it becomes now a question of whether human resources practitioners should also be active on various social media. Bottom line, it is the relationship that HR has established at work in order to give information and have leads to what is happening that matters most for human resources. This is often referred to as “moles” in the organization.

Companies that are successful in remaining union free have always been straightforward in providing data coupled with the right attitude and view on threat or reprisal. Provisions of rewards or benefits, some management initiatives or programs that are currently in place and are not union dependent, must also be reinforced. The impact of union, such as possible consequences of strikes based on data, can also be used. That is why it is imperative for human resources to drive the rigor of the various forms of communication in the organization. It has also been recognized that we keep a tab on the leadership competencies such as supervisory skills where if done effectively will generate respect from their direct reports. In addition, human resources should also provide employee relations training to its supervisors.

The other component in union organization is the certification process where the union becomes legally recognized as the exclusive bargaining agent for a group of employees and must demonstrate that it has the support of employees in the proposed bargaining unit. This will also be dependent on the current jurisdictions where the union must also satisfy the prerequisites to be recognized as a valid union. In some countries, a union can be certified by its labor board if the employer commits an unfair labor practice and must have required amount of employee support for the union. On this note, it is unthinkable how a company can actually cross over the line and even some slight form of unfair labor practice especially if the human resources have played its function of being compliant and keeping tabs on such labor provisions. As such, most employers have realized this advantage of ensuring their human resources is grounded and functioning to keep an eye on these vital signs of organizational health.

So what happens then when the union got certified? This would mean that it has the right to bargain with the employer in behalf of the employees and enters into a collective agreement setting out the terms and conditions of the employment for those employees. However, most often, the employer disagrees with the union on what are inclusive in the bargaining unit or on what specific employees will fall within that unit. In this regard, human resources should be able to identify the specialized process for dispute resolution on those issues in order to amicably settle and have a mutual collective agreement. Once the certification is done, the members will set out a constitution, bylaws, and procedures for their union. They will also conduct elections among their members for various areas of concerns. The union represented by their officers will be the one who will directly deal with the company. Human resources should be aware of the personalities of the elected members and be able to deepen relationship and networks of those in positions. It is also important to promote mutual respect which is essential to a successful relationship between the company and the union. The company must respect the role of the union as the representative of its employees, and likewise, the union must respect the company's exclusive right to manage its operations and its workforce. This is crucial to ensure industrial peace. Both parties must be knowledgeable on the rights and obligations under the provisions of the law, employment legislations, and the collective agreement. For the employer, their human resources is supposed to be on top of updates and recent jurisprudence and legislations. Some of these would include the right to strike without fear of intimidation, coercion, harassment, or undue influence by the employer. Human resources, in return, should be able to require union to abide by its obligations to treat all employees fairly and in good faith, and management with respect.

The next step once the union has been certified or recognized, there should be a collective agreement to stipulate how to reconcile and resolve differences and disputes. This is a contract containing the terms and conditions of employees in the bargaining unit which is legally binding once approved. This will be enforceable based on the defined term or duration and is subject to renegotiation once the term is due. Generally, human resources must promote the objectives of the collective agreements and at a minimum must include the following:

- Clear parameters accepted by both the company and the union on how they can have mutually satisfactory relations such as inclusiveness and transparency on topical information that are necessary and impacts the collective bargaining agreement contract
- Working conditions, hours of work, and wages for all employees concerned
- Issues where the employees may be negatively affected by operational or financial plans
- Dispute resolution guided by respect, fairness, and dignity

As such, it is important that human resources should be able to provide and facilitate a two-way communication system both by the employer and its employees by equipping people managers how to communicate effectively and handling grievance by constantly providing training based on the labor agreement as well as local labor laws and legislations.

In view of the above, human resources should be able to navigate proactively to sustain an effective employee relations management. Regardless of whether the company is unionized or not, below are some dos and don'ts in employee and labor relations:

Do's

Keep your eye on the ball. Invest on various forms on assessing organizational climate of your company on a regular basis and ensure that data are analyzed and acted upon.

Create a work environment promoting trust, respect, fairness, transparency, and open communication by articulating this on your policies and procedures, people programs, competencies, goals, and performance management.

Constantly train your people managers on how to educate, communicate, and manage employees using the 70 % on the job, 20 % by coaching, and 10 % training.

Plan communication programs for your employees based on defined objectives and ensure that these are religiously tracked.

Implement various employee-centric committees to support your business goals where you solicit employee participation like improving health and safety, productivity and quality, rest and recreation, etc.

Provide training and development for your employees based on the desired behavioral and functional competencies of their function promoting success in their jobs and career progression.

Don'ts

Do not launch employee surveys just to conform with what others are doing if you are not willing to invest as well on the cost of required actions as a result of the assessment.

Be careful not to fall into the trap of having your vision, mission, and values that are powerful but are just on the wall and are unclear how this is demonstrated in each of the level of the organization.

The common pitfalls of the company who would send their managers to training programs are their inability to translate how the knowledge can be applied in the actual work setting.

There is no such thing as over communication and, therefore, do not limit your communication programs based on frequency, topics, and levels in the organization.

There is no better resource to support business goals but your employees who does the actual work for your customers so do not underestimate the power of providing opportunities and facilitate their engagement to various projects.

Studies show that companies who have little or no training at all for their employees have lower engagement index which results to lesser productivity, and employees have higher grievance and discord cases with management.

Outlook

The criteria for success is to be able to create a culture of fostering proactive communication by coming together to achieve mutual goals that will be good for the business and eventually impact the employees by making the workplace more productive and better for its workforce. Indeed, building a strong employee relations program which is the heart of human resources management means that you constantly create an environment that is responsive to evolving needs of its workforce. Human resources should be able to navigate and manage changes and rethink strategy on employee relations and becomes the agent of change. In doing so, human resources will be perceived as integral and indispensable to the success of the company. An effective human resources practitioner in order to promote employee relations must be deliberate at all times, responsive rather than reactive, is able to communicate well, and can develop leaders of the organization to become change agents and advocates in promoting industrial relations.

Engagement and Retention: Experiences with Employee and Labor Relations in USA and International Implications

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Steven V. Cates

Contents

Abstract

US and global organizations face both union and nonunion employee issues with engagement and retention. This chapter presents the challenges faced in both US and global unionized environments as well as those issues faced in their nonunion environments.

Suggestions are provided on how to combine both good Employee Relations and Labor Relations management techniques to create an environment of trust which leads to engaged employees who want to be a part of the organization.

Keywords

Employee engagement • Employee relations • Labor relations • Employee retention

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Introduction

Many US and global organizations have both unionized and nonunion locations performing similar work. The most significant difference between the two is a Collective Bargaining Agreement that governs unionized employees (Breevaart et al. 2014). What are the major global HR roles in dealing with employee-related issues? Are our roles vastly different from one country to another in handling Labor and Employee Relations challenges?

US and Global Perspectives on Unions Versus Nonunionized Environments

Globally, unionized environments require that we comply with the Collective Bargaining Agreement (Kumar and Babu 2015). In the USA, even in nonunion environments, HR professionals take on a similar role based on the influence placed on organizations over the past several years by the National Labor Relations Board. The National Labor Relations Act (NLRA) has been interpreted to include nonunion employees as it relates to their commenting on social media sites about their supervisors and the organization they work for (Neiderberg 2014). International organizations outside the USA have not had to face such restrictive conditions from governmental agencies. It is critical however that management follow policy and employment-related legislation and follow best practices, in order to avoid disputes with their employees and possible unions (Swati and Archana 2014).

Unions globally may annoy managers in unionized environments telling management what they are required to do, but we must insure we practice procedural justice in nonunion environments (Kumar and Babu 2015).

So, what does this mean for the average employee? These are the ones that are not those at the extremes, who love or hate the union or the organization, but the average nonpolitical employee who works to have an income and would like time at work to be as pleasant and satisfying as possible.

Employee Relations in a Unionized Environment

In a unionized environment, the union represents those employees who work in positions that are legally identified as those where the union negotiates and represents them in all matters with the organization (Kumar and Babu 2015).

It is necessary for HR to respect this relationship but understand that there is a critical need for a strong Employee Relations approach. Sometimes it is forgotten that employees are members of a union but are first and foremost employees of the organization and in a reasonable working environment have allegiance to some extent to the company who hired them and who pays them (Breevaart et al. 2014). These employees might have little involvement in union activity, but still have high expectations of the company (Kumar and Babu 2015).

There is a need to meet those expectations to the greatest extent possible, and a sound Employee Relations role should remain as strong as in a nonunion setting. HR should not try to be negative to employees who are union members, but make all efforts to include them equally in company communications and social activities and treat them as people whose contributions are valued (Swati and Archana 2014).

HR has to balance its activities carefully and, although not negotiating directly with union membership, which is forbidden, promote a positive working relationship, not excluding from normal ongoing communications (Kumar and Babu 2015). At critical times, the way employees view the company may make all the difference in getting union contract ratification or agreement on significant change.

This should be a global practice that seems to be lacking around the world and especially in the USA. Part of the problem is the stringent interpretation of the NLRA and the Taft–Hartley Act in the USA, but the rest of the world does not have these restrictions (Neiderberg 2014).

Labor Relations in a Nonunion Environment

In nonunion environments, particularly when there are unionized operations within the same organization, HR can endeavor to keep people satisfied, using our Employee Relations skills, but in some respects a Labor Relations perspective can strengthen our relationships in the USA and the rest of the world (Breevaart et al. 2014).

Some key issues of employees in nonunion environments are unfair practices, particularly those that are perceived as discriminatory, affecting job advancement, training selection, and disciplinary and termination practices. If organizations have different policies and practices in nonunion environments that, in the eyes of employees, are less consistent than in unionized locations, it is clearly (as well as being wrong) an invitation to further unionization and poor employee morale (Swati and Archana 2014).

In the USA there are many more employee-protective laws than other parts of the world, but that is no excuse for not providing consistent and fair treatment in all employee systems globally.

Managers must understand what is required and why it is so important. We must provide appropriate training and coaching and ensure that in any situation, particularly disciplinary investigations, respect is shown for employees, and all management involved demonstrates professionalism (Neiderberg 2014).

Conclusion

Employee Relations and Labor Relations are different, but with significant overlap, in principle, to ensure greatest success within any organization throughout the world. Employees need to know organizations trust them and they will trust in return. There is a need to engage and retain the best employees the organization can attract and retain. Using these principles will allow organizations globally to accomplish this.

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Engagement and Retention: Management and Employees – Winners on Both Sides 45

Thomas Heckler

Contents

Abstract

Over the last few years, the call center sector in Germany has developed into a booming industry on the one hand, yet on the other, employment conditions in the industry – above all the remuneration for the staff involved – have come under increasing critical scrutiny. The media is full of reports featuring employees from the call center industry describing their – albeit subjective – impressions of their employment conditions. Investigative journalists like the German Günter Wallraff, websites such as KUNUNU, and also daily newspapers and business journals focus on this issue at regular intervals.

Call centers exist in virtually all industries; they can be operated "in-house" (with internal staff and/or with temporary agency staff) or through external

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providers (near- or offshoring). Often, a combination of different models is used by enterprises to operate their customer service.

The following practical case describes how a telecommunications company, when faced with a series of restructuring programs which were considered necessary by the executive management, succeeded in implementing tough measures (from the point of view of the staff involved) while at the same time attempting to retain employee loyalty.

Indeed, the project, which ran for more than 3 years and focused on genuine (not simply ostensible), regular employee involvement in issues relevant to them, management training, and the founding of a new call center organization with twice the number of employees by insourcing around 600 temps, led not only to increased employee satisfaction but also to increased satisfaction on the part of the company's senior management. Winners on both sides!

Keywords
Employee satisfaction • Employee engagement • Call center • Communication strategy • Stakeholder management • Tariff-free subsidiary

Introduction/What Was the Problem?

At the start of the project, the enterprise in question had around 2,700 employees and was operating in the telecommunications sector. For its customer service activities, it ran its own call centers at three separate locations in Germany, but outsourced certain activities to external call center providers.

The number of external temporary agency staff (temps) employed in the company's call centers had been increased over the 5 years before the start of the project from around 10 % to 50 % of the workforce. This was because it was easier to react to short-term order fluctuations using temps and also due to the more favorable cost structure in comparison to internal employees, who were bound by collective agreements. For this reason, it had long been decided by the executive management that no external staff would be recruited.

The intense pressure of rising costs on the internal call center organization led at that time to a sharp rise in the outsourcing of activities to external call center providers and a marked increase in the number of temps employed. It also led to the necessity for internal restructuring, which meant implementing strong measures, also for the permanent staff. An alternative scenario to internal restructuring was the complete outsourcing of the previously internally managed call center to an external provider. Staff and works council, and the responsible union, were informed about this. This scenario was, however, rejected over the course of several rounds of negotiations, and both sides agreed to an internal restructuring package.

As part of this, starting salaries for new employees were considerably reduced; in addition, agreements with the union allowed actual working hours to be increased. Vacation allowances were cut, and a series of company agreements were (re)negotiated in order to enable more efficient use of staff. For example, it had previously not been possible to evaluate individual performance, but now technical measures (e.g., silent monitoring) were implemented that resulted in more transparency with respect to quantity and quality of the performance of the individual employee. Because of these changes, for the first time it was possible to carry out staff training relating to individual performance; previously, there had been agreements that permitted this only on a group basis.

The introduction of individual scorecards was made possible, as well as internal competition in relation to sales promotion. The employees and works councils saw this as the beginning of the "see-through call center employee," whereas the executive management saw an improvement in staff utilization planning and cost structures.

In return, the workforce was given employment guarantees for a period of about 2 years.

These restructuring measures considerably damaged the confidence of the workforce – and also of the managers involved – in the enterprise. Employee motivation fell noticeably (e.g., first call solution rate, customer satisfaction ratings, presence at work, productivity), and the employment guarantees, which had meanwhile expired, and the executive management had not extended, causing the vice presidents of customer care and human resources to decide to carry out a situation analysis together with the head of the department level of customer service.

It was clear that something had to be done.

What Was Our Plan on Solving the Problem, Part I?

The Project: Building the Future Together, Part 1

In a 1½ day workshop and with the help of an external facilitator, the three call center managers, their department heads, the vice president of customer care, and representatives of human resources worked on a situation analysis. The focus was the question "How can we – in spite of all the existing competitive parameters – regain the confidence of the employees in the future of the company call centers?" The participants were fully aware that the customer care unit with its call centers would continue to be subject to economic pressures and, therefore, that it would not be realistic to expect steps like the renewal of the employment guarantees or the raising of the reduced starting salaries.

This necessity to restrict measures to ones that could only be concerned with "soft skills" called for more creative approaches and at the same time prevented the focus from drifting off into apparently simple solutions.

Moreover, as the staff of the three call center locations had been told in advance about the plans for the workshop, all participants were aware that the expectations of the employees were high and that speculation (sometimes openly voiced) such as "What will they be talking about? Is it about another outsourcing program – will we lose our jobs?" had to be dealt with proactively. Consequently, internal communication took on a significant role.

The participants came relatively quickly to the conclusion that a combined approach of employee involvement and training was necessary in order to get the staff back on board and thus avoiding the threat of an outsourcing process if the project were to fail.

Employee Involvement and Management Training

It has often been said, and yet is still surprising to watch it happening time and again, that many employee-related projects fail because of a lack of genuine and sincere involvement on the part of the employees. Many projects make do with communicating the "what" at the right time to the employees concerned – and fail because true involvement means including the staff in preparing and developing this "what." And this was just what was happening here.

Involvement of all staff (including works councils as stakeholders) does not, however, mean that the management can take a back seat. Employees expect frameworks from the management within which they can move; they rightfully expect strategic guidelines, according to which they can act. For this reason, the workshop participants decided that, first of all, the objectives of the approach for the project should include:

1. A training offensive for **all** managers, involving not only these managers but also their staff in providing input for the content of the measures
2. Regular discussion groups with staff to encourage a trustful dialogue and the development of feasible measures for the improvement of employee satisfaction
3. Consulting the responsible works councils for their input and to ensure their support for the implementation of the measures

In order to demonstrate the significance of the project, the vice president of customer care (direct report to the board) took charge of the project. Support was provided by a project office, with representatives from internal communication and human resources, as well as by an external change management facilitator (an external tender was carried out for this).

Firstly, it was necessary to prepare a common form of communication for the day after the end of the workshop. Everyone was aware that a decisive factor was the way the workshop participants returned to their workplaces that day and encountered the inquiring employees (who were, in part, managers themselves). Consequently, the representative of internal communication led an intensive debriefing for all the workshop participants and prepared a commonly agreed guideline for communication. At the same time, an intranet-based communication to the call center staff from the vice president of customer care was established for the following day, to make it clear to them that there was no question of further drastic restructuring or outsourcing. It was announced that the project would be extensively reported at the approaching employee meetings.

It emerged that these communication measures helped to significantly reduce the concerns of the employees so that they could begin once again to feel cautiously optimistic about their own professional prospects in the company.

The Training Offensive for Managers

The lowest management level in the call center is the so-called team leaders. These managers have to, on the one hand, lead a team of up to 15 employees but, on the other hand, take on the "difficult" customer cases and are therefore specialists. Many of them had previously been call agents and had worked their way up to becoming a team leader.

These team leaders had not been exposed to classical management training (as was carried out for newly appointed managers in other areas of the company). Internal call center training generally focused on training in the use of IT systems, product training, and classical telephone and behavioral training. The smaller group of department managers, on the other hand, had partly at that time already taken part in the company's corporate leadership training program.

The training offensive began with a comprehensive survey of all the stakeholders with the central question: "What competencies and tools do our managers need to deliver up-to-date and staff-oriented leadership?"

Furthermore, the managers were also asked how modern personnel management which took into account the previously negotiated company and collective agreements (as mentioned above) could be developed. The successful implementation of the settlements reached in the lengthy restructuring negotiations should be ensured. Only if the managers succeeded in "bringing these settlements to life" could the calculated cost-saving measures be achieved. The project management placed special focus on this, as unfortunately it can often be observed in projects that predicted results (savings) exist only on paper. This phenomenon should be avoided, and the actual "implementers," the direct managers of the call agents, should be consulted on this.

In addition, not only the team leaders and department heads were affected by the training measures, but also their direct superiors were consulted in one-to-one conversations with an external change management facilitator. This person was brought in to ensure that the very personal and individual results were handled in a confidential and sensitive manner.

In order to include the works council (to which complaints from the staff regarding poor leadership are typically made and, indeed, had been in the past), a discussion with the works council committee was held to hear its point of view. This discussion can be seen in retrospect to have been extremely open, constructive, and helpful to the project as a whole. Works councils can, as long as they are included in a timely and open way, make a positive and constructive contribution, which is still often surprising to many company representatives.

Even more important, perhaps more innovative, and certainly, from the point of view of the management at that time, courageous was the online survey of **all** permanent call agents (approximately 600 employees – the temps could not be included for legal reasons). As already mentioned, the focus was to ensure the genuine and comprehensive involvement of all call center staff. Who is better to involve in the issue of leadership but the recipients of that leadership. This was no ordinary procedure in the sphere of the call center, the production area of the company so to speak, with its clear hierarchies and rather traditional view of who manages and who is managed. However, the project leaders considered it necessary to do just this. At the same time, this approach also guaranteed the support of the works council, even though several discussions had to be held to assure the team leaders and heads of department that the assessments from their staff regarding their leadership skills would not have any negative consequences.

The varied approaches of this survey ensured a high involvement rate, but also led to high expectations regarding the sustainable implementation of the measures. To a certain extent, this was an incentive and obligation for all those involved in the project. Over and above this, the aim was to develop a common leadership style for all the call center locations and to level out differences in the leadership competence of the managers.

The results of the survey were collated by the external change management facilitator and promptly announced by the vice president of customer care at staff meetings at all the call center locations. As expected, the feedback from the various stakeholders was extremely constructive and showed that the comprehensive approach of the project had already had a positive effect on employee involvement. Any fears on the part of individual managers that the staff could resort to blaming and finger pointing proved to be unfounded.

The open and prompt informing of the staff – with results that were certainly critical with respect to the executive management and the managers – contributed to the credibility of the project.

At a project group workshop following on from one of the employee meetings, an initial action plan was created on the basis of the results of the survey. It was decided that mandatory training programs would be introduced for the team leader and department head levels. However, it was clear to everyone that, in addition, the long-term involvement of the staff was necessary and that the end of the survey did not mean that this was finished.

Therefore, the following measures were decided upon:

Training Programs Consisting of Modules Mandatory for All Managers

Three 2-day seminars were developed for the team leader level ("role and self-image as a leader," "dealing professionally with difficult employee discussions," "the manager as coach"). For the heads of department, the program consisted of "leading managers," "dealing professionally with difficult employee discussions," and a needs-oriented offer of longer-term individual coaching with an external coach.

Discussion Groups at All Locations

The results of the online survey, the input from the works councils, and the feedback and comments from individual employees over the course of the process indicated that focusing only on management training would not be sufficient. Consequently, discussion groups were set up, which were to meet about every 2 months. These groups provided the opportunity to ask questions, to express opinions, and to discuss employees' concerns about current developments or projects in the call centers.

It was stipulated that the discussion groups should be made up of staff from all departments and every management level (with the exception of the three regional call center managers), as well as one member of the works council. The temps in the company were also permitted to take part.

Each team decided independently which members would be sent to represent it in the discussion group. The idea behind this was that an open application procedure like this would mean that employees who were informal leaders or spokespeople would come forward. These people would in turn ensure the integration of broader segments of the staff.

Over the first 2 years, these discussion groups were led by an external facilitator, who shared all results, questions, to-dos, etc., with the other groups and passed on topics of general interest or that required management decisions. From the third year, the groups were facilitated internally by members of the team, on the one hand, because it was felt that the team was now capable of taking on this role (which they had experienced for 2 years), and, on the other hand, there were also financial concerns which meant that the cost saving seemed a sensible course of action. It can be said at this point that this decision was sensible.

Relatively quickly after the discussion groups were introduced, several of them expressed the wish to regularly invite the vice president of customer care to the meetings. The project team discussed the pros and cons of such a change of plan but, because of the insistence of the request, decided in its favor. This request showed that the staff consciously wished to extend the protected setting of the discussion group to include the vice president of customer care. His presence ensured the credibility of the whole project. It was often said that this ensured that the changes suggested by the groups took an "upward route" (i.e., through the levels of team leader, head of department, and head of regional call center) and didn't simply go under. This was probably a very realistic assessment at the time and also a strong vote of confidence for the vice president.

The scope of the issues discussed by the discussion groups was, as could be expected, extremely wide. Subjects like health at work (e.g., light and volume level in an open office – corrective measures), hygiene, quality of food, various work processes and procedures, as well as the general desire for the permanent employment of as many temps as possible were addressed. And, of course, the latest decisions made by the company were also heatedly discussed.

Solutions could be found for many of the issues that related to conditions at the workplace. These suggestions were discussed by the project leaders, decisions were made, and appropriate budgets were provided. It can be said that this literally meant that those affected were those involved, and the culture of discussion in the call centers was fostered.

What Was the Real Outcome, Part I?

About a year and a half after the project began, an employee survey was carried out in customer service to establish how successful the measures had been up to that point. The results showed that the problems relating to the management had considerably improved. In particular, the issues of information transfer, feedback culture, coaching, training, and feedback on individual performance got markedly better feedback.

However, the areas of job security, rate of basic remuneration, and general lack of job prospects continued to be viewed critically.

As the project "Building the Future Together" had a long-term focus, another project team workshop took place at the end of the first year, where a review of the measures was carried out. Here, it was decided to extend the offer of needs-related training and individual coaching to the team leader level, as the heads of department had given positive feedback on the success of their experience with coaching.

In addition, it had meanwhile become clear that the cooperation between the team leaders and the heads of department had to be improved, and to this end, joint workshops were initiated with the focus "Cooperation and Leadership." The training modules which had been run separately for the two levels had laid the foundation for "good" leadership work; but even so, it was necessary to actively address conflicts – partly of an organizational nature – between the levels, for conflicts between managers can quickly lead to conflicts among their staff.

Team and department leaders were additionally able to engage an external coach to support them in team and management situations through "shadowing," in order to move out of the "laboratory setting" of training into real work situations.

The program of measures described here was implemented over a period of about a year and led to a marked increase in employee satisfaction in the areas of transparency and consistency and the setting and achieving of goals with respect to the management. There were also concrete improvements in the results of the teams connected to the business-related areas, up- and cross-selling, and the quantifiable quality of their work.

The long-term nature of the project and the close involvement of all levels and staff meant that the cornerstone was laid for the return of the employees' confidence in the company. The employee meetings at this time (around 2 years after the beginning of the project) took place in a distinctly more trusting atmosphere than during the period of the restructuring process.

This success was put at risk, however, by the need for further internal cost savings which was soon to follow.

What Was the Problem, Part II?

The Project: Building the Future Together, Part 2, or the Next Restructuring Program Approaches

Organizations are constantly exposed to change. They have to prove to their shareholders that they can operate cost-effectively and efficiently. Shareholders want to know if operations could be even more cost-effective than before and how revenue and annual profit or even company value can be increased.

However, the turnover of temps at the company was steadily increasing at this time due to the lack of job prospects, which led to consistently high induction training costs for new temps.

At the same time, in Germany, the issue of the minimum wage was coming into focus. The introduction of a comprehensive minimum wage would mean that the external providers who employed the temps would have to pay it. Consequently, the costs for the enterprise would also increase, which would make the contractual situation with these providers financially unattractive.

What Was Our Plan on Solving the Problem, Part II?

An internal team conducted a thorough analysis of the processes and structures and, with the help of an external benchmarking process with other call center organizations, determined three alternative courses of action:

1. The complete outsourcing of the volume previously covered by the approximately 600 temps working in customer service to an external provider

This option would have high cost advantages over the present in-house solution; on the other hand, **direct** control of a substantial part of the staff resources would be lost, and the company would be even more dependent on the performance of an external provider in the future. In addition, the majority of the current temps would probably lose their jobs, as external providers would be unlikely to take them on or the locations of their offices would simply be too far away from the company's own three call centers.

2. The downgrading of the employment conditions and reduction of the remuneration of the present staff

The call center staff had already been subjected to drastic cutbacks 3 years earlier. Even so, their salaries were in line with the benchmarks of other in-house call centers; particularly in comparison to "pure" call center enterprises, they were close to 10 % higher – in other words, more expensive for the company. The positive results of the project "Building the Future Together" could, however, not be ignored. Employee motivation had increased significantly; figures relating to, for example, sick days, first call solution rate, and sales successes clearly showed this. Further deterioration of employment conditions and remuneration would, without a doubt, have very negative impacts on the motivation of the staff and, therefore, their performance.

3. The insourcing of a large number of the temps working in the call centers

Over the course of the previous 5 years, the company had increased the number of staff employed on a temporary basis (who were under contract to an external provider and were “hired out” to the call centers according to the terms of the German Law on Labor Leasing – AÜG) from originally around 10 % to up to 50 % of the workforce.

The reasons for this increase were the possibility to react flexibly to peaks in demand and the lower costs in comparison to the permanent staff. However, over the preceding 2 years, these peaks in demand had not come about; in fact, after one project (for which these temps had been taken on) had been completed, the next one was always waiting. In this way, temps who had originally been taken on for only 3–6 months were often working in the same organization for 2–3 years. These temps are often referred to as “second-class employees,” as they may have significantly lower salaries than the permanent staff and, on the other hand, always have to live with the insecurity of not knowing whether there will be another job to follow on from their periods of employment.

As temps meanwhile made up around half of the call center workforce, the customer care management, human resources, and the company’s management board began for the first time to discuss the issue of employing a certain number of these temps on a permanent basis. From an economic point of view, this would only make sense if these employees were paid more than by their former agencies but still less than the existing permanent staff. The cost saving for the company would result in this case from the saving of the margin charged by the agencies. As the company had a collective agreement with a union, however, this approach could not be realized without the agreement of the union. Moreover, it would be necessary to convince the works council of this option, as it would play an important role in convincing large numbers of the 600 temps to accept the offer of a labor contract from the company.

Following in-depth discussions about the opportunities and threats, the vice presidents of customer care and human resources and the management board members came to the decision to take Option 3 (insourcing the temps) as the preferred alternative. However, in the event of the negotiations failing, Option 1 (outsourcing the temps’ work to an external call center provider), which did not require the agreement of the union or works council, would be implemented.

The core project team and future negotiators representing the company were the vice president of customer care, the vice president of human resources, and the head of labor law and employee relations. The three regional call center heads and internal communication continued to be closely and regularly involved.

At the first meeting, the project plan was developed and initially a stakeholder analysis was carried out. This showed that it could be expected that the stakeholders, works council, and union would be quite averse to insourcing with reduced salaries. The core staff were also reckoned to be unsupportive, as they could fear that the lower salaries of the temps could lead in the medium term to their own salaries being reduced. Even though it had never been planned by the company, this fear was justified from the staff’s perspective and in the light of the preceding restructuring process. Time and again, our past actions catch up with us.

It could be presumed that even the temps would only find an increase in their income acceptable if they got exactly the same salary offer as their permanent colleagues.

The demand for “the same money for the same work” was natural but was not a viable option from the point of view of the company. So, it was necessary to break up the phalanx of stakeholders who were presumed to be critical of Option 3, and to find supporters, as the insourcing could only be achieved through negotiation.

The Negotiation Strategy

Restructuring negotiations always have clearly assigned roles. The employer wants to implement something (often branch closures, salary cuts, or changes in work times); works councils and/or unions want to prevent this. Everyone has a very specific role and has to fulfill it.

In this case, the negotiating team representing the company was aware that the employees and their representatives (union, works council) would regard Option 3 as an attractive solution only if there was a realistic and threatening alternative scenario. Option 1 (the complete outsourcing of the work of the temps) would fit the bill.

On the other hand, a clearly expressed preference on the part of the company for an outsourcing process would have seriously undermined the confidence of the workforce, and it was this very issue that had been addressed and improved through considerable effort (“Building the Future Together”) and with obvious success over the previous 2 years.

The negotiating team had to perform a balancing act. On the one hand, it had to be seen to clearly prefer Option 3 and to communicate this, but at the same time to pursue Option 1, to establish it as a threat for as long as possible, even if in reality it was by far the least favorite option.

This only seemed to be achievable if they succeeded in winning over the staff in favor of Option 3, so that the actual negotiating partners – works councils and union – would then also give their support, playing the game, so to speak.

So the aim of the negotiation was to achieve multiple win-win situations: for the company management, to achieve the expected cost savings; for the temps, permanent labor contracts with higher salaries than before; for the core staff, continued job security and unchanged salaries and employment conditions; for the works councils, a workforce increased by x %; and for the union, increased influence in the company. In short, winners on all sides!

The Negotiations Begin

The negotiating team representing the company first met with the works councils and reported on the economic background of the imminent restructuring process and explained the three options, emphasizing a clear preference for Option 3. The works councils were asked to approach the union together with the employer in order to amend the collective wage agreement, which would be the precondition for employing staff with reduced starting salaries. As expected, the works councils were surprised at this request and, in a subsequent meeting, responded that they saw the involvement of the union as the employer's task (which was, of course, absolutely correct) and that they would accept permanent employment in principle, but only under the same conditions as those of the core workforce.

As it was clear that the success of the negotiations was critically dependent on fast and direct communication with the workforce, the negotiating team itself informed the call center staff by email immediately after the first appointment with the works council. It would subsequently emerge that this way of communication with the employees was in fact one of the deciding factors in the success of the negotiations.

About a week later, the second meeting took place (at this stage it could not yet be called a negotiation), this time with the involvement of the union representative. Once again, the parties came no closer; the union emphasized its demand to keep the collective wage agreement and to transfer as many temps as possible to permanent contracts. The union also briefed the call center employees by email.

Employee meetings were organized at short notice by the works council, and the representatives of the company brought the staff up to date. As was to be expected, the atmosphere of these meetings was extremely edgy. The company representatives succeeded in at least credibly demonstrating Option 3 to be their preferred option, but nothing more than this could be expected. The works councils presented their demand for employing around 100 staff under collective agreement conditions, and the employees and temps present at the meeting responded to this with thunderous applause. Company and union representatives announced to the workforce that they intended to take a constructive approach to the negotiations.

As the negotiations began, the employees directly concerned (around 600 temps) sat only indirectly at the negotiating table. The union was not yet actually responsible for them, as they were still employed by agencies, which were not covered by the union in question. The works councils, however, were not entitled to negotiate amendments to collective wage agreements, even though they represented the interests of the staff employed by the company. So it was crucial for the company negotiating team to address the interests of the 600 temps in the negotiations. And this seemed feasible by combining the solidarity of the core workforce with the by now equal number of temps as a factor in the negotiating strategy.

The situation was as follows: the continuous and long-term increase of the number of temps meant that now there was not a big difference between the permanent staff and the temps at the call center in terms of their work. The teams were mixed, they worked desk to desk, did the same tasks, celebrated the same successes, etc.

In the past, the company had already employed a small number of temps on a permanent basis every year. Many of the permanent employees in the call centers had started there as temps. As the employment conditions in this company's call centers were known to be better than those in many comparable call center organizations, most temps wished to have the opportunity to be permanently employed there. Additionally, the staff who had already been taken over were excellent promoters of the idea of permanent employment among their temp colleagues. They regularly campaigned – also at employee meetings – for the permanent employment of the temps.

The negotiations with the union, which had now begun, revealed that it would not support a permanently reduced starting salary. In fact, the demand was made to employ at least 100 of the 600 temps under existing collective wage conditions that same year. The works council supported this demand and explained that it would reject the renewals of the temps' contracts which were imminently necessary according to § 99 of the Works Council Constitution Act (BetrVG). Thus, two of the stakeholders had clearly expressed that they would not support Option 3. As a countermove, the company negotiating team announced that it wished to permanently employ at least 400 temps, as long as the conditions were acceptable to the company. This high figure visibly surprised the works councils and union and put the company in a much more favorable starting position, as it lay much higher than the preceding demand of the works councils and union.

Even so, the only route lays via the other two stakeholders: the core workforce and the people who were really affected, the temps.

The negotiating team informed the staff that more than 400 temps could be employed, but that the negotiations would probably not reach an acceptable outcome, as the core demand of the union was not viable for the company. They were still searching for an alternative but would have to pursue Option 1 (the complete outsourcing of the temps' work) as the solution which was just as likely and would, therefore, also not submit the approaching contract renewals for around 100 temps to the works council, but instead would inform the agencies that the contracts would soon expire.

Everyone involved was aware that this kind of communication would cause great upheaval among the workforce and temps. This was deemed necessary, however, as it was recognized that only with the support of these two stakeholder groups would it be possible to persuade the union to give in.

However, in the following negotiations, the parties came no closer to a compromise, so the negotiating team decided to investigate a completely new idea: the possibility of founding a company-owned call center subsidiary not subject to collective wage agreements. All current permanent staff would transfer with the same conditions via a transfer of undertakings (§ 613a Works Council Constitution Act – BetrVG), and at least 400 temps would be offered labor contracts not subject to collective agreements. This new version of Option 3 emerged from the realization that it would not be possible to find a common solution with the union. Also, here it would be crucial to assure the staff comprehensibly and credibly that a unit without a collective agreement would not be a nightmare scenario but was actually the only way to guarantee the employment of the 600 permanent staff and more than 400 newly recruited employees in addition. This was a tightrope walk and would only be made possible by communicating actively and with complete credibility. Information events were organized at short notice at all the call center locations (in this case, the company was the host and issued the invitations, as opposed to the employee meetings), and these took on particular significance.

The Result and How Communication Was Managed

The vice presidents of customer care and human resources appeared together at the three information events – as they had also done at the previous employee meetings – and outlined in detail the general conditions for a subsidiary without collective wage agreements. The staff who would be transferred under § 613a (the "core workforce") were assured that it was not intended to downgrade their employment conditions after the 1-year period of protection and that annual salary increases were planned, even without the involvement of unions.

For the temps who would be employed, it was announced that the founding of the call center subsidiary would mean that at least 500 of them could be taken on immediately and probably even more in subsequent years.

The transfer conditions were considered fair by all parties (with the exception of the union), as the enterprise offered the temps an average of 15–30 % higher salary than their agencies could offer (compared with the former permanent staff, however, the earnings were around 10 % lower).

This was without a doubt the moment when the mood swung in favor of the employer. The complete outsourcing of the temps' work was no longer an issue. Unchanged employment conditions for the core staff, and the overwhelming majority of the former temps provided with labor contracts from the company, this was more than most of them had expected.

The works councils would have at least 500 more employees permanently under their responsibility. Only the union could not agree to this situation. The new call center subsidiary would be taken away from their field of responsibility – an obvious loss of face.

For this reason, there was some critical communication over the following weeks from the union to the staff. The employer, however, similarly took pains to argue its point of view. The call center managers of all levels, who had been involved in actively communicating with the employees, were also helpful in this matter.

Thus, everything depended on all the employees of the core workforce (or as many as possible) taking part in the transfer to the subsidiary (i.e., not registering an objection to the transfer of undertakings under § 613a) and, **at the same time**, at least 300 temps accepting a labor contract (the offer was made for more than 500), but actually at this point, the two vice presidents assumed that 300 acceptances would be an optimistic scenario).

What Was the Real Outcome, Part II?

The result was overwhelming: of approximately 600 permanent staff, one employee objected to the transfer of undertakings; of about 600 temps, 520 (!) requested a labor contract. Even the optimistic estimates had been surpassed by far.

So the new internal call center subsidiary, now not subject to collective wage agreements, could be launched and commence operations.

The founding of the tariff-free call center subsidiary was accompanied by a very positive mood on the part of the staff and managers. The confidence of the former and also the "new" employees in the executive management was noticeable, and also the works councils praised the result that had been achieved and took up a very critical position toward the union, which was trying to recruit more members in the subsidiary, clearly with limited success.

Some months after the founding of the subsidiary, annual salary negotiations were approaching for the group companies which were subject to collective agreements. Keeping their promise, the management of the call center subsidiary decided to pass on the same increase to their staff and the former temps (it should be noted that this also occurred the following year; but at the time of writing, the author of this chapter has no knowledge of subsequent years).

Three months later, an employee satisfaction survey was carried out throughout the group. The results from the call center subsidiary were excitedly awaited by all. And indeed, these results revealed far higher satisfaction than in all other areas of the group!

Also, "classical" business-related figures, like customer satisfaction assessments, went up from "good" to "very good," the first call solution rate increased from 70 % to 87 %, and cross- and up-selling values increased by 150 % and, hence, reached an all-time high.

All this following one of the most difficult restructuring negotiations of recent years.

What Are the Lessons Learned?

So, what were the success factors for this over 4-year-long project? What led to the overwhelming vote of confidence from the staff of the call center subsidiary? How did the outstanding results of the business-related figures come about?

In retrospect, it seems that the close-knit collaboration based on total mutual trust between customer service and human resources was a significant key to success, with its short communication paths and consistent mutual support (sometimes even necessary with respect to the board and supervisory board). This collaboration was also a yardstick for the other managers involved.

The prompt, in-depth, and transparent communication with the staff was also one of the success factors. It so often happens in companies that works councils and unions seem to have sole control over information and communication during restructuring phases. But right from the start of the project (actually two projects in reality), the company's project team was aware that it simply had to be better than the "other" side with regard to communication.

Employee meetings are not always a walk in the park for company representatives. But here they succeeded in building trust and conveying optimism about the future. They also credibly communicated that the employer did not want to implement a typical outsourcing rationale with its supposedly more attractive savings potential. It was also necessary to continuously reassure the board of management, which had to be persuaded, that the project team was convinced of the success of Option 3. Stakeholder management must also regularly be driven back to their "own" side with their stakeholders.

In addition, the fact that the board of management of the newly founded subsidiary was made up exclusively of internal managers contributed to the building of trust among the workforce.

Let us not forget the stakeholder analysis procedure as a success factor. This initially revealed the hopelessness of the project; all the relevant stakeholders were estimated to be "critical." But it also opened the door to the courses of action available and the negotiation tactics to be employed. It is not possible to succeed against all stakeholders, a significant number have to be won over. Sometimes, this can also mean provoking them in order then to arouse their enthusiasm for a mutually acceptable solution.

And last but not least, it must be mentioned that the "investments" from Phase 1, "Building the Future Together" – that is, the discussion groups and management training – contributed to the positive wind of change, out of which the much more difficult Phase 2 could be handled so successfully.

Also, the role of the works councils and, of course, the employees must not go unmentioned. If one genuinely integrates both groups, the success of such a challenging project is all the more likely. In this case, the opportunities definitely outweigh the risks.

Finally, in this case, it could be said that there really were multiple winners!

Part V

Compensation and Benefits

Compensation and Benefits: Introduction and Overview

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William Eggers

Contents

Abstract

The following introduction provides for an overview about the different purposes of various compensation components as well as the link to strategy and setup of companies to design a compensation and benefits structure that suits their individual needs. It will also provide some thoughts about different target groups within the organization that may require different solutions even within one single organization.

Keywords

Compensation elements • Pay mix • Strategy • Target groups • C&B department

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Introduction

Personnel cost is one of the major expenses for any company. These costs vary between 15 % of all costs in the consumer goods industry and up to 64 % in more labor-intensive industries like the health-care sector, for instance.

Companies are well aware of the fact that employees are not only a cost factor for them, but they are above all a competitive advantage if they manage to recruit and retain top talent in their organizations. The best and the brightest are the guarantee for future growth and company success.

In this context, it is not difficult to understand that companies are trying to optimize their cost structure and, on the other hand, are trying to recruit the best employees possible in order to drive company results and serve as a brain pool for future growth.

The right compensation and benefits structure can help to achieve both objectives. This is also the reason why many companies professionalize their compensation and benefits (C&B) departments. Whereas in the past C&B was dedicated mainly to run benchmarking and drive the operative merit and bonus rounds, today they have developed into strategic partners who provide HR as well as top management for consulting and technical expertise.

The main objective of C&B departments is to find a balance between a lean cost structure for the company and, at the same time, to provide for an attractive compensation package for the companies' employees.

This includes two main ideas that are important: One is the most efficient provision of C&B components which can be streamlined in lean processes and external provider management. The other one is the knowledge about what exactly is being valued by the employees of the respective company.

People Perspective

The people's perspective of any compensation and benefit designs focuses on attraction and retention of top talent. In order to achieve these objectives, compensation packages need to be designed to be attractive for employees. Below, there are examples on how different compensation components can be used to achieve employees' (and companies') needs.

Different Purposes of Compensation Components

Compensation components are usually very different in their design and have also different implications (to the company and to employees). The purpose for the introduction of every single compensation component is unique and helps the company to determine an attractive compensation package that (hopefully) fits the needs of their employees.

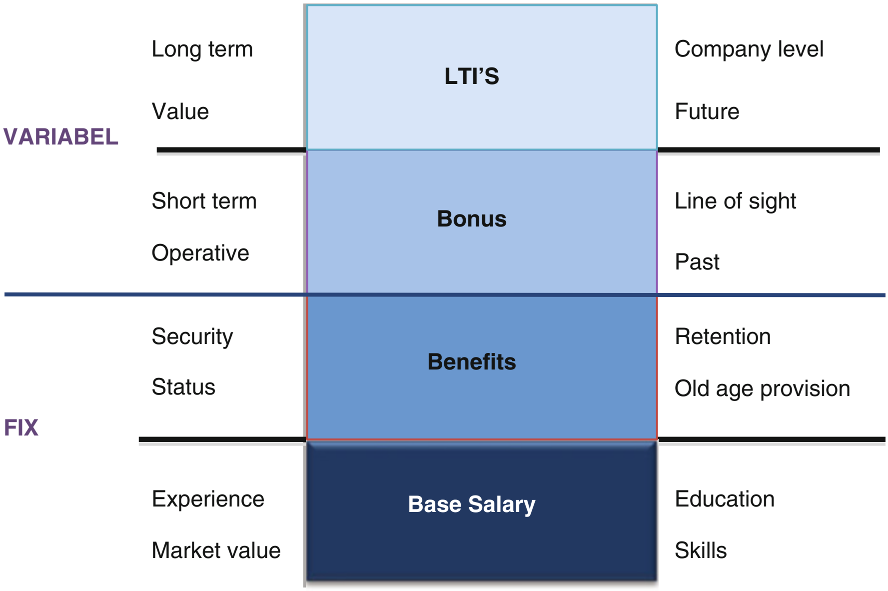

Fig. 1 Overview of pay components

Although there are many different possible alternatives on how to structure a compensation package, at the end of the day, there are only four main components that form the basis for any compensation package (please also see Fig. 1). Of these four, there are two fix components and two that are variable:

1. Base salary
   Base salary is a fix compensation component which is being paid for certain **skills** that are needed in the respective company. Other drivers for base salary are, for instance, education, seniority, and experience. Typically, market rates will be applied based on the level of skills, country of employment, industry, and availability of talent. Although performance is not a main driver for base salaries, the merit increases may be applied based on performance.
2. Benefits
   Benefits are also a fix compensation component; however, compared to base salaries, they follow a different logic and do have a different purpose. The main idea behind a benefits package is **security** by the provision of pensions and health care (in some geographies where no social security system is in place). These benefits are also an effective retention element as pensions are typically provided on a long-term basis. An additional objective that is covered by a benefits package is **status**. Examples are titles and company cars.
3. Bonus payments
   Bonus payments are driven by company performance and are variable compensation components. The main focus is **short term**, usually annual cycles, but can

also be shorter if we think about commission plans which might even be paid out on a monthly basis. Also, bonus plans do in most cases measure **operative** key performance indicators (KPIs) such as revenue, profits, or market share. Another typical part of a short-term bonus is the measurement of the units that can be influenced directly by the plan participants in order to provide them with some **line of sight**.

4. Long-term incentives
   The second variable component is long-term incentives (LTIs). Compared to bonus plans, these long-term incentive plans (LTIPs) are completely different in character. The main focus is **long term** (typically 3 years and up to 10 years). Here, the KPIs are not operative, but the overall objective is the increase of the **value** of the company (share price if listed). This requires that measurements will be taken at the **company level** and not considering the performance of geographies or divisions.

Those four compensation components determine the main idea of any compensation mix. There are probably hundreds of different tools and variations, but those four determine the main nucleus of the compensation strategy of any company.

Economic Perspective

In this context, it is also extremely important that employees understand the purpose of those different components and the underlying rationale. Only if employees understand the purpose of those components, they will be able to behave in the required way. At the end of the day are the elements of compensation and benefits the loudest way of communication that a company can possibly come up with.

Not only is it important that employees understand how their compensation plans work and what the mix between the different components looks like. It is also essential that companies communicate the value of the different components and the value of the total compensation package.

Whereas it is easy to understand the value of your base salary and bonus, it often is very intransparent what, for instance, the value of a pension scheme is. Companies spend huge amounts of money into these kinds of benefits which employees often do not value because they do not understand their monetary value. For companies, it can become a quick win to make these values transparent and therefore gain a competitive advantage against other companies that fail in doing so.

Risk Perspective

There is a huge amount of risk involved in the design of compensation plans as often strategic questions are being ignored. The main risk hereby is the total cost of compensation that might be spent for the wrong purposes as employees will be lead into the wrong direction by ignoring, for instance, company strategies. Below, you will find a couple of key questions that need to be answered in order to avoid these misalignments of strategy and pay.

Key Questions to Determine the Pay Mix

In order to determine the individual compensation strategy for a company, the framework in which they operate needs to be examined. Below are a couple of questions that need to be considered in order to establish the right compensation mix:

- What is the ownership structure of the company?
  This question is important to understand which compensation components are possible. For instance, if the company is not publicly listed, equity compensation will not be possible. It may also be an indicator about the risk appetite for compensation. Family-owned businesses are traditionally more conservative about pay than companies that have a diverse ownership structure. Private equity firms do encourage private investments of their top managers, whereas family-owned businesses try to prevent ownership to not diluting their own ownership stake.
- What are the business cycles of the respective business?
  Business cycles should have a strong impact on the compensation mix offered to employees. There are clear differences by industry. A company that runs nuclear power plants will most likely have a longer term focus and consequently arrange their compensation mix more toward long-term components. A retailer on the opposite is probably more interested in short-term revenue and therefore will have a stronger focus on short-term incentives.
- What is the industry you are operating in?
  Within a country, industries do have a stronger influence on pay levels and pay structures than even geographies. The banking industry is in many countries still a high payer. Also, due to regulation, you will find a very unique pay mix that is probably less likely in other industries.
- What does your business strategy look like?
  The business strategy is one of the main drivers to determine the compensation mix and pay levels. The strategy determines long- and short-term focus as well as the key performance indicators that will be important over the next couple of years. In order to recruit and retain the talent that will be needed to execute such a strategy is also an indicator for pay levels that need to be offered to be successful in the respective labor market.
- What is the company culture in your firm?
  Company culture is one of the elements that is very often not recognized when determining pay. However, it does have a very strong impact and is likely to be the differentiating factor that makes the difference between success and failure for the implementation of any compensation package. A company that does not differentiate between employees based on performance and that is not managing low performance will most likely not be successful implementing variable pay plans that have been designed to reflect high-risk and volatile payouts.

These key questions are important to determine the right compensation and benefits package and strategy as every company is unique in many ways. Strategy, culture, shareholder, products, and markets (just to name a few) determine the framework for a total compensation package. Many companies consider benchmarking as the basis for their own compensation model. And benchmarking does indeed provide with good information about market practices; however, one should always keep in mind that the only best practice is the one that fits to your company. Benchmarking should therefore be considered as one (of many) input sources. It should not be considered as the only one truth for compensation and benefits determination as it fails to provide important information about why the other companies choose to compensate their employees and how they compensate their employees. To illustrate this situation in a different context, when you are purchasing a car you are probably not looking at the "median"-priced vehicle, but instead you are looking for the best value at a certain price and determine the added value for your respective situation, e.g., a van for a family that needs lots of space or a convertible for a single to maximize driving fun.

Different Solutions for Different Target Groups

Another critical consideration for the determination of total compensation packages is the group of employees for whom the compensation package is foreseen. There are wide differences in compensation package (volume as well as components) for each of the different groups of employees in each company.

At the top of the house, there is the compensation for the **executive board** and the **supervisory board** (in two-tier systems) or the **board of directors** with its executive and nonexecutive directors (in one-tier systems). In many countries and regions of the world, there is a strong regulation in place which determines the compensation design for this particular group. These regulations are the result of exaggerated pay practices which in the end led to undesired behavior especially in the financial services industry resulting in the financial crisis in 2008. Regulation for this group of employees is focused on the appropriateness of pay, comparing peer groups on the one hand and internal relationships of pay among the population of that very company internally on the other. In order to avoid unwanted risky decisions within the organization, there are also a couple of mechanisms being discussed or in place already that reduce such risks and lead to more transparency in determining pay altogether:

- Say on pay of the general shareholders' meeting
- Focus on long-term compensation (rather than short term)
- Introduction of caps
- Deferrals
- Clawbacks
- Disclosure of remuneration packages

Many times, the compensation packages have become extremely complex due to local and regional regulation. The design of compensation programs has evolved into a "tick boxing" in order to remain compliant as an organization rather than the design based on company strategy.

The group of **executives** which usually includes the top management of a company determines a homogeneous group of employees whose compensation package can be determined in a consistent manner even across different countries. Base salary and benefits are determined locally; however, the design of the variable components (short and long term) can be the same for the entire global population. This is important as the executives usually have the greatest impact on business results, and, with consistent variable compensation components, it can be guaranteed that the overall desired company objectives can be achieved as all executives are focused on the same key performance indicators. Another good reason for aligning the executives' pay is the large population of expatriates within this group. Many executives are being transferred to different countries for a couple of years in order to build up business, to transfer know-how, or to develop themselves for potential promotions. In this context, it makes sense that the way they are being paid is similar to foster acceptance and facilitate communication of the compensation package.

Below this group, you will typically find a level of **middle managers** and **exempt** and **nonexempt** employees, whose pay needs to be managed locally as there usually is a clear local (legal) framework that prevents companies from waterfalling their compensation structure down to these levels. In many countries, there are union agreements or employee representative bodies in place that do not match the same philosophies and strategic guidelines that can be applied to compensation structure of the top executives of a global company.

For the reasons stated above, there are usually two different compensation and benefits frameworks in place (please also see Fig. 2):

1. The global framework which will be used to determine a company-wide C&B strategy (mainly for top executives)
2. A local framework per country that ideally waterfalls down the global framework, however, more importantly adapts local needs and local legal requirements

Operational Perspective

C&B Departments Change

In order to manage the complexity described (different compensation elements, local vs. global, strategy alignment, legal requirements, attractiveness vs. cost, etc.), the compensation and benefits managers' profile has changed dramatically over the last couple of years. Whereas in the past, these functions mainly managed the salary increase and bonus rounds, today they are top specialists who need to be capable of

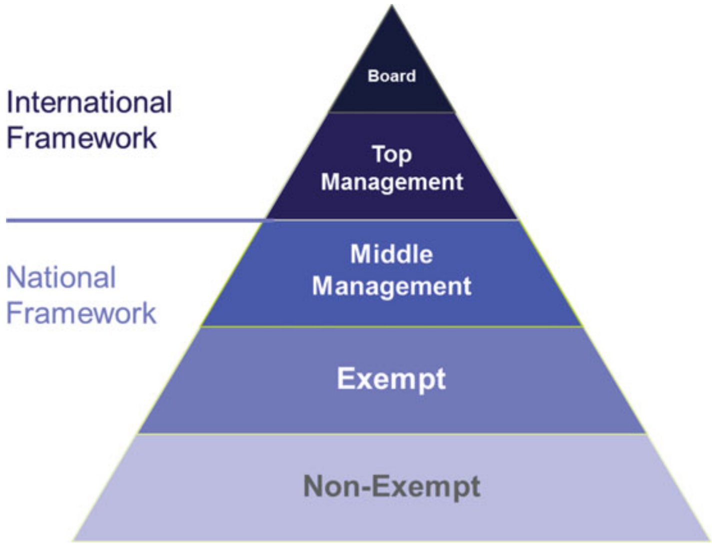

Fig. 2 National and international framework

managing operating C&B processes as well as consulting top management in converting business strategy into compensation tools which allow the company to focus on the achievement of their objectives with main interfaces to the companies' tax, legal, accounting, controlling, M&A, and communications departments.

Very often, these C&B managers are also responsible for the organization department of the company which then combines the determination of job values within an organization with the monetary value of the outside market. Only both perspectives guarantee a fair and competitive compensation package. The organization department hereby has two different dimensions: the first is the determination of the organizational structure of an organization which is being driven by the respective strategy and organizational model and the other is the evaluation of jobs within this structure.

With these two components (compensation and benefits and organization), C&B managers have a large variety of specialized topics that they are responsible for. What is more, both topics have a huge impact on the respective organization, thus providing top management attention.

Outlook

The content of the chapters of this section provides a relevant overview of some of the main tasks a C&B manager has to deal with on a daily basis. It provides a good understanding of best practices and challenges that each organization is struggling with. These chapters will provide detailed insights into:

- Job evaluation
- Benchmarking
- Base salary
- Bonus plans
- Long-term incentive plans
- Benefits
- Employee participation plans
- Expatriate management

Compensation and Benefits: Job Evaluation 47

Konrad Reiher

Contents

Abstract

Combining reward and jobs and differentiating reward based on job complexity have been practiced by human beings for more than 4000 years. Since the time in Lagash, Iraq, when the oldest documents regarding reward and jobs were found, the way human beings and organizations have conducted the differentiation of jobs has changed significantly. The general principles of job evaluation were defined at a conference in the early 1950s in Geneva.

Nowadays, the analysis of organizations and jobs and the evaluation of jobs using a proven global methodology are well established in global organizations and have added real value to the further development of the organizations, especially when results and methodology are not only used for reward purposes but also in talent management or for the improvement of the organization.

For senior management positions, both job analysis and job evaluation are processes where organizational principles and facts are translated into the ranking and grading of senior management positions in a reproducible manner.

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For all other jobs in an organization below senior management, more and more companies prefer the development and implementation of a global job catalog/job family structure to generate global transparency and to differentiate in a consistent manner, but every time a job evaluation methodology will be behind.

Yes, the results of the analysis, evaluation, and grading of jobs can be used to benchmark reward packages regarding internal consistency and external competitiveness, but there are other HR topics where deep knowledge generated through the overall processes can add real value.

Keywords
Global job catalog • Grading • Job evaluation • Job family • Operating model • Reward management • Role profile matrix • Scheme of Geneva • Senior management • Talent management • Work measurement

Job Evaluation and Reward Management: First Remarks

There are several dimensions which impact the reward strategy and management of organizations, but the dominant dimensions are mentioned in the graphic below (Fig. 1).

How do money, person, market, and job (size) normally connect in the management of reward? There is a simple answer: use the coordinate plane of the French mathematician René Descartes (1596–1650); put the money on the y-axis, the job (size) on the x-axis, and the market (with some statistics) in the plane; define your market position depending on your needs and available HR budget; and differentiate the salaries for employees with the same job(s) (size) depending on their individual performance or potential. The next graphic illustrates this (Fig. 2).

Fig. 1 The four dimensions of reward management

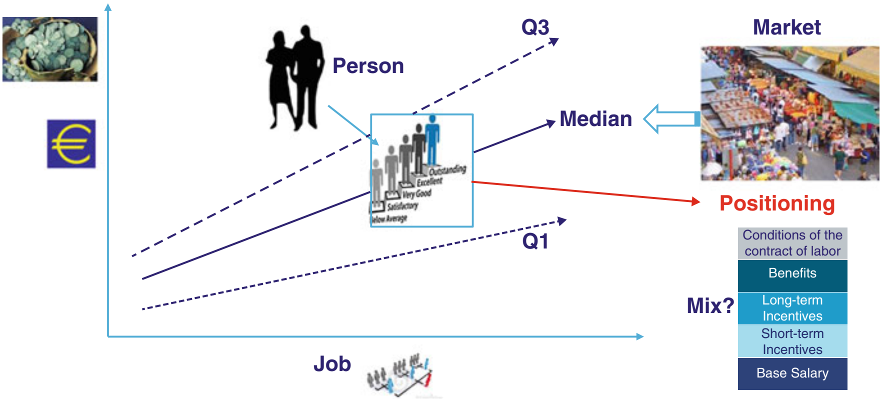

Fig. 2 The connection of the main four dimensions of reward management

The oldest documents in the world regarding the combination of jobs (size) and money were found in Lagash, an ancient city located in the northwest of the junction of the rivers Euphrates and Tigris in Iraq, which was the largest city in the world from ca. 2075 to 2030 BC. These documents – potter clay tablets – are more than 4000 years old and show the relationship between different jobs/tasks of employees working in temples and their reward.

Conclusion: Reward management is an old story! For thousands of years, the job (size) has played an important role in reward management for organizations and the people working for them!

The challenge is to find a methodology which supports organizations to differentiate and structure the x-axis – the jobs, which are located in different businesses, regions, functions, and hierarchies! **“Job evaluation = work measurement” is on stage!**

What Is Job Evaluation in General?

When the concept of this book was developed, the editor decided to cover the subject “job evaluation” in the chapter “Compensation and Benefits.” To be honest, this is a traditional view on “job evaluation” dating back to the 1950s.

Why? Of course, the results of a job evaluation exercise can be used by compensation and benefits experts as a basis for the comparison of reward packages of jobs and incumbents internally and externally, but this is only one and the simplest application of a job evaluation exercise.

In decades past, more and more organizations have learned to recognize the additional value of job evaluation. A better and deeper understanding of organizational structures and roles based on a proven job evaluation methodology supports companies to improve their organizations and generates a truly better fit between both job and incumbent, particularly in an ever increasing globalized world.

A look at the Fortune 500 list shows that in a large number of companies, the responsibility for "job evaluation" has meanwhile found its place in the corporate development or corporate organization departments and no longer in the compensation and benefits organization, especially for senior management positions. These companies all realize that it is really too late when C&B experts ask questions like:

How does the new position fit into the overall organizational structure?
What is the real difference between the new position and the subordinate's position?
Why are the accountabilities of the new position at corporate level or in a matrix structure similar to another position in the region?

Once the position has been established, the new incumbent is hired and needs a contract and salary packages.

These companies have become aware of the added value generated by global transparency and clarity regarding roles, organizational structures, people, their capabilities, and the related HR costs generated by a common global use of job evaluation methodology.

In such organizations, the top management is using "job evaluation = work measurement" as a process and tool to clarify executive roles and show what kind of roles add value to the organization based on the defined operating model and organizational design principles. It is a management tool and process which generates clarity regarding roles, accountabilities, and added value of executive and managerial jobs – a common view on the organizational setup and roles.

For HR professionals "job evaluation = work measurement" is a process and tool to understand and gain deeper insights into organizations and job requirements which allows them to become a real HR business partner. The objective is to add real value to the further development of the organization based on the deep understanding of the business and organizational needs and establish the backbone/framework for a lot of HR processes like organizational design, talent management, placement decisions, HR controlling, and reporting. It is the "iTunes" for HR professionals to be used in their daily work.

And yes, the results of a "job evaluation = work measurement" effort can be used by C&B experts to benchmark compensation packages. However, evaluating jobs only for this simple HR application is a very expensive exercise especially for senior management positions.

So what is "job evaluation" or better yet, what is "job analysis and job evaluation"?

Organizations have business and operating models, organizational principles, decision processes, procedures, accountabilities, and tasks. Accountabilities and tasks are bundled to a job, the smallest organizational unit in the organizational structure.

"Job analysis and job evaluation" is the process of analyzing simple organizational facts such as:

- Jobs have different tasks, roles, and accountabilities based on the operating model and the organizational principles.

- Jobs vary in their involvement in the decision-making processes and possess different degrees of freedom to act.
- Jobs impacting business and budget sizes vary as well.
- Jobs have a different impact in the chain of value creation.
- Jobs vary in their involvement in the development and implementation of strategy/concept/methodology. They differ in time horizons regarding planning and performance.
- Lastly, jobs vary in their characteristics, i.e., operations, coordination, and advisory roles.

To interpret and evaluate these facts by using a proven model and methodology which considers the capability of human beings to differentiate abstract objects as defined in the scheme of Geneva like "know how," "problem solving," and "accountability" means to do without a yardstick aiming to rank and rate/grade all or a certain number of jobs in an organization in a reproducible manner. In Sperling (2001), one of the leading job evaluation methodologies in the world is described (Fig. 3).

The overall objective "job analysis and job evaluation" is to establish a reproducible structure/grading for all jobs in an organization that are horizontally comparable across businesses, functions, and regions and are vertically consistent regarding organizational facts and hierarchies.

With the above in mind, it is obvious that "job analysis and job evaluation" generate deep insights into the organization, their strengths and weaknesses, the allocation of resources, and the requirements needed to be successful in a job; the established job structure allows C&B experts to compare "apples with apples" when internal or external reward benchmarking is necessary (Fig. 4).

Further detailed information regarding "valuing and measuring work" can be found in Bowers (2001) and Nethersell (2001).

General Remark: Two Different Categories of Jobs – Senior Managers and the Others

In general, there are two different groups of jobs considered when job evaluation work is conducted. The first group is the so-called senior management jobs of a company, which often are 0.5–1 % of all employees. In multinational companies with more than 100,000 employees, 500–1000 managers will be covered. From an HR perspective, the senior managers are often managed centrally, or global HR policies have to be applied. Senior managers often implement or execute global strategies and decide on the use of financial and personnel resources. For this very reason, CEOs and other board members want to know and want to be involved in the placement and reward processes. Middle management, professionals, other individual performers, etc. are making up the other group where the largest part of the global reward budget is located. When it comes to job evaluation, the issues and challenges

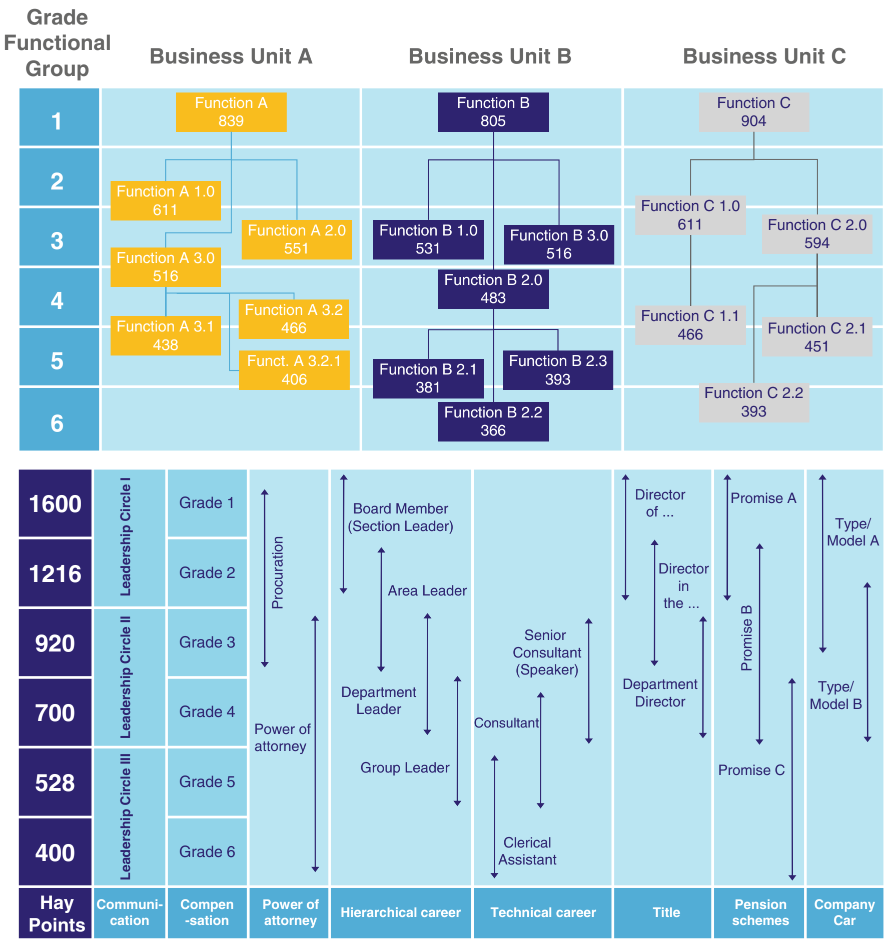

Fig. 3 Results of a job evaluation project

are often different for the two groups, and typically, organizations are treating them differently. We will consider the two groups in a differentiated way as well.

Job Evaluation and Senior Management Jobs

The graph below shows a situation in the senior management of any organization shortly after a restructuring project or after the merger of two formerly independent organizations. Often, there is uncertainty about the newly defined roles and jobs, there is room to interpret the new setup, and there is no clarity about the requirements of the newly established jobs. On the other side, there are time constraints to implement the new structure and assign the new job incumbents to the new jobs in a manner that is consistent in value, general contract conditions, and reward packages (Fig. 5).

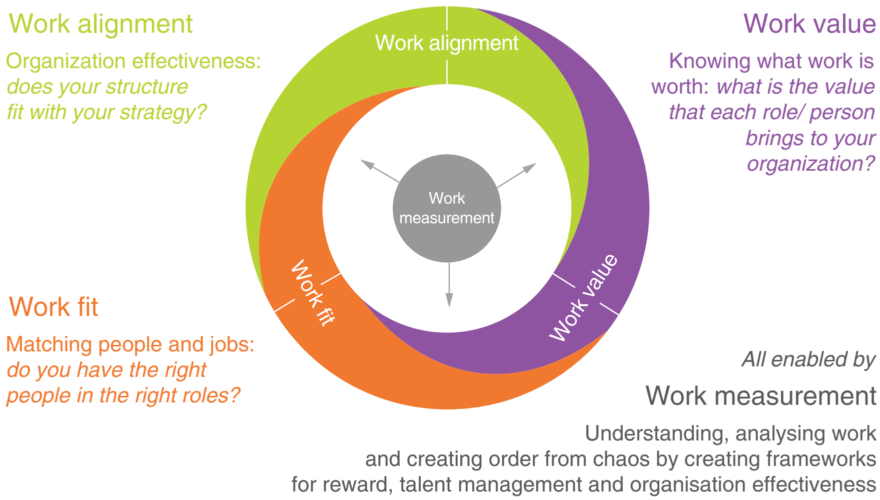

Fig. 4 Results of job evaluation projects and application in the field of organization, talent, and reward management

In situations like this – and in general, when senior management jobs have to be evaluated and graded – the most important challenge is to obtain information and clarity about the operating model of the organization, the organizational principles, governance models of businesses and functions, decision-making processes, type and size of business, impact of the jobs on the business, job characters, and how jobs are involved with the strategy/concept development and implementation.

There is a very simple tool available which helps translate a lot of information into a structure to help reduce complexity and support the job evaluation exercise. This tool is called role profile matrix. The concept of the matrix was first mentioned in Garonzik et al. (2006); detailed explanations can be found in Jensen et al. (2007).

The matrix serves as a translation of the core elements of an operating governance model and the organization of a company, respectively, and is made up of two dimensions: one being the role type to express the company-specific character of jobs and the other describing the level of contribution in company-strategic issues in the business (Fig. 6).

In a first step, all senior management positions concerned have to be put in one of the boxes on the right-hand side. This should be done with the involvement of the members of the management board or with the highest functional or business managers responsible for the defining the governance. The process normally compels the managers in charge to reconsider the governance model and shows inconsistencies and generates clarity about the new setup.

Below you see the results of such an exercise performed in a family-owned company (Fig. 7).

The impact to the business (indirect, remote and contributory, or direct, shared and prime), size of the business, and freedom to act based on the further organizational facts are all generating clarity about the overall accountability and the rating of

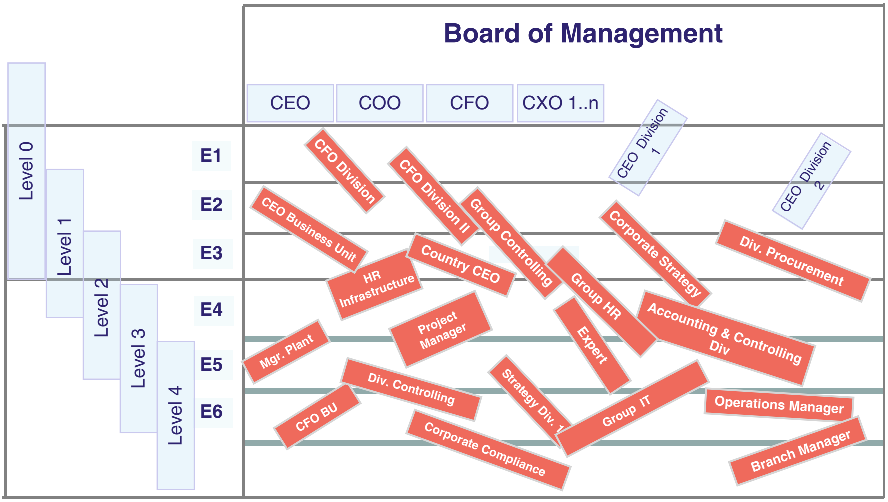

Fig. 5 Job evaluation – work measurement brings order into chaos

accountability of the jobs involved. When the role profile matrix is complete and the jobs are rated in terms of accountability, the overall job evaluation process – using the criteria defined by the job evaluation methodology – can be conducted. The requirements concerning the necessary practical/technical knowledge (qualification and experience, such as planning, organizing, and integrating) and managerial knowledge (management and coordination, such as communicating and influencing skills in particular) can be evaluated under consideration of the results defined before.

Using the results of the work done prior to the job evaluation process for the senior management jobs covered will generate evaluation/grading results which are consistent in and by themselves and with the organizational facts. Conflicts regarding the grading results after such job evaluation processes are normally based on a different understanding and interpretation of the organizational setup. The process and the used tools described above allow for a resolution of these conflicts very quickly. In general, the results are normally accepted by the line management because the language used is theirs and not the technical jargon of HR experts.

Job Evaluation and Middle Management and Unique Job Performers Positions

Today and in the coming years, there will be increasing pressure on organizations to harmonize, standardize, and improvise their processes at a global level. The Internet and new IT cloud solutions will be available, and globally harmonized and standardized processes will be in place that have already or will define more and more standardized jobs for unique job performers and middle management jobs in the

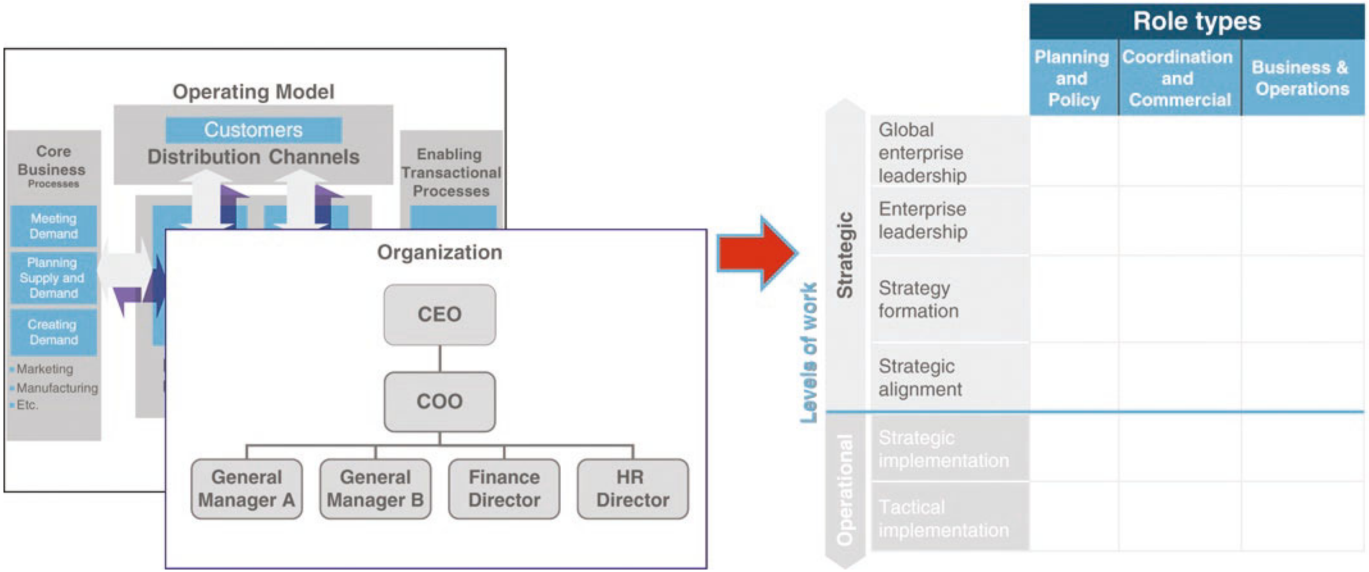

Fig. 6 Role profile matrix – the tool to understand operating model and organizational structure

Levels of work		Role types: Planning and Policy	Role types: Coordination and Commercial	Role types: Business & Operations
Strategic	Global enterprise leadership	▪ N/A	▪ N/A	▪ N/A
Strategic	Enterprise leadership	▪ N/A	▪ N/A	▪ CEO
Strategic	Strategy formation	▪ N/A	▪ Chief Marketing Officer ▪ CFO	
Strategic	Strategic alignment	▪ Corporate Controller ▪ Head of HR	▪ Head of Legal ▪ Head of IT ▪ Head of Trading	▪ Head of Passive Equity ▪ Head of Advisors Strategy Group ▪ Head of Sales and Marketing ▪ Mgr Director Europe ▪ Mgr Director Asia/Pacific
Operational	Strategic implementation	▪ Engineering Manager ▪ Corp Mgr of Staffing and Recruitment	▪ Head of US Client Services ▪ Head of Sales/US ▪ Global Director	▪ Head of Global Asset Allocation ▪ Mgr Director Canada ▪ Mgr Director Australia
Operational	Tactical implementation	▪ Corp Mgr of College Recruiting ▪ Attorney	▪ Head of OFA ▪ Head of Independent Fiduciary Services	▪ Head of US Bonds ▪ Head of International Equity

Fig. 7 Example of filled role profile matrix with senior management positions

different job clusters or job families. Almost all larger companies have already or will develop global process houses for this purpose; they are working on industrial footprints (processes and structure) for their plants, consistent global processes for development, engineering activities, etc. These developments coupled with the need to have more transparency of the structure of the global workforce concerning capabilities, competencies, age, and labor markets will result in the development and implementation of global job catalogs/job families as the basis for e-HRM, process, and tools.

A global level/grading system will support the comparison of jobs within a job family and across the various job families. Differentiation of jobs within one job (sub)family will be done by clearly defined differentiating criteria. But the foundation of all of this is and will be a robust and globally applicable job evaluation methodology. The job evaluation methodology will be used for all jobs which are not contained in the global job catalog.

Today, regional or divisional HR business partners often struggle with the fact that they have to deal with different job structures and job catalogs when working in different countries or with different job families. There daily work will be easier; they can focus on the truly important issues to support the business in achieving their objectives.

The corporate HR function has to anticipate this; they have to connect with IT, process designers, and line managers to get a global job catalog in place, which will be the basis for many a HR process and tools. One is reward management.

The objective is to gain transparency in the global workforce. The next slide shows how to achieve this (Fig. 8).

An example of a job family model for the supply chain function can be found below (Figs. 9 and 10).

The slide above gives a first impression on how the different levels can be layered within the job (sub) families.

Fig. 8 Building blocks to develop and to implement a global job catalog/global job family structure

Horizontal : Job Family Architecture – reflecting the value stream

Role Types reflect organization

SCM	General Logistics	Procurement	Warehousing/Material Management	Distribution / Transportation
Head	Head of Supply Chain	Category Procurement Head	Head of Materials	
Manager	SCM Strategy Manager	Category Procurement Manager Regional Procurement Manager	Materials Manager Production Control Manager Warehouse Manager	Logistics Operations Manager Traffic Manager
Professional	Strategic SCM Professional	Category Procurement Professional Commodity Procurement Professional		
Supervisor			Warehouse Supervisor	Import/Export Supervisor
Operator		Purchasing Agent	Forklift Operator Production Planner Stock Clerk	Dispatcher Import/Export Clerk Import/Export Specialist Logistics Specialist Truck Driver

Fig. 9 Example of a job family model for supply chain

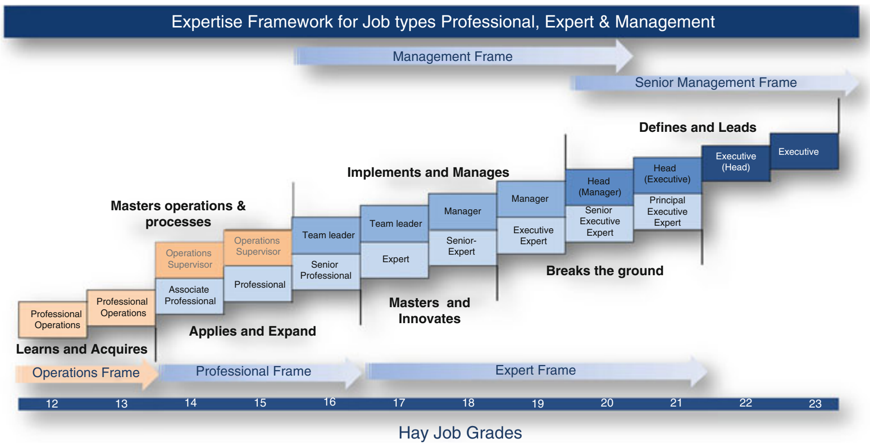

Fig. 10 Leveling of jobs in a job family and career ladders

When a global job catalog/job family model is developed and the connection to the HR IT-database was made, the final step is to assign each employee of the global workforce to the job they currently hold. This last exercise really generates the added value necessary to manage the global workforce.

Using external reward benchmark data and applying the global job catalog, HR "at the push of the button" answers questions like the following:

How many engineers with skills in ABC does division XYZ employ in China? What will be the overall HR costs, when division XYZ will establish the same unit in Romania?

We will build up three identical assembly plants in the regions of the Americas, Asia, and Eastern Europe. Here are the organizational setup, the structure of jobs, and the number of employees per job. Which will be the best country in each region to have the plants from an HR perspective?

Or if the question arises how to deal with a job not listed and graded in the global job catalog, the answer would have to be "Let's do a job analysis and use a job evaluation methodology, which is the backbone of our global model to generate a suitable evaluation/grade for this unusual job in the job family, 'other'!"

At the end of the day, the companies with global job catalogs and grading structures based on a proven job evaluation system will have transparency of the their workforce and, indeed, a very good foundation for reward management.

Outlook

The Internet, big data, new technologies, employees, managers, and HR professionals out of generations Y and Z will change the nature of work and the way how we work together. This will have a huge impact on organizations at all and on HR management especially.

One of the major questions in this new world of work is:

Will the concept of a job remain – a job seen as the smallest organizational unit – where tasks and accountabilities are bundled for a longer period of time?

If the answer is yes – and there are several indications that this will be the case – established job evaluations methodologies will survive, when they are embedded in the new available technologies, tools, and processes. It is like MS-DOS from Microsoft or iTunes from Apple, no one is talking often about these products, but elements of or the complete program is used on a lot of devices today.

At least C&B experts must be able to compare "apples with apples" and have to argue why jobs are different in a comprehensible manner when they have to deliver recommendation for reward decisions.

So "job evaluation = work measurement" will be a backbone, the iTunes, for HR management in the future.

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Compensation and Benefits: Essentials of Benchmarking

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Contents

Abstract

Benchmarking is an important tool and worthwhile investment for HR in order to support the organization by attracting and retaining the talents needed while

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managing salaries and costs of the organization in the right manner. From a people perspective it is important to ensure fair salaries in terms of internal and external benchmarking. This is to ensure that salary decisions are made on a solid data set which will consequently make the communication to employees and managers easier. From an economic point of view, employee costs are typically one of the major cost items within the organization. Thus, HR is in charge of one of the key cost drivers. Benchmarking helps to make the right decisions in terms of salary management and accordingly influences significantly the cost management of the organization. These two aspects have a significant impact on risk management when considering losing key talent as well as incurring escalating costs. Last but not least one should not forget the operational aspect of benchmarking. While benchmarking might seem complicated at first, some basic guidelines help to conduct a benchmarking project in a thorough approach that will lead to valuable results. It is necessary to compare "apples with apples" which holds true for the jobs that are to be benchmarked as well as to ensure that compensation elements are actually comparable with each other – both internally and externally. One should also not underestimate the definition of a relevant reference market, and when using benchmark data, it should be understood how the data has been collected, calculated, and manipulated.

Keywords
Benchmarking • Salaries • Compensation • Benefits • Pay • Reward • Peer group • Reference market • Costs • Survey • Internal equity • Competitiveness • Job pricing • Salary analysis

Introduction and Overview

Benchmarking is an important factor in compensation and benefits. It is not difficult, does not have to be expensive, and typically offers a good return on investment. A benchmarking project may be done in many different ways supported by various survey providers and HR consultants. However, too many myths and assumptions still seem to be the basis for decisions that have a huge impact on the competitiveness and attractiveness of an organization. Still companies are using unreliable data and prepare benchmarks without alignment between HR and the business. Consequently, decisions and actions are derived from these analyses that are far from ideal for the organization and might lead to increased costs while endangering the retention of the key talent.

The following chapter will provide some guidance and reasoning on the aim and importance of benchmarking. Further guidelines on why it is important to carefully define the basis for benchmarking and how to do this with a right and consistent approach are provided.

What Is "Benchmarking"?

Organizations benchmark their reward processes and packages with their competitors with the aim to attract the talents needed with the right compensation packages without paying more than necessary and thus managing costs. It is the right balance of both dimensions that will define the competitiveness in terms of human capital and costs of the organization.

When benchmarking, most companies aim for a "competitive position in a relevant market." However, what defines a competitive position and even more important how to determine the relevant market? As a first step to answer these questions, organizations should check the internal consistency of the current reward practice (not only reward policy) and identify the actual market position externally. Based on these analyses, HR is able to define, adjust, or redesign salary bands or even the whole reward policy.

When discussing salaries, perception is very important and this is where benchmarking comes into play. Every employee knows someone either within or outside the organization that is known as being better paid for doing a comparable job or even doing a job of less complexity and accountability. This employee will complain to his or her manager and this will end up on the desk of HR. At this point, it is important that the homework has been done by HR to be able to answer the questions of the business based on solid data.

People Perspective

Compensation is one of the most emotional and sensitive topics within the organization. Employees will never be satisfied with what they receive for their work. The motto is "more is always better." However, it is commonly understood that paying the highest wages will not necessarily lead to a motivated workforce. It is rather seen as a hygiene factor meaning that if an employee is unhappy with the working environment as job content, leadership, and enablement, higher salaries might help to retain this employee for a while but will not lead to an engaged and motivated employee. Eventually, this employee will leave for a position, which promises higher satisfaction (and not only financially). On the other side, if the working conditions are not right and salaries are perceived as unfair, losing the employee will be inevitable.

Internal Consistency

Part of this homework is to have a good understanding of the internal equity of pay and in the best case rewards (including benefits) for the overall organization. Thus, one can immediately answer questions like if there is a broad spread in pay for comparable jobs within the organization, single departments, certain job groups or families, etc. Thus, benchmarking internally against defined salary bands as well as the actual salary

Table 1 Why individual results might differ from aggregates

Job	Job grade	Employee no.	Base salary	Results
Brand/Product Manager I	F	1	65,000	
Brand/Product Manager I	F	2	48,000	
Brand/Product Manager I	F	3	46,000	
Brand/Product Manager I	F	4	46,000	Max: 65,000
Brand/Product Manager I	F	5	45,000	Average: 45,400
Brand/Product Manager I	F	6	45,000	Median: 45,000
Brand/Product Manager I	F	7	44,000	Min: 30,000
Brand/Product Manager I	F	8	43,000	
Brand/Product Manager I	F	9	42,000	
Brand/Product Manager I	F	10	30,000	

practice within one's own organization is crucial. If an issue with internal fairness is detected, HR should understand the causes and reasons for existing inequity and depending on the specific case think about ways on how to minimize it in the long run.

It is furthermore recommended to benchmark individual salaries instead of aggregated data only. By just looking at aggregated data like group of jobs, individual issues might not be detected.

In the example shown in Table 1, all 10 "Brand/Product Manager I" from the same company with the same job and job size receive an average base salary of 45,400. Let us imagine the market benchmark is at 45,400 as well. In case only the internal average of 45,400 is being used as the basis for the benchmark, one might not identify the extreme outliers (Employee no. 1: 43 % above/Employee no. 10: 34 % below).

The Important Link Between HR and the Business

Looking at other organizations, it should be ensured that the jobs that are used for the external benchmark data are comparable to the jobs to be benchmarked. Additionally, depending on the culture of the organization, it is favorable and easier if the criteria on how the job size is determined are transparent and may be shared with the line management and maybe even with employees. It will be easier to explain differences in salary levels between employees when the underlying criteria of the jobs are transparent. It is crucial that the line management supports the approach and agrees with a certain ranking of jobs. If the line management does not support this approach and cannot communicate this in the right way, employees again might perceive their salaries as unfair. HR and business should work closely together when discussing job requirements, job size, and pay.

Further, when discussing salary data provided by external benchmark providers, it is important to check the source and quality of the data. Often employees and line managers will pull information from the Internet that is available for free. In many cases this data is provided by employees without any additional quality assurance or it is completely unclear how the data has been put together. Thus, it is important to have a source of data that may be considered to be reliable and of high quality.

HR should be the "owner" of the data and not feel pressured to use or explain data that has been provided by other sources. It should be clearly agreed what data (source and sample) is accepted to use as a benchmark within the organization.

Ultimately, using external benchmark data should provide HR with the confidence to discuss with the business why a job should or is paid in a certain way. Additionally, it helps to reflect and challenge the requirements the business is setting for a certain job. Line management is expecting from HR that the work and tasks within the areas of responsibilities are understood. HR should advise the business on how a vacant position should be filled and what requirements are actually necessary. This is often a challenge for HR, but it is necessary in order to become a true strategic partner of the business.

Exceptions from the Rule

As useful benchmark data is when setting salaries, remember that benchmark data is just a snapshot that only reflects a certain data sample. It might be helpful to look at different sources and understand differences in methodologies and results in order to draw an individual conclusion for each organization, employee group, or individual case.

There will always be those cases where an individual salary package lies above what an external benchmark would suggest. There might be a valid reason for this. Let us assume that the employee might have taken up a job at a lower job size within the organization in order to move his or her career forward in a different area of the business. This is an ambitious and motivated employee. The last thing HR should do at this point is to freeze his salary just due to the fact that the external benchmark suggests a different salary package. Also when hiring there will always be this one perfect candidate that is coming from a direct competitor who has all the know-how and experience needed to do the job perfectly from day one. However, the salary package he or she is asking for is above what the external benchmark would suggest. In this case HR should carefully verify if this is truly a "perfect" candidate. In coordination with the respective manager, a decision should be made which allows for a package outside what external benchmark data indicates. This means that HR should also allow for the exception of the rule depending on the individual case, but very importantly do not let the exception become a rule.

Economic Perspective

In many organizations compensation and benefits are the major cost items. Thus, organizations need to weigh carefully the cost of salary increases, loosing valuable employees, and the margins they need to achieve to stay competitive in their industry. Thus, before taking any major decisions in respect to reward policy, one should make sure that a clear picture exists on the current reward practice and competitiveness. This is meant internally as well as externally.

External Competitiveness

Benchmarking externally helps organizations to understand where they position themselves in regard to salaries compared to other companies. Thus, the definition of a relevant reference market is important. HR should define and discuss internally with the relevant stakeholders (business, management, eventually employee representatives) what relevant reference for salaries outside the organization might exist. When discussing comparator companies, it is important to differentiate between business competition and talent competition. While the organization might compete in a business environment with only very few companies, the recruitment market might differ and might consist of many more companies, e.g., whole industry segments or regional focus. In general, it should be considered that jobs of supporting job families as HR, finance, administrative staff, etc., may even be recruited from organizations that operate in a totally different business field. This means that for some job families the reference market may rather be a broader market including companies across industries.

Initially, it might be interesting to receive data for several markets from different providers in order to understand the variances. Depending on the outcome of the analyses, HR may choose a main reference market for future analysis and also for adjusting salary bands. The chosen reference market should consist of a valid number of companies to ensure high-quality year-over-year movements and market developments. If too few companies are selected as reference, the risk of receiving data that differs very significantly due to technical reasons (e.g., some of the reference companies provide a different set of data to the provider) in a following analysis is very high.

From Benchmark Results to (Right) Conclusions

When receiving benchmark results, organizations tend to immediately classify the result in good or bad results. Often companies feel that positioning way below the market is a “bad” positioning. In general it should be understood that the external benchmark does not give classification in terms of a good or bad market position. How the results are interpreted depends on the compensation philosophy and strategy of the company.

The benchmark is just a snapshot on how the organization positions against the market, and the market is heavily defined by the data that is available. It is statistically inevitable that there are organizations that will pay below median or the first quartile. The statistical analysis just ranks the salaries of the benchmark companies and cuts it at the respective percentiles. Median means that 50 % of companies pay below and 50 % of companies are paying above this value. If all companies that prepare this analysis would adjust the salaries so that they are paying slightly above the median, the result would be that the median value of the reference market changes. The median value would increase, and despite having increased salaries, the organizations paying below median would most probably still be positioned below the median in the following analysis. If this continues, organizations would just cause to increase salaries and costs from year to year. If the organization does not experience a high turnover rate in general, there might not be a need to change salaries or salary bands at all.

The external benchmark provides the opportunity to identify areas where there might be a cost potential and to leverage this economic potential. Thus, one can identify departments or groups of employees which entail the highest costs. Additionally, conclusions may be drawn if these are employees that are critical to the business or if there is a potential to streamline costs.

After preparing a benchmark analysis, some companies came to the conclusion that they were paying way above the market for those employee groups where they had most of the employees and which had a lot of supporting and administrative functions while the key talent and managerial positions were paid rather below the market, and there was a risk of losing especially those employees. Of course, this was not something that was intended, and the benchmark helped to identify the pain points and to identify and implement measures to balance costs.

Thus, organizations should not rush to immediate action by increasing, freezing, or lowering salaries when receiving the benchmark results. As stressed before benchmark data just shows one reality based on the selected sample, and thus benchmark data should not be taken literally. Consequently, the organization should reflect upon one's individual situation and find an individual solution that fits the strategic and economic situation of the company. If the company is undergoing a strong cost-cutting exercise, benchmarks should be used to identify the areas where this may be done without risking losing key talent.

Why Investment in Benchmarking Is Important

When preparing a market benchmark for the first time, organizations are often worried about costs involved in preparing the analysis as well as implementing the actions triggered by the outcome. What happens if the organization is paying below median or way above the third percentile? Will there be an immediate salary increase? Should wages above the third quartile be frozen? Especially in situations where organizations are under pressure to cut costs, spending a small amount of money on good qualitative data and preparing a thorough benchmark analysis may save a multiple of the invested money. Without having the relevant information at hand, the organization runs the risk of increasing salaries that are already comparably high and causing hereby even higher personnel costs overall and not investing enough in the business critical areas.

Additionally, losing talent due to uninformed pay decisions will lead to increased costs caused by the processes of finding new employees, the investment needed in knowledge transfer, development and training, as well as demotivating other employees. If a company is experiencing a high turnover rate, benchmarks may help to understand if salaries that are too low are a contributing factor or if there are any other issues at hand. Companies may consciously decide that they want to pay very attractive salaries and provide exquisite benefits to attract and retain the top talent. Benchmarks help to make this decision consciously and provide a good basis to communicate this also to the employees and derive the greatest benefit from it as long as it fits the strategic and economic situation of the organization.

From an economic perspective, it is advisable that organizations understand the potential they have by understanding how the salaries are positioned and manage them accordingly.

Risk Perspective

Due to increasing business complexity, it becomes more and more important to be aware of potential risks for the organization as well as managing and minimizing it accordingly. In terms of salary management, benchmarks can help to minimize risks in regard to the risk of incurring too high costs, losing key talent, as well as creating a discouraged workforce. Benchmarking also reduces a major risk of law suits regarding unequal treatment, because it builds an objective basis for salaries.

Avoiding High Costs

The impact of benchmarking on cost management has been explained in the previous section. However, it may not be stressed enough that companies are facing a serious risk of spending too much money in the wrong areas when trying to manage salaries without knowing how the current salary practice is positioned. Thus, benchmarking is not necessarily about saving costs, but making sure that the money spent on employees is spent in the right way. For example, if an organization is already a high-paying company without intending this position, any salary increase which might be in the market considered to be a typical increase as a percentage will add up to the already very favorable market position. If all competitors of one high-paying organization are increasing their salaries by 5 % and the organization follows this increase, the absolute effect will be that the already high-paying company positions themselves even higher. Thus, for the high-paying company, it may be enough to increase by 3 % without jeopardizing the competitive positioning of its salaries. The saved money could then be spent on other HR projects without increasing the employee costs in the long run.

Avoiding to Lose Key Talent and to Discourage Employees

Benchmarking, based on thorough understanding of the job and qualitative data, gives HR the tool to discuss individual cases at eye level with the managers. Being able to understand the salary position of the individual can help to discuss salary increases based on the current position as well as taking into consideration possible career movements of the employee in question. This ensures that employees receive a fair pay package and that other issues might be identified which are hidden behind the demand for higher pay. As pay may be considered as a hygiene factor, it is important that the housekeeping is done, and this helps to retain the talent in the organization. In order to avoid dissatisfaction, it may not be stressed enough that analyzing the internal equity of pay should be not neglected in the course of benchmarking activities.

Using Reliable Data Sources

In order to ensure that the results of a benchmark analysis are valid and lead to the right interpretations and decisions, it is of utmost importance that the data source is chosen carefully. As one provider is only able to provide a certain snapshot of the defined market based on the data that is available in its database, many companies decide to use more than one data source. This makes sense in order to get a more complete picture and to get a better feeling on what the actual pay market might look like. This minimizes the risk of relying on one data source which may lead to decisions that are biased due to the available data set. Using more than one source helps also to be able to challenge the data of one provider and to understand the variances that may exist in one market. Having a broader picture will help HR to make informed decisions in regard to salary management and thus minimize risks in regard to retention and costs.

Operational Perspective

Benchmarking might be a daunting topic for HR organization as different providers, approaches, and outcomes might make an individual interpretation of results look more complicated than it actually is. HR should dedicate some time in selecting the right approach and source, and benchmarks will soon benefit the organization.

The right benchmarking approach depends on the specific needs, the size and complexity of the jobs in scope, the potential risk or costs involved, as well as the level of accuracy and detail required to ensure acceptance and communication of the results to stakeholders. Job title matching is too imprecise in most cases and will provide no data if there is no benchmark job description available. But analytic job

Table 2 Why job titles should not be used for benchmarking

Job title	General manager	General manager	General manager
Company	ABC Company	DEF Company	GHI Company
Revenue	5.000 Mio	800 Mio	500 Mio
Employees	15,000	5,000	250
Ownership	HQ	HQ	Subsidiary of ABC
Scope	Global	Europe	Europe
Accountability	Responsible for full value chain	Responsible for full value chain	Sales of one product in a developed country
Total Cash	3,000,000 USD	1,200,000 USD	500,000 USD

evaluation might be too expensive and unnecessarily complex in certain situations as well.

Some skills are very rare in the market, and there will always be functions where pay needs to stay competitive. However, for some roles, there are also opportunities to save money when recruiting. Make sure you have a common understanding of job requirements and content across the company. Most discussions ("We are not able to hire the talents we need for this money") happen because of a different understanding of job requirements. Involve line managers in the job-sizing process as they have the best knowledge of the jobs, but do not fear to challenge the described requirements.

The Right Approach for Different Needs

When benchmarking, one may prepare an analysis for the overall organization and a selected group of employees or focus on one individual. However, irrespective of whether the aim is to benchmark a single job in engineering, a group of sales jobs, or the whole company practice on a global level, it is crucial to ensure that one compares apples with apples – meaning comparing jobs that are actually comparable. Job titles insinuate a certain job content, and one might be tempted to think that jobs with the same title are to be held accountable for the same job content and thus comparable. However, this is true in only very few cases. Jobs might have the same job title but are not comparable at all. Job holders may require different skills and expertise to deal with different levels of complexity within and outside the organization they are held accountable for (see also Table 2). Job titles are typically chosen individually in each organization, and thus, in comparing jobs across organizations, one should check job content carefully. This might even hold within one's own organization.

Thus, the question is how to ensure that the jobs that are underlying the benchmark data are comparable with the jobs that are in focus of the analysis? Various methodologies and benchmarking providers are available to allow like-for-like comparisons. In order to ensure high-quality, consistent, and relevant data, it is important that the data that is provided is:

- Up to date
- Reliable and quality checked
- Collected using the same methodology (going beyond the job title) for all participating companies of the survey
- Has been provided by the employer, not by employees

If HR is using more than one survey provider, it is necessary that companies bridge the existing job-sizing approach to the other provider's approach. Some survey providers offer so-called bridging tables for easy access to customers using another provider's methodologies for job sizing and grading. As it might be tempting to use these tables, one should be aware that depending on the methodology the differences might be significant and that it is impossible to provide accurate generic bridging tables. Thus, always check and validate the bridging table and customize it to one's own organization before using it as differences of just one job size will have a significant impact on results and consequently on managing salaries and costs.

Reference Market/Peer Group

Companies tend to define the reference market or peer group by duplicating themselves (e.g., same region, same size, focusing on business competition). However, the comparator market for talents might be different from the business competition. The question is to whom they lose talents and where they find them. Furthermore, location, industry, function, and job size might have an impact on reference market and vary by employee group and country. Reward packages and levels differ significantly by the above and are not the same in every country.

Industries: Salary levels also vary significantly by industry. While global comparisons on a purely industry level are difficult and not recommendable, a better way to compare is by combining location and industry, for example, "US American automotive industry" or "German chemical industry." For these clusters, benchmarking is important because talent is highly mobile within such clusters. These days oil and gas companies tend to pay the highest salaries across countries. However, for other industries like retail, high tech, chemicals, or fast-moving consumer goods, this differs by country and employee group as it depends on what kind of business/operations they run, the competition they face, the political and economic environment, strengths of unions/agreements, and of course what jobs they offer in a certain country.

Geographies: Like industries, geographies are important selection criteria for reference markets especially in big countries. Salary and benefits practices and levels clearly vary by country (e.g., between emerging markets and established markets). Salary levels clearly vary by location (e.g., rural locations and urban locations) as well.

Size and Ownership: Salary and benefits practices and levels in a certain country or peer group might also differ between private and public organizations, big and small companies, as well as between local and foreign-headquartered organizations.

Table 3 Weighting – why it is important to know the details

Company	No. of employees included in survey results	Base salary in USD
Company 1	100	50,000
Company 2	100	50,000
Company 3	100	50,000
...	...	...
Company 14	100	50,000
Company 15	2,000	25,000

The right reference market should be the result of an intensive discussion between HR, the business, as well as the survey provider.

Depending on the reason for the benchmarking project, the reference market should meet different requirements:

- One-time exercise: The more specific the selected peers, the better. It is advisable to check results with a broader peer group to identify possible anomalies within the specific peer group analysis.
- Annual benchmarking: The reference market/peer group should be big enough to prevent from anomalies (companies dropping out/in from the providers database every year).

Calculation of Market Data

Be aware of the calculation and weighting methodology used by the survey provider. To take the right conclusions from a benchmarking exercise, one should know if the data provided is raw data or has already been transformed or manipulated.

There is no right or wrong, but depending on the aim of the benchmarking exercise, one approach makes more sense than the other. The small example below shows why it is important to know these details.

Example

The market practice of a peer group of 15 companies is calculated. In this example, all employees in each company get exactly the same base salary. The peer group contains 14 high-paying companies with 100 employees each as well as one low-paying company with 2,000 employees. This means the peer group includes 1,400 employees from the majority of companies with a base salary of 50,000 as well as 2,000 employees employed by just one company with a base salary of 25,000 (Table 3).

Depending on the weighting methodology, results may differ significantly.

- Weighting each employee individually:
  - Average: 35,294 USD

  - Median: 25,000 USD
- Weighting the average of each company:
  - Average: 48,333 USD
  - Median: 50,000 USD

These are just two examples on how to calculate market data and many more approaches are possible. However, the results above already differ by 41–100 %, and this is a good reason to know the advantages and limitations of the methodology applied by each provider.

Compensation Elements

One should be sure to understand the definitions of the compensation elements and aggregates from the survey providers as they might differ between each other as well as from the company practice or your expectations.

For various reasons the importance and value of compensation and benefits elements differs from country to country. While housing allowances are important in the Middle East, they are less important in Western Europe. Company cars also might be more important in one country, while healthcare benefits are more common in another. It is a common mistake to think reward practice in another country is the same like it is in the home country. Thus, it is important to compare with the compensation elements important for the specific market.

Reward policies and therefore market positions differ from company to company. In the best case they are aligned with the business strategy and they focus on different elements to support and reflect this strategy. Therefore, the market position aimed at, e.g., median position in base salary might not be the same for total remuneration.

Consequently, the competitive position in a reference market can differ depending on the compensation element or aggregate analyzed. A total remuneration benchmark provides a more complete picture than just base salary comparisons. Even though one company's compensation and benefits package does not include a generous bonus, an attractive pension scheme, or a company car, they should know whether their competitor's package offers these. Therefore, it is advisable to compare the whole package and not just single elements.

Let us have a look at the example in Table 4. Just looking at base salary will show a very competitive market position for the President of ABC Company. However, as short-term and long-term incentives are much lower than the market, the compa-ratio for total direct compensation is down to 92 %. With a more competitive benefits package, the President of ABC Company is paid exactly at market median. This is fine in case the aim of the company is to position at this level. If the aimed position is 30 % above market median (like total cash at target), further actions might be required.

Looking at the total remuneration package including statutory benefits might be helpful in simulations for investment scenarios. Some providers offer these insights

Table 4 Why it is important to look at the full picture

	Peer group median	President, ABC Company	% of median
Job level	CEO	CEO	–
Base salary	**650,000**	**950,000**	**146**
Target incentive in %	54 %	37 %	68
Total cash at target	**1,000,000**	**1,300,000**	**130**
LTI expected value	900,000	450,000	50
Total Direct Comp	**1,900,000**	**1,750,000**	**92**
Benefits total value	200,000	350,000	175
Total remuneration	**2,100,000**	**2,100,000**	**100**

including costs per working day – excluding national holidays and vacation. This allows like-for-like comparisons when deciding for new locations.

Dos

Spend some time to define the organization's peer group. Companies tend to define the peer group by duplicating themselves (e.g., same region, same size, focusing on business competition). However, the comparator market for the company's talents might be different from the business competition. The question is to whom these talents are lost and where they are hired. Furthermore, location, industry, function, and job size might have an impact on the organization's reference market and might vary by country.

Differentiate by location. Salary and benefits practices and levels clearly vary by country (e.g., emerging vs. established markets). Salary levels clearly vary by location (e.g., rural vs. urban locations).

Differentiate by industry. Salary levels also vary significantly by industry. While global comparisons on a purely industry level are difficult, a better way to compare is by combining location and industry (e.g., American automotive industry or German chemical industry). Benchmarking for these clusters is important because talent is highly mobile within such clusters.

Differentiate by function and job size. Some skills are very rare in the market, and there will always be functions where pay needs to stay competitive. However, for some roles, opportunities exist to save money when recruiting. Ensure a common understanding of job requirements and content across the company. Most discussions ("We are not able to hire the talents we need for this money") arise from a different understanding of job requirements. Involve line managers in the job-sizing process as they have the best knowledge of the jobs.

Do benchmarking regularly and consistently. Compensation benchmarking should be done on a regular, yearly basis. In fast-emerging markets, a mid-year review is advisable to keep pace with the market dynamics.

Benefits benchmarking does not require as high a frequency as compensation benchmarking, because benefits usually develop more gradually.

Challenge the company's survey provider(s). Become an informed survey customer to be able to interpret the market data from different providers.

- The survey provider should be transparent about survey participants, the structure of the database, the used methodology, as well as how data are collected, checked, and processed. Question providers not asking the company to submit data or offering a nonparticipating fee. Ask: If they do the same with other customers as well, what do they upload to their databases?
- Do not focus too much on two or three peer companies on the participant list. Having one or two well-known companies on the participant list might help with internal acceptance, but in a valid data sample, the impact on market levels will be limited. Much more important is a representative number of companies within the chosen peer group parameters.
- Ask for support in interpreting the data to find the right conclusions. Ask for local support to ensure awareness of market specifics.

Do benchmarking internally as well. Look at internal consistency before benchmarking externally. Employees will become frustrated when they do not feel as appreciated as the coworker doing the same job.

Don'ts

Do not stop at cash compensation. Use a total remuneration approach rather than base salary comparisons. Even though the company's compensation and benefits package does not include a generous bonus, an attractive pension scheme, or a company car, find out whether the competitor's package offers these.

Do not exchange salary data directly with competitors, as doing so can violate antitrust laws. Prior to exchanging any tangible data with competition, make sure that this is in line with applicable laws.

Do not use cheap data. Information about salary levels is available for free on the Internet. It could be tempting to use this information in order to save money on professional consultation. However, a diligent, professionally differentiated approach is necessary to find the right comparison.

- Make sure to use a source where data are delivered by HR professionals of the participating company only and not from employees.
- Professional providers will provide support in job matching/job mapping meetings.
- If they do not know your organization, how should they make sure your submission is correct?
- Choose a survey provider who collects individual data instead of average by job to ensure representation of the full dispersion of pay for the population.

Saving money in this area is like saving money on an oil change for a luxury car: It will cost much more later than what is saved today.

- Not paying enough for a certain job family and level will cause attrition of key talent.
- Overpaying will cause cost to be too high in comparison with competitors.

Both mean high, unnecessary cost. A seemingly cheap solution can turn into a clear loss.

Do not be afraid if pay is below the market. When turnover rates are okay and the organization can still attract and retain the talents needed, salaries do not have to be increased.

Final Comments and Outlook

It has been shown that benchmarking is a valuable tool to support decisions on salary management. It is important to prepare thorough analyses on internal equity as well as external competitiveness focusing not only on employee groups but also being able to identify individual cases in order to create a solid basis for general salary increases, definition of salary bands, and individual salary decisions.

However, HR should not forget that benchmark data will never be able to show the true market pay. The data will always just show part of the truth based on the data that is available from the provider. The data should not be taken too literally meaning that the data should be used to take informed decisions, but being aware of the limitations. It is not advisable to use, for example, the benchmark data one to one as salary bands as this will not incorporate the company's individual pay situation. HR should always interpret the results in the light of the organization's strategy and individual situation and conclude in individual decisions. When benchmarking companies should keep in mind that what most other companies are doing is not necessarily the right way for one's own organization.

Cross-References

► Compensation and Benefits: Job Evaluation

Compensation and Benefits: How to Stay Competitive in Emerging Markets 49

Serhiy Goncharov

Contents

Abstract

Reward management in emerging markets is difficult. Economical adversities are multiplied by volatile labor market, salary hikes, pay link to hard currencies, and grey schemes of compensation. Strict corporate governance adds into it. To be competitive, companies need to choose competitive pay level among right comparator group; properly sell its benefits, integrity, and transparency; continuously gauge the market; and be ready for surprises and abrupt changes.

Keywords

Pay and benefits • Emerging markets • Reward • Devaluation • HR community • Pay positioning • Salary • Benefits • Comparator group

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Introduction

Managing reward in developed economies is relatively easy. Employer gets her pay positioning and benefits package right once and then just does regular routine reviews. The turbulence in salaries on mature markets is minimal; low levels of inflation and other macro fluctuations are corrected with marginal salary reviews.

Situation on emerging markets is completely different. There is high turbulence in economy. Market conditions could change upside down overnight. High economic and political volatility is usually compaginated with scarcity of quality talent (usually there is outflow of bright people to developed countries and raging war for talent) which leads to fierce competition in pay and benefits. Despite their unpredictable character and ambiguity, this kind of markets has big growth potential and is actually growing; hence, they are very attractive for business but are very complex for pay and benefits management.

Reward manager main enemies are not only turbulent macroeconomy – devaluation of local currencies and inflation hikes – but also double-digit salary growth, salary payments in hard currency, "grey" salary schemes (cash envelopes not reported officially), and heavy corporate governance which affects flexibility and does not allow quick response.

After such a vivid exposure of issues the reward manager is facing on developing markets, a very fair question would be how come they manage to operate and survive? To the regret of many, there is no silver bullet, one-fits-all response to abovementioned challenges. Still many companies not only successfully manage their businesses but also thrive. What is the secret?

Again the seekers of magic solution will be upset. There is none. However, based on experience, there are some practical guidelines which could help to navigate in these messy waters without running into unnecessary storms or rocks.

Get Comparator Group Right

The market is very diverse. There are many small private enterprises, big industrial monsters owned by local tycoons, banks, and state-owned companies and multinationals. The main task is to identify those alike to your business and scale. If you are the light welterweight Kostya Tszyu, you would not like to find heavyweight superstar Wladimir Klitschko in the opposite corner of the ring. So if the company is in FMCG (fast-moving consumer goods) business, it should not be compared with coal mine or insurance company. Chances are that they are competing for different pools of talent and companies' financials are different.

Competitive Pay Positioning

Considering raging war for talent and high range of unfair tricks of local competitors (e.g., not officially reported, hence tax free, cash envelopes), pay position strategy has to be quite aggressive. To have moderate levels of turnover and strong attraction, a power company needs to target its salaries to the upper quartile of the market pay spectrum (P75 for top talent and key roles).

Leverage Integrity and Transparency

Being good citizen in the villains' town might seem unwise and dangerous, but, considered from the different angle, serves as advantage and helps to avoid bigger problems. If the company is a compliant employer, not paying bigger part of the salary in "grey" cash envelopes, it is not evading taxes and therefore bearing higher employment costs. Therefore, this company's ability to compete with dodgy salary reduces. However, on the other hand, even paying less in absolute amount, employer can be more attractive for the employee. Why? If all the salary is paid officially and includes all the taxes, employee is getting such benefits as higher pension and social security contributions. And if she wants to get loan or mortgage, she will be able to present to bank official statement of her real income. The happy recipients of cash envelopes are deprived of this luxury. Not all candidates appreciate these virtues, but those who are will definitely match company's ethics and corporate values. So this "disadvantage" will serve as filter for candidates lacking integrity, those good businesses would not like to have on its payroll.

Do ut des: I Give, So That You May Give

If the company wants to attract best talent and expect loyalty and good performance from it, it should be ready to provide good package of benefits, especially if it cannot outperform the market in salary. Benefits offered should reflect comparator group practice and if feasible have one or two items on top, for example, providing medical and life insurance (the same as 80 % of market does), plus on top paying sport club membership for the employees, which is not among widespread market practices.

Beware of the Black Swans

The main rule of the developing economies is never rest on your laurels. Beware of uncertainty and high volatility. Emerging markets with their turbulent economies are exposed to the highly improbable, to the black swans (metaphor introduced by Nassim Taleb to describe an unpredictable event with huge and disproportional impact). The reward manager shall not blindly believe the stats, previous history, odds, and experience. Chances are that what is deemed as highly improbable or even impossible will actually happen (Taleb 2007). The recent case in Belarus can serve as an example. During the 2011 crisis in Belarus, there was a huge devaluation of local currency, more than 300 % at its peaks. All the previous experience, including the recent Ukrainian hryvnia downfall in 2008, told that the market will not compensate adverse devaluation effect on salaries. It was absurd; the maximum that was expected was inflation compensation. But the market actually compensated the devaluation hit. Over 2 years, salaries grew more than 100 %. Those who did not follow the market lost big part of their personnel. So never say never.

Have Good Intelligence and Strong HR Community

To avoid unexpected hits, the reward manager needs to consistently gauge the market. Normal time span of market salary survey does not work well in emerging markets. When results arrive they are already outdated, and chances are that the aging assumption was wrong – the current situation on the market is not reflected properly. Thus, the judgments and decisions are wrong, and company can lose its competitiveness.

Ad hoc mini surveys and occasional spot checks could be helpful but are not enough. The reward practitioner needs to be in touch with the market. He needs to reach out for help to fellow HR colleagues. Strong HR community is of great help for building valuable market insights and shaping salary market to drive out ambiguity and minimize unexpected shocks. Pay and benefits communities have proved to be very effective especially on emerging markets. Going through very difficult times of drastic devaluation of local currencies, being in contact with colleagues from other companies helps to get a better view on situation, understands market moves, enables to make right calls, and prevents from taking some wrong decisions.

Timely insights from HR communities are also providing strong base for justification of reward proposals to the company leadership or corporate headquarters if there is a case.

Final Comments and Outlook

Emerging markets are good for the companies as they have huge growth potential. Labor cost is relatively cheap and there is a good talent pool. Managing reward in this environment is difficult. It requires resilience, open mind, and agile decision making. The reward practitioner shall not blindly follow textbooks and his experience (especially if she is coming from the developed and mature markets). Having the basics right, she should reach out to colleagues from other companies, continuously monitor market developments, and be ready for improbable events and nonstandard solutions.

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Compensation and Benefits: Essentials of Base Salary

50

Andreas Hofmann

Contents

Abstract

The following chapter is a comprehensive overview of the topics and best practices relating to base salary. Base salary is a fixed amount of money paid to an employee by an employer in return for work performed. In this chapter, base salary is further defined and its purpose explained. The chapter helps readers understand why developing a company philosophy on base salary structure is important and discusses how managers can work with different approaches for

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their company. The two usual approaches for base salary structure creation are identified (pay for the job and pay for the person) and explained. Readers are then introduced to the concepts of broadband and salary ranges. The chapter shows how broadband and salary ranges function and why they are vital in the creation of a base salary structure. Readers are also taught the practical issues surrounding base pay structure from the four perspectives: people, economic, risk, and operational. The lessons learned from this chapter are summarized in the "Dos and Don'ts" section that will give managers basic tips on how to develop a base salary structure. Upon reading the chapter, readers will have a full understanding of base salary's definition and its importance and how managers can create a successful base salary structure.

Keywords
Base salary • Salary ranges • Merit increase • Compa-ratio • Salary structures

Introduction and Overview

The aim of the following chapter on base salary is to provide an overview on different approaches, their practical challenges, and solutions on how to manage base salary systems efficiently. When discussing base salary management, it is obvious that there are overlaps not only with grading/job structures and benchmarking but also with individual performance management. You can find detailed information on these specific topics in the relevant chapters to avoid duplicate information.

What Is Base Salary?

Base salary is a fixed amount of money paid to an employee by an employer in return for work performed. Base salary does not include any benefits, bonus payments, or any other potential compensation from an employer. It is paid monthly or in a biweekly paycheck to an exempt or professional employee.

Base salary is the largest component of the total compensation package for most employees (exceptions might exist for sales and executive roles in organizations that heavily utilize variable pay and equity plans). From a company perspective, base salaries represent the largest personal cost item for the organization and, if managed poorly, could impact the company's overall organizational performance.

Developing a Compensation Philosophy

Base salary is an integral part of the total compensation approach of a company and, therefore, should not be ignored. The first step is to define a compensation program that fits the organization's overall compensation philosophy. A sound compensation philosophy that has been developed with input from senior management typically answers the following questions:

- How will the compensation philosophy reinforce the organization's overall business strategy?
- Who does your organization compete for employees (retention and attraction)?
- Where should your pay levels for different compensation components be positioned in the market (i.e., below market, at market, above market), and how can this vary in different markets or business segments?
- Based on the culture of the organization, what is the right balance between internal and external equity?
- What amount of pay will be fixed, and what amount will be variable?
- How will you take into account individual performance (base pay movements, short-term variable, etc.)?
- Will rewards be based on individual or group performance (variable pay)?

A formal compensation philosophy is an industry best practice. Depending on the industry, many organizations will match base salaries with the external market median (50th percentile) for full-time employees. This is usually to ensure that the organization can attract and retain talent while keeping the costs of recruitment and training associated with high employee turnover at a minimum. Depending on the organization's business strategy, the underlying compensation philosophy might also land above or below the market for base salary. This depends on the industry and the competition for talent or specific skills in the relevant market. Compensation philosophies are globally defined but need to address the local market circumstances, as the situation for attracting and retaining employees might be very different from one country to another. The compensation philosophy should be reviewed regularly and adjusted as necessary to support business strategy and general market changes.

How to Define Base Salary Structures

A structured approach is needed to efficiently manage your base salary. It provides a basis on which you can group your jobs by relative job worth to reflect internal equity. To define a sound base salary structure, certain steps are needed:

– Analyze the jobs in your organization to gain an understanding on what jobs are important in the future to support your business strategy. Determine if there is a special need to retain or attract.
– Structure the jobs (by different approaches like career mapping, whole job ranking, or analytical grading approaches) to reflect internal equity and allow a comparison with the external market.
– Analyze the market to find out which pay structures (fix vs. variable pay) and absolute levels are common and who you need to compete with.

– Define how the organization will administer base salary developments and where individual performance is reflected.

First, you will need to structure your jobs based on a career ladder approach or grading system (cross-reference to ► Chap. 47, "Compensation and Benefits: Job Evaluation"). Usually, these structures will be used to define underlying salary ranges either for the current jobholder (pay for the job) or for the person himself (pay for the person).

Theoretically, there are two major approaches known in the market to determine base salary. The pay for the job approach is based on the role an employee plays in the organization and how well they perform that role. The pay for the person approach is based on what an employee brings to the organization in the form of knowledge, skills/competencies, and behaviors. The current trend in the market is that both approaches are coming closer together to form a combination in practice. What is happening is essentially the combining of classical grading evaluation approaches with individual competencies to form a career approach. The advantage is that many HR systems and processes can be aligned and use the same structure.

The following will explain the two approaches before evaluating the practical issues from the four perspectives: people, economic, risk, and operational.

Pay for the Job (Merit Pay)

The pay for the job or merit pay approach is based on the value a position has within an organization and how proficient an employee is in that position. Employee performance over time is also taken into account. In order to determine the value of a job position within an organization, both the external market value and relative internal value need to be specified. This will allow the organization to set a range of base pay opportunities for incoming employees. How much pay the employee will end up earning will depend on his or her performance and proficiency in the role.

The idea behind this philosophy is that pay will fluctuate depending on the performance of the employee and the position of the current pay rate in the set range of base pay opportunities. If an employee is a high performer and receives a pay low in the range, he or she will be able to earn the largest pay increases. On the other hand, an employee who is a low performer and receives a pay high in the range will earn the smallest increases. Over time, the pay levels will converge. However, if this philosophy is ignored and employees are simply granted pay raises regardless of their current pay rate, those who are paid more will drift away those who are paid less.

Pay for the Person

There are two main approaches when determining base pay on qualifications: (1) knowledge-based and (2) skill-based.

Knowledge-Based Pay

Knowledge-based pay is typically measured by career ladders, as career ladders are an effective way of identifying expertise levels within the same occupation or specialty.

The following example demonstrates how career ladders affect knowledge-based pay: A junior programmer will typically have around 0–2 years of job experience in addition to a university degree, whereas a senior programmer can have a university degree plus up to 10 years of experience. Both the junior and senior programmers have different levels of expertise and are expected to perform the same basic programming task with varying degrees of knowledge, skill, and responsibility. In addition, the senior programmer will have a more extensive network and portfolio, be an experienced troubleshooter, and have superior management skills resulting from more years on the job.

At one point, however, the senior programmer started out as a junior. This employee went through a career progression that is characteristic of the programming profession. How fast the senior programmer climbed the career ladder was based on this individual's abilities and the manner in which he or she gained knowledge in the programming field.

If an organization decides to use an integrated salary structure, then the levels of career progression can be placed into individual pay ranges based on relative internal equity and/or external market rates. The pay range of each career level is the range of base pay opportunities for future employees. As soon as an employee has developed to the point of fitting into a higher level, then a promotion can be awarded. Many are of the opinion that this is very similar to a job-based system using merit pay and that it should be treated as so. The difference, however, is that employees are designated a level, and progress is based on their expertise rather than on their specific job assignment. In other words, their pay is based on what they are capable of achieving as opposed to what project they are completing.

In the case of the senior programmer, he will always belong to a higher level based on his expertise regardless if he is working within a team or leading a team.

Skill-Based Pay

In the case of skill-based pay, the base rate is determined by the number of job-related skills an employee has learned, how well they can perform those skills, or a combination of both. This could be applicable in a situation where management requires a workforce to master three job-related skills or skill sets. They may decide that they want each person in the workforce to possess these three skills. Each new employee would start with zero skills and begin by learning on the job to work his or her way up to three. Pay would then fluctuate depending on how many skills the worker obtains during employment.

Under this system, the average pay rates have been shown to increase. However, this does not have to be the case. As employees learn additional skills, there is the opportunity to decrease the staffing level to use a fewer number of employees more efficiently. Since the smaller workforce has a higher skill level, the team is still able

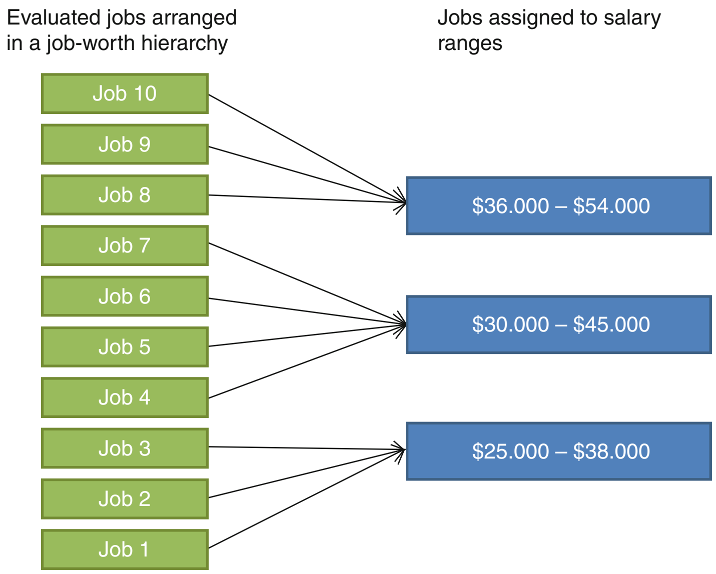

Fig. 1 Process of building salary structures

to manage the workflow. Average pay rates may not only stay the same but also decrease. Consequently, skill-based pay can increase productivity while also controlling costs.

Keep in mind that skill-based pay is not suitable for all working environments. It is important for companies to understand where it fits. A skill-based pay system could be difficult to implement in working cultures where the longevity of employees is of greater value than their performance. In such cases, it is harder for management to get around employees who have been working in a position for a long time but have not mastered the right skills.

Base Salary Structure Development

A structure for base salary ranges is needed regardless if a pay for the job or pay for the person approach is being used. The reason for salary ranges is to group jobs based on their internal equity in a company. Ranges are based on either grading system or career map approaches. Each salary range has a minimum, midpoint, and maximum salary level; please see Fig. 1. The distance between the minimum and maximum point is called the grade or range spread. Range spreads are typically between 30 % and 60 % and usually increase as salaries increase. In addition, the distance between each range midpoint should be the same.

It is important that ranges are always limited to a reasonable number; however, they also need to take into account variations among employees. For example, the

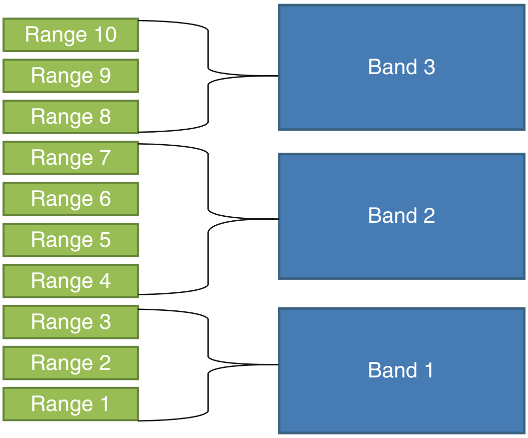

Fig. 2 Broadband versus salary ranges

salary range should be large enough for an entry level employee but also fit an employee who is a high performer and has previous relevant experience.

There are two approaches to define bands: broadband or salary ranges.

Broadband Approach

In a broadband pay structure, bands are wider meaning there is a larger distance between maximum and minimum salaries. This creates fewer bands in a salary structure. Broadband structures tend to place greater emphasis on career development opportunities. One advantage to having a broadband pay structure is that it provides greater flexibility to an organization in paying employees what they need to in order to attract and retain capable employees. Through accumulating years of service and annual merit increases, however, an employee can end up being paid more than a company desires. This is because the band maximum is higher than what is required by the market.

Salary Range Approach

In a salary range pay structure, bands are narrower meaning there is a smaller distance between maximum and minimum salaries. This creates more bands in a salary structure. As opposed to a broadband pay structure, the problem of overpaying is usually solved as employees reach the maximum pay rates sooner through the salary range approach. However, if the ranges are too narrow, it can create a challenge for companies to remain competitive with their salaries. Companies either have to adjust the ranges or "promote" the employee to a higher range to enable paying them more. This can cause issues of internal inequity and employee dissatisfaction. Please see Fig. 2.

Broadband and salary ranges can overlap. In this case, the maximum salary of one band can be higher than the minimum salary of the band above it. Positions can then be grouped into bands/ranges using a career ladder approach or grading system. Each broadband and salary range should have a corresponding minimum salary, a target rate (orientation rate), and a maximum salary:

– Salaries between the minimum and target rate are for employees who are still learning the job or whose performance does not meet expectations.
– Salaries at the target rate are for fully functioning employees whose performance meets performance objectives.
– Salaries between the target rate and maximum are only available to employees whose performance is considered exceeding objectives.

The number of ranges required to compose a structure is determined by the following considerations:

– The number of skill/responsibility distinctions evident in the organization's job-worth hierarchy
– The number of supervisor-subordinate relationships in the company's organizational structure
– The degree of emphasis on career development and progression

Generally, the more range levels there are, the more administration is required.

The absolute value figures for your salary ranges need to be developed based on:

(a) Your compensation philosophy, especially the positioning of the organization against the market (and if you would like to distinguish between base salary and total target cash (TTC) positioning)
(b) Your current compensation system (cost structure and positioning of jobs) and where you are positioned in the market
(c) The overall affordability for the organization

Please see Fig. 3.

So far, this chapter has captured the basic foundations on how to structure a base salary system. The following will discuss practical issues from the four perspectives: people, economic, risk, and operational.

People Perspective

From the people perspective, it is important that employees understand how their base salary is defined and what internal and external factors drive base pay development. The word fairness is difficult when discussing pay, because everyone interprets fairness differently. Therefore, the focus should be on transparency, which helps to increase the perceived fairness of any system.

The most important is how the usual annual review of base pay is structured, and what impact market positioning and individual performance have on individual adjustments. Sometimes, it is difficult to explain where individual performance is reflected in the different compensation systems, but organizations should be explicit on this. Individual performance should definitely impact individual base salary progression and usually the individual bonus (except for organizations that use

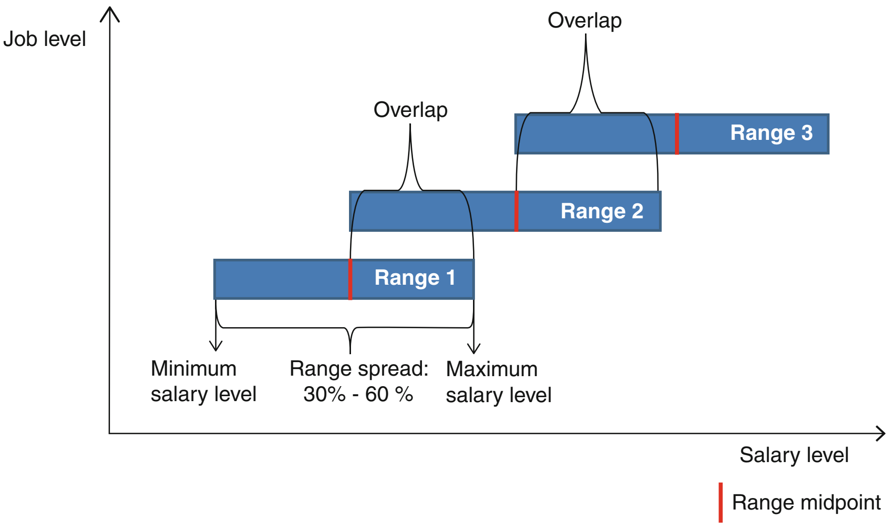

Fig. 3 Schematic salary bands

profit-sharing models). This establishes a strong link to performance management See ► Chap. 25, "Performance and Talent: Introduction and Overview."

There are several factors impacting the decision to adjust salaries: overall budget of the organization, country-specific compensation trends, position of the individual's current target cash compensation vs. market, individual performance, and, last but not least, the judgment of the manager.

To handle these aspects effectively, many organizations use a merit matrix which is based on the following two principles:

– High performers should receive a higher pay increase than low performers.
– Incumbents with a current total target cash compensation positioned in the lower range of the salary band (or below market) should receive a higher increase than those positioned in the upper range of the salary band (or above market).

The merit budget for a specific country is generally defined based on external benchmark data and economic aspects (see economic perspective). It is market best practice that a merit matrix serves as a management tool to guide individual merit increase decisions. This grid provides proposed increase percentages for each possible combination of individual performance and relative position in the salary range (to the market). Parameters of a merit matrix reflect the below outlined general guidelines:

– If defined performance is achieved and the salary is close to the respective salary range value, the standard merit budget factor will be applied as a proposed merit increase.

	Salary Increase Percentage		
Performance Rating	Low in Salary Range	Middle of Salary Range	High in Salary Range
Exceeds Expectations	6%	4%	2%
Meets Expectations	4.5%	3%	1.5%
Does not meet Expectations	0%	0%	0%

Fig. 4 Merit increase matrix

Option	2012 (n=979)	2010 (n=1,337)
Individual performance against job standards	66%	73%[4]
Individual performance against MBOs or similar personal objectives	58%[5]	44%
Position in range	56%	54%
Market value of the position	50%	55%
Skill or competency acquisition	20%	25%
General increase - everyone receives the same increase	12%	11%
Years of service	9%	13%
Education/certifications	9%	10%
Other	4%	4%

Fig. 5 Methods (Source: Compensation Programs and Practices 2012, a report by WorldatWork, October 2012)

– The higher the individual performance, the higher the proposed merit increase; the lower the individual performance, the lower the proposed merit increase.
– The higher the salary as compared to the respective salary range, the lower the proposed merit increase.
– The lower the salary as compared to the respective salary range, the higher the proposed merit increase.

Please see Fig. 4 for a typical merit increase matrix. Figures 5 and 6 show the results from a WorldatWork survey on how companies handle salary increases and what methods are used for base salary increases.

The main issue with this grid is usually the upper right-hand quadrant, because employees with great performance receive relatively small salary increases. In practice, many organizations work with onetime payments to avoid that these employees always stay in the upper right-hand quadrant. It is difficult to explain to top performers that they only get a onetime payment instead of a big increase.

Option	2012 (n=979)	2010 (n=1,337)
Individual performance against job standards	66%	73%
Individual performance against MBOs or similar personal objectives	58%	44%
Position in range	56%	54%
Market value of the position	50%	55%
Skill or competency acquisition	20%	25%
General increase - everyone receives the same increase	12%	11%
Years of service	9%	13%
Education/certifications	9%	10%
Other	4%	4%

Fig. 6 Method for determining base salary increase (Source: Compensation Programs and Practices 2012, a report by WorldatWork, October 2012)

However, from an economical perspective, this is much more sustainable, since it keeps your base salary structure clean and avoids creating future issues.

Result Communication

A salary review result communication should be performed during a face-to-face conversation. This increases the employee's perception of fairness regarding the discussion. For the sake of transparency, the following key topics should be touched upon: salary increase, explanation of the criteria behind the decision, and timing. The decision criteria will include factors such as market positioning, available budget, and individual performance. Again, the goal of the conversation is transparency in order for the employee to feel as if he or she is being treated fairly.

Economic Perspective

From the company perspective, base salaries represent the largest personal cost item for the organization. If managed poorly, this might impact the overall organizational performance. Therefore, a consequent control of base salary budgets is necessary for all organizations.

The first step should be to analyze the salary structure of an organization in order to understand where it is positioned in the market as well as how many jobs are on each level. This helps to answer questions like:

– Are base salaries and total cash markets competitive (in all markets)?
– Is the overall structure healthy, and is the distribution of jobs in different salary ranges supporting our business strategy?

– Are jobs located in the salary ranges (range quartile analysis and compa-ratio)?
– Can we attract the talents we need with these structures and retain them?
– Were base salary adjustments really performance-driven in the past?

Range Quartile Analysis

To determine if the jobs are located in the salary ranges, a range quartile analysis can be performed. The analysis will show how varied pay is throughout the salary ranges. Calculating the quartiles works as follows:

– Quartile 1: The employee's pay is below the range midpoint and the average of the range minimum.
– Quartile 2: The employee's pay is below the range midpoint but above the average of the range minimum and the range midpoint.
– Quartile 3: The rate is at or above the range midpoint and below the average of the range midpoint and the range maximum.
– Quartile 4: The employee's pay is above the average of the range midpoint and the range maximum.

Having many employees that are paid within the third or fourth quartile probably means that a company may have a workforce with high tenure and experience. However, it could also imply that the company is paying too much or that the salary ranges are not competitive with the market. If a company aims its base salary at the market 50th percentile, then employees are expected to advance through the range upon gaining more years of experience and improving their performance.

Companies will want a correlation between their organizational compensation philosophy and the results of the range quartile analyses. If this is not the case, companies should investigate into why not. It could be an issue with turnover, recruitment, and annual employee increases that are either very high or very low.

Compa-ratio

The compa-ratio is another measurement to see if jobs are located in the salary ranges. It is calculated by dividing an employee's pay by his or her respective range midpoint. The result can be written either as a percentage (100 %) or as a simple number (1.0). If an employee is being paid at midpoint, then the percentage will be 100. If the individual is being paid above midpoint, then the percentage is over 100, and, if below, the percentage will be below 100.

The compa-ratio is a helpful tool when calculating the salary ranges for groups and will average to 100 % in an organization. A compa-ratio should be organized together with a range quartile analysis. That is because a compa-ratio could fall at 100 % if all employees are being paid at midpoint. If a company's compa-ratio does not fall close to 100 %, then it could be because pay is not targeted adequately to the market, the organization has a low or high tenure, or employees are moving through salary ranges too quickly or slowly.

Budgeting for Base Salary Increases

A merit budget for a country should be generally defined based on external benchmark data and certain economic aspects for that country. For the budgeting process, it is a known best practice that each budget proposal is based on expected economic figures for the specific country like: gross domestic product (GDP), annual inflation rate/consumer price index development, and benchmark data on salary increases. Depending on the maturity of a market, benchmarks are usually available for exempt and nonexempt employees, supervisor roles, middle management, and executives.

The result of this thorough analysis is an overview of expected average salary increases per country. This figure should be challenged by the current pay position against the local market (see range quartile analysis and compa-ratio) and, needless to say, by the affordability for the local entity. Depending on the inflation rate, there may be countries where an annual review of base salary position is not enough. The whole process runs twice per year.

After the salary review process is completed, it is time for an analysis on how the budget was spent and to check if all recommendations, e.g., the merit matrix, were followed.

Risk Perspective

One risk that must be evaluated is how an employee's individual performance impacts his or her base salary. This is especially the case with top performers. Even though top performers receive relatively small salary increases, it is important that managers work to retain these types of employees. They are a great asset to an organization, and losing such high performers on the basis of salary can have hindering effects on the long-term development of an organization.

At the same time, from the company perspective, base salaries represent the largest personal cost item for the organization. This means that organizations must maintain a steady cost control of base salary structure regardless of the demands of top performers. Letting control costs spiral out of control can also have a negative effect on the organizational performance of a company.

An important step to make sure base salary costs stay in check is to evaluate where the company is positioned in the competitive market. As explained in the economic perspective (see above), there are several factors to take into account when comparing your base salary costs to those of the market. They are all important to consider on a regular basis in order to manage the risk of letting your base salary position in the market slip away from an optimal level.

The last risks to consider are country-specific laws and regulations that define base salary. Some countries, for example, have minimum salary increases in relation to inflation rates that organizations must take into account.

Operational Perspective

The operational perspective addresses several factors that make sure that a base salary structure is implemented effectively. For example, the structure of base salary needs to be understandable and well communicated to all in the organization. It should also be easy to administer and maintain. In this case, the base salary structure needs to be kept simple and straightforward.

To avoid a redesign of the structure every time a new need arises, there should be a level of flexibility in place so that the structure can be changed regularly as needed.

There are also external and internal components to be evaluated in the operational perspective of base salary. Internally, the base salary structure needs to meet the organizational needs of a company, as each company is unique within its own industry and/or geographical area. It must be affordable as well. The base salary structure should reflect how costly a compensation program is to a company. Lastly, a system of internal equity should be in place. This means that an organization has a way of determining a job's value in relation to other jobs within a company.

The external components are the competiveness and volatility of the market. It is smart for an organization to evaluate its pay structure compared to its competitors and determine what others offer to acquire talent. As factors in the market are constantly changing, the base salary structure must be reevaluated regular and adjusted as needed. In addition, changes based on the volatility of the market need to be taken into account by delivering consistent messaging to the business.

Dos and Don'ts

Check regularly your base salary positioning: You need to regularly monitor your pay positioning in the relevant market (see ▶ Chap. 48, "Compensation and Benefits: Essentials of Benchmarking") to avoid over- or underpayment. Your local salaries need to reflect the relevant market in the respective country or industry.

Define your peer group carefully: Select your peer group carefully in your industry or business divisions. In different markets, you may compete with different companies (e.g., local players), and this should be reflected in your system, as well.

Remember not to be too narrow; otherwise, your available data sample might be too small or insufficiently stable.

Differentiate by location and/or industry: Because salary levels can vary by country and within countries by location, your base salary system must be flexible enough to allow for this local differentiation. For example, rural locations tend to have lower salary levels than urban locations.

Check local rules and regulations: In some countries, there are relevant rules for salary review upon which you need to reflect, such as minimum wage as well as mandatory annual increase linked to inflation rates. Check which rules apply locally.

Link salary movements to performance and market-pay ratios: Ensure a clear link to performance for the pay review on the company (budget) level as well as on the individual level. Your budget is usually based on company performance and expected market movement in addition to such general economic information as inflation rate and development of gross domestic product.

Differentiate individual salary increases based on performance and position of individuals versus local market, but avoid too many intervals (by keeping to a simple matrix). The relative performance differentiation should be the same between locations. For example, apply the same matrix with different absolute values based on local market, but taking the same steps based on performance and relative position for all countries.

Most tricky are top performers who are already well positioned or paid above market. To motivate this population, think about onetime payments while also keeping your salary management system consistent for the future.

Define what you want to communicate carefully: Should you communicate full salary ranges, recognize that every employee would like to be at the maximum end of the range. It is worth thinking about orientation values instead of the minimum, the midpoint, and the maximum for each range. Every pay system which is aligned with your company's strategy as well as your employees' needs is worth telling. Consider also how you can maximize your employees' appreciation of your specific pay system.

Final Comments and Outlook

There are many components of base salary that need to be considered in order to create a successful base salary structure. First and foremost, it is important to understand that, since each company is unique according to internal and external factors, no two structures will be exactly the same. Success will depend on how effective a manager is in understanding the differences of his or her company and creating a base salary structure that takes those best into account. A manager will also reevaluate a company's base salary structure to make sure it always takes internal and external changes into account.

In the market, we see a tendency to combine career ladder approaches with salary structures due to the fact that career ladders can be sold to employees effectively and salary structures can be tight to them without being identical. So HR can still use broadband salary ranges behind the career ladders, but the focus on communication to employees is on career steps and performance to avoid detailed grading discussions. Also, there is a risk that detailed grading systems lead to discussions about the job evaluation approach (which one is really objective?) and the growing international mobility might be hindered because higher grades are usually available more often in the corporate headquarters.

Compensation and Benefits: Essentials of Bonus Plans

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Abstract

"Bonus plans" or "variable pay schemes" come in many different shapes. In this chapter, a special focus is set on annual variable pay schemes based on the achievement of predefined performance targets or objectives, while other types of variable pay schemes, e.g., sales compensation are explained and treated more briefly. Bonus plans can have a huge impact on people, depending on how they are designed and how well they are communicated. Well designed, they will motivate people and enhance the success of the company as a whole. But bonus plans have also a significant impact on the payroll and thus on the bottom line. So it only makes sense to have bonus plans if the costs of these plans are lower than their economic benefits. *Any* good variable pay system should be self-funding in that it generates more money than it costs. It is demonstrated how this can be achieved. Bonus plans contain many risks if they are badly designed, e.g., cost explosion or administrative overkill, to mention just two. It is shown how these and other risks can be avoided. Finally, some key guiding principles for design and implementation of bonus plans are elaborated, e.g., Design your plan well! Spend at least as much time, cost, and effort on communication and implementation than on design! Qualify your managers! Make sure that your systems support plan administration! A list of Do's and Don'ts concludes this chapter.

Keywords

Bonus • Bonus plan • Variable pay • Variable compensation • Motivation • Performance • Commission schemes • Profit sharing • Targets • Objectives • Bonus curve • KPIs • Sales compensation

Introduction and Overview

Variable pay is an issue nearly all companies are dealing with. They know that it is a key part of the compensation package and that it can help to improve motivation and to enhance the performance of the company.

On the other hand, it is always a matter of discussion whether the company has the "right" variable pay system or whether it could or should be improved.

In this chapter, the variety of variable pay systems will be shown, and some advice on how to design and implement these schemes well will be given. The focus will be on bonus plans in the narrow sense of the word, i.e., variable pay systems referring to company and individual performance and having a term of 1 year. Other systems are mentioned and explained briefly, but they are not in this chapter's focus. Sales compensation schemes, which are a very special form of variable pay, are also mentioned only briefly but not discussed in full details. Long-term incentives are completely excluded because they are treated in Eric Engesaeth's chapter of this handbook.

This chapter starts with a definition of bonus plans and with an explanation of the variety of shapes variable pay systems may take. After a brief excursus to sales compensation schemes, the motivational and economic aspects of variable pay schemes are discussed. A full section deals with the many risks implied by badly designed bonus plans. Finally, some key design guidelines are provided. A section with Do's and Don'ts summarizes many of this chapter's key messages and provides some additional tips.

What Are "Bonus Plans"?

Overview

The word "bonus" is a blurred and ambiguous term with a lot of quite different meanings. Bonus plans, therefore, appear in many different shapes, some of which do not have more in common than that they are variable pay schemes.

Typical bonus plans are often associated with variable pay schemes based on the achievement of annual objectives. It is fair to say that this is the most common meaning of the term "bonus plans," but very often other kinds of variable pay schemes like commission schemes, unit plans, profit sharing schemes, etc. are also named "bonus plans." In what follows, the terms "bonus" and "variable pay" will therefore be used interchangeably, as well as the corresponding terms "bonus plans" or "bonus schemes" and "variable pay plans" or "variable pay schemes."

The following figure shows different sorts of variable pay schemes, depending on the performance dimension they refer to – company, team, or individual – and on their degree of formalization and complexity (Fig. 1).

Discretionary Schemes

On the lower end of the chart, simple plans can be found. The simplest type of variable pay is discretionary schemes that award a certain amount of variable pay at the discretion of a manager – who in most cases is the direct superior of the incumbent but may as well be the CEO or the owner of the company.

Typically, works councils and trade unions don't like discretionary schemes because they are regarded to have an inherent tendency of arbitrariness, favoritism and the like. On the other hand, such schemes are simple, direct, and need not be unfair if there are clear guidelines on how to allocate the money and if it is made sure that the superiors adhere to these guidelines.

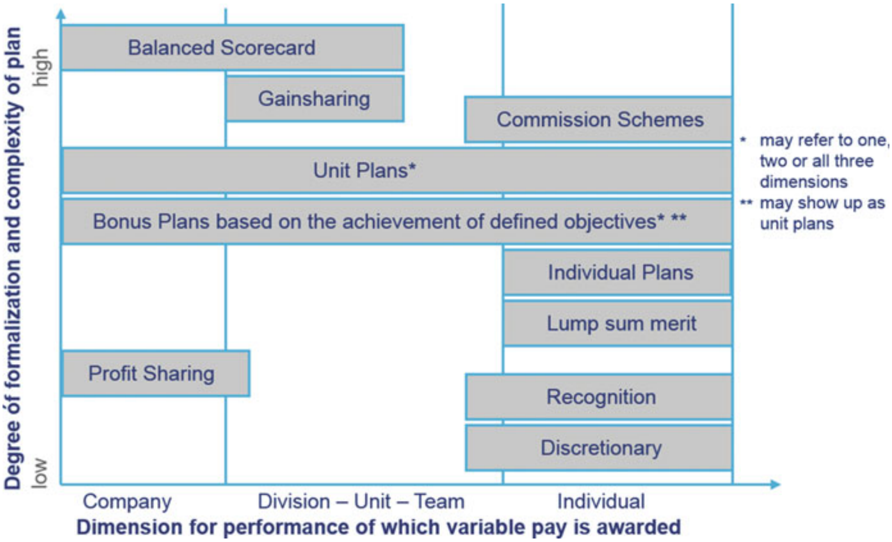

Fig. 1 Types of variable pay plans

Discretionary schemes are widespread in small companies where works councils or trade unions play no or only a minor role and where the owner still has a direct influence on all managers and knows most of the workforce personally. In larger companies, variable pay schemes often contain an element of discretion but are basically governed by clear rules and therefore not discretionary.

Recognition Schemes

The next type of schemes is recognition schemes. Recognition can take different forms, e.g., incentive trips, employee of the month, club memberships, dinner with the CEO, etc. In these cases, they are not variable pay plans. But many recognition schemes are monetary in that a certain amount of money is being paid to individuals to reward them for an extraordinary performance or achievement.

Typically, recognition is immediate, i.e., there is no big time lag between performance or achievement and recognition. And recognition is limited to a small number of people. In most companies, far less than 10 % of employees get a recognition in any given year. So, recognition is an instrument to directly reward a special instance of outstanding individual performance.

Profit Sharing Schemes

Profit sharing schemes are more complex than discretionary or recognition schemes in that they are formalized but usually in a very straightforward way: a certain part of the annual profit (measured by a defined **k**ey **p**erformance **i**ndicator [KPI] like EBIT, EBITDA, etc.) is given into a pool, and there is an algorithm determining how much every single employee gets out of the pool. In the simplest form of profit sharing schemes, every employee gets exactly the same amount. For example, if a company has 10,000 employees and the profit is 10 mio. €, and 10 % of the profit are in the profit sharing pool, each employee gets 100 € as his or her profit share (1 mio. € divided by 10,000 employees). These very simple schemes can be found more often than one might think. In the automotive industry, e.g., they are the standard type of profit sharing.

If the company is very profitable, the amount each employee gets can be attractive. Over the last years, some German automotive OEMs, e.g., have paid several thousands of Euros to each and every employee, year by year. But this is not the standard case. If profits are not huge but normal or small, an equal amount for every employee might not lead to attractive numbers.

Lump-Sum Merit Plans

Lump-sum merit plans are typically used for employees that have already reached the top of their salary band and are not entitled to a regular salary increase. Instead, they may get the value of an annual salary increase as a one-time lump-sum payment. In some cases, lump-sum merit payments are made not only for employees on top or above their salary bands but for all employees. This form of lump-sum merit payments is used by companies mainly when they are in economic trouble and wish to avoid increasing their salary budget permanently.

It is obvious that lump-sum merit payments are a very special form of variable pay. Typically, they are limited to a small number of employees or used only once or twice to overcome a critical phase for the company. In contradistinction to other variable pay plans, lump-sum merit plans are neither based on individual performance nor on company performance. Moreover, lump-sum merit increase plans are not known in all countries and economic cultures. They can be found mainly in the United States.

Individual Plans

Individual plans are a generic term for variable pay plans that are tailor-made to individuals and their needs. These plans can be found in companies that do not have a general variable pay system covering all members of a defined employee group or even all employees of the company. These companies rather grant variable pay to selected individuals for different reasons, e.g., because they are regarded to be critical to the success of the company or because they must be additionally motivated or because they have very high target incomes, part of which are made variable in order not to pay too much guaranteed income to the incumbents. A number of other reasons for having individual plans may apply.

If a company has a large number of individual plans, something is wrong with the compensation structure of this company. On the other hand, it may be the right thing to grant an individual plan to one or a few employees if this is the only way to cope with very specific cases. Probably, all companies have at least some individuals that are not paid according to the general compensation system but differently in order to come to terms with individual challenges.

Bonus Plans

And now to the most common form of variable pay plans, bonus plans. As mentioned earlier, “bonus plans” are a generic term for all kinds of variable pay plans, while at the same time they denominate a special form of these plans: plans that are based on objectives by linking the degree of objective achievement to the level of payout.

The objectives may be company, division, team, or individual objectives or a combination of two or more of these objectives. The linkage of company, division, team, and/or individual objectives may be additive or multiplicative. Further details of this kind of plans will be provided later in this chapter.

Unit Plans

Unit plans are a special form of bonus plans: Each individual gets a certain number of units (which may also be called “points” or “credits”), depending on individual objective achievement, performance appraisal, team performance, or even company profitability. At the end of the fiscal year, the available bonus pool is divided by the sum total of all individual units, thus delivering the monetary value of a unit. Each individual’s bonus is calculated by multiplying his number of units by the value of a unit.

Unit plans have two advantages: They can be communicated quite easily, and they don’t bear any financial risk because the total bonus amount that is spent depends on the available bonus pool and cannot be exceeded. Moreover, different target bonuses for different employees or employee groups are possible within unit plans by assigning a different number of units to different employees or employee groups. For example, employees of group 1 may be granted 100 units for full objective achievement, while employees of group 2 may get 200 units, thus leading to a bonus for group 2 which is twice as high as for group 1. The disadvantage of unit plans is the same as for all kinds of pool plans: How much money an employee gets is difficult to predict as it depends on the bonus pool which is determined only after the performance period. In extreme cases, the bonus pool may be empty so that even top performers don’t get any bonus. From a motivational perspective, this is questionable. But it allows, of course, full cost control.

Commission Schemes

Commission schemes are typically found with sales forces. Basically, they pay a certain percentage of the revenue (in some cases profit or profit contribution) to the incumbent. Such plans are in their simplest forms, very straightforward, and easy to understand. They are self-funding and thus do not imply any cost risk. Moreover, they can be very motivating in that they set up a very direct correspondence between achievement and compensation. On the other hand, commission plans cannot be used for all kinds of employees and are therefore limited to salespeople and other selected employees. They are, by the way, very similar to the profit sharing plans mentioned earlier, because profit sharing also implies the payout of a certain percentage of profits made. The difference to commission plans is that the latter do not refer to company profits (and in most cases not to profits at all) but to a revenue generated by an individual, sometimes by a team.

Balanced Scorecards

The most complicated plans are balanced scorecards. Originally, balanced scorecards were developed as a response to the fact that traditional objective-setting systems as well as variable pay systems refer to financial KPIs only. The philosophy behind the balanced scorecard approach is that the financial dimension is only *one* out of a number of different dimensions that are pertinent to the success or failure of a company. Above all, the customer, the internal business processes, and the learning and growth dimension have to be taken into account in addition to the financial dimension. A typical balanced scorecard approach defines one or two KPIs for each dimension. The dimensions (and within them each KPI) are weighted, resulting in a total weighting of all dimensions/KPIs of 100 %. For each KPI, targets and achievement levels for these targets are defined. In a complex mathematical process, the total target achievement is calculated and results in a bonus payment.

The invention of the balanced scorecard approach was a big progress at its time. On the other hand, this approach has two significant disadvantages: It is very complicated, and it refers to KPIs only, leaving qualitative aspects out.

Over time, different versions and generations of the balanced scorecard have been invented and implemented in companies. Meanwhile, balance scorecards are no longer as prominent as they used to be a decade ago. Nevertheless, they can still be found as a key tool to steer the organization in many companies.

It should be noted that balanced scorecards are good for organizations and units but cannot be used to define and assess individual objectives and achievements.

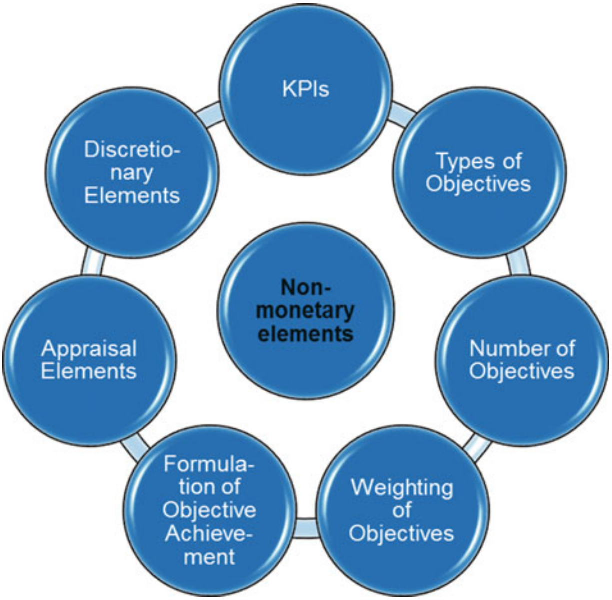

Fig. 2 Nonmonetary elements of variable pay plans

Two Dimensions: Monetary and Nonmonetary

Looking at bonus plans, it is essential to make one key differentiation. Each bonus plan consists of two completely different parts: monetary and nonmonetary elements that are linked to each other by one element only, the bonus curve.

To begin with, Fig. 2 shows the nonmonetary elements.

These elements determine what performance means in the plans and how it is measured: via KPIs, i.e., numbers, and via objectives, and, if so, how many objectives may apply, how they are weighted, and how objective achievement is formulated. But performance may also be determined by an appraisal process or in a discretionary way. Of course, combinations of all these elements are possible.

The key point here is that every variable pay plan somehow depends on criteria that determine why the bonus is being paid and what it is paid for, and these criteria are to a large extent independent from the bonus plan in a narrower sense.

The second part are the monetary elements that are shown in Fig. 3.

These monetary elements determine the shape of a variable pay plan in the narrower sense: what is the target bonus; how does it differ from employee to employee and from employee group to employee group; what is the desired relation between base salary, variable pay, and possibly long-term incentives as well as benefits; does the bonus refer to the success of the company, of the individual, the division, the team, or a combination of two or more of these dimensions; and, if so, how are these different dimensions weighted and connected; is there a guaranteed amount of bonus (socle) and/or a cap; how is the bonus system funded and does this

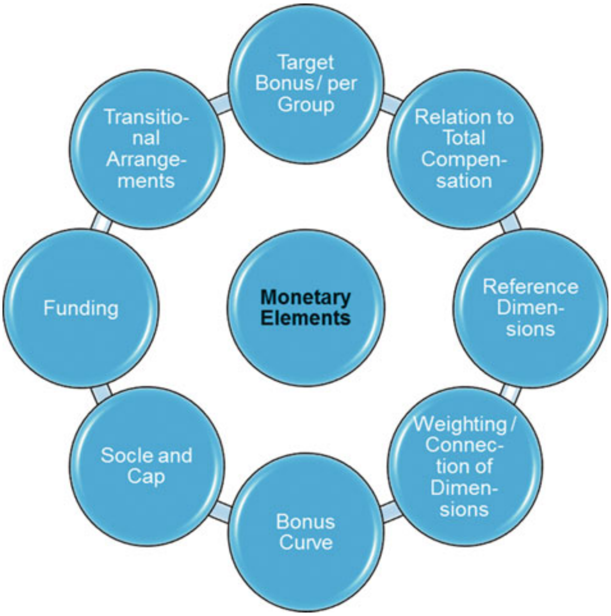

Fig. 3 Monetary elements of variable pay plans

imply any risks; and last but not least, if the company wants to change its variable pay system or introduce such a system for the first time, how should the transition process from the current state to the new system look like and how can it be managed?

Bonus Curve

The bonus curve mentioned at the bottom of Fig. 3 is the element that links the nonmonetary to the monetary dimension: It shows how much bonus is paid if the performance is above or below 100 %. Figure 4 shows various kinds of bonus curves.

On the top-left chart, the simplest possible bonus curve is displayed: zero objective achievement means zero bonus, 100 % objective achievement leads to 100 % of the target bonus, and 200 % objective achievement means a bonus twice as high as the target bonus. This curve is simple and straightforward; however, it does not differentiate very much because even a very low performance is rewarded by a bonus. Moreover, the vast majority of incumbents will get a similar bonus because, according to normal distribution, around 80 % of incumbents will have a performance rating or objective achievement between 80 % and 120 %, thus getting a bonus between 80 % and 120 % of the target bonus. This little differentiation might be intentional and fitting to the company culture, but it probably will not lead to

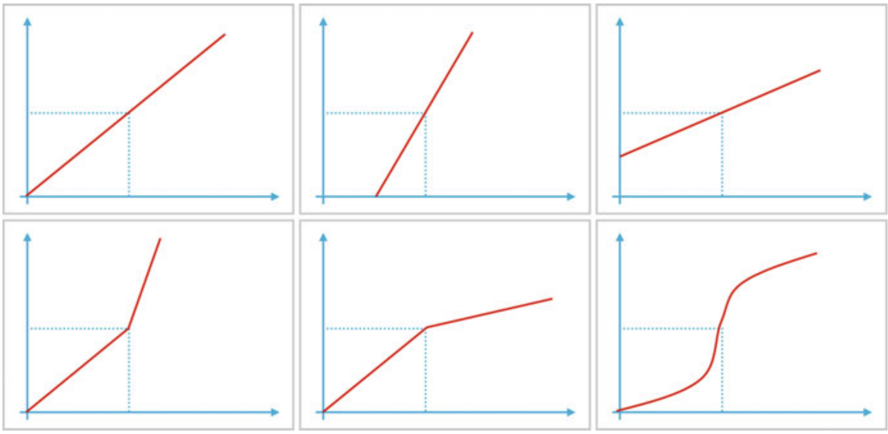

Fig. 4 Bonus curves

much motivation because the difference in bonus between an above-average and a below-average performer is very small.

The remaining five diagrams in Fig. 4 show other possible bonus curves that can all be found in real life: the very tough one (e.g., top center), the equalizing one (top right) providing half of the bonus as guaranteed income and thus only pretending to be really variable, the top performance-oriented one (bottom left) providing high bonuses only to those overachieving the target, the target performance-oriented one (bottom center) rewarding for target achievement and decelerating above that level in order not to exploit people and/or not to pay too much for possible windfall profits, and the S-curve (bottom right) designed to make big differences in the area where most of the incumbents are and thus heavily differentiate even between similar performance levels.

There is no right or wrong here: Which system an organization adopts depends on the culture, on the targets the variable pay system is supposed to achieve, on the degree to which a certain target can be set with confidence, and on many other factors. The key message here is that the bonus curve is the most crucial element of a variable pay plan in that it reflects the basic philosophy behind a plan more than any other part of a variable pay plan.

Sales Compensation

Sales compensation is a very special form of variable pay. It would be worth writing an entire chapter of this handbook on sales compensation only. This chapter being dedicated to variable pay in general, only a few very basic remarks on sales compensation can be made here.

First of all, why is sales compensation different? There are a number of reasons – here are the most important ones:

- Salespeople are different from other employees – not always but often. The question whether incentives motivate is easily answered: Yes, they do; salespeople are motivated by incentives. For other kinds of employees, this is not always that clear.
- Salespeople often get a much larger part of their income as variable pay than other jobs. In the extreme, 100 % of a salesperson's income is variable. (This happens in some cultures, e.g., in the USA, more often than in other cultures.)
- Very often, sales performance can be easily measured: The more revenue a salesperson generates, the better his or her performance is. There are not many other jobs where performance and easily quantifiable achievements are so closely linked.
- For the same reason, sales compensation schemes can be very simple – or very complicated. They can be very simple in that they assign a certain percentage of the revenue generated as variable income to the salesperson – period. But they can also be very complicated when specific products or services are more important than others and therefore different commission rates, hurdles, caps, etc. apply, depending on the product or service sold. Very complex schemes can be found, e.g., in banks.
- Sales compensation is the only area in which commission schemes are very typical. Of course, objective-based variable pay schemes exist for salespeople, too, but commissions are a kind of default system in sales.

On the other hand, it is a common mistake to think that sales and sales compensation are one homogeneous thing. It is important to understand that this is not true, that there are many different ways of selling for which different types of salespeople with different competencies are required and for which, consequently, different types of variable pay schemes and different target levels of variable pay are appropriate. Figure 5 below shows the different types of salespeople that can be differentiated.

The "familiar friend" is a salesperson who does not sell aggressively. On the contrary, he tries to establish long-term relationships with his clients, makes sure that the products of his company are well paced, launches push-up promotions, etc. The "cold call closer," on the other hand, identifies and qualifies prospects and tries to "hook" the customer, to overcome buyer's obstacles, and to close quickly. The "trusted advisor" must have a deep understanding of his client's business, provides deep insight, leverages relationships, etc. And the "deal maker" scans for opportunities, leverages networks and relationships, and must be adaptable and persistent.

It is obvious that these four types of salespeople are very different from each other, in terms of education and qualification as well as in terms of competencies and success factors. And it is easily understandable that the type of variable pay plan should be different for each type of salesperson: While, e.g., the familiar friend might have a simple goal-based plan, the deal maker should have a simple commission scheme, ideally based on one measure only.

And it is evident that not only the kind of variable pay scheme but also the amount of variable pay should be different for these different types of sales functions – in absolute numbers as well as relatively, a percentage of base salary or of total target

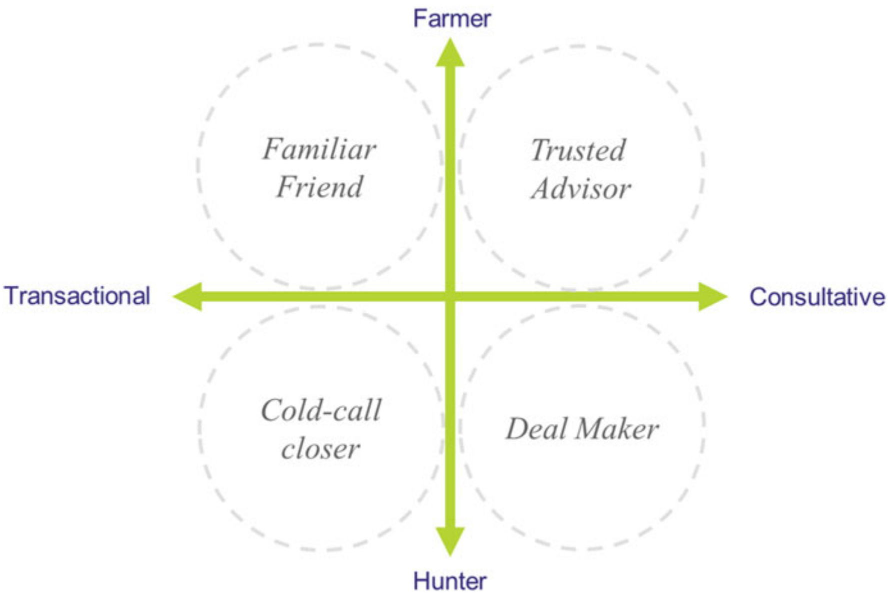

Fig. 5 The sales value matrix – the four dimensions of sales roles

income. Figure 6 shows typical shares of variable pay as a part of total target income for these different types of sales functions.

While the familiar friend should not get much short-term variable pay (as his focus is on long-term relationships and his impact on sales volume rather indirect), the cold call closer should get a large part of his income as variable pay – even 100 % can be appropriate for some types of cold call closers in some cultures.

People Perspective

Bonus plans can have a huge impact on people, depending on how they are designed and how well they are communicated. When developing a bonus plan, one of the most basic questions is: What impact shall the bonus plan have on people?

Possible desired impacts of bonus plans may be:

- Motivation to better performance
- Rewarding good performance and/or differentiate the reward of top, average, and low performers
- Giving direction
- Creating and fostering team spirit
- Creating an “all-in-the-same-boat” spirit

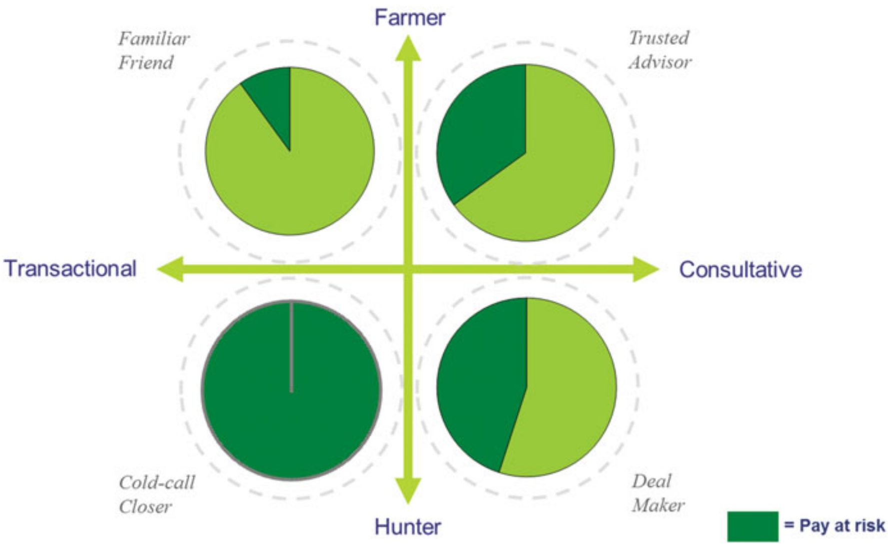

Fig. 6 Different shares of variable pay/pay at risk for different types of sales functions

If you ask an HR manager which of these impacts his bonus plan is supposed to achieve, he is likely to name not only one or two items of the list but three or four or even all five – not realizing that some of these items are not fully compatible. "Creating and fostering team spirit," e.g., does not go well along with "rewarding good performance" if the performance to be rewarded is individual performance. Generally, there is a tension between bonus plans that are focused on individual performance and plans that pay for the performance of a team – which again are not fully compatible with plans paying for the performance of the company. Many bonus plans try to resolve this problem by merging two or three different bonus plans into one plan, e.g., one third of the bonus is paid for individual performance, another third for team performance, and the remaining third for company performance. This is possible, of course, but it must be clear that in this case, there is not one bonus plan anymore but two or even three plans in a bundle named "the plan." This makes things more complicated, thus probably harder to understand and less motivating – and it dilutes the effect of each of the plans. The same is true if a pool option is chosen, e.g., when the company profit determines the size of the bonus pool and individual performance determines how much of the pool everyone gets. In this case, there are no two separate plans adding up to a bundled plan but something very similar: a more complicated plan in which each dimension has an impact on the bonus that is paid out at the end, thus making things not only more complicated but also reducing or diluting the impact of each dimension.

This problem will be discussed further below. But first, each of the items listed above will be explained in more detail.

Motivation to better performance is best achieved when the individual has clear individual objectives *and* a clear and direct impact on the achievement of these objectives. If this condition is met, the individual knows what is expected from him, and he knows that he will be rewarded for the achievement of these objectives. If the reward (i.e., the bonus) is clearly defined in advance and has a significant amount that makes a difference between achieving and not achieving the objectives, then the chance is high that the bonus plan will have a strong motivating effect to perform well.

Rewarding good performance and/or differentiating the reward of top, average, and low performers is best achieved when the bonus at stake makes a difference (i.e., is high enough to be attractive) and when the bonus curve is steep enough, i.e., when it makes a real difference to be a good performer instead of a low performer.

Giving direction is achieved when the objectives are clearly defined, the incumbent has an impact on the achievement of his objectives, and these objectives are derived and broken down from higher-level objectives. In this case, the individual knows not only what is expected from him but also which contribution his own work makes to the achievement of higher-level objectives, and thus what his contribution to the overall company targets should be. This gives more meaning to an individual's job and may therefore have a strong motivating and performance-enhancing effect. *Giving direction* therefore is not only an element of a good variable pay plan but at the same time a key part of effective performance management.

Creating and fostering team spirit can be achieved by team objectives. These objectives are often controversial because they are in-between individual and company objectives and thus neither motivate as much as individual objectives nor guarantee that the costs for variable pay are in line with company performance. There are, however, cases in which team objectives may work well: Small, homogeneous teams that are neither dependent on outstanding performers nor allow free riding are the ideal target group for team objectives. On the other hand, the possibility of free riding and of demotivating top performers is an inherent potential problem of team objectives. Therefore, it should be carefully checked whether such problems exist and team objectives really make sense. An alternative to team objectives are individual objectives that contain the individual contribution to a team target.

Economic Perspective

Bonus is money, and money is cost. Therefore, bonus plans have a significant impact on the payroll and thus on the bottom line. So it only makes sense to have bonus plans if the costs of these plans are lower than their economical benefits.

Of course, bonus plans don't necessarily create *additional* costs because they are often a substitute for fixed income. If the company follows a total compensation approach, a target income is defined for each individual employee (e.g., 100,000 €), and a certain percentage (e.g., 15 %) of this income is the target bonus (15,000 €), the remainder being base salary (85,000 €). In this case, there is no real additional payroll cost caused by the bonus plan because without variable pay the base salary would have to be higher (probably the full 100,000 € or a little less because fixed income is higher rated by most individuals).

On the other hand, bonus plans may create additional costs. If the company does not follow a total compensation approach but a base-plus-bonus approach, the bonus is given on top of base salary. This is typical for companies that have lower target bonuses and run profit sharing schemes instead of bonus schemes rewarding for individual performance. These companies do have additional costs if they apply such a profit sharing scheme compared to paying only base salaries, and the question is which economic benefits outweigh the costs of the profit sharing scheme.

This question is not an easy one because profit sharing schemes normally do not motivate people to higher performance. If an employee gets a profit share, he will be satisfied, and in some cases his loyalty to the company might rise. But most probably, he will not be motivated to perform better in the future, for two reasons: firstly, he as an individual has a very remote impact on the profit of the company, so that it will not make any noticeable difference whether he performs better or not. And secondly, he cannot be sure at all whether he will get another profit share in the years to come or not. So, two key preconditions to motivation are not given here: neither can the bonus be influenced personally to any significant extent, nor is it clear enough under what conditions the bonus will be paid out in the future.

So why do so many companies nevertheless practice profit sharing schemes? Apart from the fact that such schemes are mandatory in some countries (e.g., in France), two reasons are most common: Firstly, profit sharing can help reduce base salaries and thus fixed personnel cost to a minimum. If a company has been profitable in the past and normally pays a certain amount as profit shares to its employees, it can be plausibly argued that, in normal years, base salary won't be all, because it will be supplemented by a certain amount of variable pay. And secondly, the company can show itself to be a fair employer that lets its people participate in the success they have helped to achieve.

It is worth realizing that all kinds of bonus pool schemes are basically profit sharing schemes, even if individual performance is the other part of the equation: If no bonus is paid out when there is nothing in the pool, all depends on company profit. This is a crucial fact that can hardly be overestimated with regard to motivation and potential frustration of top performers: If a top performer knows that whether he ultimately will get a bonus or not and that the amount he gets will heavily depend on the performance of the company, his motivation to achieve his objectives will be negatively affected, in the worst case down to zero. This fact has to be borne in mind when a company establishes a variable pay scheme.

There is another case when the cost of variable pay becomes pertinent: Whenever a company wants to introduce a variable pay scheme for the first time or increase the level of variable pay, the question of how to fund the additional variable compensation comes up. Basically, there are only four ways to fund a variable pay system. These four ways are shown in Fig. 7.

In real life, a combination of two, three, or all four ways is used in most cases: The company provides a small additional budget to make clear that the variable pay scheme is not introduced in order to save money but as an instrument of HR and performance management. The message is: all things being equal, we will not spend less on the compensation of our people but more, albeit in a different individual

Fig. 7 Four ways to fund a variable pay system

distribution. A conversion of base salary into variable pay is difficult but possible if it is flanked by some guarantees to the employees that they will not fall down too much in their total income. A conversion of (parts of) the annual merit increases into variable pay can also be carried out in many cases.

The most interesting and at the same time most controversial way to fund a variable pay system is the self-funding effect. This effect is interesting because every good variable pay system should be self-funding by boosting performance through additional motivation and guidance, which results in additional profits that are much higher than the costs for the variable pay system. At the same time, this way of funding a variable pay system is controversial because the self-funding effect can never be isolated: It may well be the case that the success of the company increases after the implementation of a variable pay system, but this may have many other reasons over and above the variable pay system. It is impossible to determine how much of the performance-increasing effect is due to the variable pay system. Sadly, this often leads to discrediting the argument of self-funding. But it should be clear that *any* good variable pay system should be self-funding in that it generates more money than it costs.

Risk Perspective

Bonus plans contain many risks if they are badly designed. The most pertinent risks are the following:

- Cost explosion
- Administrative overkill
- No motivation

- Demotivation
- Targets not achieved

In what follows, each of these risks will be examined.

Cost Explosion

Cost explosion is the most feared risk. It is imminent in all bonus plans that are not strictly dependent upon the economic success of the company. This implies that pure profit sharing plans normally do not imply any cost explosion risks: If a certain percentage of profit is paid out to the employees as profit sharing, there is no direct cost risk because the plan is self-funding: There is no variable pay when no profits (or no profits above a minimum profit) have been generated, and there may be a big amount of variable pay when the company was very profitable, but the money is there, and only part of the profit is paid out as a bonus.

Although there is no cost explosion risk in profit sharing plans in the narrow sense, the costs may rise to an inappropriate level if the profit sharing plan is not capped and/or if the profit percentage that is fed into the pool increases with increasing profits. Therefore, it is recommendable to design profit sharing plans carefully and to cap them. The cap may be very high, so that it may appear unrealistic that it ever be hit, but a cap puts the plan on the safe side and makes sure that excessive payouts cannot take place.

All other bonus plans, i.e., plans that are not or not fully dependent on the success of the company, contain a cost explosion risk. To take an example, if the bonus depends on individual objective achievement, the average objective achievement may not be 100 % but higher. If the bonus curve is steep or even exponential, this may lead to huge costs that in the extreme can be detrimental to the company. This is a real danger that is aggravated by the fact that many bonus systems have an inherent right shift tendency over time (i.e., when in the first year the average objective achievement is 100 %, it may be 102 % in the second year, 105 % in the third, and so forth). Additionally, individual objective achievements are often used by superiors to make up for bonus cuts due to bad company performance, which means that in a bad year the costs for the variable pay plan increase instead of decrease.

Some of these risks can easily be excluded by avoiding basic mistakes in plan design. The easiest way to avoid these risks is establishing a pool model, i.e., defining a bonus pool depending on company success and making sure that this pool cannot be exceeded. But this solution has, as was shown already, its own problems because there may be a lack of motivation in particular for the top performers if they may get no or only a small bonus in case the company does not perform well.

But there are other ways to avoid this risk. One way is to simply make sure that the total amount of bonus paid never exceeds the amount that would be paid at an average objective achievement of 100 %, e.g., by implementing a correction factor that standardizes the average objective achievement. For example, if the average objective achievement is 105 %, the factor is 100 % divided by 105 % which equals 0.952. By this factor, all individual objective achievements or calculated bonuses are multiplied, so that the total bonus amount paid out cannot exceed the 100 % budget.

Of course, this procedure implies some disadvantages in terms of motivation – and it reinforces the tendency to a right shift, because everybody knows that a correction factor will be applied and reduce the bonuses. To make sure that a bonus regarded as appropriate is paid out to an individual, the individual objective achievement or rating must be lifted up. If all or many superiors act in this way, the right shift will become uncontrollable over time and thus destroy the bonus system from within.

This is one reason why it is so essential to train the managers in the application of the variable pay system and in agreeing objectives with their subordinates. If this is done well, the right shift can be avoided, so that no corrective measures become necessary.

The training and coaching of the managers can be seconded by sanctions to be imposed upon managers that do not comply with the rules and allow a right shift in the average rating or objective achievement of their subordinates.

Administrative Overkill

Another big risk is that the administration of bonus schemes becomes extremely complex. There are a number of factors that increase the administrative complexity:

- Number of participants in the bonus scheme: The more participants, the more administration will be needed for it.
- Target dimensions: If only company performance determines the bonus, the scheme is much less complex than if individual performance is another determining factor. Most complex are schemes that contain a combination of company, country, division, team, and individual factors, with different weighting factors for different manager and employee groups and with more than one objective in each of the dimensions.
- System complexity: The more detailed and sophisticated the system elements are, the harder it will be to administer the system. There are many bonus systems that require complex IT systems to calculate the individual bonuses because the mathematical formulae are so complex.
- Process complexity: Bonus systems are always embedded in a process cycle with a number of steps. In its simplest form, profit sharing schemes, the steps are (1) determining the company success, (2) calculating the bonus pool and (3) the individual bonuses, and (4) paying the bonuses out. But even in these simple systems, the (5) merit increase process should be taken into account. When team and/or individual bonuses with objectives are involved, the process becomes much more complex: (6) team and/or individual objectives will have to be agreed on the basis of (7) the objective achievement levels of the preceding period, and this will have to be done in a cascade; (6.1) first, objectives with the top-level

functions have to be agreed, and these are the basis for (6.2) the objectives of the next level and so on (6.3, 6.4, etc.). This takes time, but objectives should be fixed early in a fiscal year because they are objectives for the entire fiscal year. Moreover, objectives for the coming fiscal year should not be fixed and agreed until the objective achievement of the preceding year is known, i.e., not until the new fiscal year has begun. But this in turn puts pressure on the objective agreement for the next fiscal year because this should happen very early in the new fiscal year. Additionally, there may be escalation mechanisms if someone does not agree with his superior on the objectives or on the achievement level of his objectives.

It is evident that the definition of the right process is itself a complex process which has to be run very carefully, because the success of the system depends to a significant extent on the process being well defined.

Looking at the above bullet points, it is clear that administrative overkill is an imminent danger that comes with bonus schemes. Administrative complexity cannot be eliminated completely, but it can be reduced, above all by reducing system complexity. Reduced system complexity implies another benefit: the system becomes easier to understand and thus may have a stronger motivational power.

No Motivation

Bonus systems are often implemented in order to motivate people to perform better and/or to achieve their objectives. There is a never-ending discussion on the question whether money in general and variable pay in particular are able to motivate people or whether they may act to the contrary in that they replace intrinsic motivation by external awards, thus obliterating intrinsic motivation. “Pay your people well and then do everything to make them forget the money” is one of the slogans often heard in this context.

It is impossible to discuss the issue of (variable) compensation and motivation in depth here; this would require another chapter in this handbook or even an entire book. A number of studies on this issue have been done, e.g., by Hay Group, all having the same result: The question is not whether (variable) pay motivates or not, the question is what must be done to make it motivating and where the limits of its motivational power are. There are clear cases: A typical salesperson (the dealmaker-hunter type) runs for the money and will not run unless he earns more money if he runs more and faster. On the other hand, a basic researcher may be inhibited and thus perform worse if he is “incentivized” by money to find the new blockbuster. And there are many cases in between these two extremes.

Generally speaking, one can say that the more the following conditions are met, the more money will motivate:

• There are clear and unambiguous objectives which are SMART – and the individual has a clear personal and direct impact of the achievement of these

objectives. The reverse conclusion is valid as well: Profit sharing schemes with company objectives the individual has no or only a very remote impact on will never motivate. This does not necessarily mean that such schemes are poor and not recommendable. On the contrary, they can be good as a means to foster loyalty, to make personnel cost more variable, etc. – but they will never really motivate people.
- The variable pay system is transparent, simple, and easily understandable and is regarded to be fair by the incumbents. Some studies show clearly that fairness and transparency are a precondition of motivation.
- The amount of variable pay at stake is high enough to make a difference – but not too high to make it scary not to get the variable pay. Depending on the income level of the employee, target values of variable pay between 10 % and 30 % of base salary are appropriate, for very high income levels 40 or 50 % may be adequate as well.
- The bonus must be really variable, i.e., low performance must result in a significantly lower bonus, and top performance must be rewarded by a top bonus. In other words, the bonus system must differentiate between low and high performers.

Demotivation

Demotivation is not the same as “no motivation” as it implies that not only the target “motivation” is missed, but the contrary, active demotivation, is created. This happens when people expect something positive from the variable pay system (e.g., more money) and then don’t get it (or much less than expected).

Demotivation does not necessarily happen when expectations are frustrated. If there are good reasons for frustrating them, e.g., poor individual performance or even a bad year for the company, this will be accepted by the incumbents provided it is clearly communicated under which circumstances the bonus will not (or not fully) be paid. And the system has to be regarded as fair by the incumbents.

Therefore, avoiding demotivation is easy if only some basic conditions are met:

- The system has to be transparent, i.e., it must be clear at the outset which bonus will be paid under which conditions.
- The system must be fair, i.e., if there is a downside, there should be a corresponding upside potential, and the probabilities of both should be equal. If there are individual objectives, the individual should have a significant personal impact on achieving them, and the objectives should be SMART. If there are company objectives, they should be communicated.
- The bonus at stake should be appropriate and not too high: it should be the lower, the less people earn and the more the bonus depends on company performance. It can be higher; the higher the individual base salaries are, the more it depends on

clearly defined and accepted individual objectives. But it should never be too high, as explained above.

And always remember: It is much easier to frustrate and demotivate somebody than to motivate him. As a rule of thumb, one can say: You need five motivating events to make up for one demotivating action.

Targets Not Achieved

It is a standard phrase that targets or objectives should be "stretching," i.e., demanding and not too easy to achieve. This is correct as far as it goes, but it can easily be misinterpreted toward too stretching objectives. Objectives are good objectives if:

- They are SMART in the full sense of the acronym, which means above all that they should not only be ambitious but also realistic.
- The average objective achievement is 100 % – "average" referring to the average employee as well as to the average of a number of consecutive years.

When are these conditions met? They are met if:

- The overall company objectives are realistic. It happens more often than one might think that the Board sets company objectives that are far too ambitious. And if such objectives are broken down to the managers and employees, their objectives will be too ambitious – and thus not realistic too – resulting in a big frustration across the entire company.
- The objectives are systematically broken down to the managers and employees. If this happens and the objectives are good, targets will be achieved – not by each individual and not in every year but on average. And in this case, the system will be regarded as fair and therefore not lead to demotivation but potentially to active motivation which will further enhance the performance of the company.

Operational Perspective

From an operational perspective, the following guiding principles should apply:

- Design your plan well!
- Spend at least as much time, cost, and effort on communication and implementation than on design!
- Qualify your managers!
- Make sure that your systems support plan administration!

Design Your Plan Well!

It has been shown clearly what the key elements of a well-designed variable pay plan are, so that no further explanations are necessary here. A badly designed plan will never do any good; on the contrary, it may do a lot of harm.

Spend at Least as Much Time, Cost, and Effort on Communication and Implementation than on Design!

This guiding principle is much less a matter of course than the preceding one, but it is of equal importance. A perfectly designed variable pay plan is bound to fail if it meets with the resistance of the managers and employees that are supposed to apply it.

The first prerequisite is that the plan be supported by the top management and that the top management makes it clear to everybody that the new variable pay system is fully supported by them. Very often, this crucial point is neglected, or it is simply not possible to get the top management completely aboard. If this is the case, problems are very likely to arise during the implementation phase, if not earlier.

The second key point is to involve the managers that have to apply the system. If they get the feeling that they are excluded from system design and then forced to implement and apply a system they feel is not theirs, they will refuse to use the system loyally. Therefore, it is of the utmost importance to involve the managers – or at least selected representatives – in designing the system, not only because they may provide valuable input to the system design but also for the psychological reason that people affected by the system should be involved in its design and application – to mitigate or eliminate resistance.

And last but not least, the employees that are affected by the system must be won – not necessarily by involving them in the design phase but definitely by delivering a thorough communication: before the project is started on why it is set up, what the expected results are, and which results and consequences may be feared but are not intended. Creating trust among the employees right at the outset is very helpful throughout the entire process and particularly in the implementation phase.

Of course, there should be an on-going communication during the project, telling people about the current status and what has been achieved already. Most important, however, is a good communication when the system is finally developed and ready for implementation. There are a lot of ways to do this right, and it is hardly possible to do too much here.

One potential snare has not been mentioned yet: the representatives of the employees, i.e., the works council and sometimes the trade unions. If trade unions are involved, things tend to become very complicated, but even if only works councils are to be dealt with, the energy, money, and time that have to be spent on getting the employee representatives aboard can be enormous.

This is not the right place to go into details on that issue. The only point that is important here is that involvement of the employee representatives is key to the success of a variable pay project. And as with managers and employees, the involvement should start at a very early stage of the project and be on-going during the entire process, including the implementation phase.

Qualify Your Managers!

It is not the HR department but the managers that play the most important role in a variable pay system. This is particularly true if the system implies that the bonus or part of it is paid on the basis of individual performance. If the managers don't accept the system or if they are not familiar with it, it will do more harm than good. And even if they are well informed about the system but not trained in managing their people well, the system will not work well. The managers must know the system, but they also must be able to set the right objectives, to tell their people the truth even if they have to convey negative messages, and they must be enabled to set objectives and assess their employees according to company-wide standards. It must not happen that the bonus and/or the performance rating of an individual depends on the superior he happens to report to.

Make Sure that Your Systems Support Plan Administration!

Every system must be administered. This implies that, even in the phase of system development, the IT background has to be taken into account. Some otherwise desirable system elements might not be possible if they can't be administered in a company's IT environment. If the company is big and the variable pay system is complex, additional IT tools might be necessary, e.g., to agree objectives and to calculate the bonuses. And it must be possible to integrate these systems into the company's overall IT environment.

If the variable pay system is simple, administration will be easier. This is another reason for making variable pay systems as simple as possible.

This is a general truth: Everything is much easier if the variable pay plan is simple and straightforward!

Do's and Don'ts

Do's

Basic Decision: Why Variable Pay at All?

It is of the utmost importance to become absolutely clear about what the company wants to achieve with its variable pay system. Is the key objective to make personnel costs flexible according to the performance of the company, or is the focus on differentiating pay according to the individual performance of the employees? And if the latter, what exactly shall be increased and incentivized: average performance of all individuals or the performance of the key players? Is team play an issue that shall be fostered and improved by the bonus plan? Does the company want people who just achieve their targets or shall the *way* they achieve the targets play a role (e.g., leadership behavior, ethical behavior)?

As can be seen from these questions, variable compensation is closely connected to the way the company is being led and steered. In other words, variable compensation has to follow company strategy!

Define What Success Means to You

One of the fundamental questions of bonus plans is the underlying definition of success. Success can be exceeding a target ("target vs. actuals"). Success can also mean doing better this year than last year ("actuals vs. actuals"). In some cases, it means doing better than the competition ("actuals vs. peers").

In theory, the approach "target vs. actuals" is more fair as it allows to take into account framework conditions: While, e.g., in one country it may be a great achievement to make the same numbers as in the preceding year, this may be an appalling performance in another country. The "target vs. actual" approach, however, requires an unbiased setting of the target. If this is not possible, "actuals vs. actuals" is more appropriate than assessing against a biased target.

Define the Role of Overall Company Performance

You cannot achieve both: motivate people to do as much as they can by promising them money for good performance and not pay them any bonus if the company had a bad year. It is therefore essential to define the role of company performance in a bonus plan: If you want to make company performance a key element of the bonus plan, the impact of individual performance on the bonus is automatically – and significantly – reduced. And vice versa, if individual performance is the key issue to be fostered by the bonus plan, company performance should not play an overwhelming role in that plan.

The simplest form of variable compensation for company performance is a flat bonus amount, identical for all employees. This is easy but may lead to high payouts for low-level jobs and insignificant amounts for top jobs. A graded approach is therefore more appropriate in many cases.

More elaborate forms of variable compensation include company performance placed in a formula with other factors such as team performance and individual performance.

Consider Individual Performance

To measure individual performance, one option is to define measurable targets and calculate their achievement at year end ("management by objectives") or to rate the individual's achievements/behaviors. Some companies also include team feedback, customer feedback, etc. in the rating.

Measurable targets, however, can be defined only for employees who have a measurable outcome of their work, e.g., typical salespersons or call center agents.

For those employees whose output cannot be quantified, qualitative targets must be defined. To create a certain objectivity, descriptions of what various levels of target achievement mean are helpful to prevent surprises at year end and to make clear to the individual what exactly is expected from him.

Make Achievements Transparent

As far as possible, company results which are part of the calculation of variable compensation should be transparent for employees throughout the year. This focuses attention on the overall development of the company and enhances identification with the company as a whole.

Regarding individual progress toward the goal, a midyear review should create transparency. The year-end rating should not come as a complete surprise, especially if the rating is negative.

Don'ts

Don't Make It a Science

The most common mistake of variable pay systems is a too high degree of complexity. This easily leads to employees shutting down and developing a "whatever" attitude toward the compensation scheme. It is always better to do without some elements than to create a system that covers as many relevant factors as possible but inevitably reduces the effects of each of them and becomes so complex that no one is willing or even able to understand it anymore.

And there is one more reason to keep it simple: If you include many performance dimensions (company, division, team, individual) – or even all of them – in a variable pay plan, the impact of each dimension gets diluted. There is a danger to make the whole plan ineffective by overloading it with too many dimensions and objectives. Less is more: Concentrate on the one dimension that is key for you, and on a few important objectives, and neglect the rest!

A good rule is the "elevator rule" (which applies for all HR policies): what you cannot explain in a normal elevator ride from ground floor to a mid-level floor will not work.

Final Comments and Outlook

It has been showed in this chapter that a well-designed bonus plan is a perfect tool to enhance motivation and performance of each individual and thus of the company as a whole. Variable pay is a key element of any good compensation system.

There are, however, many different kinds of bonus systems and many risks and pitfalls when designing and implementing a bonus plan. This variety was demonstrated in the course of this chapter – as well as ways to avoid the pitfalls and risks.

The three key guidelines for designing a good bonus plan and for implementing it well are:

- Don’t create a complex system! Be as simple as possible! Less is more!
- Make sure your system is transparent and regarded to be fair by everyone!
- Spend at least as much time and resources on communication and implementation of the system than on its design!

Cross-References

► Compensation and Benefits: Essentials of Long-Term Incentive Plans

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Compensation and Benefits: Essentials of Long-Term Incentive Plans

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Abstract

A long-term incentive plan (LTIP) is a plan under which a reward can be earned over a multiyear period, typically if certain conditions are met. The reward is normally financial and in the form of shares, options, cash, or a combination of these payment vehicles.

LTIPs are used for a variety of reasons, including employee retention, performance improvement, wealth creation, and corporate glue. The way the LTIP is designed and communicated is critical for its success. There are various challenges that can hinder its effectiveness. Issues arise because companies sometimes try to achieve all objectives with a single plan. Other challenges are related to human behavior, perceived value, or responses from competitors in the labor market. Therefore, this chapter asks the question: "How to ensure effectiveness of a Long-Term Incentive Plan?"

Based on four perspectives, i.e., people, economic, risk, and operational perspective, the question is analyzed, and one or multiple answers are provided for each of the chosen perspectives. All answers are provided in light of promoting effectiveness.

In terms of the outlook for the future, it is expected that long-term incentive plans will continue to be important in the tool kit of the compensation professional. LTIPs will further evolve to be able to better measure company success in financial and nonfinancial sense and, in general, to contribute to business needs as well as individual preferences. Multiple plans may be needed to cater to different objectives, with the challenge to keep things as simple as possible.

Keywords

Cash • Compensation • Long-term incentive plan • LTIP • Options • Perceived value • Risk • Shares

Introduction and Overview

In the USA, during the 1990s, the use of stock options exploded. All kinds of HR issues were "solved" with the same solution. If you are holding a hammer, everything starts to look like a nail. Providing a talented employee with something extra? Let's grant stock options. Problems with retention? Let's do options. Trying to create the one-firm feeling? Why not give everybody options? Creating retirement wealth? You know the answer.

The stock option explosion in the USA caused a ripple effect practically all over the world. Although the stock option vehicle is still an often used payment mechanism within long-term incentive plans (LTIPs), its popularity has diminished, also in the USA. For example, the Wall Street Journal/Hay Group survey of CEO compensation over the year 2015 shows that plain vanilla stock options in the current time only make up a quarter (25 %) of the LTI package. The other quarter is restricted stock (24 %), and half the package is made up by performance awards in equity or cash (51 %).

Apparently, there is a variety of awards possible. So, what could be a more general definition of an LTIP? In this chapter, an LTIP is a plan under which a reward can be earned over a multiyear period, typically if certain conditions are met. The reward is normally financial and in the form of shares, options, cash, or a combination of these payment vehicles. An often used time period before all awards become unconditional is 3 years, but a variety of other practices is observed as well. The conditions, if applicable, are related to continued employment and/or based on performance.

This chapter starts by asking four questions. The high-level answers to these questions will provide the basics of LTIPs, in order to facilitate general readability of the remainder of this chapter:

1. *Why do companies use long-term incentive plans?*
2. *What are some of the challenges of using long-term incentive plans?*
3. *How can a long-term incentive plan be designed?*
4. *Who should be eligible for an LTI?*

These initial answers also provide an overview of the opportunities as well as challenges of LTIPs. The guiding question for this chapter is therefore:

How to ensure effectiveness of a long-term incentive plan?

Why Do Companies Use Long-Term Incentive Plans?

The "why question" relates to the objectives that companies have when using an LTIP. Some typical goals with some initial remarks are shown in Table 1.

Table 1 is not intended to be comprehensive. There could be various other goals such as to promote long-term thinking, to attract talent, to provide for tax-efficient income programs, etc.

What Are Some of the Challenges of Using Long-Term Incentive Plans?

The "what question" is interpreted here in terms of effectiveness. How to ensure achievement of the aforementioned objective(s)? The objectives will not be achieved

Table 1 Why do companies use LTIPs?

Typical objectives	Line of reasoning
Employee retention	Because an LTIP rewards employees over a longer period of time, it may provide recipients of LTI grants with a reason to stay (longer) with the company in light of the future benefits associated with the vesting of these awards
Performance improvement	The word long-term incentive plan reveals an important objective that is often associated with this instrument. Within this line of reasoning, it is an incentive to improve (long-term) performance
Wealth creation	LTIPs can be used in light of value creation for employees. An LTIP is often linked with the development of the value of the company. Employees who obtain multiple LTI grants can build a portfolio of instruments over a period of time. In some countries, net wealth can be facilitated by a tax-efficient design
Corporate glue	Particularly, companies that operate over multiple business units in different countries (across the globe) sometimes use an LTIP with the goal to create alignment and a "one-firm" feeling

under any circumstance. There are various challenges that can hinder its effectiveness. Issues arise because companies sometimes try to achieve all objectives with a single plan. Other challenges are related to human behavior or to responses from competitors in the labor market. Table 2 provides an overview of some of the challenges related to the objective of Table 1.

Solving the issues can be partly done by choosing the right design features that match the objectives and people (eligibility). LTIP design is therefore an important driver of effectiveness.

How Can a Long-Term Incentive Plan Be Designed?

Table 3 shows possible design elements of an LTIP with some initial remarks.

Who Should Be Eligible for an LTI?

If a company operates an LTIP, typically the (top) executives are eligible. A higher level in the organization is related to making longer-term and larger risk decisions. Eligibility can be based on base salary, job title, job grade, etc. Talents are sometimes provided with an LTI grant. Generally speaking, broad-based plans which include the majority or all employees come at the cost of dilution and lower perceived value given the fact of little influence. This is why short-term incentive plan (STIP) eligibility typically goes much deeper into the organization than LTIP eligibility.

The above questions and high-level answers have provided an overview of the opportunities and challenges of LTIPs. Therefore, the remainder of this chapter is based on the following question:

Table 2 What are some of the challenges of using LTIPs?

Typical objectives	Challenge
Employee retention	Retention may not be achieved, for example, as a result of the fact that employees perceive the probability of payment as low or because other companies compensate the employee for forfeited rights. If it does reduce the risk of certain employees leaving the firm, it may have various side effects. Retention may be achieved but also in the case of those people that the company does not want to keep any longer
Performance improvement	Performance improvement can be achieved if employees perceive the LTIP as an incentive. This is only the case if the payment vehicle is desired, there is an impact of the employee's actions on the performance measure (line of sight), and there is a clear relation between better performance and higher payments. If one of the three is missing, there will be an issue in terms of this objective. Issues are furthermore related to human behavior such as the generally low perceived value of rewards in the future (discount) and the optimal mix between intrinsic and extrinsic motivators
Wealth creation	LTIPs can contribute to wealth creation. The more leverage is created, the more wealth can be earned in case of excellent performance. This comes at the cost of increased risk of earning nothing. Finding the right balance is key
Corporate glue	The value of an LTIP may be low for people that receive shares from a company with headquarters on the other side of the world. Cost efficiency may be low, if also the LTIP does not succeed in creating a bond

How to Ensure Effectiveness of a Long-Term Incentive Plan?

This will be analyzed from four different angles: the people, economic, risk, and operational perspective. Each paragraph will provide one or more answers based on the chosen perspective. This chapter ends with an overview of dos and don'ts, as well as an outlook for the future.

People Perspective

Within the people perspective, LTIPs are viewed from the angle of the impact on people in terms of attraction, retention, and motivation.

Attraction

LTIPs can be used in the process of attracting the right candidate for the job. An often heard reason why companies provide LTIPs is the fact that remuneration packages are typically linked to a market benchmark. If it is a common practice to provide an LTIP within the relevant labor market segment as part of the total remuneration package, they also typically provide an LTIP for competitive reasons. However, in light of attraction, another important aspect of an LTIP can help companies to

Table 3 How can an LTIP be designed?

Design elements	Remarks
Payment vehicle	The basic payment vehicles are cash, options, and shares. Particularly in the financial services sector, other instruments are observed as well such as CoCos (contingent convertibles which are hybrids of bonds and stock). For the equity-based vehicles, the settlement can be either in equity or in cash (i.e., stock appreciation rights and phantom shares). Options provide the employee with the right to purchase company stock at a stipulated price (exercise price) over a specified period of time. In some countries, stock options that follow certain conditions are tax favorable (e.g., the incentive stock option in the USA in contrast to the nonqualified stock options)
Vesting period, performance period, exercise period	The vesting period is the time in which restrictions are linked to the LTI. These restrictions are typically an employment condition and, in the case of a performance plan, one or multiple performance conditions. The vesting period can either be a fixed time period or with a time-accelerated feature that allows restrictions to be removed faster than originally scheduled if certain performance goals are already achieved. Typically, the performance period is aligned with the vesting period and is between 3 and 5 years. The exercise period relates to the instrument of options
Performance measures	If performance measures are linked to the LTIP, certain performance conditions need to be met in order for the LTI to become unconditional. A basic division is between nonmarket-based and market-based performance measures. In the latter category, all measures are related to the share price and (total) shareholder return. The first category entails all other measures. Examples are accounting measures such as earnings per share (EPS), value-based measures such as economic profit (EP), and strategic measures such as market share, strategic milestones, etc. A different taxonomy is between financial and nonfinancial measures
Target setting	If performance measures are used, relevant targets need to be set. Targets that are too stretching will demotivate employees. Targets that are too easy hurt the pay-for-performance principle. In summary, targets can be set based on a budget approach, a delta approach (year-on-year improvement), based on management expectations (typically somewhat above budget) and in relative sense (compared to country or industry standards, against a specific group of competitors, etc.)
Fixed value versus fixed number	The number of LTI vehicles at the moment of (conditional) grant can be determined based on a certain policy value. Each time a new grant is made, the number of vehicles is recalculated to adjust for any value fluctuations (e.g., as a result of share price movements). Alternatively, it can be fixed for a number of years at a fixed number. In the latter case, employees are additionally rewarded for year-on-year improvement of the share price and punished for share price decreases. This results in greater leverage

(*continued*)

Table 3 (continued)

Design elements	Remarks
Capped versus uncapped	Typically, equity-based LTIPs are uncapped in the sense that the number of vehicles that one can receive may be capped, but the value increase as a result of share price increase is not capped. LTIPs that pay out in cash often do have a cap. This implies that the maximum cash amount that can be earned under the plan is determined up front. An important reason for this is that cash plans can become a cash drain to the company
One plan versus multiple plans	The LTI policy can operate one or multiple plans with one or multiple payment vehicles. Different plans may cater to different objectives. Handling more plans can become complex (e.g. in terms of granting & vesting, performance monitoring, administration, accounting). Deciding on a single or multiple plans is therefore a balancing act
Frequency of grants	The basic choices here are to provide employees either with a front-loaded grant that, e.g., covers the upcoming 3 to 5 years or with annual grants. Annual grants have become the most common form because it is better controllable, caters to the need of new people onboarding, reduces the impact of significant stock swings, etc.

compete effectively for those individuals they want to attract. This relates to the design of the LTIP. Below, this is further discussed.

The LTIP is a form of "at-risk" compensation which can be used in the selection process to overcome the problem of hidden information, also referred to as adverse selection. The contracting problem in the case of hidden information is to design a contract that effectively separates individuals with different hidden types, so that people from each class only select contracts intended for their type. Let's take an example. In a standard case, a number of people will apply for the job. By screening, i.e., checking references, education, etc., the company can learn more about the person. However, some information may remain hidden (even after a psychological test). A solution to overcome this problem of hidden information could be to design a contract in which a form of self-selection takes place. Suppose a candidate with entrepreneurial spirit is searched for with a relatively low-risk profile and high performance aspirations (low cost of effort function). In such a case, the contract should be designed to ensure the right candidate will "self-select" into the job. The offered contract may contain more pay at risk, e.g., constructed by the obligation for the candidate to buy a certain number of shares in the company and/or a more pronounced pay-for-performance relationship, i.e., more risk as well leverage. In Fig. 1, this would be the theoretical contract B as opposed to contract A (source: Engesaeth 2011).

The self-selection mechanism thus contributes to a situation in which "the right candidates" will self-select into, or out of, the company.

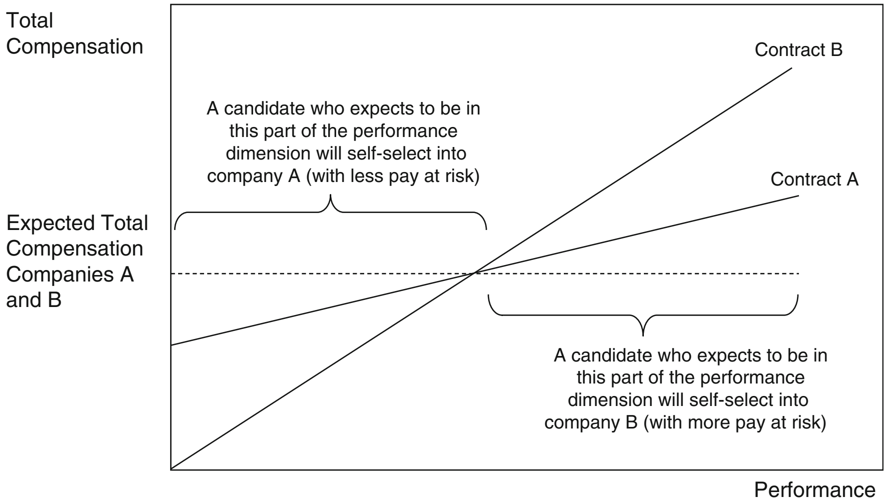

Fig. 1 Adverse selection

The LTIP, together with the other elements of the remuneration package, forms the pay-for-performance relationship. Based on the various possible design features, as discussed in the introduction of this chapter, it can be designed such that it helps in the self-selection process of candidates. An effective design for a retail bank may be such that it helps to attract relatively risk-averse individuals, by making the line flatter. Private equity-controlled companies sometimes look for very entrepreneurial people and typically design the relationship such that the line is (very) steep.

Retention

Because an LTIP rewards employees over a multiyear period, it may provide recipients of LTI grants with a reason to stay (longer) with the company in light of the future benefits associated with the vesting of these awards.

If the objective is to retain people, the LTIP therefore needs to be designed in such a way that it effectively does that. The selection of the right people is of course key; however, here the design is focused based on two examples. In some plans, multiple objectives are used. This can limit the effectiveness in terms of the goal of retention. For example, if performance hurdles need to be met after 3 years, this can immediately undermine the retention objective if it is already clear after 1 year that it will be very difficult to achieve the goals. A second example relates to the payment vehicle. If this would be in the form of options, it would hurt the retention objective if the stock price would fall below the exercise price. These so-called underwater options have limited to no value to the recipient, especially if they do not believe the options will become in the money again within a reasonable time frame and therefore will not have the desired effect. An effective retention plan is therefore a plan that has value. This implies that it pays out in shares or in cash and has either a positive performance multiplier or no performance conditions at all. The only relevant condition would be an employment condition, i.e., the requirement that the individual stays with the firm for a specified period of time (vesting period).

Motivation

In light of motivation, a discussion of the "I" within LTI is needed, i.e., incentives. A lot can be said about incentives and motivation. Here, only the basic elements will be highlighted. The standard economic assumption is that people respond to incentives. Although this may be the case, various researchers within the behavioral economics area have shown that people may behave differently and often less rationale than typically assumed in the original economic models.

For any incentive to work, the design needs to take into account at least the following basic elements:

- The reward needs to be something that people want and can understand. This seems obvious, but complex LTI plans are sometimes observed with limited to no incentive effect. An effective LTI design is therefore "as simple as possible." Furthermore, any form of future reward is heavily discounted. Basically, the level of attractiveness decreases if the time horizon is longer.
- The reward needs to be higher in case of good performance and lower in case of bad performance. This is the essence of providing an incentive for good performance. Setting appropriate targets that strike a balance between "what is required" from a business point of view and "what is achievable" from an employee point of view is a balancing act. In addition, setting long-term targets can be difficult given the fact that it involves predicting performance expectations for several years in the future.
- The actions of the individual need to impact the performance outcome. This is typically referred to as "line of sight." If there is no (direct) relationship between actions and outcome, there is no "line of sight" and therefore no incentive working. Choosing the right performance measures is the most challenging aspect of this.

The above elements show that designing an effective incentive is a balancing act. Most of this is related to the comprehensive trade-off between line of sight and goal alignment. Academically, this is referred to as the trade-off between "risk and distortion" (Baker 2002). The "risk" refers to the risk for the employee. Measures are less risky if there is more control over the outcome and riskier if there is less control. The part of "distortion" refers to the goal of the company. Performance measures that are more in line with long-term value creation are less distorted, and measures that are further away are more distorted. Organizations rarely have low risk and at the same time low distorted performance measures and remuneration vehicles and therefore choose a combination from the categories "low risk and high distortion" or "high risk and low distortion," as shown in Table 4 (source: Engesaeth 2011).

Table 4 Classification of performance measures and compensation vehicles (risk and distortion)

Line of sight (low risk – high distortion)	Goal alignment (high risk – low distortion)
Short-term focused performance measures	Long-term focused performance measures
Individual performance measures	Group performance measures
Accounting-/internal-based performance measures	Value-based/external performance measures
Relative performance measures	Absolute performance measures
Multiple measures	Single measure
Cash-based vehicles	Equity-based vehicles

Table 4 also provides insight into the "perceived value" of compensation instruments. Perceived value could be defined as the certainty-equivalent cash amount that the employee would be willing to give up in exchange for the risky award. Generally, the higher the risk, the lower the perceived value, assuming a risk-averse employee. Combinations of items from the left-hand column of Table 4 generally have a higher perceived value than combinations from the right-hand column. For example, a yearly cash bonus based on an internal measure of individual performance has a higher perceived value than a long-term-performance option plan based on the achievement of an absolute total shareholder return (TSR) hurdle. For a quantitative analysis, see the "risk perspective" further in this chapter.

After performance measures have been selected, targets need to be set. Targets can be set using various approaches. Often, the budget method is used. This is worrying, as Jensen (2003) has shown that setting targets based on budgets actually "pays people to lie." However, there is no easy solution. Different methods of setting targets, such as using a delta approach, i.e., year-on-year growth, or peer comparison, have other drawbacks. Year-on-year growth is not always possible or even desirable. Peer comparison results in the issue of selecting the right peers, and often there are comparability problems.

Besides setting adequate targets, the performance or payment range should be determined. Basically, this implies determining threshold, target, and maximum objectives as well as the associated payment in each of these states of the world as well as the intermediate results. The target level would be the expected performance outcome for fully satisfactory performance. At threshold performance level, the first payment above zero is made. Nearly all companies cap the amount of LTI vehicles that can become available. In case of share-based payments, the uncapped part is formed by the share price development. Cash plans or cash-settled equity-based plans typically have a cap as a result of the unknown cash impact in case of an uncapped plan.

Concluding (in Terms of Effectiveness)

From a people perspective, an LTIP can be helpful in light of attraction, retention, and motivation of employees. An effective LTI, in this light, is designed to cater to the most important objective. An LTIP that is effective in terms of retention may not be effective in terms of providing a performance incentive. This implies that multiple

Table 5 LTIP effectiveness road map based on a checklist of issues

Element	Remarks
Performance measures	1. As there are no perfect performance measures, multiple criteria can be combined to ensure line of sight, i.e., being able to influence the outcome, as well as goal alignment, i.e., long-term value creation. Overemphasizing line of sight measures can result in destruction of company value. Overemphasizing goal alignment measures can result in unmotivated employees and increased retention risk (in case of a single LTIP) 2. Although the plan may operate multiple measures to capture the above trade-off, operating too many performance measures can result in a lack of focus regarding what is important and divert effort away from important tasks 3. Contracts in practice are typically incomplete. When exact definitions of performance measures are not clearly laid down in the contract, including how to deal with exceptional items, goodwill, acquisitions, etc., before the performance period starts, this results in ambiguity at the time of assessing the performance. When EPS is used, for example, will this be undiluted or diluted EPS? When economic profit is used, will there be an "investment relief," and to what extent, or not? etc. 4. Discretionary elements improve effectiveness of the plan when used adequately. If this is not the case, they result in decreased effectiveness
Performance targets	5. Targets that are too challenging will result in demotivated executives and add to potential retention risk. This can, for example, be checked by comparing the actual payment versus target over a number of years relative to competitors 6. Targets that are not challenging enough hurt the pay-for-performance principle
Performance incentive zone	7. Performance incentive zones that are not linear over a vast portion could reward gaming and volatility. Cutoff points, if any, should be carefully chosen
Payment vehicle	8. If the payment vehicle (cash, options, shares) is not properly selected, this results in excessive risk-taking or insufficient risk-taking. Employees/executives are exposed to both firm specific as well as systematic risk. This indicates that the risk position between the shareholder and the employee/executive is different

LTIs may be needed if multiple objectives are equally important. Designing the LTI as an effective performance incentive is the biggest challenge. This is a result of the fact that it is easy to kill the incentive strength of an LTI. This puts pressure on the "I" in LTI, as summarized in Table 5 (source: Engesaeth 2011). Addressing these elements is a road map to an effective LTIP.

Economic Perspective

In light of the economic perspective, various cost aspects will be discussed, i.e., fair value calculation (Black-Scholes-Merton, binomial, Monte Carlo simulation), accounting charge, tax, overhang, and dilution.

Fair Value

Determining the fair value of an LTIP is, among others, relevant in the process of determining the size of the award. In the case of a fixed-value approach, the employee is granted a certain number of options and/or shares that match the intended grant size. Let's assume a value of 100,000 is granted each year (typically identified as a percentage of base salary), and the value of one LTI vehicle is 10. The grant is then 10,000 vehicles. This amount is recalculated each year to determine the award size. In the case of a fixed-number approach, the number of 10,000 would be fixed for some years and would not be adjusted regardless of the underlying value.

In terms of determining the fair value of the LTIP, basically two aspects need to be valued: the underlying vehicle and the performance component. In case of an LTIP without performance component, obviously only the underlying vehicle will be valued. In the remainder of this paragraph, first the value of a share is discussed, subsequently the valuation of a plain vanilla option, and finally a performance share/option.

Shares: The value of a share without performance conditions is basically equal to the share price. If a vesting period is linked to the share based on an employment condition, the value may be adjusted downward if the employee is not entitled to receive the dividends that were paid out during the vesting period. An alternative approach is that dividends are accrued and put in an escrow account and paid at the moment of vesting (either in cash or in shares). In this case, no downward adjustment is needed. Finally, a holding period, in which shares are blocked for sale, may impact the value downward. Tax authorities may allow a discount in terms of income tax related to shares with a holding restriction (e.g., a discount of 2.5 % per year).

Plain vanilla options: The value of an option is typically determined by the binomial model because it allows for various eventualities to be factored into the model. The binomial tree is typically used because it can also work with American-style options, which implies that the option can be exercised at any time before the expiration date (from the moment of vesting). The alternative Black-Scholes formula (including dividends based on the addition of Merton) is typically less accurate and can only determine the value of a European-style option (i.e., an option that can only be exercised at the expiration date). For options with a short term to expiry, the formula provides relatively accurate results, but the binomial model is preferred in other cases. Figure 2 shows the simplified underlying logic.

The binomial value of the option is the average payout over all exercisable share price scenarios minus the exercise price, discounted to the day of valuation. In the example in Fig. 2, assuming that the option can only be exercised at time $t = 3$, the binomial value, after subtracting the exercise price in each exercisable scenario (otherwise zero), is based on the following formula: $S(3,1) \times P(3,1) + S(3,2) \times P(3,2) + S(3,3) \times P(3,3) + S(3,4) \times P(3,4)$.

Performance shares/options: In case of performance shares or options, a performance condition is linked to the vesting of the vehicles. There are various ways to take into account nonmarket-based and/or market-based performance conditions. For example, in the case of a performance peer group in which vesting depends on the achievement of a certain total shareholder return relative to peers, a simulation model is needed,

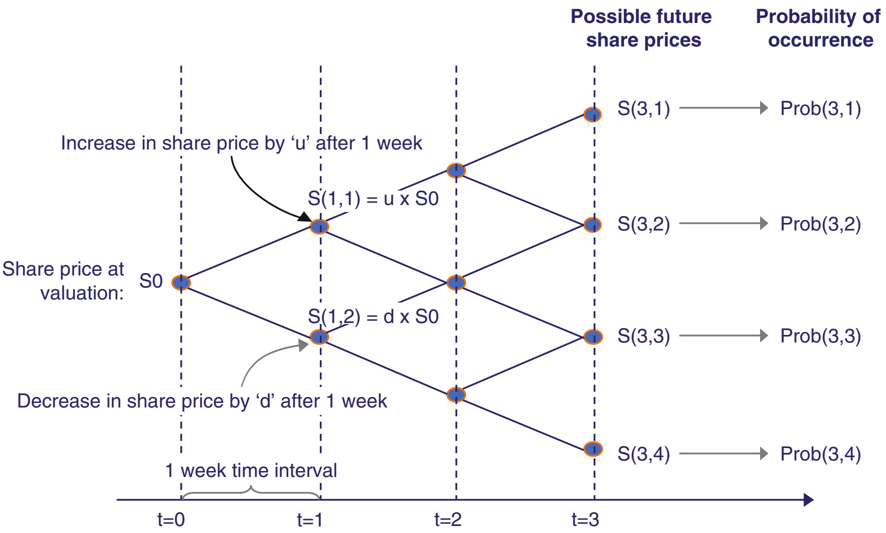

Fig. 2 Binomial option tree

for example, based on the Monte Carlo approach. Typically, for each of the companies in the peer group, the share prices are simulated based on the following distribution:

$$\boldsymbol{LN\,S_t} \sim \boldsymbol{\Phi}\left[\ln \boldsymbol{S}_0 + \left(\boldsymbol{\mu} - \frac{\boldsymbol{\sigma}^2}{2}\right)\boldsymbol{T},\ \boldsymbol{\sigma}\sqrt{\boldsymbol{T}}\right]$$

This assumes a lognormal distribution of share prices, of which the distribution parameters are as follows:

$S_T =$ share price at future time T
$S_0 =$ share price at time 0 (grant date)
$\mu =$ expected return (equal to the risk-free rate minus dividend yield)
$\sigma =$ volatility (e.g., 36-month historical volatility per company)
$T =$ future time (here, 36-month performance period after the grant date, T = 3y)

A graphical representation of the Monte Carlo model is shown in Fig. 3.

Based on the distribution, and the correlation coefficients between the companies in the peer group, 10,000 possible share prices are simulated for each company at time T = 3. Based on the results in combination with the performance incentive zone characteristics, the fair value can be calculated as per the grant date by discounting the value to T = 0.

Accounting Costs

Under IFRS and US Generally Accepted Accounting Principles (GAAP), accounting costs need to be determined. These are based on fair value calculations as

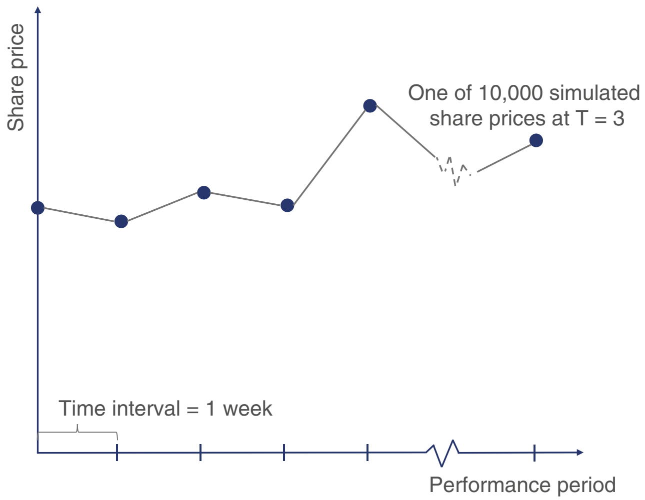

Fig. 3 Monte Carlo simulation

described in the previous paragraph. These calculations are typically executed by an outside party and validated by the external auditor. Expensing of the costs takes place over the vesting period. Forfeited LTI as a result of people leaving the firm (bad leavers) may be subtracted. Here, the example of the IFRS 2 accounting standards is taken.

Before 2005, the accounting costs of equity-based compensation in particular options only very limited, if at all, affected the profit of companies in Europe. Since the effective date of International Financial Reporting Standard 2 (IFRS 2) issued by the International Accounting Standards Board (IASB), which is 1 January 2005, this has changed. Per this date, an entity shall recognize the goods or services received or acquired in a share-based payment transaction when it obtains the goods or as the services are received. The entity shall recognize a corresponding increase in equity if the goods or services were received in an equity-settled share-based payment transaction or a liability if the goods or services were acquired in a cash-settled share-based payment transaction. With regard to compensation, this implies that services received from employees, compensated for with share-based payments, will be recognized in the profit and loss account.

Broadly speaking, two important elements determine how share-based payments are recognized:

1. Type of share-based payment:
   - Equity-settled share-based payment transactions (e.g., shares and options): The entity shall measure the services received and the corresponding increase in equity directly at the fair value of the services received. When there is no vesting period, it is assumed that services are directly received and costs will be fully recognized directly. When the executive needs to complete a specified

period of service before becoming unconditionally entitled to those equity instruments, costs will be recognized over this vesting period (services assumed to be rendered by the employee over the vesting period).
- Cash-settled share-based payment transactions (e.g., phantom shares or stock appreciation right (SAR)): The entity shall measure the services acquired and the liability incurred at the fair value of the liability. Until the liability is settled, the entity shall remeasure the fair value of the liability at each reporting date and at the date of settlement, with any changes in fair value recognized in profit or loss for the period.
- Share-based payment transactions settled using a choice of cash or equity instruments (compound financial instrument): The entity shall account for such transaction as cash-settled share-based payment transaction if, and to the extent that, the entity has incurred a liability to settle in cash or other assets or as an equity-settled share-based payment transaction if, and to the extent that, no such liability has been incurred.

2. Type of vesting condition:
   - Market-based condition, such as share price or of total shareholder return: The up-front impact of this performance condition will be assessed and the fair value discounted by this amount. No subsequent adjustment will be made for the actual outcome.
   - Nonmarket-based conditions, such as earnings per share or economic profit: No up-front discount to the value of the vehicle will be applied, but instead the number of shares/options that is expected to vest will be estimated for each accounting period as the progress of the performance condition is tracked over the performance period.

In summary, granting executives with equity-settled share-based payments such as options and shares is more efficient from an accounting viewpoint than providing executives with SARs or phantom stock. In the first situation, the value of the rights only needs to be determined once, and the accounting charge is known up front. In the second situation, the value needs to be reassessed per reporting date (often quarterly) which costs the company money in terms of resources and/or consulting fees. Furthermore, the profit and loss account fluctuates with changes in the share price of the company (apart from hedging) which is often perceived as undesirable.

With regard to tying performance conditions to the vesting of options and shares, the striking difference between tying, for example, a TSR performance condition and an EPS performance condition is the fact that in the first case the value is only determined once and not readjusted. When the value of the TSR plan is assessed at, for example, 100 but at the end of the performance period the condition is not met and no options/shares were actually granted (value for the executive is 0 and the company does not have an actual payout), there is no downward adjustment in the accounting charge. This remains 100 over the vesting period (apart from employees leaving the company during this period). If the same plan would have been linked to an EPS condition, with zero payout, this would be adjusted in the profit and loss account. The total charge would equal to 0 (instead of 100). Thus, providing employees with a market-based plan (such as a TSR plan) results in no “surprises.” The accounting charge is known up front. However, this charge is not adapted to reflect the eventual real situation of vested options/shares. Within nonmarket-based plans (such as EPS plans), the accounting charge is not known up front but is adapted to reflect the actual number of share/option vesting. Please note that only the number is adjusted and not the value of one option/share. This value has been determined at the moment of conditional grant and is not subsequently adjusted (this is only the case for cash-settled equity plans).

Tax Implications

LTIPs are typically associated with favorable or unfavorable tax treatment depending on the design. In some countries, this is not a topic (anymore) because of a level playing field in terms of tax treatment. However, taxes remain important, both from an employer and an employee perspective. In some countries, for example, equity-settled LTIPs may not be deducted from corporate tax perspective, whereas cash-settled LTIPs may be deducted. In terms of the employee perspective, for example, it matters whether or not taxes need to be paid at the moment of grant or at the moment of exercising the option. Because tax implications are highly country specific, no further attention is given on this topic. Please refer to a local tax advisor for the specifics on this matter.

Overhang and Dilution

Dilution refers to an increase in the number of shares outstanding which dilutes earnings per share and therefore may affect the share price. Therefore, dilution is a concern to shareholders, and shareholders require the company to indicate dilution limits. Dilution is less of a concern if the LTIP is funded by repurchasing shares from the market. Overhang refers to the total number of LTI vehicles available and outstanding. The typical limit is 5 % of the shares outstanding. Higher percentages may be deemed acceptable by shareholders depending on the nature of the firm. Start-up companies, for example, may require numbers above 10 %.

Concluding (In Terms of Effectiveness)

From an economic perspective, an effective LTI is cost efficient. It balances the value of an LTI with the costs associated with it. This implies that it minimizes the cost-value wedge and attempts to reduce accounting volatility. The choice of the vehicle has implications in this light and should be analyzed before the final design. If a tax-efficient design is possible, this should be explored. However, tax efficiency should not be the only guiding principle. In some cases, the objectives from the people perspective (attraction, retention, and/or motivation) may overrule a tax-efficient design. Overhang and dilution are boundaries within LTIPs and can be provided.

Risk Perspective

The risk perspective is based on four different angles. The first angle is based on the perspective of the investor. The second is related to the (compensation) risk from the perspective of the employee. The third relates to risk adjustment in terms of used performance measures taken from the perspective of the company. Finally, the societal perspective is used in terms of reputation risk and the potential consequences. The categorization is somewhat artificial but used for clarity reasons. In reality, the different risks are intertwined.

Investor

A compensation contract, including the design of the LTIP, is part of a broader set of governance mechanisms which together form the corporate governance system. According to Renneboog (2005), these mechanisms (should) ensure that the management (the agent) runs the firm for the benefit of one or several stakeholders (the principals). This is a broad view on corporate governance. In the Anglo-Saxon literature, corporate governance is often more narrowly defined. Shleifer and Vishny (1997), for example, state that corporate governance deals with the ways in which suppliers of finance to corporations assure themselves of getting a return on their investment. They indicate that product market competition, one of the most powerful forces toward economic efficiency in the world, cannot solve this problem completely. This is because markets are not perfect, and once capital is sunk, managers can expropriate the return. Corporate governance mechanisms should ensure that people who sink capital are assured they get a return on this capital. Risk is an important matter in this light. Investors are willing to take a certain risk by investing in the company but expect a certain return. The level of return can be calculated based on different methods. An often used approach is based on the capital asset pricing model (CAPM). The model defines the required rate of return based on the risk-free rate and in addition an added market return related to the beta (or risk) of the company. The total return can be in the form of share price increases and/or dividend payments. An analysis of the shareholder base will show which type of investors has invested in the company and what their objectives are. The analysis is relevant in light of attraction and retention of certain shareholders. Different shareholders may wish to see a different type of LTIP in light of their objectives. In this light, the design of the LTIP should match and support the requirements of (desired) shareholders. In light of developments toward more "say on pay," this has become more important given the approval that is needed from shareholders for the LTIP design. Table 6 shows common type of investors and their objective (source: ThomsonReuters).

Table 6 Type of investors and their objectives

Type of investor	Description/objective
Core value	Core value investors focus on buying companies at relatively low valuations on an absolute basis, in relation to the market or its peers or in comparison to an individual stock's historical levels. These portfolios typically exhibit price-to-earnings, price-to-book, and price-to-cash flow multiples below the S&P 500. In addition, secular revenue growth rates of the companies in these portfolios are frequently below market averages, and their earnings tend to be more cyclical
Core growth	Core growth investors typically invest in mid or large capitalization, blue chip companies that have historically performed near the top of their sector or general market in terms of profitability, earnings growth, and revenue growth. These investors are often willing to pay premium PE multiples for highly sustainable businesses, strong management, and consistent growth over the long term
GARP (growth at a reasonable price)	GARP investors try and build their portfolios with two types of securities: (1) those that are trading at a discount to the market or their peers yet are expected to grow at higher than the market average or their peers and (2) those whose forward PE ratio is less than, equal to, or only slightly above the long-term projected growth of the company. Stated another common way, GARP investors will often say they are either looking at large cap stocks whose PEG ratio (forward PE divided by 5-year projected growth) is less than the S&P 500 or at any sized company whose PEG ratio is less than 1. This is a more conservative investment style in comparison to an outright growth-oriented strategy. In addition, dividend yield is generally not a concern of most GARP investors
Growth	Growth investors bridge the gap between the aggressive growth and core growth investment styles. They tend to be slightly more aggressive than gore growth investors, willing to pay slightly higher multiples for stocks and trade at a slightly more active pace. In general, they are looking for companies growing at superior rates than the general marketplace but are unwilling to pay the extremely high multiples associated with the hyper-growth stocks
Index	Index investors generally create portfolios that are designed to match the composition of one or more of the broad-based indices. Therefore, the performance and risk of the portfolio mirror a section of the broader market. Their investment decisions are driven solely by the makeup of the index that is tracked rather than by an evaluation of the company and its business prospects. As a result, index firms are often referred to as "passive" investors
Deep value	Deep value investors employ a more extreme version of value investing that is characterized by holding the stocks of companies with extremely low valuation measures. Often, these companies are particularly out of favor or industries that are out of favor. Some investors in this category are known for agitating for changes such as new management, a merger, or the spin-off of a subsidiary
Momentum	Momentum institutions invest in stocks whose price, earnings, or earnings estimates are advancing at a faster rate than the market or other stocks in the same sector. Momentum investors generally look

(*continued*)

Table 6 (continued)

Type of investor	Description/objective
	for stocks experiencing upward earnings revisions or producing positive earnings surprises. Most of the investors in this category have relatively high portfolio turnover rates due to a short-term (often quarterly) focus and therefore will liquidate positions at the slightest hint of a disappointment or deceleration in earnings
Income value	Income value investors are similar to those in the core value category except that they are as interested in the dividend yield as they are in the low valuation ratios of the stocks they purchase. As a result, income value portfolios typically exhibit above average current income and low PE ratios
Hedge fund	Hedge fund investors have the majority of their funds invested in some sort of market-neutral strategy. Notably, the term "hedge fund" is both a legal structure (as opposed to a mutual fund) and an investment style. Nearly every firm that uses a hedge fund or market-neutral style is legally organized as a hedge fund (and thus only opens to accredited investors). Many are offshore funds that are unregistered, have no investment limitations, and are not subject to disclosure regulations. The common element is that any long position taken in a specific equity is offset by a short position in either a merger partner (risk arbitrage), an "overvalued" member of the same sector (long/short paired trading), a convertible bond (convertible arbitrage), a futures contract (index arbitrage), or an option contract (volatility arbitrage).
Aggressive growth	Aggressive growth investors employ an extreme version of the growth style. This can be seen by their propensity to hold the stocks of companies that are growing their revenue and EPS extremely quickly, are in an early stage of their life cycle, or have minimal or no current earnings
Emerging markets	These investors focus primarily on companies in the developing economies of Latin America, the Far East, Europe, and Africa
Specialty	This category encompasses a range of styles that are not based on the financial fundamentals of the stocks in the portfolio relative to the overall market. Examples include investors that hold a particularly high concentration of a single stock or a very small set of stocks or specialize in convertible securities. This category is also reserved for any institution or mutual fund that does not meet the criteria for any of the other investment styles. TFCG categorizes these portfolios based on its specific knowledge of their historical investment behavior
Venture capital/private equity	Venture capital and private equity investors are usually owners of public companies only when they have participated in a round of financing prior to an Initial Public Offering (IPO) and subsequently retained ownership after the transition from a private company to a public company. Other investors often consider positions held by venture capitalists as an "overhang" on the stock of a publicly traded company since VCs will typically dispose of their holdings of public companies during the first few years following an IPO

(*continued*)

Table 6 (continued)

Type of investor	Description/objective
Sector specific	Sector-specific investors have the majority of their assets in a single major industry category. Many times these investors are "forced" to own most if not all of the stocks in a given sector whether or not they are deemed appropriately valued. Since their portfolio exposure is linked to a single sector, their performance is usually measured against an index that is pertinent only to that industry. As such, tweaking the relative exposure to the companies that constitute a given sector will determine these firms' investment decisions
Yield	Yield investors typically focus on buying companies with indicated dividend yields that are comfortably above the market average and that are perceived to be able to continue making or increasing dividend payments over time. Investors that fall into this category tend to focus on income and safety more than on capital appreciation, and many have a dividend yield "hurdle rate" below which they will be either unlikely to consider owning a particular stock or forced to pare back a current position

Employee

Compensation risk from an employee perspective relates to the structure of the compensation contract. If there is only fixed compensation, basically there is no risk in terms of the payment. Variable compensation, for example, in terms of an LTIP, creates a certain payment risk. After all, in the case of good performance, there will be a payment; in the case of bad performance, the payment will be less or even zero. Question is how to measure this risk and subsequently how to make this risk understandable for employees and other stakeholders. A proxy can be based on Engesaeth (2011) which measures the extent to which variable pay is really at risk. It is based on the coefficient of variation, which measures the variation around the expected pay level (statistical dispersion measure). A payout risk example is based on the context of a lottery. Assume there are three lotteries, each with ten possible outcomes, as shown in Table 7 (source: Engesaeth 2011).

Lottery A and B have an equal expected payout value (μ) of 100,000. Lottery A, however, has higher variability as measured by the standard deviation (σ) but also offers the opportunity to win a much higher amount, i.e., 1,000,000 (with 10 % probability) versus 200,000 in lottery B (with 50 % probability). Lottery C is an atypical lottery as it provides for a minimum reward of 50,000. It furthermore has a lower average payout than lottery A and B but also much more security in view of the coefficient of variation of 1/3 versus 3 for lottery A and 1 for lottery B.

Which lottery ticket would you buy, assuming you could pay for it with your own human capital? This is the question an employee needs to answer if it is confronted with different compensation structures, for example, in a case of multiple job opportunities. Comparing only the expected level of compensation provides too little information to make such a decision. The employee is confronted with a trade-off between the expected pay level, on the one hand, and the risk in the actually paid

Table 7 Lottery payments in different states of the world

State of the world	Lottery A	Lottery B	Lottery C
1	1,000,000	200,000	100,000
2	0	200,000	100,000
3	0	200,000	100,000
4	0	200,000	100,000
5	0	200,000	100,000
6	0	0	50,000
7	0	0	50,000
8	0	0	50,000
9	0	0	50,000
10	0	0	50,000
	Average (μ) = 100,000	μ = 100,000	μ = 75,000
	Standard deviation (σ) = 300,000	σ = 100,000	σ = 25,000
	σ/μ = 3	σ/μ = 1	σ/μ = 1/3

Table 8 Lottery payments in different states of the world

State of the world	Package A	Package B	Package C
Vehicle	Options	Shares	Shares
Vesting period	3	3	3
Volatility	50 %	30 %	20 %
Performance condition	Stringent	Less stringent	No condition
Expected payout (μ)	100,000	100,000	75,000
CompRisk index (σ/μ) *100	300	100	33

out compensation (ex post), on the other. This ex ante level of pay equals the average of possible future outcomes (ex post pay level). The degree to which the ex post realizations of pay can deviate from this expected level is captured in the standard deviation.

In the remainder of this chapter, the coefficient of variation times 100 will be referred to as the CompRisk index, or CRI. In the lottery example in Table 7, this would provide risk index figures of 300, 100, and 33, respectively. In order to calculate the CRI for a total compensation package, the weight in the total package as well as the coefficient of variation per compensation element is needed. The CRI of an LTI can be calculated by simulation. Plan details including the vehicle (cash, shares, or options), the performance measure, the vesting period, the vesting schedule, and, in case of relative measurement, the comparator companies are needed as well as parameters such as volatility and dividend yield. Similar results as in the lottery example are found in real-life LTIPs as shown in Table 8.

The risk approach is not always easy to understand. It becomes more intuitive if it is translated into a certainty equivalence (CE). The certainty-equivalent cash amount is the amount that the employee would be willing to give up in exchange for the risky award This implies that the expected value of the LTI is combined with the level of risk, to obtain a discount based on the fact that people are risk averse. This implies that people tend to put a lower value on payments that are subject to greater risk even if the expected value would be the same. A number of issues observed in reality may clarify why this notion could be relevant:

- A non-listed company wants to keep its top people from going to the competition, so it compares how it rewards them with the rest of the market. But as it is not listed, it can only compare the base salary and bonus levels – and the rest of the market offers long-term incentives, too. So how can the company make a valid comparison?
- To conform to a new regulation, a financial services firm is trading variable pay for fixed in its compensation packages. However, $1 of variable pay isn't worth the same as $1 of fixed. So how can it trade one for the other effectively?
- A retail company with high turnover of staff is rethinking its variable pay by partly swapping short-term incentives for long. How does it know what's of equivalent perceived value to employees?

Essentially, the same answer applies to all three scenarios, based on the same theory. This is Kahneman's theory of loss aversion (see e.g. Kahneman and Tversky, 1979). It can be used to calculate the certainty equivalence for each compensation element: for example, the certainty equivalence of 100 cents of fixed pay is 100 but could be 85 cents in the case of short-term incentive compensation and 60 cents for long-term incentive compensation. By bringing it back to the same denominator, you can make like-for-like comparisons and use what you learn to make trade-offs within the package. A simple overview for share compensation with a 3-year employment condition (here without performance condition) is shown in Table 9 for different levels of volatility.

Table 9 shows that higher levels of risk as shown in the second column are linked to greater discounts in terms of the certainty equivalence under the assumption of equal expected value. Effective levels of risk therefore strike a balance between the desire to follow the pay-for-performance adage, on the one hand, and optimizing the perceived value (certainty equivalence value), on the other. In order to obtain a holistic view, apart from the LTIP, the other elements of the pay package including fixed compensation, short-term incentive plan, etc., need to be taken into account as well.

Company

Compensation risk from a company perspective is here translated into the "direction" of the LTIP. Is the LTIP effective in terms of reaching company goals, or does it stimulate employees to take more risk than desired? The intensity of the LTI can be measured by the CompRisk index as described in the previous section. After all, the risk is higher if goals are more challenging and if there are more significant

Table 9 Example share compensation: relationship between risk and certainty equivalence

Share with volatility (%)	CompRisk index	Certainty equivalence (% of fair value)	CE discount (%)
10	17	93	7
20	36	86	14
30	56	79	21
40	78	73	27
50	109	67	33
60	141	60	40
70	216	54	46
80	230	49	51
90	312	44	56

differences in payments between good and bad states of the world. The direction relates to the chosen performance measures. What is the focus of the LTIP? After the financial crisis that started end of 2008, a lot of debate was focused around the topic of financial incentives. These would have stimulated the wrong behavior especially in terms of taking too much risk. Corporate governance rules for the financial sector have focused on promoting risk-adjusted measures (e.g., risk-adjusted return on risk-adjusted capital (RARORAC)).

But also in the other sectors, an important aspect of an effective LTI is to determine the relevant risk boundaries. This implies working with ex ante risk adjustment by choosing risk-adjusted metrics and/or ex post risk adjustment by introducing a test of reasonableness that can adjust levels downward if risk parameters were breached (and potentially upward in case of a favorable situation). The desire to apply this also to the short-term incentive plan has increased the use of deferred payments because certain risks can sometimes only be established after so many years. The use of the deferral mechanism effectively ensures that a larger part of total compensation is geared towards the longer-term.

Society

Compensation risk from a societal aspect is here translated in terms of public outrage. Especially the scholar Bebchuk advocates the view that the managerial power can be of substantial influence and that executive compensation contracts are curbed by public outrage instead of arm's length bargaining (see e.g. Bebchuk and Fried, 2004). In some countries, this effect is stronger than in other countries among others related to cultural aspects. In any case, there have been multiple examples in which uncapped LTI plans have caused public outrage. Most prominent examples were related to take-overs, especially if the company that was acquired showed bad performance over the period before. The conclusion is therefore that effective LTIPs take into account the possible negative effects of perceived excessive compensation.

This is especially true for business-to-consumer companies that may be confronted with the risk of buyer strikes.

Concluding (in Terms of Effectiveness)

From a risk perspective, an effective LTI either reduces the impact of an unwanted situation or decreases the probability of occurrence. This implies that risk management may result in fine-tuning the LTIP design in such a way that risks are aligned with the risk appetite. This implies that the LTIP is aligned with the requirements from investors; it balances payment risk for the employee with the desire to provide an incentive from the viewpoint of the company and stays within accepted norms of society. Bringing these, sometimes unaligned viewpoints, together is a balancing act.

Operational Perspective

The operational perspective covers three angles: administration, employee communication, and road to the Annual General Meeting (AGM).

Administration

Part of the administration relates to having the relevant legal documents in place such as plan rules and a plan agreement. The plan rules provide a general overview of the rules of the LTIP. Sometimes, these are very specific; in other case, the specifics are in the agreement letter. Important aspects of the plan rules are also what happen in the case of eventualities. An example is the good and bad leaver provisions. These rules govern what happens in the case of voluntary or involuntary leave. Typically, if the employee is considered a bad leaver, all entitlements with regard to unvested LTIPs are forfeited. A bad leaver is, for example, somebody who leaves the company to join the competition. A good leaver is, for example, a retiree or if the company and employee together decide to end the contract. In this case, the rules determine what happens. Typically, there is time proration of the award. In case of a performance plan, there can be various scenarios in terms of performance proration. The plan could, for example, pay at target. More common is to use some form of performance measurement. This can be intermediate (around the leave of the employee) or at the end of the performance period (typical within large listed companies). In the latter case, the employee has left the firm and needs to wait for the end of the performance period to achieve the award. This may be administratively burdensome but could be viewed as most in line with the objectives at the outset (particularly if there are no personal performance measures linked to the award but only company-wide metrics that are the same for the employee group).

Effective plan rules are clear about important foreseeable eventualities and leave discretion for unforeseen/special cases.

In terms of the overall administration and execution of the LTIP, this is typically taken care of externally by specialized companies that support their clients in managing their employee share plans and other equity compensation programs.

Employee Communication

An LTIP typically measures performance over a multiyear period. The metrics are frequently somewhat less within the direct control of the employee. Payments are often equity based. These aspects may cause the plan to become unnoticed. In such a case, the perceived value for the employee drops to a number close to zero. It is therefore highly important to effectively and proactively communicate the LTIP. Not only at the moment of grant and vesting but also in the intermediate period. Branding the LTIP and tracking and communicating the performance are crucial to keep the plan alive and employees aligned with the objectives of the plan.

The Road to the AGM

Equity-based LTIPs may affect the outstanding share capital. In most countries, the LTIP policy and grant limits need to be tabled at the AGM for adoption/approval. In the remuneration report, companies typically disclose the specifics in terms of grant levels and vesting of the awards. The AGM agenda shows the LTIP policy in case it is a voting or discussion item. It is effective to consult major shareholder in advance to ensure no real surprise at the AGM.

Concluding (in Terms of Effectiveness)

From an operational perspective, certain aspects need to be covered such as plan administration and execution. However, the most important driver of effectiveness is communication. Transparency and timely communication greatly enhance the effectiveness of an LTIP.

Dos and Don'ts for LTI

An overview of dos and don'ts is shown below:

Align with the Corporate Strategy

Strategy is typically defined as the determination of long-term goals and objectives and the adoption of courses of action and the allocation of resources necessary for carrying out these goals. A perfect way to show confidence in the strategy is to link the long-term incentive ("LTI") plan to the goals and objectives in the strategic plan, i.e., "put your money where your mouth is."

Be Clear About the Role of Performance

The effectiveness of the design of the LTI plan can be greatly enhanced by being clear about the role of performance:

- Pay drives performance: If the primary goal is to influence people's behavior, it is vital that the LTI plan is structured in such a way that employees can influence the chosen performance metrics ("line of sight"). This typically involves executing an analysis of the most important underlying drivers of the strategic objectives and cascading these derived performance goals to the appropriate levels in the organization.
- Performance drives pay: If the primary goal is to legitimize pay based on achieved performance ("goal alignment"), the plan can be directly linked to the overall strategic objectives or, for example, a measure such as (relative) total shareholder return. Most individuals will not be able to (directly) influence the outcome on these measures. It may therefore not create an effective *incentive*, but the plan could support other objectives, such as corporate glue, wealth creation, retention, etc.

Consider Different Payment Vehicles

LTI plans are often share-based payments. The basic payment vehicles are stock options versus shares. An additional feature could be that the plan is settled in cash, i.e., stock appreciation rights (SARs) versus phantom shares. Cash-settled share-based payments sometimes have a cap (e.g., to prevent perceived excessive outcomes). The payment vehicle needs to fit the business profile and life cycle of the company. Stock options may be effective in case of a start-up/high-growth company but less effective otherwise.

Mind the Cost Versus Value Gap

When establishing the LTI policy, it goes without saying that it is important to carefully consider the funding, accounting costs, impact on cash flow, overhang and dilution (limits), and corporate tax deductibility. However, this is only one side of the coin. The other side is the value to the recipient. Individual taxation is an important factor in various countries that sometimes even dominates the way plans are designed. However, another important factor is the “perceived value.” The gap between the cost to the company and the perceived value to the recipient can be significant. The driver of the gap is the uncertainty about the reward. This “compensation risk” is, for example, higher if the performance volatility of the company is higher but is also heavily influenced by the plan design and the degree of influence an individual employee has on the reward. A perceived value or “certainty equivalence” analysis is therefore recommended to fine-tune the design and bridge the gap.

Don’t Overcomplicate

The road to a simple and understandable LTI plan is not an easy one. Simplifying LTI plans may involve considering simpler structures, fewer metrics, fewer legacy plans, etc. Especially for main board LTI plans, mandatory features are typical, for example, due to governance or regulation. However, there is no need to cascade, these sometimes complex reward features, to the entire eligible population.

Restrict Eligibility

Making LTI available to too many people may lead to awards that are considered too small in light of the intended effect. It may further create a disproportional administrative burden.

Invest in Effective Communication

More transparency, disclosure, and better communication greatly enhance the effectiveness of LTI plans. For internal communication purposes, it is recommended to *brand* the LTI plan and operate a platform where employees can have easy access to the current (and potential future) status of their awards and the associated wealth. The external communication strategy aims to show the added value to shareholders and other stakeholders and to prevent reputational damage, e.g., as a result of top executive realized LTI compensation.

Outlook

“How to ensure effectiveness of a long-term incentive plan?” was the overall question of this chapter. This question was broken down in four paragraphs, based on the people, economic, risk, and administration perspective of LTIPs. Each of the paragraphs listed ways to promote effectiveness. This chapter ended with a specific overview of dos and don’ts which can be viewed as a conclusion of this chapter.

In terms of the outlook for the future, it is expected that long-term incentive plans will continue to be important in the tool kit of the compensation professional. Given the desire for long-term sustainable business results and alignment with the multiyear company strategy, LTIPs are here to stay. The continued importance is further emphasized by modern forms of LTIPs such as deferred payments from the short-term incentive plan and deferred compensation in light of saving for retirement.

In terms of its characteristics, LTIPs will further evolve to be able to better measure company success in financial and nonfinancial sense and, in general, to contribute to business needs as well as individual preferences. Multiple plans may be needed to cater to different objectives, with the challenge to keep things as simple as possible.

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Compensation and Benefits: Essentials of Benefits

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Abstract
Benefits are an important part of the overall rewards package and often require a long-term financial commitment by the organization offering them. Employers need to keep in mind that while benefit offerings and design are mostly local in nature, they still need to fit into the overall global rewards strategy, and the company must ensure appropriate governance and tax and legal compliance. Tax-efficient benefits, while beneficial to the company and employees alike, are often complex to administer for the company and not easy to understand for the employee. Companies can maximize the return on their benefit investment by engaging employees and making it easy for them to participate in the program.

Keywords
Benefits • Defined contribution • Defined benefit • Pension plan • Company cars • Perks • Perquisites • Fringe benefits • Employee value proposition • Communication • Administration • Design • Differentiated benefit • Perceived value • Return on investment • Tax advantage • Compliance • Regulatory environment • Mergers and acquisitions • Business case • Plan participation • Employee life cycle event • Good leaver • Bad leaver • Outside vendors • Data privacy • Data protection • Legislation • Rewards strategy • Rewards package • Reporting • Accounting standards

Introduction

What Are Benefits?

Employee benefits and fringe benefits, perquisites, or perks include various types of nonwage compensation provided to employees in addition to their normal wages or salaries (Wikipedia 2014).

A benefit is something of value the employer gives or grants to an employee. This can be anything from a small onetime gift to a large-scale global program. Benefits can be tangible or intangible, and sometimes expressing their value in monetary terms is not easy.

Benefits as Part of the Rewards Package

Benefits – besides base salary and variable compensation (both short-term and long-term incentives) – are one component of an overall rewards package a modern employer usually offers. They very often represent the icing on the cake so to say and support the organization's rather unique employee value proposition. Their purpose is to deliver value to the business through attracting talent and improving retention.

Do Consider the Accounting Impact of a Program

Benefits can represent a significant part of the overall rewards package and often require a significant and long-term financial commitment by an organization. This financial commitment also needs to be included in the company's financial statements, according to any applicable accounting standards. In general, there are two different types of benefit plans from an accounting perspective: Defined benefit plans were quite common in the past, where an employer guaranteed a certain financial outcome at a future point in time. The associated risks with financing the guaranteed payout were a responsibility of the employer, and any risk associated with them needed to be properly reflected in the various financial statements. Many companies have changed their practices to defined contribution plans, where the employer guarantees a certain level or fixed amount of funding, and the employee bears most of the risk regarding the outcome. Depending on the structure of the program and the applicable accounting standard, there might not be any financial risk involved for the employer, and therefore such plans do not need to appear in the financial statements.

How Benefits Tie into a Global Rewards Strategy

Recent research by Towers Watson (2014) suggests that the best companies drive sustainable employee engagement by continuously monitoring and adjusting their rewards strategies, including the role of benefits programs in general, or any one particular benefit in the portfolio.

Don't Assume that Benefits Are the Same in Every Country

Because of local practices, norms, culture, and regulation, benefits tend to be more locally driven. A very common mistake is to assume what works in one country really well will also work as well in another country. Because people's preferences differ, respecting local market practices and employee preferences enhances the perceived value for the employees, resulting in a better return on investment in the program. Even so, benefits still must fit into the overall global rewards strategy of an organization. The role of a global rewards framework is to define those elements of benefits that should be consistent globally. For example, how to define the target competitive position with regard to the local market and relevant competitor group or whether to utilize a defined benefit or a defined contribution approach should be part of a global rewards framework.

Economic Perspective

Do Understand Market Practice

As previously cited, local programs need to reflect the relevant market in the respective country or industry. An organization needs a good understanding of two aspects: The first aspect is what the most common benefits in the local market are that other employers offer. The second aspect is their monetary equivalent or value.

Do Offer Competitive Benefits: And Then Differentiate

Offering comparable benefits to other local companies allows the organization to remain competitive. This is a key contribution to attraction and retention. A smart move is then to differentiate the benefits offerings by choosing the one or two element(s) that make the company unique. Finding a benefit that has high perceived employee value and is cost effective is clearly a key win, especially as a differentiated benefit. Some organizations even consider having a globally common program that makes them stand out from the rest, delivering it wherever legally possible.

Risk Perspective

Do Ensure Governance Processes

Proper benefit governance is essential, especially for multinational companies. This includes rules for implementing a new benefit, managing financial risk, and ensuring benefit-cost optimization and effective handling of M&A transactions while allowing enough flexibility for local freedom. Furthermore, compliance to changes in the regulatory environment must be monitored and ensured.

Do Respect Local Laws and Taxation

Local laws and taxation do differ from country to country. Most countries offer tax advantages to employers and employees alike and/or allow deduction of expenses for some benefits. If an organization wants to make use of those advantages, it needs to be very mindful of the rules and regulations that may be needed to be built into a program.

Do Have a Business Case

Associated cost or restrictions need to be considered when setting up a business case for implementing a new benefit, but ensuring the tax and legal compliance of the benefit programs offered in each individual market is vital for the organization's overall compliance.

People Perspective

Do Ensure Your Employees Understand What You Are Offering

Most tax-efficient benefit programs are – at least in the eye of the employee – highly complicated. Employees need to understand those programs to appreciate what their employer is doing for them. This is even more relevant where managers are the trusted go-to person for their team members. They need to be able to understand and convey the key points easily. Simply including all the small print and expecting them to read and understand will not lead to the desired results. An organization needs to explain in an easy-to-understand language what the benefit is all about and what exactly is in it for the employees if they participate. The more complicated the topic, the more important it is to find a way to communicate in a simple and easy-to-understand way. Best practice is to always put oneself in the place of the employee and not in the place of the HR professional, to avoid making anything overly complicated and to ensure that participation as easy as possible for employees. As HR professionals, we tend to try and communicate in the language of our trade which can result in many benefits in technical terms. A good idea is to share your proposed communications with a non-HR employee group to make sure that the messages are clear and understandable to employees.

Operative Perspective

Do Consider All the Details

From an operative perspective, benefits are quite complex to handle. When setting up a new benefit program, organizations need to be wary of the details.

Do Have a Policy for Each Program

By setting up a program policy, the company breaks the abstract intent of the program down into very practical answers to some key questions:

- Who will be able to participate? On what criteria are general participation and the level of participation based, e.g., level, tenure with the company, income, certain employee life cycle events such as marriage or the birth of a child, etc.
- Is there an element of choice by the employee or is it a rather standard program for everyone?

- Is the cost of the benefit entirely borne by the company or by the employee, or is there a cost-sharing element?
- What exactly do employees need to do when they want to participate?
- Under which circumstances can their participation be changed or stopped, such as employee life cycle events?
- Does the benefit contain vested rights where even after ceasing employment, the former employee might continue to be a plan participant? Is there a difference under which circumstances the employee left, such as good and bad leaver clauses, and do those circumstances have an effect on continued plan participation?
- Are there certain time restrictions for employees to sign up for administrative purposes or from a legal or tax perspective?
- Are there any specific rules that need to be built into the program for legal or tax reasons?

Do Implement a Robust Administration Process

Very often, companies use outside parties to deliver or administer particular benefit programs. Some examples are insurance companies for pension plans, leasing providers for company cars, or vendors for discount programs. Regardless of whether an organization delivers a particular program using internal or external resources, it is very important to set up robust administration processes. These should include the sign-up phase, ongoing operations, a process around any employee life cycle events if this has an impact, and the case of an employee exit.

Do Ensure Quality of Data

In order to deliver efficient program operations, it is mandatory to use correct and up-to-date employee data. Usually this works best when using the same source of data as for payroll purposes, as employees tend to be mindful to update those records when necessary. Especially when transferring employee data to outside parties and/or other jurisdictions, data privacy and data protection laws must be considered and complied with.

Do Consider Cross-Border Movements

When cross-border movements of employees happen, the devil really is in the details with benefit programs. If the new country has a similar program, the employee might want to transfer any accumulated capital or any participation rights. Due to very different tax and legal systems, this might not be possible or very complex.

Do a Thorough Due Diligence in an M&A Transaction

The same is true for M&A transactions. The long-term impact of benefit programs has added a bitter taste to many initially great deals. It is extremely important to do a very thorough due diligence around those programs and understand all the details, reporting obligations, and cost implications.

Do Set Up a Reporting Process

Additionally, a robust reporting process needs to be set up. Be sure to know the necessary input and output for a proper reporting: What information will you need from external parties, from other departments, in which format will you need it, and by when? What information do you need to report on internally and also to external bodies? Does it have to come in a specific format, and by when is it due?

Do Consider the End-to-End Process in the Program Design

Anything you can already include in the plan design and setup phase of the program is always easier to handle than if you need to add or change at a later point in time.

Do Communicate Constantly

Finally, an organization should continuously communicate the offered benefit programs and their value. Employee life cycle events present a great opportunity to reach out to the employee. For example, if you communicate the impact a promotion, a recent marriage, or the birth of a child has on a particular benefit plan for your employees, you demonstrate that you know what is going on in their lives, you care about their welfare, and you make it easy for them to understand the options they have.

Final Comments and Outlook

While often complex to introduce and to maintain, benefit programs can add significant perceived value to an employee's rewards package. Especially in the case of a differentiated benefit, they support the company's unique employee value proposition and, when properly designed, administered, and communicated, can help to drive sustainable employee engagement.

Cross-References

► Compensation and Benefits: Essentials of Benchmarking

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Compensation and Benefits: Company-Provided Benefits at McDonald's 54

Lisa Emerson and Yvonne Prang

Contents

Abstract

In an effort to continuously enhance the employee value proposition, McDonald's decided to introduce a new pension plan, McBenefit, in Germany.

In a thorough end-to-end project, all aspects of the new program were addressed, including target groups identification, financial impact, stakeholder management, operating model, and tax and legal compliance. McBenefit was launched with an innovative communication campaign, making the program a great success, contributing to the positive McDonald's employer image and

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building the basis for a new approach to communicating rewards at the company moving forward.

Keywords
Accounting standards • Administration • Benefits • Business case • Communication • Compliance • Data privacy • Data protection • Defined benefit • Defined contribution • Design • Digital communication channel • Employee engagement • Employee life cycle event • Employee value proposition • Global rewards framework • Legislation • McBenefit • Mergers and acquisitions • Outside vendors • Pension plan • Perceived value • Plan participation • Regulatory environment • Reporting • Return on investment • Rewards package • Rewards strategy • Target groups • Tax advantage • Third-party administration • Initialversorgung • Grundversorgung • Aufbauversorgung • Ergänzungsversorgung • Executives • Employer matching • Disability • Dependents • Claim • Key visual • Corporate identity • Company culture • HR business partner • Ray Kroc Award • President's Award

Introduction

Continuous improvement is an integral part of the McDonald's DNA and one of the company's core values. Ideas focused on deriving more value from benefit programs to drive employee engagement are constantly monitored. The company discovered during a local benchmarking process that it was not offering a competitive pension plan in the German market, where pensions are considered to be an "anchor" benefit. "Anchor" benefits are common practice in a particular market, and nearly all employers offer them. Missing out on that opportunity, or lacking in competitiveness, puts an organization at a considerable disadvantage when trying to attract and retain employees. Therefore, a project was initiated to develop and implement a new pension program in Germany.

Meeting the Challenge

Link to Company Strategy

With pensions being an "anchor" benefit in the German market, the company's aim for the new program was to position itself as a socially responsible and attractive employer by offering not only the standard fare but serving the program with a certain McDonald's flair. The goal was to support two identified areas of focus within the company's German HR strategy and the "People" element of the company's global business strategy, i.e., attracting and retaining employees at

McDonald's. As a result, the company's strategic aim and the new program's value proposition were closely aligned.

Goals of the Program and Stakeholder Engagement

Different stakeholder groups within the organization were identified and involved early in the development stage of the project. This helped to ensure that their views were considered in the design phase of the new program, which also contributed greatly to gaining their buy-in and support in the approval and implementation stages later.

Members of the German leadership team were giving input on the strategic direction, the HR business partners were providing their strong understanding of employee preferences, members from the finance group were contributing their views on the potential funds available, and the payroll team provided a focus on operational excellence after implementation. A crucial success factor was to also involve key leaders within the global organization, such as the leading European and global compensation and benefits experts early in the project.

The Global Organization

The McDonald's global rewards framework defined a specific target position for benefits in comparison to the local market and required that the new plan be a defined contribution plan under US-GAAP accounting rules. Furthermore, a global approval process was required before a new plan could be introduced. Close cooperation with key leaders in the global organization and a sincere effort on both sides for mutual understanding and collaboration over an extended period of time was necessary to ensure proper governance and a smooth approval process.

Decision Makers

Leaders from the various involved departments were shaping the goals of the program within their strategic priorities: in workshops with different decision makers, goals for the design and the implementation of the program were identified and linked to the company strategy and the people strategy.

The View of the Customer

The main customers of the program, the employees, were asked to give their input.

Distinct target employee groups eligible for the new program were identified. In workshops with their representatives, facts about their preferences and the perceived value of different target groups placed on the new program were identified. Flexibility and choice were ensured where possible, supporting not only changing personal circumstances (such as marriage, divorce, birth of a child) but also career movement and potential future changes in the organizational structure by M&A transactions. Opportunities to increase perceived value and to provide employees with access to a benefit at a lower cost than the employee could "buy" on the external market were considered and integrated into the program.

Financial Impact

Key elements needed to be considered: fairness when dealing with the existing legacy program while also ensuring the long-term financial feasibility for running both programs. The financial impact was extensively simulated over a 20-year timeframe, based on assumed participant numbers, attrition rates, salary development over time, etc. Wherever possible, preferential tax treatment for the employee as well as the employer was ensured.

Operating Model

A flexible operating model with the right amount of third-party involvement was set up, fostering efficiency and effectiveness while maintaining internal control of the program. Appropriate control mechanisms to ensure data protection and compliance with applicable data privacy laws were implemented.

Translating Goals and Requirements into a Program: McBenefit Design

With the goals and requirements identified, a team of internal and external experts developed the design of a new pension plan.

A very first step was to give the new program a catchy name – **McBenefit** was born.

To cater to the very different needs of the identified target groups, the new plan was set up in four distinct tiers as shown in Fig. 1. All of them can be contributed to separately, allowing maximum flexibility for the company and the employees alike.

The "Initialversorgung" offers all employees the opportunity to dedicate on a monthly basis a tax-free part of their gross earnings (up to the maximum amount allowed by law) into a pension plan insurance, operated by an external third-party insurance company. Upon retirement, the insurance company pays the employee a monthly pension which is then subject to tax and social security contributions, if any.

In the second tier, the employer annually contributes a certain percentage of the employees' annual gross salary into two potential vehicles in the "Grundversorgung": for all staff employees working in an administrative role, the contribution is made to a pension support fund, operated by the same external third party. The company's restaurant managers participate in a lifetime savings account and can decide whether to use the accumulated funds to retire early, reduce their working time at full pay, or take a lump-sum payment at the point of retirement.

In the third tier, the "Aufbauversorgung," the employees save their earnings above a certain income threshold, receiving a 50 % employer match. The contributions are directed in the same support fund as the "Grundversorgung."

As a fourth tier, top executives of the company participate in the "Ergänzungsversorgung" where the employer directs a monthly contribution to the same support fund as used in the "Grundversorgung" and "Aufbauversorgung."

Fig. 1 The four-tier McBenefit program (Source: McDonald's Deutschland Inc.)

All four tiers offer the employee the choice to include additional risk coverage in their McBenefit package:

McSingle	McSingle offers a monthly pension payout
McSingle Plus	McPartner includes a monthly pension to surviving dependents (husband/wife or lifetime partner, children, etc.) in the unfortunate event of employee death
McPartner	McSingle Plus adds disability coverage to the monthly pension
McPartner Plus	McPartner Plus offers all of the above

The Key to Employee Engagement: Communication

In order to maximize the return on investment, McDonald's was committed to making a new pension program and proper communication at all stages of the

Fig. 2 McBenefit package (Source: McDonald's Deutschland Inc.)

project as well as to all identified stakeholder groups needed to be ensured, fostering employee involvement at all levels of the organization. An elaborate and comprehensive communication strategy, based on stakeholder groups previously identified, was developed.

The developed claim "Life stays beautiful" (Das Leben bleibt schön) built an emotional link between the present situation and the desired future of the employees.

A catchy key visual as shown in Fig. 2 was designed for the campaign, using the widely known McDonald's to-go paper bag, putting it in context with the McBenefit program.

For each of the McBenefit tiers, a color-coded information brochure was created, using pictures and expressions with a close link to the company.

Any overly technical expressions were avoided, using easy to understand language. All names, expressions, and pictures were chosen with a link to the overall McDonald's corporate identity and company culture.

Additionally, the campaign aimed at emotions and played with the imagination of the employees, bringing the present (what is now) and the future (what their dreams might be) together.

In Fig. 3, an example is shown: a simple bicycle grows into a motorcycle and a hammock suddenly appears between two trees.

Making the Campaign Even More Personal

All stakeholders, from the German leadership team through middle managers to the HR business partners, were informed in several sessions before McBenefit went live in order to enable them to act as trusted go-to persons, adding credibility to the program. Local information meetings for all employees were organized. Fitting the company's culture, information was paired with emotion and a personal connection: a rather emotional trailer set the mood for the meeting, and the Chief People Officer's commitment to the program was transported by his video message. A representative of the compensation and benefits team as well as a trusted HR business partner were presenting the new program as a team, answering any questions from the audience.

In order to reach every potential participant on an even more personal level, a personalized communication package as shown in Fig. 4 was put together, and it was

Fig. 3 Cover pages Grundversorgung and Aufbauversorgung (Source: McDonald's Deutschland Inc.)

Fig. 4 Contents of the McBenefit mailout package (Source: McDonald's Deutschland Inc.)

mailed out in an envelope created to look like the McBenefit key visual paper bag. In the personalized cover letter, every participant's current pension plan participation (if any) was outlined as well as any potential participation in the new McBenefit program. The employee only received the brochures and participation documents for elements in either the legacy program or McBenefit he/she qualified for participating.

Furthermore, an employee hotline was implemented, answering any questions related to personal circumstances by qualified and trained third-party pension experts.

Overall, the campaign created trust and an almost natural understanding of the rather complex and often dry pension topic. As a result, McBenefit is considered to be a great success, contributing to the positive employer image McDonald's had already established in the market and supporting the overall company and HR/people strategies.

Results and Lessons Learned

Building on a Great Idea and Making It Even Better

Convinced by the very positive results of the McBenefit's project and the success of the communication campaign, the company introduced a compensation and benefits brand in Germany for all reward communications.

For each distinct topic, the well-known brown paper bag appears and is put into a different context.

For example, as shown in Fig. 5, for any communication regarding company cars, the fleet package image is used.

For the company merit award programs, the prestigious President's and – named after the company's founder – Ray Kroc Awards, the bag is shown with the distinctive award's logo for the Ray Kroc Award or put on a red carpet for the Presidents' Award as shown in Fig. 6.

Wherever suitable, the key visual of the brown bag appears on any communication designed by the compensation and benefits team, such as information brochures about programs, salary increase letters, bonus payout information, etc.

The very positive result: Employees easily recognize the key visual and know that the communication is about something their employer does for them, strengthening the employee value proposition.

Managers quickly gain an understanding of the wide compensation and benefits portfolio and reward communication as shown in Fig. 7 and recognize the professional efforts of the team.

This contributes to a positive image of the people team at McDonald's in Germany as well as the overall employer image.

The Future: Going Digital

As mentioned before, continuous improvement is an integral part of the McDonald's DNA. The company always looks for new and creative ways to foster employee engagement. As a result, a digital channel has been recently added to the rewards communication.

Fig. 5 The fleet package (Source: McDonald's Deutschland Inc.)

Fig. 6 Award communication (Source: McDonald's Deutschland Inc.)

In the first step, a benefits portal allowing employees to access their personalized benefit account on a 24/7 basis was introduced. Within that portal, each eligible employee can access general information about the various pension

Fig. 7 Reward communication examples (Source: McDonald's Deutschland Inc.)

programs – the legacy program as well as the new McBenefit modules. Some additional benefits, such as accidental death and disability insurance offerings, are also included.

For all these programs, the employees can calculate contract offers (before/after tax based on their personal information provided), send those offers electronically to third-party pension experts for advice, and view their own personalized benefits statement where the monetary value of the programs he/she already participates in is displayed, showing contributions by the employer and by the employee as well as the point in time and the value of any future or potential payment to be expected (Fig. 8).

Building on that first step, other compensation and benefits elements will be added to the portal, such as monthly salary and any salary increase information, payouts for short-term incentives, company car values and allowances, upcoming awards based on years of service, and eligibility for the very unique McDonald's sabbatical program. Not only does the new version offer access to even more personalized information, it also enables the employee to interact with the involved parties: a real-time chat function is added, so questions can be directed to a qualified person being able to provide an instant answer if available. Furthermore, all conversations are saved into an employee ticketing system, and questions and answers can be accessed at a later point in time.

Fig. 8 Benefit portal visuals (Source: McDonald's Deutschland Inc.)

On the pages within the portal, the employees encounter the well-known brown paper bag created for the various programs, presenting a strong visual story of the overall rewards communication while allowing for individual program differentiation and sometimes even presenting the topics with a certain sense of humor fitting the playful company culture.

By adding a digital channel to interact with employees in rewards topics, McDonald's has taken an important step to further foster their understanding by offering an easy to use, personalized access to the information the employees might need in that field.

This further strengthens the employer image, especially among the more digital savvy employee groups, and drives employee engagement to a whole new level (Fig. 9).

Fig. 9 New visuals for online communication (Source: McDonald's Deutschland Inc.)

Cross-References

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Compensation and Benefits: Essentials of International Assignment Management 55

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Abstract
Internationalization became an essential strategic dimension for companies to ensure profitable growth. International assignments play an important role to implement this strategy. As a consequence the number of international assignees is growing year by year; they work as interface manager between headquarters and branch office, as cultural ambassador, or as technical specialist to transfer knowledge. For ambitious and open candidates, a position in a foreign country and in a different culture can be an interesting step to further develop their professional career. International assignment management first of all needs a policy framework, defining the compensation and benefit package, especially the typical assignment allowances depending on distance to the home country and hardship of the host country. The administration of international assignments secondly requires standardized processes for all phases of an assignment, from selection to reintegration and with clear allocation of roles and responsibilities between all human resources partners involved. Organizations exchanging bigger numbers of specialists and executives between several countries work with centralized assignment management teams, who cooperate with local HR in the host countries and often use external partners for relocation, social security, payroll, and taxation to manage this complex task.

Keywords
Assignment • Expatriate • Going global • Global mobility • International assignment management • International career • Localization • Secondment

Objectives for an International Assignment

The term expatriate combines the Latin words “ex” (from) and “patria” (fatherland) and characterizes an employee who is seconded by his company to an affiliate or a joint venture partner abroad for a limited time. With the decision to send employees on an international assignment, companies in equal measure strive for organizational and human resources goals (Sedlmayer 2009).

Human resources goals for an international assignment:

- Staffing of critical positions and knowledge transfer
- Development of employees from home and from host entity
- Intercultural know-how transfer

Organizational goals for an international assignment:

- Strategic leadership and control of company entities
- Enhancement of communication between company entities
- Development of an integrated company culture and a global mindset

More than 200.000 Germans, for example, leave their fatherland in 1 year to work as expatriates in a foreign country often with their families. Personal motivations can be:

- Responsibility, decision-making power, attractive compensation package
- Better perspectives for future career
- New challenges and experiences in a foreign and exotic culture

Sending executives or specialist on an international assignment should create a win-win situation. The company needs employees with a global mindset that can cope with foreign business practices and conventions to implement her business strategy. The employee gets an attractive development opportunity in his professional career, very often the whole family benefits. Before starting an assignment it is therefore important that the employee understands the expectation of the management but also has an answer for himself. “What’s in for me” should include both the career perspective and the benefit package.

International Assignment Policy

International assignments are usually subdivided in “short-term assignments,” lasting seven to twelve months, and “long-term assignments” lasting one to three years in some companies up to five years. Assignments up to six months are most often handled as business trips. Assignments longer than five years must be avoided in most companies; arguments against longer assignments are costs in general, challenges in regard to home social security and host taxation. Reintegration to the home department and repatriation of the family are also becoming more difficult once the departure from home is very long.

Companies with a bigger number of international assignments stipulate the company provisions and the obligations of the employees in an own “International Assignment Policy.”

Compensation

Typically company policies apply for a home-based compensation concept. For the duration of the international assignment, the employee’s compensation remains based on the logic and the amount of his home contract. This approach also includes tax equalization and holds the expatriate base salary and variable salary on a net level of his home country. The compensation structure of the host company and the status of the function in host are not relevant in this course of action.

The guiding principle of a home-based compensation approach is that the assignee should be able to maintain a similar standard of living in his host country as in his home country. For countries where the cost of living is higher than in the home location, an additional cost of living allowance (COLA) can be granted to close this gap. The starting point for the calculation of the cost of living allowance is the spendable income that depends on income level and family size and the relevant basket of goods. The content of the basket should reflect additional benefits granted. For companies providing, for example, a company car or free housing, these elements should be excluded or underweighted in the basket. Spendable income and COLA indexes usually are bought from specialized vendors and thus can also ensure comparability with other companies and with other locations.

Companies have longer waiting lists for assignments in attractive and developed cities providing state-of-the-art infrastructure such as housing, schooling, medical, and entertainment. For locations with challenging living conditions for assignee and his accompanying family, it will be more difficult to find enough sufficient candidates.

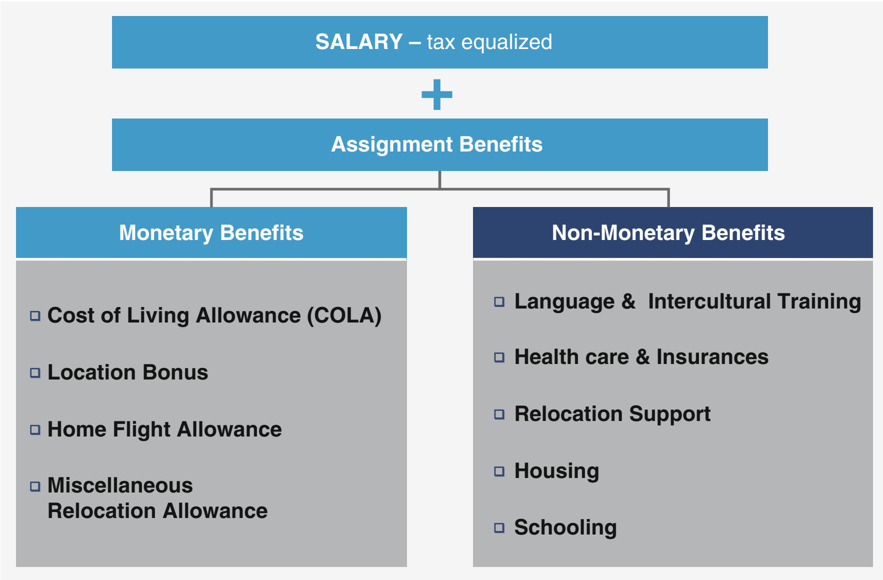
A location bonus – often also named “hardship” – is granted as special benefit to compensate for certain deficits, burdens, and risks. Mercer, one of the big providers for HR data, uses a set of 14 objective and measurable factors to categorize locations, usually bigger cities. It is important to understand that the location bonus is an absolute measure for a location not taking into consideration where the assignee comes from. It does therefore not reflect differences between home and host like food or religion that can of course create stress in daily life. While a Korean going to Tokyo might easily understand that Tokyo, a city with perfect infrastructure, balanced climate, high safety, and low pollution, is at the lowest Mercer category, an assignee from Europe might feel very challenged with the different language, business behavior, and culture.

To keep in touch with family and friends but also with the old department and colleagues, companies provide home trip allowances for the assignee and his family members; allowances more and more subsidize the formerly granted flight tickets. The entitlement for an allowance starts from a minimum travel distance and the amount depends on the travel time. Emergency flights are granted on top in case of threatening illness or serious accidents or in case a close relative of the assignee or his spouse passes away (Table 1).

Along with an international assignment, various foreseeable and unforeseeable low-cost expenses happen. Over time catalogs were developed to decide which items can be reimbursed or not, such as application and renewal of ID documents, bank charges, transportation during relocation, purchase of electrical equipment or missing household goods, fees associated with necessary driver licenses, and storage cost.

Detailed assignment policies with a multitude of benefits and allowances and complicated reimbursement processes with physical receipts are a massive administrative burden and give a wrong signal to the assignee. A “miscellaneous relocation allowance” paid out at the beginning and the end of an assignment should be communicated as an expectation to the assignee to manage all the small uncertainties in daily life by himself. This can avoid administrative overload and unpleasant discussions about small money.

Table 1 Basic elements of an International Assignment Contract



Source: Own diagram

While the dominating concepts for remuneration are still following a home approach, the cost allocation for the majority of assignees should be booked on the host companies' account, following the assumption that the host company has the benefit of the assignment. This approach also best fulfills strict tax requirements. As a consequence the cash components shall be paid out, and benefits in kind shall be granted by the host unit. Doing it this way the remaining need for cross-charging of cost is reduced to certain items which still need to be managed in the home country like home social security contributions or fees for vendors the company has global contracts as, for example, a global tax consultant firm or a global health insurance company. Payout of the whole salary on a host country account often is not the preferred solution however of the assignee. The solution can be a split payment. The host company transfers the monthly payments to an international bank and instructs the bank to divide the amount into a portion paid out in local currency on a local bank account of the assignee, and the rest is converted into his home currency and transferred to his bank account at home.

Benefits on Assignment

Benefits on assignment should cover the additional cost, support the integration and reward for the daily challenges, and allow keeping in touch with home:

- Relocation support
  This includes the costs associated with moving overseas including airline tickets, custom duties, insurance fees, and of course the cost for the acquisition of work permit and visa.
- Housing
  In general companies bear the rent for an apartment within a defined budget depending on hierarchy and family size. Some companies see that the assignee can terminate his house rent at home or rent out his own apartment. Taking this into consideration they ask for an own contribution for the rent. Some assignment policies describe in detail what items can be included in the housing budget (e.g., consumption-based utilities and sport facilities) and what services must be excluded (e.g., housekeeping). Instead of defining too narrow what is in and what must not be covered, the better way is to strictly limit the budget and give it into the decision and responsibility of the candidate to decide what is finally included in the rental package.
- Schooling
  The children should, whenever possible, receive an education that is comparable to the standard of the home country's school system in order to facilitate reintegration at the end of the assignment. Coming from this philosophy, European companies often limit the tuition fee, taking the home curriculum school as a reference, if available. Modern approaches give the parents the possibility and responsibility to decide for any available school at the new location. Taking an international curriculum can also increase the mobility of the family. It might increase the readiness to go to a next assignment to a location, where no home school curriculum is available.
- Language training and intercultural training
  Hourly contingents are usually defined for the assignee and his family to be able to communicate in the new country in the official or conversational language. Intercultural trainings on assignment deepen the cultural understanding and prepare the assignee for his role in a new environment.
- Spousal career support
  This can be a cash allowance per assignment year either paid flat or an entitlement reimbursed for studies or job-related trainings. Support to find a job at the new location is highly required by unmarried couples but is difficult to fulfill.
- Social security and company pension
  For the duration of the international assignment, the employee normally stays in the social security system of the home country insofar as this is possible. Similarly the home company's corporate pension scheme is normally continued. This will ensure eligibility compared to the colleagues at home. In some countries it is mandatory to contribute additionally to social security insurances or pension plans. These contributions usually are taken by the company. In return the company may ask for benefits or entitlements out of these programs.
- Insurances
  A suitable healthcare insurance for the assignee and any accompanying family member throughout the assignment is of highest importance. It is recommended

to have a contract with an international provider rather than a local provider in the host country to keep the communication and reimbursement process easy for the assignee. Additionally, it is recommended to provide a package covering certain private risk, such as accident insurance, liability insurance, and household insurance. For remote locations and countries with unsatisfying health infrastructure, additional specialized companies like International SOS offer customized solutions including 24/7 hotlines.

If the employee is no longer obliged to have a statutory insurance in the home country, the employer's contribution to the statutory health insurance of the home country is no longer applicable.

- Mobility and home leave
  As a general principle company car entitlements from home are maintained during the assignment period. In countries with difficult traffic safety, a company car with driver is provided. In extreme cases it can be prohibited to drive oneself.

  Home flights offer the possibility to visit family and friends and should also be used to maintain the professional network. Trailing dependent flights allow family members that did not relocate to visit the assignee. Nowadays companies change more and more to flight allowances. They are paid in monthly installments, and the assignee decides the usage by himself.

Excurse 1: International Taxation
For international assignees, not only the local tax liability but also the tax liabilities from the home country or other former countries of an assignment can apply.

For the company the challenge starts with a compensation and benefit gathering concept, where the relevant data from previous years and all salary and benefit date from home unit and host unit are completely reported and available for taxation in the assignee's host and home country. This does not seem to be difficult at first glance, when focusing on regular cash payments and benefits like salary, social security, and location bonus. But when it comes to company car and driver, business club memberships, dinner invitations with life partners, these items might not be taxable in the host country, while in the home country they are taxable. There is most often no reporting process installed to track this, because they are tax-free in the host country. Long-lasting stock option plans or bonus payments from previous years are additional complex items.

Permanently further developing tax laws and new regulatory in combination with operational risk requires high attention to ensure tax compliance for the expatriate but also for the employer. It is therefore advisable to engage an international provider, who is able to support the payroll and taxation process for all required country to country combinations.

Double Tax Agreements and Tax Equalization (TEQ):

International taxation is a challenge for HR professionals, but it should not become a nightmare for the assignee. The question "how does this work now with my taxation?" is not only relevant for income from labor but also for income from bonds and shares and from leased out apartments. And it becomes even more difficult to handle, when the family does not join but stays at home.

To avoid that two countries tax the same income from a person twice, so-called double tax agreements were concluded between most countries. The basis is a template of the “Organisation for Economic Co-operation and Development” (OECD). On the common understanding of a worldwide income principle, either certain kinds of income are exempted from taxation in one of the both countries or one country takes into account the tax duties paid in the other country and uses only the higher tax rate for calculation.

Tax equalization in the company policy reflects the idea that the assignee should have neither a tax advantage nor a tax disadvantage from the international assignment. It means that his individual tax burden should be neither higher nor lower than if he had stayed in his home country. TEQ should not include assignment-specific allowances such as location bonus, home flight, and housing rent as they are defined usually as after tax.

There are certain levels of tax equalization in practice. It depends on company culture and how extensive company and private interests are mixed:

- TEQ with focus on the annual cash compensation (recommended)
  In this approach the hypothetical tax for the assignee is calculated on his annual salary, variable compensation, and profit-related bonus as if he would have remained in his home country. Fringe benefits and private income are not considered.
- TEQ including fringe benefits such as company cars, employee shares or stock options, and severance payments
- TEQ also including positive and negative private income (e.g., income from real estate, bonds, and shares), pension income, and spouses’ income

A tax briefing with a tax advisor prior to the assignment start helps the assignee to understand the approach of his company. He understands that from now on he has to maintain a tax calendar and has to support tax filling in more than one country. His tax year is also not finished when getting the final tax return from tax authorities. In a last step his company will calculate his final hypothetical tax.

Phases of an International Assignment

Selection Phase

Recruiting of a suitable candidate can be a challenge for the human resources management and lays the cornerstone for a successful international assignment. Internal candidates are normally the first choice as they have a good network and fundamental knowledge of the product and internal process. The selection process nevertheless should evaluate the professional knowledge of the candidate as well as his ability to cope with partners whose values, beliefs, behaviors, and business practices are quite different. Very good communication skills, ideally combined with the ability to speak the local language, are key factors. During the selection process the family situation should be reflected as well. The family is the emotional area of retreat for the assignee. Unhappy family members create additional stress for the assignee and are one main factor for the break off of an assignment. At the end of the selection process, the candidate should understand what the company is expecting from him during the assignment, and a reintegration commitment should give him also a professional perspective.

Preparation Phase

Once the candidate is decided, various activities have to be started. For the better understanding of his new task, he might have to broaden his professional network and seek for additional strategic and functional information. Sessions with former expatriates can give valuable inputs; specialized coaches can help to develop an overall understanding of the new culture and the situation of the respective industry in this country. With the human resources department, he will also discuss his assignment contract and understand the related policies and guidelines.

A visa specialist or an external visa agent will support him to prepare the necessary documents for the immigration procedure for himself and for his accompanying family members. Depending on the target country, medical examinations have to be passed, and vaccinations have to be refreshed or newly administered. This is especially important for assignments to locations, where environmental conditions or the availability of regular medical services may be a concern. The employee must be informed in case those annual or biannual physical examinations for himself and his family members are required due to labor law or health insurance regulations.

Language training and intercultural preparation can start in parallel and should include the family. The intensity of these trainings is extremely different between companies. While some companies just send the target persons to a two-day training "fit for abroad" and offer a country-related contingent of language hours, which can be used before or on assignment, others send their candidates to specialized institutes where the candidate and in some cases even his spouse attend several weeks of language training and intercultural trainings to be best prepared for the new environment. Security trainings might be necessary for some countries.

A look and see trip prior to accepting the position is highly recommended. This will give the candidate and his accompanying family the best opportunity to preview the foreign location's living conditions, infrastructure, housing, schooling, medical situation, and entertainment. The location orientation should start with the evaluation of schools and kindergarten for the accompanying children. Internet research at home can be a good preparation for that. The decision for a school limits the choices of areas for house hunting. Appropriate housing is the critical factor for the well feeling of the whole family. Ideally the look and see trip helps to preselect potential facilities and can prepare the decision whether to move to an unfurnished house or apartment or decide for a furnished facility or serviced apartment, as this triggers later decisions, especially the moving arrangement. A look and see trip should furthermore give an idea about the supply of food and entertainment and show the availability of clinics and hospitals. The candidate himself should have a meeting with his future department to get also an impression of the working environment and future colleagues

The candidate and his family also have to review certain items and processes in their private life. Decisions have to be made as to keep, terminate, or rent out the current living facility. Financial plans and insurances have to be evaluated; some memberships and newspaper might be canceled. Should the mail be sent to the new foreign address or better to a relative or a good friend? Not to forget, how to maintain the communication with relatives and friends. While this might be an easy story for the children, elder parents might need some time to suddenly use internet for communication.

The HR colleagues at the home unit meanwhile have to finish certain paperwork. Home and host units usually sign an agreement which defines obligations of both parties; it most importantly defines the cost allocation. The expatriate receives his “assignment contract” defining the condition, especially showing his compensation package and special duties to fulfill. Certificates of coverage for social security and tax exemption confirmation have to be applied at the respective authorities. All the changes have to be maintained in the respective IT systems.

Onboarding and On-Assignment Phase

In parallel the operational transition of the assignee to the new location has to be managed. Usually this process is started by his home HR; they organize the move of household goods and book the flight tickets. After this step the responsibility switches to the host HR department. At the very beginning the immigration procedure has to be finalized followed by registration at the local police office. More and more companies bundle the administrative steps of an assignment in specialized teams; others outsource it to specialized service provider companies or do a mix of both (see Table 2).

An important welcome signal for the first day at work is that the entry batch, desk, laptop, and mobile phone are prepared. With start at the new location, the expat has to be integrated into the new work environment. Accesses to IT systems have to be granted. He has to understand the written and unwritten rules. A buddy program where an experienced assignee acts as a mentor for the newcomer in the onboarding weeks could be an effective measure.

Privately the family has to get started. The kids have to become familiar with the schedule of the school bus. Integration into the new curriculum can be difficult, but children should not be underestimated; they can make new friends and adjust to the new environment very quickly. The biggest challenge is waiting for the accompanying spouse. Often she has the role to manage the supply and needs to get familiar with banking, public transportation, and shopping infrastructure. To support this, an orientation program included in a relocation package or an experienced spouse who can act as a buddy in the first weeks can reduce the stress level.

Table 2 Relocation service framework

Global PRE assignment services	Global ON assignment services	Global POST assignment services
Immigration	Onboarding	Deregistration
Collect and complete necessary documents Handle interfaces with authorities	Introduce assignee to medical care, places to go, public transport Shopping orientation Hand out orientation documentation City tour incl. sightseeing School inspections & enrolment assistance Support opening a bank account, applying for a credit card, conversion of driver licence Support custom clearance	Deregistration Cancel utilities contracts (electricity, gas, water),
Preparation move in Gather assignee's preferences via questionnaire/personal discussion Airport transfer (pick-up or rental car) Inform about currency, relevant laws and regulations, safety		Move out Negotiate lease contract cancellation with landlord Organize/process exit inspection (incl. protocol, identify need for repairing, translation) Return residential object to landlord Reclaim deposit
Housing Select residential objects based on assignee's preferences Provide documentation of selected objects Arrange inspection of selected objects together with a personal consultant Provide location-specific information Phone and Internet	Utilities (electricity, gas, water), GEZ if applicable Negotiate/conclude lease contract Hand over residential object (incl. necessary translations, protocol) Distribute lease contract (company, landlord, assignee) Inspect temporary (corporate) apartments	Permanent services 24 h hotline Update/reporting to HR, online tracking of service delivery (quality management)

Source: Own diagram

Post Assignment

The reintegration and repatriation of the assignee is the third phase and marks the end of the assignment. A successful reintegration starts already before the candidates go abroad with a reintegration commitment. The reintegration planning should start six to twelve months before the planned contract ends with the final identification of the next position. Often the discussion goes in another direction, and the contract is extended another one or two years, or the candidate and the company decide for a subsequential assignment in a third country.

The technical repatriation normally is not a big challenge. Apartment and memberships have to be canceled. The last reimbursement should be exercised in time, and the work permit will be dismissed. Based on his entitlement move and repatriation, flights are organized by his host HR consultant, and allowances will be granted.

To support the assignee in general, companies developed "coming home" brochures which help the assignee and his family to come back to a life, where they have to again care for themselves. To digest the "reverse culture shock," additional seminars are provided by big companies, or access to external events is granted for the assignee and his family.

One of the items going behind an assignment for years is taxation. As bonus payments and payments out of long-lasting stock option programs are regularly paid out in following years, filing of tax in the host location can also be required.

Four Perspectives to Look on an International Assignment

People Perspective

There is different motivation of candidates to go for an international assignment. For a candidate looking for a true challenge and who is eager to work on an international project or an executive looking for an international position to further develop his professional and personal career, an assignment in a different country, with a different culture and especially a new business environment, is surely the right step. For a candidate who is first and foremost interested to step out of his professional and private routines, international assignment can provide new experiences and a push of motivation. A third type of candidate might use an assignment in a country with high hardship primarily to increase his net income for certain years, as he needs the money. In any case the motivation to go for a challenge abroad should be honestly answered by the assignee ahead of the assignment. In case of expectations for a vertical and horizontal development, this should be openly discussed and evaluated beforehand.

If the candidate and his family are flexible, self-reliant, adventurous, and open minded to foreign cultures, an international assignment can be a rewarding personal and professional experience. But even these ideal candidates and especially at the beginning of an assignment face additional stress:

- Language problems and cultural adjustment
- Spouse and family-related issues such as kindergarten and schooling
- Simple day-to-day life issues like setup of private phone and internet connection and repairs in the household

Even usually resilient, senior employees can become quite emotional in such situations which put them far off their comfort zone. The assignee and his family have to understand that they cannot replicate their current life, but learn to develop new strategies for daily problems in a very new environment.

The family members should be included in a systematical preparation of the assignment as well and in a guided way also think about their expectations, the changes they will face in regard to communication and mobility, separation from relatives and friends, and how to make new friends and find a new house or apartment and a new school. Brochures and questionnaires can give some guidance to reflect about this. It is in general important to include the family in all phases of the preparation, especially the accompanying partner, as he or she has to manage the family in a very new environment, while the assignee is quickly integrated in his new department, and the children have a stable schedule in the school. The look and see trip is the most important element in the preparation phase and should be used with first priority to solve the important family topics. Which school provides an appropriate curriculum and ensures seamless transfer at the beginning and the end of the assignment? Which area do we want to live, in the city center, close to the school, or in a foreigner compound? How difficult is shopping of daily articles and the food we are used to? Can we access to our social networks? How stable is the internet and the mobile network? The better these questions already can be answered during the look and see week, the better the buy-in of the family members. Extremely helpful are first contacts with experienced assignees as they can provide insider tips and can take over a buddy role in the onboarding phase.

A successful assignment very much depends on the accompanying life partner. Difficulties of accompanying family members to adapt to the new location and the new cultural environment lead to additional mental burden for the assignee. If those difficulties cannot be turned into a positive direction, the assignee might not reach the expected performance and raise the wish for an early termination of the assignment. To avoid this, the family should be considered in an early stage of the preparation of the assignment. It can start already in the selection process. The early incorporation of the life partner, especially of those who are also employed, leads to positive recognition. From the viewpoint of the accompanying partner, special preparation seminars for spouses can be very beneficial, as the requirement toward the assignee and the "family organizer" is quite different.

The satisfaction of the accompanying partner is one of the points rated most critical in assignee surveys (Morlok and Dolles 2005). Companies have different elements in their policy to compensate that the partner interrupted his career. Allowances that support individual chosen seminars and trainings to support the reintegration or enlarge the possibility to find a new job. Partner career support programs in the host countries, in cooperation with local educational organizations, and social events (spouse breakfast, city discovery tours) help to build up a network with other spouses. These two items are important: to give the accompanying partners the feeling that they are seen as an important part for the stability of the assignment and to show that their development is supported by the company as well.

When going abroad the assignee and his family are aware of difficulties in adjusting to the new environment. When coming home after a long assignment, the reentry shock can be even harder. Unfriendliness starts at the airport and goes on with the taxi driver when arriving with the big luggage. The exclusivity of an expatriate life with a driver and cleaning lady, standard in many countries, is history; the intensive social network is left behind. The neighbors at home don't pay attention to the returnees more than one week. Even the administrative part of the reintegration is easy – no language barrier and no immigration procedure – the company should also care for the cultural reintegration of the assignee and his family. Meetings or seminars with colleagues and families who returned earlier can offer opportunities to exchange experiences, get support and helpful hints, or just give the opportunity to talk to people with the same experience background.

Economic Perspective

The money the company spends for an employee to prepare him and send him abroad does only partially find the way into the pocket of the candidate. Most of the investment like schooling for the children, housing, language, and intercultural training would not occur if he would stay at home. In many companies an overseas assignment is also seen as a precondition for a vertical development. Especially junior candidates without family are being sent abroad without expensive packages. An assignment on a pure host contract also reduces the administrative effort of a double payroll and the ongoing struggle if home or host law and policies apply.

The majority of expatriates however still can enjoy attractive financial offers. The fast-growing emerging nations, first of all the BRIC countries Brazil, Russia, China, and India, followed by Indonesia and Mexico, require companies to build up the whole value chain from sales and marketing, after sales, production, and finally research and development. As qualified locals with work experience not only in technical functions are often missing, companies have to motivate a bigger number of their talents to bridge this qualification and leadership deficit. In countries with a high hardship category and COLA and adding on top the cash payments for relocation, home flight, and family support programs, the net salary can nearly be doubled. The expatriate should also take into consideration that during his assignment, he can avoid rent at home and cost for a car at home. Vacation trips in the region of his new workplace save long flights from home. Financial disadvantage however is in most cases of married candidates, where the spouse has to give up her job and a comparable position in the host country cannot be reached.

As already pointed out, the cost of international assignees can be extremely high for the company, compared with local specialists or executives. While the base salaries for local and foreign executives even might be comparable, the summary of allowances with housing being provided most often, followed by language training and education for the children, company car, relocation allowances, home flight allowance, cost of living allowance, and hardship allowance, makes the candidate 2–3 times more expensive than a local candidate. In low-salary countries it easily can be more than 5 times and on staff level or on the first management level even more than 10 times. These costs should be in due proportion to the potential advantage. If the expatriate is seconded for a strategic leadership function or a control function, this investment is justifiable. Expatriates on assistant or lower management positions however can also be a signal for missing trust or missing willingness to localize these positions. Having a direct report coming from the same mother company or speaking the same language makes life of course easier for executives. Often a high number of expatriates on specialist positions are evidence for a lack of local talents. This can result out of the fast development of the business;

it can also result out of a week educational system in the country or show a failure of the human resources planning and development. Local staff was not hired in time, or locals were not qualified systematically, for example, by sending them to the mother company to build up a network and gain technological insights and experience the core processes. Expatriates then act as troubleshooters to bridge the local knowledge deficits, a quite expensive exercise.

A systematical replacement of expatriate through local candidates needs a mid-term localization planning. Such a planning should start with the categorization of the positions, currently held by an expatriate. “A” category is for positions, where the incumbent needs deep experience and good network with the mother company. Often CFO positions and quality manager positions are “A” category. In the first years of joint ventures, usually positions allocated to one shareholder are “A” category positions. “B” category positions usually are the ones that require specific technical or functional knowledge which is difficult to find on the local market. Expatriate got put on those positions to bridge this local gap. “C” category positions are those where country-specific knowledge and language skills are required. Expatriates on “C” category positions are wrongly placed. To replace expatriates on “B” category positions should be the focus of the human resources development. To keep them long time occupied with expatriates is extremely costly. Investment in empowerment programs for locals usually amortizes therefore short term.

A succession planning for expatriates can follow two dimensions: make or buy. “Make” means to develop talents who are already on board. Exchange programs with the mother company, classical trainings, and mentor programs help to accelerate the developments. Cooperation with private or government educational organizations like vocational training schools and colleges is long-term strategies. “Buy” means external hire. Besides special designed trainee programs, this will include hire of candidates with several years of industry experience with the help of external search companies.

Risk Perspective

Employees selected for an assignment have to be carefully evaluated to ensure the greatest probability of success and personal and professional development. Companies that manage expats wisely do not assume that people who have succeeded at home can easily repeat that success abroad. They assign international posts to individuals who not only have the necessary technical skills and experience background but also have indicated that they would be comfortable in different cultures. Personality traits for the ideal expatriate, mentioned in various scientific studies, are extroversion, emotional stability, conscientiousness, openness, and agreeableness (Kast 2010).

So far the theory!

In today’s reality, companies face the challenge that for big projects in hardship countries, the number of motivated internal candidates is not high enough. Often there is just one application for a job post. This typically leads to the fact that there is only a review of the technical skills of the candidate. The HR department is happy to be able to fulfill the business requirement and just starts the expatriation process. Or business specialists are just contacting former colleagues to motivate them to follow. As the demand at the project side might be urgent, the operational process just starts. International assignment management is becoming more a kind of logistics business than a human resources business. Especially in these cases, the preparation and onboarding processes should be followed very carefully. The evaluation of those compromise candidates is not focusing on selection, but should have the focus to find out the weak points of the candidate and offer customized support. This can be a longer preparation to increase his language and communication skill, a customized coaching or an experienced colleague who backs the candidate up in the first months as a mentor.

Besides all these operational challenges, differences in culture, and business practice, a big challenge when going on an international assignment is the relationship with the life partner. Separation rate and divorce rate go extremely up on assignments abroad. Especially young couples should already ahead of the employment abroad play through different scenarios. The decoupling from the familiar network at home causes quite a headache, and to make new friends proves difficult. Problems occur often if one of the partners has to leave behind a lot. It is essential to achieve balance again with the partner and in the family.

An international assignment is seen as an important step in international companies. Many expatriates can realize promotions during the assignment or get an interesting new position after coming back. In many cases however, the assignees realize that “career is made close to the headquarters.” It is therefore important that the assignee keeps close contact to his home management and his home HR consultant, to keep informed about personal and organizational changes and new opportunities. Business trips should be used to keep close contact to former colleagues.

To avoid misunderstanding, the task for the expatriate and the expectation of the management should be clarified and written down ahead of the start of the assignment. This might be less important in a situation, where several expatriates work on a project as technical specialists. It is however extremely important in leadership functions and in new cooperation. And it is not only about the question “whom do I report to?” and “who will support me?” but very much the “what results am I expected to achieve?” Is it the implementation of a technical system, what would be relatively easy to describe, or is it furthermore the training and development of colleagues and coworkers? Many companies send employees abroad without a plan how the experience and knowledge of the employee can be best utilized when he returns. Disappointing career developments lead to a shrinking candidate pool, and this leads to a negative downturn. Reintegration commitments singed by the old department should underline the responsibility of the management to keep track with the candidate.

An international assignment is a significant investment which has to be justified by business needs. Besides the cost for the compensation and the benefits of the expatriate, also intangible costs have to be considered, which hardly can be exactly calculated. Thereunder, it has to be summarized, for example, that especially in countries like Japan and Korea, a longer period of time is necessary to understand the context, procedure, structure, and functioning of the local business. In those countries an international assignee starts to pay back after one to two years earliest (DIHKJ 2007).

While at the start of a business or a joint venture the assignment of foreign leaders and specialist can accelerate the development of the business, midterm and long term, a big number of foreigners, besides financial disadvantages, have certain more risk.

For the development of a company, the management needs to be close to local structures and understand local conventions. For detailed day-to-day operations, particularly in sales, a local management is essential. A second argument is continuity and sustainability, what sets apart a local executive against an assignee with a terminated contract. Finally, it is important to avoid a glass ceiling image as this has a negative message to local top candidates.

Risks for the company arise not only through wrongly placed candidates or the high cost of an assignment. The complexity and the various additional tasks of the secondment process, as describe already above, pose certain challenges. It starts with the immigration process, when documents of the candidate and the company have to be provided timely, often as originals, including certified translations. It goes on with the contracts between the two involved companies. They have exactly to describe which side is having the benefit and who decides the selection and the evaluation of the candidate as this is taken later by tax authorities and triggers company tax and permanent establishment discussions. The contract with the assignee is the next challenge and how to steer his payroll and a benefit reporting has to be set up, which ensures correct individual income taxation. Social security is a challenge by itself, partially depending on agreement between the home country and the host country of the expatriate. When the social security is further on paid in home, certificates of coverages have to document this and be available in the host company for the case of an audit.

Excurse 2: Sending People to a Remote Location

International assignment management teams like to work with transparent policies and standardized processes to ensure efficiency and avoid negotiation with individuals. Data provided from external vendors, such as location categories, cost of living indices, or housing budgets, reduce conflicts. However, a side effect of the standardization is that regional specific attributes and deficits are given insufficient attention. Companies that send employees to third-tier cities, for example, to India or China, where a western lifestyle is merely known from TV, face the challenge that they have to solve elementary infrastructural requirements on their own. Experience shows that mainly four big topics have to be solved in such a situation:

Housing

At remote locations, apartments or houses that fulfill the requirements in regard to space, comfort, hygiene, and safety are not available. For a period of time, an arrangement with a local hotel can bridge this gap. Rooms can be connected and additional services can be provided. In the long run, long-lasting rent contracts with local developers to build on suite villas or apartment houses, including sites for a clinic and a small school, can be an appropriate solution.

Schooling

Good education for the children is the precondition for families to move to another location. At remote locations where kindergarten or schooling opportunities with a home curriculum or an international curriculum are not available, they have to be set up by the company itself. A villa might be redecorated, kindergarten and school teachers have to be hired, and license questions have to be clarified with local authorities. Most countries have distance learning institutes at home (e.g., in Germany the "Deutsche Fernschule") supporting such solutions by providing appropriate learning material and issuing certificates to ensure seamless reintegration when the children come home.

Medical

Availability of clinics and hospitals is essential for the security and well feeling of the assignee and his family. At remote location the medical standard in regard to hygiene and privacy might not fulfill the expectations; the language barrier can be high; and settlement for medical treatments has to be fixed in advance. In such a situation the company can cooperate with organizations like International SOS. They are specialized to send medical teams to remote locations and also can offer access to 24/7 emergency call centers that can coordinate evacuations in case of serious illness or accidents.

Leisure and Recreation

Cultural facilities like theater and cinema, sport facilities, and bars and restaurants that attract foreigners are difficult to find and often require an advanced level of the local language to get along. Local travel agents are not prepared to serve foreigners with different expectations. What is needed in such a situation is an "intercultural scout." This can be an experienced expatriate out of the assignee group or a spouse, a language teacher from a local language school, or an active teacher of their own school. Their additional task is, for example, to develop an "expatriate handbook" for the location, organize day-trips and weekend trips, and administer a group in Facebook or WeChat.

Operational Perspective

More than in any other area of human resources, international assignment management needs a clear agenda, transparent guidelines, and as few changes as possible. The reason is that the whole concept has to be understood and executed by all HR departments of the company all over the world. Even though there might be a central department coordinating international policy execution, there will always be a part left for local HR. For local HR however, international assignee topics are not day-to-day routine, so the more complicated the policy is and the more frequent changes apply to it, the higher the risk that locally it is interpreted different and unequal treatment happens.

Some companies tend to develop policies that should compensate any difference in cost and living compared with the assignees home country. This culture very often leads to a comprehensive cover mindset and results in unpleasant discussions about small money. A state-of-the-art policy should firstly ensure that the expatriate is provided a net-base package ensuring he has the same buying power than in his home. Secondly, a set of benefits should support housing, schooling, healthcare, relocation, mobility, and a local hardship allowance. The policy and related communication should not tend to cover every small item, which the expatriate might miss, such as special kitchen equipment, or request, such as household repair or special maintenance. A generous miscellaneous allowance at the beginning of the assignment should be openly communicated as an expectation of the company toward the assignee that small invoices even caused by the assignment, like the fee for a new passport, cannot be reimbursed and small inconveniencies should be solved by being self-reliant. Human resources people and management should stop selling the story that all differences in cost and living will be compensated and every small difficulty will be solved by the company. This is why allowances should focus on typical situations like relocation, accommodation, or mobility and not describe in detail items that can be reimbursed or balanced. Allowances should be packed and operated as onetime or monthly cash payments depending on easy to administer criteria. If they are variable, this should be defined on easy to measurable criteria such as time, number of children, or hierarchy.

Expecting from the assignee a noble personal responsibility in his private daily obstacles requires adequate behavior of course on the side of the company representatives. Handling complex HR processes in an international context and safeguarding the company's compliance requirements need experienced and motivated HR partners. These persons have to be aware of their governance role and be able to set clear borderlines. Exceptions should be only made in case of real emergency situations and cases of hardship. On the other side, the HR organization should support the assignee or his family as quick and professional as possible if he faces a real emergent situation, to safe his energy and let him concentrate on his professional tasks. These HR professionals have to accept without enviousness that the compensation and benefit package of the assignees contains elements fare above their one package. These differences can easily lead to jealousy and lead to a behavior to systematically restrict certain benefits the assignee is entitled to. A generous policy can easily become discredited if the human resources partner tries to save small money and interprets the policy in the gray zone always against the assignee.

Besides the interpretation of the policy and related guidelines, the administration of the assignment needs standardized and documented processes and explicitly addressed roles and responsibilities for all parties involved. In a company with view expatriates, a centralized team with defined interfaces to operational HR is surely the most efficient solution. In an organization with several regional business centers, the hub concept can be another very practical solution. Specialized international assignment consultant teams in the same time zone are close to the assignee and close to or even part of local HR. They speak the local languages and can directly and timely react. They can consult the business leaders about different assignment solutions. In both solutions the responsibility of the home HR consultant and the host HR consultant needs defined and agreed interfaces, a best completely aligned "roles and responsibility" matrix. International assignment management is different from local HR operations. The administration of various country to country relations creates its own complexity. Compensation and benefit concepts can be very diverse, which makes it impossible to administer the assignees with standard IT. A split payroll, in some countries a necessity resulting from legal requirements, adds the challenge of currency management. The management of social security and individual income taxation, in several country to country combinations, adds a complexity that needs a team of experienced specialists. In these situations even large organizations with experienced human resources departments decide to outsource certain tasks and processes to specialized vendors. Three types of vendors can be mentioned:

Data vendors: Those that maintain statistics about various fields. Companies can buy indicators like currency exchange rates, cost of living indicators, country- or region-specific hardship indicators, and housing tables for big cities.

Relocation vendors: There are different business models in practice. Former moving companies in the last years enlarged their process chain and offer the whole process from immigration management, house hunting, moving, location orientation, administration of house rent, and utility fee. Real estate agencies in big cities enlarged their processes around house-hunting processes, adding location orientation, school search, and support residence registration, opening bank accounts, and setting up mobile phone contracts.

Payroll and taxation vendors: These are usually international tax advisory companies with offices in important countries all over the globe, offering payroll services including social security management, individual income, and compliance services.

Excurse 3: A New Host Philosophy Approach

The home base philosophy has been dominating International Assignment Policies. The expat has a net income comparable to his situation in home. The home contract, even put dormant, is the basis for all variable benefits. The home HR is leading the preparation, relocation, payroll, and taxation processes. The main portion of the cash compensation is paid out in the assignees home.

Over the last 10 years, there was a major shift, and in many companies, the host side became more important, in some companies even the leading part. The host unit has the final say in the selection process; performance evaluations are done in the host. The preparation of the assignment and the calculation of the assignment contract are still kept in the responsibility of the home HR specialist; this person knows best the details such as social security regulations. From the time when the assignee enters the home country – the first time during his look and see trip – the host HR takes over the full process responsibility. Leading the destination service providers and reimbursements of housing, schooling, and business expenses were the first steps taken by specialized host HR consultants. Next was the transfer of the whole payroll process. The home, under a pay on behalf agreement, pays social security contributions to the authorities. As the calculation of social security and tax for international assignees is complex, often this part is outsourced to a tax service provider.

In a consequent next step of this development, the assignee is fully transferred to the home unit. His home contract is terminated in conjunction with a reintegration commitment for a defined time. He has only a local contract in his host company. Thus he is fully integrated in all local processes which are more standardized and managed by shared service teams. The administrative burden which comes along with classical international assignments can extremely decrease with this approach. Instead of calculating various factors like location bonus and cost of living allowances, the candidate just gets annual onetime payments to reward for his mobility.

The host approach is not new. In developing countries companies often hired international candidates who are already in the country from competitors. These candidates were offered a so-called "International Specialist Contract" or "Local Hired International Contract." The package was very comparable to an expatriate package, but they were already completely managed on local payroll systems by local HR.

The host-based concept is also a cost-efficient approach to send younger employees for a development step from a low-salary country to Europe or the USA. Of course the immigration and relocation process is supported. After finishing the onboarding process, they can be easily administered, like a local. A miscellaneous starter allowance can make the arrangement financially attractive for these young talents.

Dos and Don'ts

Clarify Expectations First

Before starting the operational process of an assignment, it is important that the management can express, and the assignee understands what is expected from him. Ideally this shared understanding is documented in a target agreement and an attached individual development plan. Based on this plans the preparation can be successfully started.

The assignee should also be clear about his expectations. Does he go on an assignment primarily to reach the next hierarchy level, to gain experiences in a new environment, or just to benefit for some years from high hardship allowances? Sharing the motivation honestly with the superior organization can also be helpful for the reintegration and avoid disappointments.

Keep the Policy Short and Simple

An International Assignment Policy has to be understood by assignees with different cultural background and executed by HR departments all over the globe. This is why international policies first of all should focus on typical situations like preparation, immigration, relocation, accommodation, and family support and express how these situations are supported. Related allowances should be operated as onetime or monthly cash payments. A miscellaneous allowance should support the assignee to manage all the small uncertainties in daily life by himself.

Execute the Policy Gentle

During an international assignment, a lot of situations come up which cannot exactly be foreseen. The expatriate has to understand that he has to firstly help himself; exceptional payments should only be made in case of real hardship situations. The HR consultant as the company representative should however avoid restricting benefits and systematically interpreting the policy for the sake of the company. An attractive policy easily can become discredited if the HR consultant tries to safe small money.

Don't Forget the Life Partner

The family, especially the life partner, should be included in all preparation steps. What is in for the family members, what are the challenges for the life partner? In particular young couples without children should play through different scenarios already ahead of the assignment. The company has to keep in mind that the stability of the family is essential for the success of the assignment. Family events at the host location can help to make new friends and build up a new network. Partner support programs can help to further develop the professional career of the spouse.

Don’t Underestimate Operations

International assignment management needs HR consultants with good communication skills. They have to explain the policy and the processes to the assignee and handle complains. They have to communicate with the HR counterpart in the host company, most likely in a foreign language. In addition to all the uncertainties that have to be mastered, these consultants have to have a good understanding of payroll, social security, and international taxation and be able to cooperate with various external vendors.

Don’t Forget the Vision

Besides all the complexity of international assignment management, resulting in the combination of different cultures, different legislations, and many parties involved, the human resources department should have visionary ideas to support the business partner and the assignee with new solutions. For the assignee this will be a smartphone with all information he needs: policy and guidelines, prefilled templates, Q & As, emergency phone numbers, and other useful contacts and location information.

Outlook

Internationalization and cooperation will require an ongoing high number of exchanges of executives and specialists. At the same time, there are enough people who are mobile and curious to work in other cultures and in different environments. For a new generation of young talents, for the children of the first and second expatriate generation, and for students who study abroad, an international career will become a normal path, and they decide it by themselves. Often these persons have a big advantage; they grew up bilingual or even trilingual; the need for intercultural training and the necessity for language training for this target group go significantly down.

In parallel today’s hardship locations develop further on. The important topics – housing, schooling, medical supply, leisure, and recreation – reach an international level. The amount of benefits provided by companies in consequence will go down, except for real remote locations or locations with high pollution and security issues.

In general we will see a change from a push strategy (organizations send employees abroad to connect or to support) to a pull strategy (organizations search for international talents to diversify their workforce). This will also lead to a different administration of these new internationals; the host units will put them on their payroll and take over the whole operations, from selection to relocation.

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Part VI

Administration and Payroll

Administration and Payroll: Introduction and Overview

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Charles W. Hughley

Contents

Abstract

The following introduction to administration and payroll provides the learner with an overview of the business practices associated with this section. The introduction to this section is meant to provide an overview and understanding of the topics covered herein. Human resource administration and payroll covers HR shared services and HR business process management, in addition to payroll.

Introduction

Human resource administration is a very broad topic and area for human resources. HR administration is a topic which often gets overlooked and is certainly not seen as one of the more desirable areas of human resources. Often referred to as "personnel," human resource administration, though not seen as sexy as organizational design and HR due diligence, is the backbone of any successful human resource organization. Exceptional HR administration is what enables the other functions within human

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resources to operate optimally from labor and employee relations to benefits and human resource information system (HRIS) and analytics.

Human resource administration starts once a new recruit or candidate has accepted the offer and made a commitment to join the organization. The relationship and responsibility of the human resource organization end once the organization has no further obligation to that employee or former employee and his or her family. Organizational and human resource administration's obligations to an employee can extend long after he or she has left the employment of the organization. These obligations including everything from pension liability, disability, workers' compensation, and life insurance can extend the relationship between the organization as represented by human resources and the employee or former employee. Managing these complex relationships between employer and employee falls to human resources.

Organizational Perspective

For the purpose of this section, the organization is defined as the business or entity in which the human resource function operates and carries out its day-to-day business activities and operations.

For the organization, the relationship between the organization and human resources is a necessary evil. Once the organization has been defined, it is HR's responsibility to populate it with workers. The workers can be hourly, salaried, contractual, full time, part time, executive, direct labor, etc. It is the role of the human resource organization to help define the proper classification and type of workforce that is most appropriate for the organization based on the unique strategy of the organization.

The leaders and executives of the organization define the strategy of the organization. The organizational strategy communicates to the stakeholders the future direction of the organization. It defines the key business priorities, how the organization will operate, and where it will operate. The organizational strategy also communicates to the employees the important objectives that need to be achieved in order to remain in operation. Directly connected to the organizational strategy and its priorities is how and where the organization plans to invest and fund projects for the future. These investments include things such as people, systems, machines, and intellectual property, in addition to making an acquisition, doing a joint venture, or merging with another organization. Typical M&A actions include mergers, acquisitions, and divestitures on both the buy side and sell side.

Human resource administration is very much involved in every facet of the organization where people's activities are involved. HR administration is required to perform activities related to onboarding, acquiring key talents, setting compensation structures, documenting, and ensuring environmental health and safety requirements which are being followed and being reported to the appropriate agencies as required. The major objective of HR administrations is ensuring that the appropriate records, files, and data is being retained and the organization is staying compliant with the applicable local, state, federal, and country laws, rules, and regulatory agencies and unions.

People Perspective

From the people perspective, HR administration is an important interface, connecting each employee with the organization. In addition to their supervisor or manager, employees see human resources as the neutral party who helps them address their concerns, plays as mediator during disputes, and speaks for them to the management when necessary. Employees typically still receive their paycheck through payroll, which is usually run by the human resource department.

Reliable and timely handling of basic administrative process, most importantly payroll, creates a basic trust and understanding for the overall professionalism in the company. Put in vice versa: If HR administration and payroll fail, e.g., by paying out wrong salaries, not/too late in responding to employee requests, or just by providing wrong information, all other efforts of HR will be devaluated. HR administration and payroll is not everything, but without it running smoothly, everything else from HR has almost no value – “HR has to do its homework first.”

Economic Perspective

A major decision in the area of HR administration and payroll is to answer the “make or buy” question. Due to the fact that this area has a high degree of independence from the type of business of the company, it is often recommended to consider outsourcing of this function. Necessary considerations regarding this can be found in Chap. 58 of Dr. Heike Hartrath “▶ Administration and Payroll: Essentials of Shared Services and Outsourcing.” When calculating business for outsourcing or for the internal pooling of this role as shared services, in all cases, the necessary retained capacity should not be forgotten. This retained capacity is often necessary to solves issues which are specific to the location. The necessary retained capacity can turn an initially positive business case for outsourcing or shared services into negative – especially if the overall volume of positions to be saved is low.

Risk Perspective

Failing to provide the right HR data to public authorities can lead to major penalties and a reputation loss of the company. Several major processes are based on master data such as eligibilities for company-provided pensions. If the respective base data are wrong and hence wrong pension eligibilities are calculated, the company will have serious problems.

In order to avoid fraud opportunities for those who operate such processes, it is important to split the authority to change master data from the authority to perform day-to-day operations based on these data, e.g., payroll.

Without HR leadership, a company can run into serious risks in general. Gabriele Braeker shows in her article about interim HR management how companies can solve the problem of a temporary lack of HR leaders.

Operational Perspective

Human resource administration or personnel in this case ensures all paperwork and documents are completed during the onboarding process. During the onboarding process, the human resource administrator will prepare the necessary documents and ensure the employee is enrolled in programs for things such as 401 K; the pension/ the retirement scheme; medical, dental, and vision programs; life insurance; etc. The HR administrator also ensures that the proper tax forms have been completed and the employee is added into the payroll system so that he or she can receive the proper payment amounts as outlined by the offer letter, employment contract, or other documents which define the terms and conditions of the employment relationship between the employee and employer. Typically this documentation is inputted into a human resource information system (HRIS) such as Oracle, SAP, PeopleSoft, etc. The HRIS then feeds the payroll system with the necessary employee data to pay in accordance with the applicable employment agreement. The HRIS is also used to document detailed records of the employee transactions such as the date of hire, increases in salary, promotions, and disciplinary actions. This employee data since it is captured in a database can then be reported on as necessary, and certain HR analytics can be created based on the data collected. The organization can then use the data to build projections, identify emerging trends, and do internal and external benchmarking on a myriad of applications.

HRIS is not covered in this section; however, it plays a critical role in human resource administration, HR analytics, and standard metric reporting. The ability to be able to report on employee data is especially important when dealing with a unionized workforce who has a collective bargaining agreement. When there is a collective agreement in place, there is typically an expiration date for the contract. As it gets closer to the end of the labor agreement, both the organization and the union leader are required to enter into some form of negotiations and discuss and update the terms and conditions for the represented workforce. Having up-to-date and accurate employee data is integral to the process on both sides especially when it comes to renegotiating the employment terms of an entire workforce. HR administration is typically responsible for gathering, reviewing, and auditing this data and providing reports to the necessary company officials so that they may then prepare the necessary contract language for the agreement based on the facts and figures contained within the various HR systems for the organization.

Summary

Human resource administration touches every aspect of the human resource function from the onboarding of a new employee and enrolling his or her information into the necessary systems and programs to preparing the workforce data in preparation for contract negotiations with a union. The role of human resources has changed over time; however, for HR administration, it has changed very little. The required basics are still a necessity and critical; however, many organizations have identified ways to streamline the activities associated with this function. Human resource administration is the backbone of fundamental human resources and will always be required. These activities can either be outsourced or done in-house; however, either way, they remain absolutely critical to the organization.

Administration and Payroll: Essentials of Human Resources Process Management 57

Charles W. Hughley and Monica Hughley

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Abstract

This chapter defines *administration and payroll* as a fundamental and necessary piece of basic human resources and HR process design. This section is designed to help both the learner and practitioner understand how each step of a process or procedure comes together into a larger systematic process with multiple connections, interactions, and typically many stakeholders. The stakeholders in the process can either be upstream or downstream. This section helps to highlight for the reader how even the simplest process has many steps and the potential for many unintended consequences if not planned correctly.

Involving the key stakeholders in the development and implementation of the process helps to ensure that all relevant information is shared appropriately with each key stakeholder who may need it. This chapter also shares the perspectives of many stakeholders and helps the learner to understand and see the impact an effective human resource organization can have on the business. This chapter is divided into multiple sections. The sections of this topical chapter include "Repeatability and Sustainability"; this section discusses the importance of building repeatable and sustainable work practices and processes. Every business process designed and developed should be repeatable and able to be sustained over time. This point is particularly true when an individual involved in the process leaves the organization or takes on a different responsibility. If a single person is removed from the process, the expected output from that process should not stop as well. The step or responsibility should be taken over by a new person or automated, thus ensuring the process can be sustained. The next section is "Process Mapping" followed by a guide for building a successful work instruction.

Keywords

Process • Scope • Repeatable • Sustainable • Core team • Documenter • Facilitator • Sponsor • Participants • Agenda

Introduction and Overview

Process management is not rocket science and does not need to be complicated. Human resource process management is about developing, installing, and training repeatable, sustainable, and scalable processes within the organization which align with the needs of the business. These documented processes should be observable, measurable, and auditable. The process documentation should lay out the objective of the process, any specialized definitions associated with it, the process or procedure owner, required forms and resources, the revision number, and a process map which provides a step-by-step pictorial of the required steps with any required clarifications or notes.

This chapter defines why process management is important to human resources in everything from training to employee relations and defending against a legal claim. One can see how this sometimes overlooked area can and should be the cornerstone for any successful HR practice.

Identifying key HR systems and processes first requires a look at the employee life cycle. The employee life cycle is defined as the life of the employee with the organization and goes from recruitment to eventual termination from the organization. Most employees go through this life cycle.

Exhibit 1

Recruitment	Onboarding
Evaluation (may or may not be tied to pay increases)	Training/development
Movement: lateral/promotion/leave (vacation, sick, etc.)	Termination (which may include an exit interview or feedback loop on the employment experience with the organization)

Every employee goes through predictable steps at some point in their career, and having well-defined policies, practices, and procedures is very important to ensuring smooth transitions between each phase. Having repeatability and consistency in each of the aforementioned work practices helps to reduce the perception of discrimination. Communicating to governmental agencies and employees that the organization has consistent work practices can help reduce the probability that the business practice is discriminatory and unfair.

Repeatability and Sustainability

A repeatable and sustainable process, also known as a "standardized process," is a process which is now seen as "business as usual" for the organization.

– Standardized process is the phrase given to ensure solutions have been embedded into the organization's methods and procedures. A "standardized process" provides more consistent results since ensuring a task is always done the same way as reducing variation.
– *Six Sigma and Minitab: A Complete Toolbox Guide for All Six Sigma Practitioners*, Brook, Quentin, QSB Consulting Ltd., 2006–2009.

Documenting and establishing HR work practices can be time-consuming; however, once established these documents lay a strong foundation for consistency and continuous improvement. Typically, more mature organizations have well-developed and maintained work practices, while less mature organizations tend to deploy resources in other areas as opposed to process documentation.

Dos and Don'ts

Once the decision is made to develop a standardized process, it is important to verify that it is (1) repeatable and can be done the same way over and over again and (2) sustainable which means it requires little or no intervention to ensure it continues.

To verify that the process/procedure meets the requirements for both 1 and 2, it is important to verify if both criteria have been met. The best way to do this is to ask someone from outside of the department or unrelated to the task to perform the action only using the process or procedure which was developed. If they can successfully perform the actions with little or minor assistance, the goal to develop a repeatable and sustainable process has been achieved.

It is important to not just rely on the producer of the procedure or process and trust its accuracy. When individuals are very close to the process, they tend to mentally add steps or assume the user will intuitively know how to move from one step to the next.

Process Mapping

One way to describe HR process mapping is it is the process by which all human resource business processes are documented. These sessions are either conduced by HR. The advantage of HR process mapping is that it sets a professional standard, which:

- Serves as a training aide for new joiners within the human resource function. The document also serves as a reference when learning their jobs.
- Allows documentation of all HR compliance requirements and ISO requirements.
- Clarifies roles and responsibilities/avoids repeated territorial discussions.

- Shows non-HR people interfacing with HR what they can expect (and what not to expect) and how their interaction with HR should be.

  Process mapping accomplishes the following:

- Visually documents a process
- Provides a fact-based process description as basis for understanding current problems and opportunities
- Enables teams to quickly see improvement opportunities within the process and begin defining critical X's (underlying causes)
- Helps to communicate inside and outside the organization

People Perspective

In most cases, the development and documentation of standardized process will be done by those who also perform those processes in reality. This will ensure realistic contents and accurate documentation. Developing and documenting processes, however, mean a heavy additional workload for these employees. Ongoing duties as HR employees and HR managers will be in conflict with the time requirements of the HR process management.

In order to still create motivation for this endeavor, the initiation of a systematic HR process management has to be put in a bigger context of HR professionalization and strengthening the role of HR within the company.

As long as processes are not standardized and documented, there is a tendency for business management to demand "special solutions," e.g., in order to speed up a hiring process or to obtain any other kind of HR-related approval. Especially, less experienced HR staff and HR managers within an environment lacking documented HR processes tend to fulfill the wishes for exceptions without looking at the long-term implications of such decisions.

For example, allowing a salary above the upper limit of the salary range for a new hire will in the long run create discussions about fairness and hence higher demands for salary increases in that particular department.

In the end, such inconsistent decisions cause criticism on the HR department as it does not fulfill its role as internal safeguard of fairness. In extreme cases, such inconsistencies might even lead to legal problems, e.g., that the company might get sued for unequal treatment (see section "Risk Perspective").

A well-designed HR process management creates a backbone for HR practices in the company and hence strengthens the role of HR as a whole and of each member of the HR department. This argument should be used in communicating the necessity of an HR process management and the temporarily increased workload of the HR staff involved in creating this.

The stricter HR executes HR processes – once these are implemented – the more HR develops a "police"-type role in the company, which endangers the role as accepted business partner. On the other hand, an HR that allows multiple kinds of deviations will also not be accepted because it lacks "backbone." It is up to the social skills and mature decision-making skills of each HR decision maker to balance both aspects.

Risk Perspective

As already mentioned, inconsistent execution of HR processes can lead to legal risks. As many HR decisions have an impact on important aspects of employees' lives, e.g., selection for a job, salaries, benefits, or promotions, the way how the decisions were made is under permanent observation of people within the organization and sometimes even by people outside of the company. If, for example, within the selection process for a certain type of position the usage of selection tools is inconsistent, people who get refused could claim that the selection process was unfair.

Hence, introducing and documenting HR processes reduce the legal risk of cases regarding unfair treatment.

On the other hand, there is also a downside to HR process management from a risk perspective: if HR departments fail to follow the processes they previously documented, the legal claim against the company is even stronger! In this case, the violation of a rule is clear because those who file the claim can refer to a written document.

Because of this, the lesson for designing an HR process management from a risk perspective is to only document processes that realistically also can be complied with! If, for example, the workload in complying with a rule is exceeding the delivery capability of the HR team, then this process should not be designed and documented this way.

As always, it helps to talk to the people who finally will have to execute a process prior to implementing it.

Economic Perspective

As long as the HR process analysis and documentation are done in-house with traditional documentation tools, there are no external costs for doing so. The internal effort, however, can be large depending on both the:

– Coverage
– Depth of the process analysis

Coverage: It should be decided at the beginning of the project whether all HR processes or only critical ones should be documented. A reason to cover all processes is that the process documentation can also be used for certification and for training any new HR person. If the coverage is limited only to critical HR processes, the effort will be reduced but still have a meaningful result.

Depth: If a process documentation is only used for driving an understanding and pointing out major decisions within a process, then the documentation does not have to go in all details. If, however, the documentation shall be used as an operative tool that includes even form sheets, checklists, and links to actually perform the respective activity, then the effort for creating a process documentation will be very high.

Operational Perspective

The traditional way to create process descriptions is by documenting the results of discussions with subject matter experts by computer-based graphics tools. There is, however, also specialized software that includes process management-specific tools such as:

- Different types of responsibility (e.g., RACI, responsible/accountable/to be consulted with/to be informed)
- Embedding of documents such as policies, form sheets, etc.
- Different level views
- Other filtered views
- Linking in-between processes

As opposed to using office standard software, such specialized tools demand an additional investment and additional training.

If subject matter experts allow this, audio recording of the interviews with them will reduce multiple cycles of questions afterward. Even better is the co-creation of the process documentation together with the subject matter experts (similar to prototyping in software development). This, however, will demand significantly more time allocation of the subject matter experts.

The last part of this chapter provides an example to illustrate the major statements in practice.

Practice Example: Conducting a Successful Process Mapping Session

This section outlines the stakeholders who are required to help ensure the success of a process mapping session. Without the buy-in and support of these critical stakeholders, the probability of a successful activity is greatly reduced.

The Sponsor

The session sponsor is the business leader or executive that identifies the need for the action to take place. The sponsor defines the required output for the session and defines the expectations. The sponsor also identifies with the facilitator the required stakeholders including the departments and names where required. The sponsor also develops the timeline for the session to take place and typically prepares a letter to the participants inviting them to participate in the session. He or she will also kick off the session with an opening and provide context for the invitees within the session. The sponsor typically does not participate in the session due to the bias it may cause; however, they do play a very active role in launching the session and communicating the expectations. Without a sponsor helping to set the expectations, the actions from the session typically suffer and may not get the necessary traction to be effective and achieve the goals identified early on in the process.

The Participants

Once the support and input from the sponsor is in place, rallying the other stakeholders involved in executing the particular process is necessary. When it comes to conducting a process mapping session, having the key stakeholders involved in the process present and engaged is integral to ensuring the success of the session. The core team is made up of subject matter experts who understand their piece of the process intimately. As long as the participant is willing to share it, this knowledge provides the facilitator and participants, which can be used to draw inferences and understand linkages and connections.

The Agenda

In addition to ensuring that the appropriate stakeholders have been invited to the mapping session, having a thorough agenda to set the expectations for the participants is important as well. The agenda should be sent at least three (3) days prior to the session. Sending the agenda in advance allows the participants to prepare for what will be expected of them in addition to getting a good understanding of the expected outcomes for each individual. In Exhibit 2, there is a sample agenda. The agenda is split into three (3) main parts.

The first part of the workshop or session agenda is the workshop objectives. The workshop objectives communicate to the participants what the expected outcomes of the session will be at a high level. The objectives clarify for the participants what will not be covered in the session.

Process Mapping Workshop at XYZ Corporation

Participant's Handout

Workshop Objectives

- Develop final report criteria.
- Develop final report template.
- Identify the problems/shortcomings of the current processes.

- List recommendations/requirements for the process.
- Develop action plan.

Workshop Agenda

The workshop has been scheduled on March 4, 2004, in the University Relations Conference Room, from 2:00 PM until 4:30 PM.

What	Who	When
Kickoff (purpose of the workshop)	Charles/Julie	2:00 PM
Administration/workshop methodology	Charles	2:10 PM
Brainstorm (final report) criteria	Group	2:15 PM
Identify the problems/shortcomings of the current process	Group	2:45 PM
Develop (final report) format	Group	3:15 PM
List recommendation/requirements	Group	3:30 PM
Develop action plan/next steps/new process	Group	3:45 PM
Wrap-up	Charles	4:00 PM

Preparation Guidelines

To assist the group during the workshop, the following ideas will be helpful:

- Jot notes of ideas you have regarding this process before the workshop.
- Bring any forms or reports, which you feel will help you define a process or defend a proposal.

As participants, you will not be challenging each other, rather allowing creative ideas to surface and be explored. Listen to the ideas of others and question to understand and explore to validate.

You are experts in your area and will use your expertise in developing a sound consensus that will enable increases in efficiencies within the *annual giving processes*. Our challenge is to design a common process that will benefit all of Oakland University.

Roles and Responsibilities

Core team	A group of individuals with subject matter knowledge who are dedicated to the project and responsible for the outcome
Group leader	An individual who manages a project, is responsible for planning, and participates as a "core team" member
Documenter	An individual responsible for documenting the group's ideas in an organized consistent manner
Facilitator	An individual who brings groups of people together, builds them into a team to accomplish a goal, structures the process they follow, and drives them toward achieving that goal

Dos and Don'ts

When mapping a process, it is important to have all of the critical stakeholders involved in the process. These stakeholders know the in's and out's of the process and can ensure the accuracy and detail needed to ensure its effectiveness and accuracy.

In many cases, it may seem easier to map the process and then request feedback and input from the stakeholders later or not involve them at all. Many times this results in rework, inaccurate process maps, and a general waste of time. The best approach is to involve the stakeholders early and not to make any assumptions.

Building a Repeatable and Sustainable Process

As new employees come and go through the department, it is imperative that the new employee is able to quickly pick up from where the incumbent left off. Building repeatable and sustainable processes in the form of work instructions will enable the department to accomplish this goal. Work instructions reduce ambiguity and give clarity and meaning to each routine and give the new employee the basis on how to accomplish his or her task and allow them to be able to identify if they are successfully meeting the objectives for the individual task.

Accelerating an employee's ability to contribute and be more effective from day one allows or helps improve engagement for the employee and sustain continuity for the department and ultimately allows the organization to move forward faster without "missing a beat" due to the loss of the incumbent because of attrition. A documented process which is repeatable and sustainable can also be improved. By pulling together the stakeholders in the process and asking them to identify gaps and opportunities to streamline the process, one can continue to improve the output and flow of the activity.

Perspectives

Manager: As a manager, having the ability to train and get new employees up to speed quickly in the shortest amount of time possible is the desired state. Unfortunately, the manager has a regular job to perform in addition to attempting to successfully onboard a new employee. In addition to ensuring a successful landing for the new employee, one of the manager's top priorities is to ensure there is continuity within the function and the department.

The manager needs to make sure that he or she is able to get new employees up to speed fast without compromising quality and efficiency. A manager's duty is to ensure that the new employee integrates well and all projects are completed on time. A manager may use a score card or other measurement tools to ensure the effectiveness of the employee and the function is on track and meeting targets.

Using a detailed work instruction or process map helps to speed up the training process. When a manager is able to utilize these training tools, they are able to accelerate a new employee's integration and measure their effectiveness against a standard or benchmark.

Process Owner

The process owner is the individual responsible for executing, maintaining, and monitoring the specified process. The process owner's role is to ensure the process is functioning as required and is meeting the goals for which it was intended. The process owner will also meet regularly with the stakeholders to identify and update any changes as required and pull the team together to review and streamline the process periodically.

Dos and Don'ts

As with developing a process map, involving the key stakeholders is critical in building a repeatable and sustainable process. However, when beginning with the end in mind, it is important to consider how to best communicate and share these processes and share appropriate updates over time. Using a web-based or shared system which stakeholders have access to will help to share and communicate current processes, capture historical information, and change history while also providing a database which to house the information.

Relying on e-mail communication only to share updates of the processes can be effective in smaller organizations with few processes or procedures; however, as the need to have additional processes and procedures grows, having a database to hold and share the documents can be invaluable.

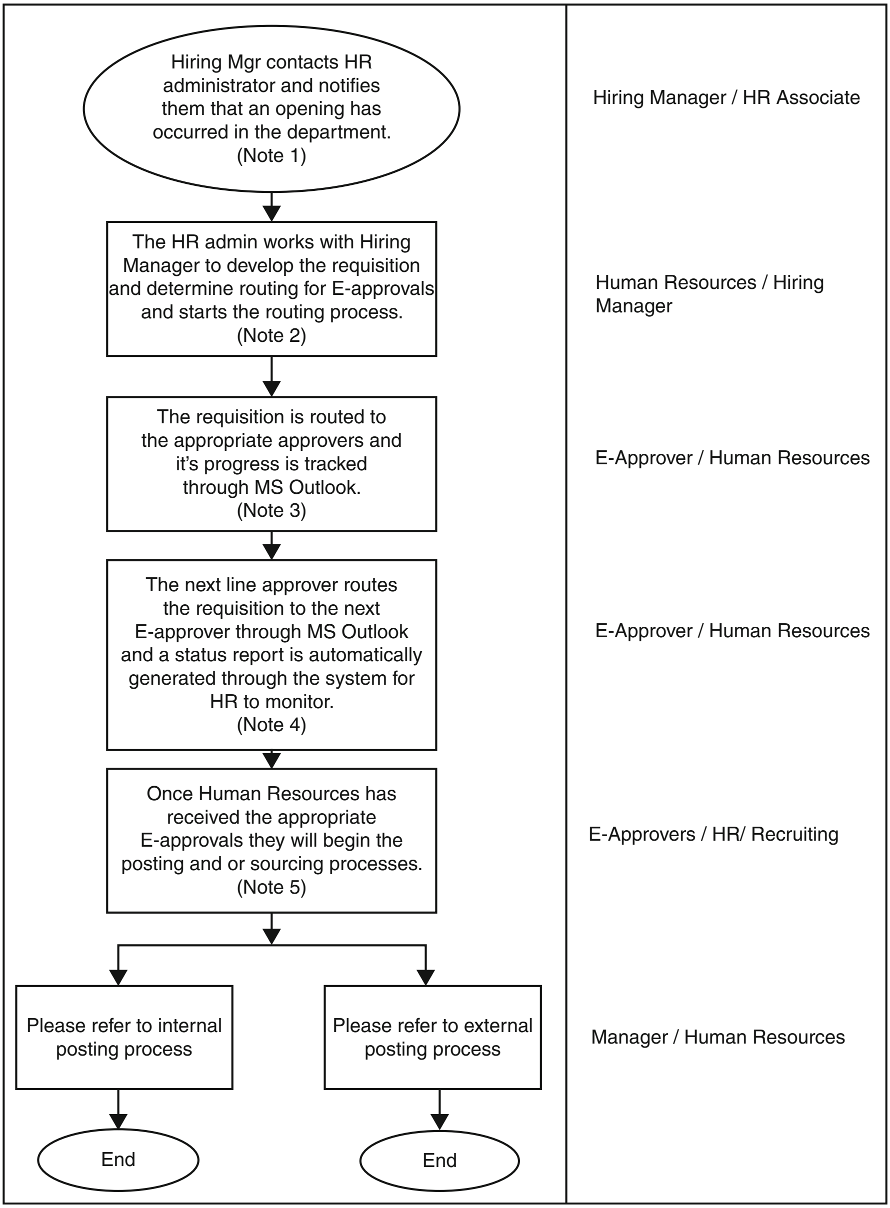
The Work Instruction

A work instruction clearly defines a procedure or work practice and communicates to the stakeholder why the process is necessary, why the scope is necessary, and what is designed to accomplish, clarifies definitions, highlights documents and forms important to the process, communicates what and who is involved in the process, and shows the basic flow of the process. If a work instruction is well written and prepared, it can also be used as a tool to help improve the process and identify and remove gaps and be used as a guide to help automate certain steps of the process. The work instruction is also an important tool for training new employees and ensuring that he/she can pick up from where the previous employee left off and the work continuously gets done consistently.

The work instruction has nine basic elements:

1. The purpose statement may share a bit of the background on the process, what the process is intended for, and what it hopes to accomplish.
   Purpose
   The purpose of the electronic requisition process is to automate and streamline the requisition process with the utilization of online technologies which will speed up the workflow and make the process more efficient and effective while building the required accountability as a tracking tool and database.
2. The scope statement communicates to the stakeholder what is being covered in the work instruction and what the process begins and ends with.
   Scope
   The process begins when an opening occurs in a department at which point the manager contacts human resources and requests that a requisition be produced and sent out for approvals. The e-requisition e-mail also includes the job description, which is sent through the routing process.
   The process ends when all e-approvals have been received and logged in the MS Outlook tracking tool and human resources posts the job either internally or externally.
3. The Definitions section provides the reader with important definitions of unfamiliar terms within the work instruction.
   Definitions
   E-requisition – A requisition form, which is electronically sent out through an electronic routing and tracking system, which requires an electronic approval, which should then be routed to the next e-approver
   E-approver – An approver in the e-requisition process who is responsible for approving and routing the e-requisition through the routing approval stream
4. The process map: This workflow diagram documents step by step each required step in the process along with decision points, action steps, and handoffs.

PROCEDURE/PROCESS STEPS:



5. The Notes section supports the process map and gives additional detail which could not be covered in the process map.

   Notes

   Note 1

   The HR representative begins gathering information on the opening including getting a copy of the job description, determining if this is a backfill or new position, and starting determining the compensation for the position.

   Note 2

   The HR representative and hiring manager finalize the details of the position and program the routing in the e-mail system. Once the e-requisition, job description, and routing have been determined, the HR representative begins by routing the documents to himself/herself or the HR manager for e-approval and routing.

   Note 3

   The documents are routed through the e-mail system, approved by the e-approvers, and routed to the next e-approver.

   Note 4

   The HR representative reviews and monitors the requisition's progress electronically through MS Outlook tracking system.

   Note 5

   Once the HR representative receives all approvals, they proceed with recruiting to get the position posted internally and/or externally.
6. The References area highlights the important forms and documents related to the process the work instruction is covering.
7. The Safety Requirements: This section may or may not be included in the work instruction. However, if there are important safety considerations related to this work instruction, they should be documented here.
8. Similar to the Safety Requirements sections, the Quality Criteria section can look different across work instructions; this area should cover any important quality measures or documentation related to the broader process.

   References

   - Requisition form
   - Job description

   Safety Requirements

   - Any and all safety requirements should be followed.

   Quality Criteria

   - Open requisition matrix is completed by human resources and reported out appropriately.

     Standards (see "References")
9. Change and Distribution section: This section documents what changes and updates took place to the work instruction and when. This section also communicates the revision number and date revision went into affect.

CHANGE PAGE AND DISTRIBUTION INFORMATION:

CHANGE #	CHANGE DESCRIPTION	DATE CHANGED	REV. LEVEL
1	ORIGINAL PUBLICATION	3/21/2007	--
2			A
3			B
4			C
5			
6			
7			
8			
9			
10			
11			
12			
13			
14			
15			
16			

The work instruction is a useful tool to create repeatable and sustainable processes; it is also invaluable in helping to train new employees and continuously speed up and improve work practices. Developing work instructions as a training aide can help speed up performance and assist in continuous improvement activities related to the function. (A full example of a mapping session for new hire process can be found in the Appendix.)

Dos and Don'ts

A work instruction is a great way to capture and continuously improve a process or procedure. Housing the work instructions in a shared database is additionally a good way to ensure it's repeatable and sustainable and can be continuously improved. To assist with continuous improvement activities, adding a "date to review" to the work instruction can help with scheduling reviews of the process. The "date to review" acts as a gentle reminder to the stakeholders that the work instruction will be reviewed and possibly modified in the future if required.

Each work instruction, process, or procedure should have a process owner. The process owner will help ensure the process is being reviewed as scheduled. They are also responsible for making any minor changes and modifications to the work instruction, which would not require broader input from the other stakeholders. The process owner is also responsible for pulling the stakeholders together to ensure the work instruction is up to date and relevant.

Final Comments and Outlook

HR process management though overlooked as a core HR business process can be critical to building a sustainable HR function. Ensuring that there are repeatable work practices that bring value to the business is critical and helps to assure the organization that human resources is relevant and critical to the success of the business. Having well-documented work practices in the form of work instructions helps as training aide for new employees and as a tool to help identify continuous improvement activities around the task.

When the organization has established work practices and can show and prove the effectiveness of those work practices, it allows the function to now become more consultative and truly act as a partner and thought leader for the business. When the basics of HR are in place, the HR leader is able to now focus on how the alignment of the workforce with the business strategy can help accelerate the achievement of the business objectives. Focusing on items such as talent management, employee engagement, and workforce alignment truly has broad implications for organizations globally. However, putting the basics in place first and setting the function up for success are critical in achieving that goal.

Appendix

Focus Session

Company xyz –Division X
New Hire Orientation Process Improvement Project
April 28, 2006

Draft Copy Document

Documentation Revision 1.0

Revision history

Version	Publication date	Description
1.0	May 8, 2006	First draft review document
2.0	May 10, 2006	Final review document

This work is confidential and a property of Company XYZ. It is not to be disclosed to anyone not authorized to have it and to be disclosed outside of Company XYZ without appropriate authorization from Division X Human Resources.

Introduction

In an effort to document, map, improve, and communicate this process to the Division X community so that the process is followed in a consistent manner, an in-depth review of the **new hire process** is necessary.

Issue/Opportunity Summary

Within this documentation, you will find the discussed documentation for the **new hire orientation process**. Please take the opportunity to review this documentation and make any updates or changes you feel more accurately address the **new hire orientation process**. Any updates and changes will be discussed and addressed during our next session.

Participants

Attendees to at least one of the focus sessions:

Participant name	Functional area	E-mail
John Sample	Quality services	JohnSample@company.com
Fred Expert	Tool and die	FredExpert@company.com
Michael Manager	5-3/4 line/paint line 2	MichaelManager@company.com
Jason Linelead	Small parts stampings/custom	JasonLinelead@company.com
Curtis Helper	Building 17 – purple cell	CurtisHelper@company.com

The team/group was assisted by the following HR staff:

Name	Functional area	E-mail
Charles Facilitator	Human resources	CharlesFacilitator@company.com

Session Objectives

The objective of this session is to help the organization develop a robust and value-added orientation process and to shorten the learning curve for new team leaders and help them be more effective in their day-to-day activities.

Scope of Process

The process begins with:

The candidate is made an offer of employment with the company.

The process ends with:

The new team leader has the tools he/she needs to be successful in his/her role.

Current Issues Identified

Identified issues detail any problems or shortfalls in the current process. The purpose of this area is to identify areas that are currently an issue.

No structure	Done on the fly
Two to three weeks to get setup with e-mail, phone, and systems	No checklist
Not consistent	Benefits need to be explained in more detail

Recommendations for Improvement

Consistency	Structure
Have an agenda and stick to it	Plant tour
Label areas in the plant	Product training along with definitions and meanings of commonly used terms, i.e., jams, backbends, etc.
Job shadowing	More content
Checklist	Be able to work on the line
More detailed safety training	Contract training (like the lunch and learn sessions)
Opportunity to give feedback (fill out a survey at the end of orientation where suggestions can be made)	Length of orientation should be between 2 and 4 weeks
InterFlex training	Explanation of benefits
Plant tour	

Section I

Scope

- Our process begins with:
  - The candidate is made an offer of employment with the company.
- Our process ends with:
  - The new team leader has the tools he/she needs to be successful in his/her role.

Session Objectives

- Document and map current process.
- Identify shortcomings of the current process.
- Update and document revised process.
- Develop action plan.

Barriers

A barrier is a condition that may prevent us from achieving our stated goals.

Session Deliverables

What do we hope to accomplish as a result of this session?

- Brainstorming discussion documented
- Action plan developed/revised process

Brief History of Circumstance

History of how circumstances progressed
The current **new hire orientation process** is not conducted consistently.

Recommended and Needed/Required Training

Product knowledge training	Conflict resolution
Job-specific training	Formal structured InterFlex training
Formal detailed safety training	Collective bargaining agreement (like the lunch and learn sessions)
Sexual harassment	Need updated team leader training guide (electronic, disk, and on G:/drive)

Nice to Have Training

Career development	

Materials Necessary

Items or materials needed to help implement the process or which should be included in the policy/procedure:

Orientation presentation included in package	Benefit presentation included in package
Code of conduct	Orientation on Company XYZ University
Corporate card information	Globe smart information
Harassment policy	Information on business cards
Summary of benefit plan expenses	

Action Plan

What actions will be taken to improve the situation and achieve the objectives? What needs to be done first? Who will do what and when?

Who will be responsible?	What action will be taken?	Target date
C. Example	Document session findings and e-mail to participants	May 8, 2006
Participants	Review documents, make changes, and e-mail back	May 11, 2006
C. Example	Update documents and add process flow and checklist	May 15, 2006
C. Example	Review new process and documents with HR staff	TBD

Survey results attached:
Hard copies of the results can be obtained from human resources.
Attachments:

NEW HIRE PERSONNEL RECORD CHECKLIST

Name______________________________ Start Date ___________________ MSA# ______________

SC-HR-GP-035
STAFFING

_____ EAF - Offer Letter - Resume - Application - Requisition - Approvals - Drug Screen

HR ADMINISTRATOR/SUPPORT

_____ Social Security Verification 1-800-772-6270 (EIN 135156640)

_____ Pre-Employment Profile

_____ Completed Background Check

_____ Education Verification

_____ State Tax form

_____ Welcome Letter - E-mail Memo/Mgr. Checklist - NERG + Folder and other applicable Forms (Pension, Wheels, AMEX, other ______________________) - MSA # - Alert Sheet

_____ IMS IT Equipment Request Form (Department Manager)

_____ I-9 Proof of Citizenship -**Copies of ID; required within 3 days of start date**

_____ Invitation to Self-Identify

_____ Emergency Contact Information

_____ W-4 Federal (+10 exemptions = fax to payroll; "exemptions"/stays blank; tax method/"fixed amt")

_____ Direct Deposit Authorization and voided check/deposit slip

_____ Foreign Corrupt Practices Act Acknowledgement

_____ Agreement to Assign Inventions/Protect Proprietary Information (Front/Back)

_____ Use of Technology Resources

_____ Code of Conduct Acknowledgement

_____ New Employee Acknowledgement (Regarding Previous Employment)

_____ ESP/Pension Plan I/Basic Life/ESP Automatic Acknowledgement

_____ Send ESPto: Company xyz 401(k) Service Center

c/o Frankly Investments
P.O. Box 770003
Cincinnati, OH

_____ Send Pension Plan I to: Company xyz Company Global Business Services
Attn: Employee Services
9920 Kinsey Ave. #200
Hunter villa, NC 28078

_____ Send AMEX App. to: COMPANY XYZ Von Duplin
Attn: CC Montgomery or South Western Thoesen
2720 Tobey Drive
Indianapolis, TN 6269

_____ Wheel's Company Vehicle Form (as applies)

Manager

New Employee Orientation Checklist

Employee	Manager
Position	Date of Orientation
Start Date	Type of Orientation

Business Unit Information Overview	
❑ Organization and Structures	❑ Career Advancement
❑ Products/Markets	❑ Timecard/clock information
❑ Strategic Management System	❑ Hours of operation/overtime
❑ Balanced Scorecard	❑ Important Contacts
❑ Organizational Chart	❑ Mentor/Buddy Assignment

Position-Specific Information	
❑ Tour of Facility (if applicable)	❑ Cubicle or workspace allocation
❑ Discussion of duties	❑ E-mail and Phone Set-Up
❑ Discussion of required training(s)	❑ Other equipment (per site)
❑ Introduction MyCOMPANY XYZ/COMPANY XYZU Required Courses	❑ Credit Card/Vehicle Authorization?
❑ PMP (complete objectives within 2 weeks)	❑ Security Access to Building

Key Policies and Procedures	
❑ Sexual Harassment & Discrimination	❑ Employee Conduct
❑ “Zero Tolerance” Violence in the Workplace	❑ Confidentiality Policy
❑ Drug-Free Workplace and Screening	❑ Open Door Policy
❑ Local culture/expectations	❑ Grievance Procedure
	❑ Signature-Required Documents

Safety	
❑ Accident reporting	❑ Medical Emergencies
❑ Facilities/Residential	❑ Vehicle Safety
❑ Company Property/Equipment	❑ Workers Compensation

Data Entry (EAF changes, other systems, etc.)	
❑ All information accurate	❑ Schedule PMP/follow up contact
❑ All required fields complete	❑ Training schedule

Manager Responsibilities

New Employee Orientation Checklist

Employee	Manager
Position	Date of Orientation
Start Date	Type of Orientation (Phone/In-Person)

Business Unit Information Overview	
❑ Organization and Structures	❑ Career Advancement
❑ Products/Markets	❑ Timecard/clock information
❑ Strategic Management System	❑ Hours of operation/overtime
❑ Balanced Scorecard	❑ Important Contacts
❑ Organizational Chart	❑ Mentor/Buddy Assignment

Position-Specific Information	
	❑ E-mail and Phone Set-Up (Cell?)
❑ Discussion of required training(s)	❑ Other equipment (per site)
❑ Introduction MyCOMPANY XYZ/COMPANY XYZU Required Courses	❑ Credit Card Authorization
❑ PMP	❑ Vehicle Authorization
❑ Computer Set-Up (IT Request Form)	❑ Security Access to Building (if applicable)

Safety and Security	
❑ Accident reporting	❑ Medical Emergencies
❑ Facilities/Residential	❑ Company Property/Equipment

Data Entry Check (Before forms go to HR Administration)	
❑ All information accurate	❑ Schedule PMP/follow up contact
❑ All required fields complete	❑ Training schedule

New Employee Checklist

Employee Name	Supervisor
Start Date	Site/Location

First Day	
❑ Security Access to Building	❑ Overview with direct Supervisor
❑ Cubicle or workspace allocation	❑ Lunch with co-worker (if applicable)
❑ Order office supplies / equipment	❑ Received Site Handbook / Contact List
❑ Tour of Facility (if applicable)	❑ Received PMP User Guide
❑ Introductions / Contacts	❑ Scheduled for Orientation/s

First Week	
❑ Signature-Required Documents to HR	❑ Navigate intranet site
❑ New Employee Orientation	❑ PMP Setup and Completion w/Supervisor
❑ Benefits Orientation	❑ Required COMPANY XYZU Courses Complete
❑ Safety Orientation (if applicable)	❑ Begin 1st project and review w/Supervisor

Important Processes and Services	
❑ Strategic Management System	❑ Shared Services/Corporate Center
❑ Human Resources	❑ IT Help Desk
❑ Oracle HRMS <u>Employee Self-Service</u>	❑ Travel Policy/American Express
❑ Intranet site	❑ Performance Management Plan

Human Resources

New Employee Orientation Checklist

Employee	HR Administrator
Position	Date of Orientation
Start Date	Type of Orientation

Company Information Overview	
❑ History	❑ Career Advancement
❑ Organization and Structures	❑ Quality Statement
❑ Products/Markets	❑ General Payroll Information
❑ Strategic Management System	❑ Position Specific Information
❑ Balanced Scorecard	❑ Introduction to Company Intranet Site

Benefits	
❑ Eligibility and Enrollment	❑ Flexible Spending Account
❑ Company Intranet Site — iSelect/401K.com—Key Sites	❑ Tuition Reimbursement
❑ Medical/Dental/Pharmacy / Insurance	❑ Holiday Schedule
❑ Life/Supplemental/AD&D Insurance	❑ Vacation Accrual
❑ Job Opportunities / Career Mgmt.	❑ Leaves of Absence (Family Medical Leave Act / Military, etc.)
❑ Retirement (ESP / Pension)	❑ Employee Assistance Program
❑ Disability / Salary Continuance	❑ Compensation/E-Payroll
❑ Watchdog / Franklin Health Programs	❑ Overview of Online resources
Key Policies and Procedures	
❑ Building access and security	❑ Termination
❑ Equal Employment Opportunity / Affirmative Action	❑ Open Door Policy
❑ Sexual Harassment & Discrimination	❑ Grievance Procedure
❑ Employee Conduct/ “Zero Tolerance”…	❑ Signature-Required Documents
❑ Drug-Free Workplace and Screening	❑ Information Technology Resources
❑ Attendance Policy / Reporting Absences Confidentiality Policy	❑ Fleet Vehicle/American Express (as applicable)
	❑ Records Mgmt. / Personal Info. Changes
❑ Performance Management Program (PMP)	❑ COMPANY XYZU Required courses
Safety and Security	
❑ Accident reporting	❑ Medical Emergencies
❑ Facilities / Residential (ISO, MSDS, etc.)	❑ Vehicle Safety
❑ Company Property/Equipment (Personal Protective Equipment (PPE)	❑ Workers Compensation

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Administration and Payroll: Essentials of Shared Services and Outsourcing

58

Heike Hartrath

Contents

Abstract

In this chapter business process outsourcing is defined not as a one-dimensional cost-cutting approach but rather as a complex change process that simultaneously targets efficiency potentials and ensures high service quality. The chapter shows that efficiency potentials will only be realized if – prior to implementing the

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outsourcing approach – all relevant parameters are correctly captured in a business case calculation. This case should not only include implementation and monthly running costs but should also at least partially foresee the cost for necessary future process and system enhancements. The chapter further illustrates cornerstones for a sustainable business process outsourcing, namely, a diligent process and requirement documentation, stringent performance measurements, and an established continuous improvement process. All of these factors ensure a successful collaboration model between the client in the respective HR department and the business process outsourcing provider. If the four areas of potential risk – system capability, system automation, skill set, and documentation – are also continuously monitored, outsourcing initiatives can lead to a better process handling and higher service quality than in an in-house environment.

Keywords
Business case • Change request • Deliverable • KPI • Quality of service • Standard (ed/ization)

Introduction and Overview: What is Outsourcing?

According to *Collins English Dictionary* (HarperCollins 2003), outsourcing in commerce means "1 ... to subcontract (work) to another company and 2 ... to buy in components (for a product) rather than manufacture them." The *American Heritage Dictionary of the English Language* (Houghton Mifflin 2000) enhances this definition by including one, if not the presumably major, intention of all business process outsourcing activities in its definition: "To send out (work for example) to an outside provider or manufacturer in order to cut costs."

Outsourcing developed as a formal business strategy in the 1980s and the 1990s and saw a first wave of outsourcing as companies began to focus on the implementation of cost-saving measures. U.S. companies that outsourced business processes not only clearly dominated the industry in 1990s and the early years of the new millennium with the "... biggest 'lever' of attractiveness [being] wage arbitrage to India ..." but also clearly continue to be the pioneers of outsourcing, whereas "... large-scale European enterprises are far less experienced when it comes to outsourcing and offshoring ... and many offer a less mature 'just get it done' attitude" and countries in Asia with its diverse economic landscape "are less enticed by cost-reduction ... because low cost labor is already available locally..." (Horses for Sources 2013).

Still, during the financial crisis, economies across the globe and all kinds of industries suffered tremendously. Almost everywhere, sales were down to an all-time low, and companies were struggling to survive. Drastic cost cuts were the rule of the day, and all parts of the business were asked to contribute their share. In fact, the share allotted to HR often equalled a budget cut in half. Reduction targets of these dimensions could not simply be accomplished by some superficial cost cutting measures.

Rather, HR teams had to deal with the challenge of headcount reductions. And this meant HR had to find answers to two crucial questions: Can all services required by the business still be delivered in an appropriate manner? And for those HR processes that would remain inside the HR portfolio, how must work be restructured to ensure that with reduced capacity high-quality results can still be achieved?

In alignment with Dave Ulrich's HR Operating Model (Ulrich 1996; Ulrich and Brockbank 2005) many companies therefore decided to restructure the HR world and committed to an operational model with three basic functions: (1) HR Business partners are in direct contact with their customers in the business and provide the strategic HR support that is needed to enable the business to be successful – today and in the future. (2) HR Centers of Excellence bundle HR expertise regarding HR's governance role e.g., when it comes to guidelines and policies for compensation and benefits. (3) HR Shared Service Centers are established in which high-volume transactional HR administration tasks are bundled.

Following the decision for this HR Operating Model all core HR processes need to be analyzed and then allocated in one of the three basic functions. Payroll (which according to external benchmark analyses requires up to 40 % of the available capacity in decentralized HR teams) is a prime candidate for a reallocation and bundling of all payroll activities within Shared Services. Other HR processes such as HR Administration and Recruiting as well as Training Administration were also allotted to the list of processes that can be bundled.

People Perspective

As quickly outlined above, the decision to bundle certain HR processes and source them either in house in Shared Service Centers or outsource them to an external provider, is usually taken on the basis of economic necessity with the clear intention of relieving a (financial) stress level that the company or more particular the HR department may be experiencing. In order to reap the potential cost benefits as soon as possible, more often than not quick actions are taken that range from a spreadsheet **business case** approach to a speedy vendor selection and an ambitious implementation approach.

But any outsourcing initiative is much more than a cost-efficiency program – it is a major change process which will at least impact the existing company culture and potentially – in the case of offshoring –grows into a huge intercultural change management project. And quite a lot of people tend not to embrace change eagerly but rather see obstacles when steered away from the trodden path of how things were done for years.

How this change process will be perceived by the various affected departments and employees is unfortunately largely left out of consideration. What looks like an attractive economic option from a management perspective can be seen as a downright existential threat if employees translate the figures in the **business case** into losing their jobs. This fear needs to be addressed properly, openly, and in a timely manner with very clear indications regarding future options for the employees whose jobs will be allocated differently. It is essential that the management respects and appraises the work that has been done in the past and in parallel explains the necessity for change – i.e., the decision to outsource – with all possible consequences. The attempt to sugarcoat the decision to outsource by insisting that jobs with a higher competency profile would of course be retained within the organization and that the affected employees would be considered for these positions has a high probability to backfire because there are neither enough of these jobs available nor do people who have very often spent a lot of years as reliable employees handling the bulk of transactional work tend to fall for this kind of career development rhetoric.

From a management perspective, it is essential to avoid the pitfalls of failed communication because – although the affected employees may not be members of the HR organization after the business outsourcing activities have been completed – they are one cornerstone for the success of any outsourcing implementation project. Unclear, vague, and potentially misleading communication from the top management regarding the consequences of a business process outsourcing will almost inevitably trigger one or more of the following reactions from the affected employees with a negative impact on the outsourcing initiative as such:

1. People go into rescue mode, start looking for new opportunities, and leave their old jobs as quickly as possible.
   This premature drainage of internal resources and expertise potentially leads to an incomplete or partially even incorrect transfer of processes into the responsibility of the new provider.
2. Staff members who do not jump ship immediately are faced with the burden of having to compensate the capacity and expertise already lost. Simultaneously a significant dip in motivation and commitment to the company, the HR department, and the current job is experienced.
   As a result the **quality of service** delivery while still in house may suffer leading to dissatisfaction of the business regarding the HR performance in the process in question.

Whereas it may be possible from a management perspective to argue that lower performance levels due to the abovementioned changes in the HR community are acceptable for a limited period of time, one key activity must not be underestimated in order to avoid serious and long-lasting challenges regarding the management and steering of the external service delivery.

HR departments who wish to outsource one or more processes need to tackle two tasks to enable the provider to be successful:

(a) Retained workforce in the HR department needs to be defined to facilitate the collaboration with the vendor. Focus activities include, e.g., provision of high-quality input from internal systems or regular updates regarding internal changes such as policy and guideline adjustments which have to be taken into consideration by the external provider.

(b) A sustainable governance function needs to be established to ensure a stringent vendor monitoring via regular **KPI** measurements, a structured **change request** management, and a vendor development targeting to establish a continuous improvement process.

Whenever an HR department decides to outsource one or more processes, the business – management and staff alike – also need to be involved in the communication process regarding this change. As customer of HR, the business will not be impressed by the potential to realize cost reductions within HR. In fact, the key question to be answered positively by the business will not be “Is this outsourcing initiative beneficial for HR?” but rather “Is this outsourcing initiative beneficial for the business?”

An Employee Self Service (ESS) or Manager Self Service (MSS) functionality that is implemented in the course of an outsourcing project may serve as an example in this context. Naturally, this functionality will relieve the HR team of a substantial burden of manual work – thus, these tools are highly welcomed. But if ESS or MSS only serve to burden the business with work that is no longer done in HR, the implementation will not be well received. But if these functionalities come with additional, user-friendly features, employees in the business can see benefits for themselves, while simultaneously HR can establish more efficient workflows.

One more factor needs to be acknowledged to round off the people perspective when talking about outsourcing: the people perspective cannot be limited to the internal community of employees – in HR and in the business, on staff and on management level. Rather, in order to ensure that the outsourced processes are seamlessly interfaced with internal process steps, the people perspective has to include the external provider as an integral and essential part of a joint success story.

The collaboration with the business process outsourcing provider (BPO) is, of course, regulated by contractual agreements, Service Level Agreements (SLAs), and relevant Key Perfomance Indicators (**KPI**s). But the best legal framework will not ensure success unless both parties involved in the process – client and provider – manage in parallel to develop a cooperative team spirit and a joint dedication to establish HR processes that work as smoothly as a well-oiled machine. SLAs and **KPI**s alone are adequate tools to steer a well-functioning process. But when mistakes occur a team spirit is needed to work on a continuous improvement process rather than focus on finger-pointing and penalties based on failed **KPI**s.

Economic Perspective

If a company decides to undergo a major change process this is always motivated by two factors:

- A desire to significantly improve the quality of processes, results, and products
- The need to reduce costs which in a nonproductive environment often also equals headcount

Frequently, these two factors are not seen as equally important elements in an equation for business success. Actually, since the significant change processes are usually only pushed by the management and more or less accepted by the staff level if the overall situation of the company is in critical shape, more often than not the quality aspect is pushed into the background and cost reduction targets take center stage (Sullivan 2005). This potentially dangerous imbalance can result in damaging effects which will be further explained in the subchapter Risk Perspective.

If the focus is on cost reduction or – in more positive terms – an increase in efficiencies, the starting point for all Shared Services activities including business process outsourcing initiatives is the creation of the **business case**. In order to come up with a valid **business case**, the following steps need to be taken:

1. The scope of the outsourcing initiative needs to be described as clearly as possible. To name only two relevant considerations – which process steps should be bundled and/or outsourced and which countries or legal entities will participate in the initiative.
2. How is the process handled today? Relevant aspects here may include what is done manually, which systems are in use, and where are necessary interfaces to other systems, functions, departments? In order to get a detailed insight into this process handling, especially if the scope of the initiative covers multiple locations, on-site visits and descriptions of the as-is situation are required.
3. How many Full Time Equivalents are involved in which parts of the process? What is the labor cost for these employees? Again, there may be a wide range of different costs and cost levels depending on the scope of the initiative.
4. How many employees in the business are served by the HR employees who are currently responsible for the process? Based on this service ratio the maturity of a process can be assessed, i.e., a high service ratio indicates a high maturity level.
5. In case some parts of the process in scope are handled by a third party, what are the costs for the services received from this third party?
6. In case IT systems are in use to facilitate the as-is process, what are the costs for these systems? There may be a breakdown available, e.g., cost per employee serviced per month, but a careful analysis also has to specify whether these costs include hardware, software, and – very often rather hard to specify – licence and maintenance.
7. What are the G&A costs currently invested in this process and the people who run it? Usually, facility costs with all different aspects ranging from rent to infrastructure need to be captured here.

Unfortunately, another dimension is very often not documented, because it does not directly contribute to a calculation of the cost reduction dimension which is taken as most relevant for the economic perspective.

This dimension covers all costs for further system developments and solution enhancements once the process has been outsourced to an external provider. On the one hand, costs listed from 1 to 7 usually can be captured quite accurately with the support of the HR, FC, and IT departments and are calculated against the costs for implementation as well as service delivery provided in the vendor proposal. On the other hand, costs for so-called **change requests** are much harder to define. Therefore, these costs are frequently not fully considered in the **business case** calculation.

What may fall into the category of chargeable **change requests**?

Naturally, the outsourced business process will also have to go through system maintenance, updates, and new release periods which come at a certain cost. The potential range of these costs should ideally already be outlined in the vendor proposal as future one-time implementation efforts. Alternatively, these costs can be reflected as part of the monthly service delivery fee.

Also, the client – i.e., the HR department, the business, and the management of the company – over time may ask for solution enhancements and system changes that were not built into the original solution framework offered by the provider during the period of implementation. Although these requirements can never be fully known and captured in advance, accomplished providers of business process outsourcing solutions should be able to provide a catalogue of frequent or known **change requests** including a realistic price range needed to realize changes of that kind. This catalogue can be factored into the calculation of the **business case**. And, maybe even more important, the catalogue can serve as a means of orientation for the planning of the HR budget once the business process outsourcing has been completed.

In fact, if the potential price for a **change request** is known in advance, this may even lead HR, business, and management teams alike to consider the following questions very early on in the **change request** process: "Is the solution enhancement really needed? And, if so, has the budget needed for the enhancement been included in the budget planning?" Needless to say that the price catalogue for **change requests** may trigger some reluctance to change the solution framework too frequently – especially if the requested change falls into the category of "nice to have."

Another positive side effect of this cost discipline should also not go unmentioned: the fewer **change requests** from the client are implemented, the easier it will be to safeguard the overall level of **standard**ization that has been achieved with the business process outsourcing.

Ideally the decision-making process for a **change request** should always cover three steps:

1. Is this **change request** legally required?
   If this is the case, immediate implementation is required and should be part of the duties of the BPO provider – thus free of charge.
2. Is this **change request** a business requirement from which all service recipients (e.g., all legal entities in scope of the outsourcing approach) will benefit?
   If this is the case, the **change request** should be implemented as the new, enhanced **standard** process and paid for by the client according to the contractually agreed price range.
3. Is this **change request** a business requirement from which a limited group of people (e.g., only one legal entity) will benefit?
   If this is the case, implementation should be critically assessed in terms of necessity. This helps to avoid too many customizations which may – at the

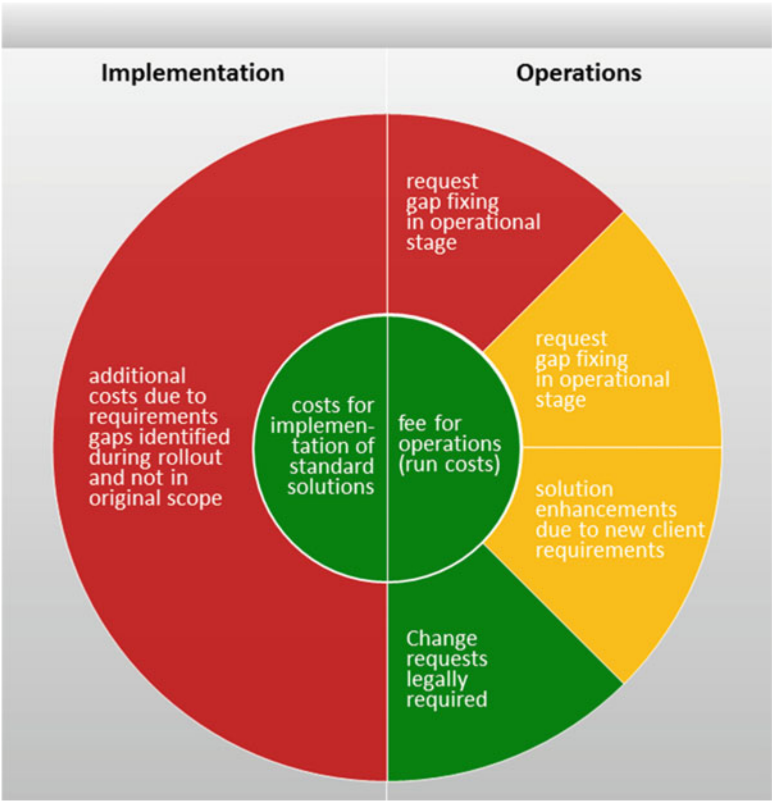

Fig. 1 The vicious circle of change requests

end – have an impact on the quality of the service delivery because the level of **standard**ization is gradually diluted. And the very same people who initially requested the customizations in are likely to be the first who complain about the decline in **quality of service** received from the provider (Fig. 1).

Risk Perspective

There is one basic truth that management teams and HR departments should keep in mind before they select a provider for the business process they want to outsource. This can be phrased as follows: systems and processes can be outsourced, but the risks that lie in the field of outsourcing can never be outsourced. In addition, the responsibility to mitigate these risks should they materialize remains with the outsourcer and will not be taken over by the BPO provider (Protiviti Independent Risk Consulting 2004).

In fact, each and every potential benefit seen in the field of outsourcing can – in principle – also turn into a potential risk. Known risk areas are an increase in cost, quality issues, a need to establish process control and coordination effort to monitor high-quality results, regulatory risks should the external partner not comply with regulatory requirements, dependency on the provider, loss of internal know-how, lack of internal support (management and employees) resulting – in a worst case scenario – in legal conflicts, and a potential reputational loss of the HR department internally or of the company as such externally.

The most frequent risks encountered in the BPO business are always connected to the quality of the service delivery that the chosen provider is expected to deliver. Without exception, this expectation regarding the service delivery can be summarized as follows: it should be at least on the level of quality reached in-house before the decision to outsource was taken, but ideally the client expects service delivery above the in-house level of quality.

Unfortunately, this level of expectation very often remains the implicit undercurrent during the selection and negotiation phase with the future provider, when full focus is put on the commercials in terms of implementation and operations. Of course, once the contracting has been completed and all players involved enter the implementation and operations phase of the outsourcing approach, expectation and expectation management quickly come to the surface. In fact, both tend to take center stage and are perceived as key areas of conflict.

However, in the initial contact phases (i.e., during the proposal and bidding process), providers competing to get the deal and win over a new client may not be fully aware of all complexities that need to be handled to provide the requested quality in service delivery. In fact, one can also assume that in the throng of this "beauty contest" with other BPO providers, some may even consciously choose to disregard a couple of these complexities to keep the proposal submitted on a very attractive price level. Regardless of the motivation in the background, the risk can be defined as hidden costs for **change requests**. These **change requests** may occur during implementation or in the actual operations phase, because the required solution goes beyond the scope of the solution framework originally contracted. Needless to say that these costs have a severe, negative impact on the **business case**. In a worst-case scenario, this may even lead to the belated insight that developing the provider to the expected quality level made outsourcing more expensive than handling the respective business process in-house.

The risks caused by insufficient investment in the outsourcing of a business process can be attributed to four focus areas: (a) system capability, (b) level of system automation, (c) skill set, and (d) documentation (Fig. 2).

(a) The solution framework offered cannot cover all complexities and interdependencies needed to process accurate results as expected. This may – for example – occur in the field of payroll outsourcing where statutory requirements of the respective tax legislation and internal policies and procedures need to be reflected to trigger accurate calculation results. The **standard** solution in some instances may simply not be advanced enough to reflect all possible scenarios

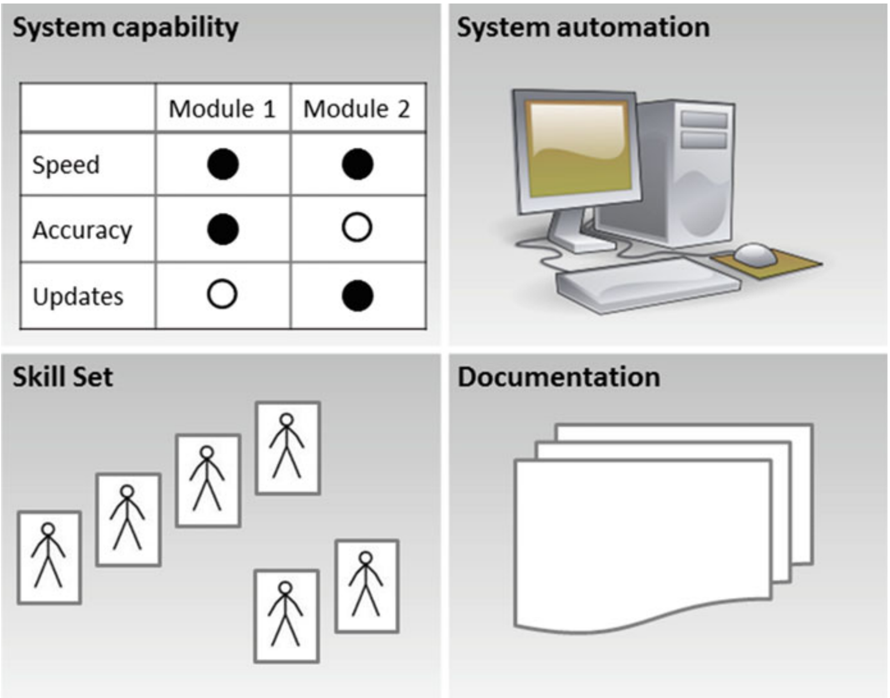

Fig. 2 Focus areas for risks encountered during outsourcing initiatives

that go beyond the country-specific general tax legislation to cover, for example, special tariff solutions or collective agreements.

(b) The solution framework offered may require frequent manual intervention to cater to the complexities as described under (a). The result of any manual intervention signals a potential increase in mistakes and failure rates. These mistakes, of course, do not happen at the moment of intervention which actually targets error prevention. But manual data input occurs outside of automated system updates and uploads, and may, therefore, lead to jeopardized data integrity and data quality at a later point in time. In payroll this may, for example, lead to a critical situation during the year-end process. A high level of system automation is, therefore, crucial to maintain data integrity and thus high-quality results.

(c) If the skill set of people on the part of the provider are not readily available – both in terms of quality and quantity – the business process outsourcing solution as such is in jeopardy.

Payroll, to mention another example, rarely shows seasonal peaks. Rather it constitutes a constant time-, capacity-, and cost-consuming activity. This is the case for two main reasons. First, it is highly transactional and repetitive in nature with at least 12 payouts to every employee in the company. Second, it is extremely complex and sensitive because it must reflect laws and regulations accurately. Local tax legislation, social security contributions, and pension payments as well as banking regulations require a highly qualified skill set in the responsible payroll team provided by the external partner. Any deviation from the rules exposes companies to serious tax and compliance risks and will potentially trigger internal or external audit activities with critical findings followed by a very strict remediation plan to eliminate risks.

Take the example of recruiting: An outsourced solution may specifically help fast-growing companies or companies whose recruiting demands show a seasonal fluctuation pattern where periods of intense hiring and short-term onboarding alternate with periods of little if any changes in the labor force. It is essential that the selected external provider can balance out these peaks, because most companies find it difficult to handle intensive recruiting periods with enough qualified staff to ensure the onboarding success.

(d) Business process outsourcing providers with their comparatively low labor costs are known to suffer from relatively high attrition rates. With every skilled staff member moving on to new, better-paid professional tasks, expertise regarding the client profile and processes serviced by this staff member is potentially lost. This risk increases dramatically if the provider is located in a country where notice periods are extremely short and there is little if any opportunity to realize a transfer of know-how between the former and the new staff member. For this reason, it is extremely necessary that – apart from a high level of **standard**ization and automation – all processes, policies, rules, and exceptions to these rules are documented in detail and are updated on a regular basis. If this documentation is missing, incomplete, or out of date, the new employee taking over the client in question is largely left without guidance and will most certainly make unnecessary mistakes or repeat mistakes that have happened before. In fact, for lack of a transition period between old and new job holder, the client himself may be burdened with the task to instruct the new staff member regarding the handling of the process in question. Without doubt, the client will lose patience rather quickly if this happens more frequently – depending on the frequency of staff changes on the provider side.

Apart from the service quality risks outlined above, which may occur in any field of business process outsourcing – from administrative tasks in various areas, customer support across functions, IT services to accounting – outsourcing specifically in the field of HR also needs to pay special attention to the requirements of data security and data protection since HR handles highly confidential personal data. In fact, prior to a transfer of data, HR departments need to verify in alignment with data protection legislation if each employee's individual "explicit consent" is required to process his or her data in an outsourcing environment. This would, of course, make any outsourcing impractical, if people refuse to grant this consent. In order to avoid conflicts on employee-by-employee level, a close cooperation between HR, the works' council, and the legal department is necessary to find a compliant solution for the handling of HR data in a BPO environment.

With regard to the requirements that the BPO provider has to fulfil in order to obtain approval regarding the handling of HR data, rules and regulations may vary from country to country, but – in principle – guidelines can be summarized in the following checklist:

- BPO Server/data/IT Center: Is the BPO provider able to prove that measures against external attacks or damages can be taken effectively? Is there a plan for disaster recovery in place? Has the IT Center been certified by an independent auditor?
- BPO staff: Has the staff been adequately trained and qualified including a documentation of this training? Have all employees signed a data confidentiality agreement?
- Data transfer: How does the BPO provider guarantee a secure, encrypted transfer of data between client and provider? Which measures are in place to ensure that BPO employees not involved in the service delivery for a specific client cannot access confidential data of this client? How does the BPO provider ensure that data of different clients are strictly kept apart? Which processes for secure data storage and data deletion at specified time intervals are in place?

If any of the requirements listed above show major deficiencies, the complete outsourcing approach is at stake. Immediate and effective action needs to be taken to avoid serious risks for the company and its employees.

And last but not least, any decision to outsource a business process needs to take into account that there is a mutual risk of dependency involved which may lead one or both parties – outsourcer or BPO provider – into a critical situation. From a company's point of view, one rule of thumb should be acknowledged clearly: It may be difficult to outsource a business process to an external provider, but it is much more difficult to reclaim this process and re-establish it as an in-house service.

One reason for this is that over time, internal know-how regarding the process has been lost and needs to be built up again internally on the client side. This naturally requires some time. But usually, time is the commodity that is in short supply or almost not available should the collaboration between client and BPO provider take a turn for the worse. A BPO provider with valid reason to believe that contracts will not be extended will limit efforts regarding **quality of service** delivery and customer satisfaction. In fact, this provider may feel an economic necessity to quickly reallocate focus and capacity with the target to retain other clients in the portfolio or to win over new clients.

Of course, all data processed on behalf of a client constitute this client's property and have to be transferred back to the client in the event that the collaboration comes to an end and the contract expires. However, the system solution built and configured by the BPO provider and in the BPO environment to process these data (hardware and software) is part of the intellectual property of the provider and will not be returned or handed over to the client. Business continuity thus may become a serious challenge if the client has to take over responsibility for the formerly outsourced business process without adequate preparation for this change in roles and responsibilities.

In order to ensure a long-lasting, productive, and effective collaboration model between client and BPO provider, it is essential to build up this collaboration model on the basis of a contract that defines tasks and responsibilities as precisely as possible (including Service Level Agreements, **KPI**s, and penalties for failure to meet the expected **deliverables**). In addition a well-functioning risk management needs to be established during the initial stages of the cooperation. This risk management function should also not cease to exist once the implementation or project phase has been finalized. Instead, an effective quality control system and risk management is one of the pillars that will ensure success once the stage of ongoing operations has been reached.

Operational Perspective

Once the decision has been taken by the management team to outsource a business process, and this decision is the result of both a conscious strategic decision and a valid **business case** which attempts to capture all relevant parameters (see section "Economic Perspective"), preparation for the actual outsourcing activities can begin.

A dedicated project team needs to be established which should ideally consist of different types of people: process experts who have all the relevant and detailed experience regarding the business process which will be outsourced, project management experts with some outsourcing experience if available, and a project leader who coordinates the communication to and involvement of all relevant stakeholders and is responsible for the political engineering necessary to overcome the obstacles against outsourcing within the company. In an HR context, the functional background of the project group should go well beyond the scope of HR and cover experts from IT as well as Finance and Controlling (e.g., in the case of payroll) or Marketing (e.g., in the case of Recruiting).

Creation of Scope Document

In order to identify the right BPO provider, it is first of all necessary to describe the scope of outsourcing as precisely as possible. Questions that need to be answered and documented contain such aspects as: Which process steps will bes outsourced, and which steps potentially remain in house? Where are the respective interfaces and how can they be managed? What are the **deliverables** resulting from this process? How often does this process run, and how much time does it take to complete the process? Are there further interfaces to other HR processes or processes outside of HR, and what needs to be done to manage these interfaces? Which IT systems are currently in use and what kind of data do they capture? What is the internal setup of roles and responsibilities, and which responsibilities will be shifted to the external partner?

During this initial documentation process it may become apparent that the internal process is not **standard**ized, e.g., across legal entities, for all functions and divisions or – for that matter – for all employee groups. Prior to initiating any outsourcing activities these differences in handling should be critically assessed, and the process should be harmonized as much as possible. This ensures that the actual implementation can proceed more smoothly.

If available, existing internal Service Level Agreements as well as the respective success/failure rates should also be captured. If these measurements are not used internally, the Service Level Agreements planned for implementation with the BPO provider should be tested in the in-house environment. Once the business process has been outsourced the documented actual performance levels can serve as a reference point for the service delivery quality provided by the external partner. In addition, these facts and figures can potentially be used to argue against those voices who claim – post go-live of the outsourced solution – that the former process handled in-house achieved better results than the new solution framework.

Vendor Selection Process

Based on the detailed documentation of all aspects of the internal process handling, a scoping document can be designed and sent out to a group of BPO providers who are known to offer BPO services in this field. The scoping document should specify the targets to be achieved via the outsourcing approach. It should describe both, the as-is process and the requirements for the future process solution highlighting, e.g., potentials to improve quality, increase efficiency, and further enhance a compliant framework.

Depending on the number of initial proposals received, a first selection process based on predefined criteria should take place. Criteria frequently used in a selection process include BPO company profile (location, organization, ownership structure), economic performance/stability, proposed solution framework including the IT platform, available people and skill set, as well as ranking in BPO market analyses and an initial insight into the client portfolio including references. Apart from defining these selection criteria in terms of content, the different content areas also need to be weighted to ensure that the most relevant aspects are reflected accurately (Fig. 3).

Once these criteria have been applied and the number of potential providers has been reduced to three to five, these finalists can also ask questions to further specify their proposal including commercials and timelines for a realization of the business process outsourcing. During a bidding day these providers are given the opportunity to explain their proposals further.

Although the project team should, of course, partake in the final decision-making process, Procurement and Legal should be in the lead. In addition, it is essential to include stakeholders from the business and representatives of the departments that will be affected by the outsourcing initiative. This further ensures commitment regarding the outsourcing initiative and emphasizes the joint responsibility for the selection of the best BPO partner.

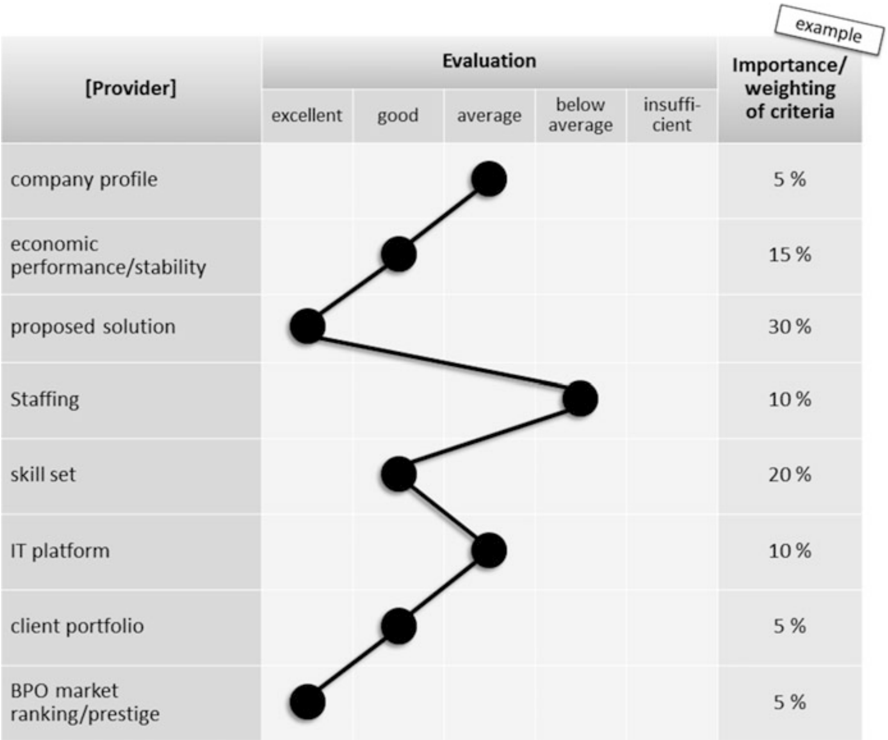

Fig. 3 Criteria for vendor selection

Contracting

Once the decision for a BPO partner has been taken, the contracting phase begins. The contract should include the implementation and the operations phase. It should contain a clear definition of tasks and responsibilities. All **deliverables** in terms of time and quality should be measurable and the payment terms (including incentives and penalties) leave no room for discussion (see section "Risk Perspective"). In order to protect the company against damage that may be caused by the failure of the BPO partner to deliver the services as requested, an adequate liability frame needs to be included into the contract.

Implementation

The outsourcing of a business process is a highly complex endeavor. Risks, delays, and obstacles of various and sometimes unforeseeable nature will happen. In order to maintain the necessary management support during the entire implementation period it is necessary to define a project sponsor and a steering committee. Both are informed in appropriate intervals about the progress of the implementation and can intervene in case serious challenges put the implementation at risk.

For this reason, it is absolutely necessary to agree on a project management tool or method which helps to document the progress of the implementation in detail. The tool also highlights potential risks in a timely manner so that countermeasures can be taken to avoid further escalation. Or, to put it more simply, the project leader needs to know at any stage of the implementation process WHO does WHAT until WHEN and HOW.

For this the implementation approach needs to include defined phases, clear roles and responsibilities, and consistent measurable quality gates. In order to ensure high-quality results at the point of go live, all parties must agree on these clear measurements which indicate without a doubt that all requirements to pass a quality gate have been accomplished. If requirements are not met by one party (internally or on the side of the BPO provider) this can, e.g., trigger delays in the overall implementation plan since most activities are interdependent. Delays will need to be compensated according to the penalty structure established in the contract.

During the first stage of the implementation, the blueprint which describes the setup of the to-be process and the as-is process are discussed and compared with each other. These fit-gap approaches determine the amount of adjustments that need to be done to ensure that the **standard**ized new process (blueprint) can be implemented successfully. It goes without saying that the majority of adjustments should occur in the as-is environment to safeguard the **standard** solution. If processes have already been somewhat harmonized internally prior to the actual implementation, the need for further adjustments will be limited. Of course, the solution framework proposed by the BPO partner should also allow for some flexibility to cater to some well-founded exceptions from the **standard** approach. This combination will certainly help to reduce frustration on the part of the former process owners within HR and will smooth out this initial period of cooperation between BPO provider and HR (Fig. 4).

It is essential (a) that the agreed-upon solution, the to-be process, covers all requirements that HR and the customers of HR may have and (b) that these requirements are documented in all necessary detail. In fact, all parties involved in the implementation officially need to approve of this documentation before the actual configuration of a system solution should start. The documentation and the alignment on the details captured are time consuming and may seem tedious, but this investment early on in the implementation process will pay off during the testing phases post system configuration. Wrong or incomplete process documentation will result in a partially faulty system solution, and necessary fixes will most certainly take more time than the compilation of all requirements in written form. In fact, if the outsourcing company, i.e., the HR department, provided a sign-off on requirement documentation that turns out to be incomplete, the BPO provider may contractually be justified to consider such fixes as a first instance of chargeable **change requests**. In other words, detail orientation in the documentation phase can help to avoid unforeseen increases in the agreed-upon implementation cost.

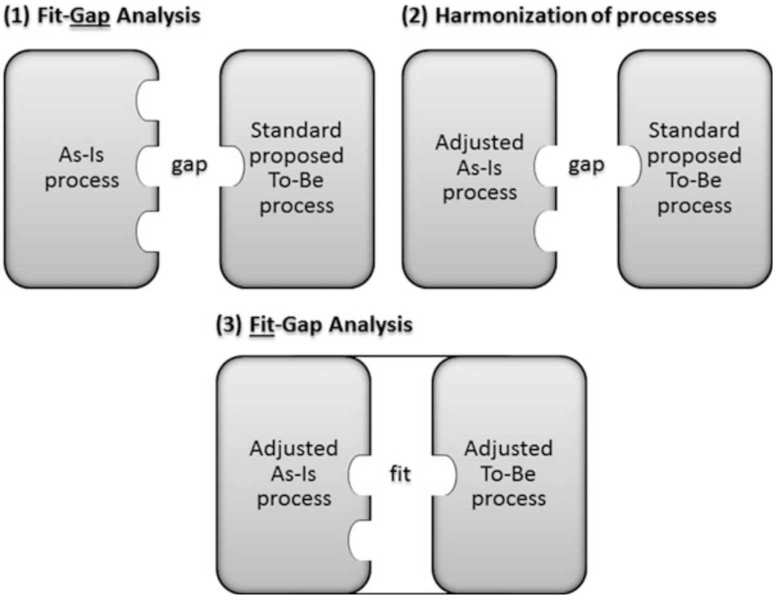

Fig. 4 Principal stages of a fit-gap analysis

Post the documentation and configuration phase, the IT solution provided by the BPO provider needs to be tested. In an initial test stage, these tests may be limited to a specified set of scenarios populated with dummy data to ensure that the overall framework captures client requirements. Ultimately, the external provider has to conduct a full component testing to ensure consistent and complete system capability. Also, the interfaces to other systems used by the client need to be tested.

Once the system is set up as such, all relevant HR data needed for processing has to be migrated into the BPO IT systems. In order to ensure a complete and correct transfer of data, a template approach defining mandatory and optional data fields is put to use. Once all data conflicts have been clarified and the mapping of the data has been finalized, the actual process can be tested.

In this next test stage a complete set of historical data, e.g., the payroll of a past month, may be reprocessed by the BPO provider. Usually, the predefined pass rate in the first round of testing (quality gate) will not be 100 %, since certain variances can be expected between the historical system solution and the future system solution. Of course, any variance detected is only acceptable if it can be explained based on the requirement documentation and is accepted by the client in HR. The number of variances should be consequently reduced with the number of test runs conducted, and all known complexities (e.g., bonus runs) should be tested. As the go-live date in the implementation approaches, a mock or parallel run to the actual month processed in the internal systems is conducted to ensure maximum compatibility. As a rule, documentation of all testing activities should be a contractual obligation on the part of the provider, and the preagreed number of test runs or pass/failure rates should never be compromised to avoid serious quality issues post go-live.

Project Controlling

All stages of the implementation process should be covered by a stringent controlling of the targets achieved or missed. The project controlling should consist of a few manageable **KPI**s, such as implementation cost, time, and quality. If major deviations from the targeted **KPI**s occur, the project sponsor and steering committee need to be informed, and corrective action needs to be taken.

If an implementation approach covers several legal entities, different locations, or different countries and is, therefore, set up in implementation waves, experience gathered during the initial wave should be used to assess if the implementation approach needs to be adjusted. Controlling data collected during this initial wave should be the basis for any potential changes in time or approach. Thus, project controlling and the lessons learned at an early point in the overall implementation can help to enhance the approach as such which in return will avoid an increase of frustration for all parties involved in the implementation.

Postimplementation Phase

"The project is not over till it's over." Although a successful go-live marks the end of the implementation phase, the project team – internally as well as on the external BPO partner side – cannot or should not immediately transition responsibility for the outsourced process handling to Operations. Rather, this handover should be managed in a 3- to maximum 6-month time frame after go-live. Activities to be conducted during this period include a close monitoring of the results that the new system solution provides as well as a capturing and potential fixing of any additional system variances should they occur.

Yet, the transitioning of process responsibility to the BPO operations team is the most important thing to be accomplished during this stage. The team has to develop system and client expertise in a comparatively short time span. This means. BPO staff members need to familiarize themselves with all system adjustments that had to be configured upon request of the client. In addition, they need to know the intricacies of all process steps that need to be followed in order to meet customer expectations. This includes a detailed checklist approach to ensure proper timing and sequencing if necessary. Ideally the checklists that are being implemented at this stage are also shared with the client. Approval of these checklists ensures a joint understanding of the required process handling.

In fact, the postimplementation phase can also be seen as the time during which the collaboration model between the remaining internal HR staff and the BPO operations team is established. A stringent and efficient buildup of client expertise is essential to establish confidence in the outsourced process solution as quickly as possible.

Operations Phase

Once the responsibility for process operations had been handed over to the BPO operations team, a regular performance monitoring based on contractually agreed upon **KPI**s begins.

If a well-functioning BPO solution has been installed, the collaboration model is working, and the skill set of the operations team meets client expectations, **KPI** measurements are part of a monthly routine. In this stable environment, all parties involved will most likely also acknowledge that mistakes may occur once in a while. In such cases, a content client will probably also not insist on a zero-tolerance approach. Based on the good cooperation, HR and the BPO provider are rather more likely to find a joint, pragmatic solution to the issue encountered.

This mindset changes dramatically, if mistakes occur more frequently, and especially if the same issues occur again and again, putting a sustainable **quality of service** delivery at risk. If the BPO performance ranks below the measurable expectation level, fines can be used to penalize this performance dent. Ideally, any missed **KPI** followed by a penalty fee should initiate corrective action on the part of the provider. Since quality issues cannot be tolerated over an extended period of time, penalties usually increase with each month the performance ranks below the expected quality level. As economic pressure rises, the BPO management will speed up the process to bring **quality of service** delivery back to a sustainable level.

The gratification some internal players opposed to outsourcing may feel, if the BPO provider is to blame for significant quality issues, will most certainly be short lived – the reason being that at the end of the day, all parties involved will be held responsible for success or failure by the affected employees. Therefore – despite all the understandable frustration on the part of HR – the BPO provider will need the continued support of HR and the management to bring performance back on track.

Operations Controlling

Apart from the regular performance controlling, these efforts should be tracked by Operations controlling – a continuation of project controlling during the implementation phase.

Operations controlling is used to ensure that the strategic outsourcing targets as well as the **business case** targets are met once the process has been fully outsourced. Ongoing operational challenges put cost and capacity reductions as well as a targeted increase in quality and efficiency at serious risk.

In fact, should all efforts to develop the BPO partner to the expected quality level fail to trigger the desired results, the management may ultimately have to reassess its decision for the BPO partner. In this context, vendor management and controlling would have to develop two alternative scenarios: transitioning the outsourced business process to a new provider and reversing the outsourcing process to bring the process back in-house (Al-Ahmed and Al-Oqaili 2013).

Both alternatives would come with considerable risk and cost and without valid guarantee that the strategic targets defined would be achieved.

Do's and Don'ts

Do's

Do address all consequences of an outsourcing initiative in a timely, open, and transparent manner. This will help you to avoid an unnecessary increase of insecurity within the staff affected by the initiative and ensures that the employees who need to drive this initiative do not lose their project commitment.

Do acknowledge that quality expectations regarding the handling of outsourced business processes can only be met if the pricing allows the provider to set up the respective infrastructure (systems and skill sets).

Do ensure that all legal requirements connected to the handling of HR data by a third party are clarified prior to outsourcing the respective HR process to avoid regulatory risks.

Do build up a sustainable in-house governance function for a stringent monitoring of the outsourcing provider by using regular performance measurements of predefined Key Performance Indicators (KPIs).

Do establish a structured change request management to establish a continuous improvement process and simultaneously safeguard the level of process standardization achieved through outsourcing.

Don'ts

Do not only treat outsourcing as a cost-efficiency program but define it as a major change process that needs highest management attention and commitment.

Do not initiate a business process outsourcing project unless a sustainable business case – including cost and quality aspects – has been calculated and accepted by the management.

Do not make the attractive pricing included in a vendor proposal the one decisive aspect for your choice of outsourcing provider, and always keep in mind that you can outsource processes but you cannot outsource the risks that come with a failed outsourcing approach.

Do not rush into an outsourcing implementation phase, but rather take care to document all complexities of the current process in all necessary detail to avoid configuration gaps that lead to mistakes in the process handling by the outsourcing provider.

Do not underestimate the mutual dependency of HR client and outsourcing provider and establish a joint team spirit and sense of responsibility, because it is much easier to outsource a process than to reclaim it should the outsourcing initiative fail.

Final Comments and Outlook

Although there are quite a few stories out there that portray outsourcing approaches in general as risky business, and although there are quite a few examples where outsourcing initiatives indeed failed and that at considerable cost, outsourcing can be very successful if some parameters are kept in mind.

It is very difficult to save an outsourcing approach once serious operational difficulties have been encountered. But outsourcing is never doomed in the operations phase – the journey toward failure begins much earlier: during implementation or even in the preimplementation phase.

A clear management support is needed during the decision-making phase but more importantly throughout implementation and in the operational phase. This support needs to be communicated consistently and continuously internally and toward the vendor. Strategic targets to be achieved with business process outsourcing should go beyond short-term cost reduction and need to be realistic in terms of realization timeline. Expectations regarding a successful business process outsourcing need to be made clear to all potential vendors, and the selected external partner should be capable to meet the targeted improvements. This capability should be verified as much as possible in an extensive selection process. In terms of commitment and collaboration culture the selected external partner should be a good fit with the client. The contract should be comprehensive and cover all areas and stages of cooperation including measurable success criteria. Internal processes should be harmonized as much as possible prior to outsourcing, and the **standardized** outsourced business process should not be exposed to extensive customization. During implementation all requirements have to be captured in detail and accurately, and the highest quality expectations need to be realized and verified during implementation.

If these guidelines are kept in mind and strictly adhered to, potential risks can be resolved in a timely manner, turning dreaded failure into a sustainable success story for both client and external BPO partner.

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Administration and Payroll: Interim Human Resources Management in Germany

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Gabriele Braeker

Contents

Abstract

In the past 20 years, the working world has become increasingly more flexible. Increasing globalization has sped up economic processes and requires that companies make even faster decisions in even less time. Many companies have had to undergo restructuring or reorganization for cost reasons. The whole departments have been closed, complete functions such as payroll accounting have been outsourced, and shared service centers have been set up in Eastern Europe. Structural adjustments and headcount reductions are now part of everyday working life and have to be made by management under great time pressure. However, the number of employees remaining in the company is often no longer adequate. A lack of resources and a lack of know-how have to be quickly compensated for with new solutions.

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Interim management • Project management • HR projects • Interim projects • Self-employed, freelancer

Introduction

In the past 20 years, the working world has become increasingly more flexible. Increasing globalization has sped up economic processes and requires that companies make even faster decisions in even less time. Many companies have had to undergo restructuring or reorganization for cost reasons. The whole departments have been closed, complete functions such as payroll accounting have been outsourced, and shared service centers have been set up in Eastern Europe. Structural adjustments and headcount reductions are now part of everyday working life and have to be made by management under great time pressure. However, the number of employees remaining in the company is often no longer adequate. A lack of resources and a lack of know-how have to be quickly compensated for with new solutions.

In this context, a new market for temporary external experts, the "manager on time," has developed in recent years. The taking on of temporary projects by experienced external managers is defined as interim management.

The construct of interim management first appeared in the Netherlands in the 1970s. In order to react as quickly as possible to current market changes and because of long staff notice periods, the local labor market needed to become more flexible. In Silicon Valley in the USA, for example, only 40 % of all staff have a traditional permanent contract of employment. The interim management model was adopted in the UK in the 1980s. Already 20 % of all the managers in the UK are employed as interim managers. A current comparison with other countries shows that the interim management model is also slowly spreading in Germany. The German labor market is currently undergoing a catching-up and flexibility development process (source: Wikipedia).

Interim management was originally associated primarily with reorganization operations, restructuring, and the implementation of M&A processes. The range of management functions and areas in which interim managers are now employed has increased greatly.

Interim managers are increasingly employed when, for example:

- The expansion of the business has to be driven forward, because the company is growing and the company does not have the necessary qualified staff and they cannot be recruited quickly enough in the market.
- Temporary resources or staff with specialist know-how are not available in the company to manage implementation projects, for example, the implementation of performance reviews, the rollout of an employee attitude survey, or the implementation of SAP.

- An employee has unexpectedly resigned, fallen ill, or applied for parental leave, and a suitable replacement cannot be found quickly or the tasks cannot be taken by colleagues.

In these cases the main reasons for employing an interim manager are the increased need for flexibility placed on the company, vacancies arising at short notice, and an acute shortage of necessary know-how.

Interim managers help companies at short notice in many situations that are not easy to foresee. They are experienced experts and troubleshooters who are in most cases available within 2 weeks and immediately immerse themselves in the operation without any settling-in period. Normally the interim manager quickly takes on specific project tasks and quickly becomes a fully valued member of the management team. It is therefore essential that an interim manager finds it very easy to integrate in the team and has a very hands-on mentality.

Other advantages are:

- The company can compensate very quickly, flexibly, and as required for bottleneck situations without new positions having to be created in the company.
- Interim managers have a more objective and neutral view of the company's processes because they are external employees and are therefore not involved in hierarchies and corporate policies. An interim manager with a temporary contract has to worry less about rubbing the company's management up the wrong way than a permanent member of staff who has set his sights on the next hierarchical level up in the company. An interim manager can therefore address or remedy shortcomings sooner and more easily.
- Interim managers are not in competition with internal employees who have planned a career in the company, but are focused solely on their task or project.
- Interim managers help in the development of the workforce; due to their many assignments and widespread experience, they know best practice methods and have already implemented these many times. They are also often used by the management as consultants and coaches in important decision-making processes.
- Interim managers leave the company as soon as the task or project has been completed and do not incur any further personnel costs.

But what is the difference between a management consultant and an interim manager? The main difference between a traditional management consultant and an interim manager is that the priority of an interim manager is placed on the implementation. Interim managers also assume responsibility for the results of their work.

The expectations placed on interim managers are high. They have to be able to adapt, immerse themselves quickly in new structures, situations, and tasks, and integrate quickly into the hierarchy of the company and be able to coordinate different interest groups within a company.

The interim manager's capital is his wide-ranging experience in a variety of tasks in different companies and different cities. Interim managers possess a breadth and depth of specialist knowledge, are experts in change management processes, and in most cases have excellent communication and integration skills. Interim managers are often hired for difficult situations and have to work permanently under time pressure; therefore the ability to cope with stress, specific project management, and problem solution expertise are further required. As the clients themselves are often personally under very high pressure, a thick skin and an adequate level of tact are also important qualities.

Interim managers are not bound by instructions in their approach to solve problems. Like any other executive, interim managers should without fail be adequately insured against liability risks.

In view of the particular requirements placed on interim managers, the selection processes for the interim manager are accordingly demanding and could include individual assessments and the obtaining of personal references.

Project 1: What Was the Challenge?

A UK publishing house decided to reorganize its business operations worldwide. The company wanted to be able to react in a more targeted and efficient manner to current and future customer needs and as a result be in a better position to gain a greater share of international markets. The business processes, the different roles and functions, the structure of business units, and the composition of departments and teams were reviewed and discussed at top management level in respect of the new strategic model for the organization over a period of several months. The process was cascaded top-down, i.e., the reorganization started with the discussion and approval of structures at top management level. Once this had been completed and approved, the review and discussion started at the next hierarchical level down. A further interim manager was assigned the task of developing new job descriptions, the validity of which was also discussed for several weeks and then ultimately approved.

The individual steps were implemented worldwide based on a firm project plan for each country and for each hierarchical level that defined, for example, the date for the start of negotiations with the works councils and the nature and scope of information. An international law firm clarified the particularly difficult legal issues in the respective countries.

What Was the Real Outcome?

In this case the interim manager in question was employed by the client halfway through the reorganization process for the reorganization of the hierarchical levels three and four. The reorganization of the top management levels had already been completed and implemented. The interim manager had the task of supporting the HR managers in Germany, France, and Benelux, to steer them through the process and to start and coordinate negotiations with the works councils. This meant that he had to familiarize himself very quickly with the processes and the project plan and to communicate with all of the decision makers, project managers, and project members.

As soon as the organization and the job descriptions for levels three and four were approved, the right employees in the company were to be allocated to these roles. The new model for the organization involved four types of change:

1. Roles with only marginal changes, for example, a change in job title or superior
2. Roles with significant changes in job content or local reporting
3. Roles which were eliminated
4. Roles which were newly created in the reorganization following the approval of the future model for the organization

For roles with only marginal changes, the staff meetings only involved informing the member of staff and confirmation. For all other roles, suitable staff had to be found in the workforce. All staff within the company could apply for these jobs which were published via intranet.

This involved a time-consuming selection and application process. An external institute instructed by the company's management was responsible for the content of the interviews to be conducted, the training of HR managers, the project management, and the coordination of the time plan. The individual dates for announcing vacancies and publishing closing dates for applications and the dates for interviews were regulated by a detailed project plan for each country.

The processes in Germany, France, and Benelux were to be mainly steered and controlled from the interim manager's home office, from where he also coordinated the information and the negotiations with the local works councils.

In Germany there were 14 days of face-to-face meetings with personnel managers and the works councils. In France and Benelux, the meetings were mainly restricted to telephone calls. The information had to be organized, compiled, confirmed, and passed on, and outstanding issues had to be clarified. The challenge for the interim manager was to familiarize himself as quickly as possible with all of the previous and current processes, project plans, and training plans and quickly take control. He had to contact and gain the trust of all of the persons involved as quickly as possible, as a lot of confidential information had to be forwarded and decisions had to be made as quickly as possible during the project. Once a week the status quo, the successes, and the problems were reported to the international control committee.

In this project in particular the interim manager's ability to integrate, ability to solve problems, and ability to cope with stress were important variables. For example, on one occasion an online training course was scheduled at short notice for the next morning. In order to participate in the training course, training documents had to be printed out and read; however, these documents were only sent by e-mail from the USA an hour before the training course was due to start. The training documents therefore had to be read while they were still being printed out in order to be able to register for the online training.

The coordination process with Paris was hindered by telephone conferences often being postponed or canceled and as a result having to be rescheduled time and again by the interim manager in order to remain on track with the project. In Germany and also in Benelux, the processes were implemented quickly and even before the deadline due to the very efficient meetings with the local personnel managers.

Project 2: What Was the Challenge?

In another project involving the interim manager, a well-known pharmaceutical company found itself in the following difficult situation. The head of personnel services was going to be dismissed, and the interim manager had to fill this vacancy until a suitable replacement could be found. The background for this dismissal was that the cooperative relationship between the employer and the works council had been seriously damaged by the impulsiveness of this job holder and had largely ground to a halt. As a result the company's management had not been able to implement important strategic processes as the works council had not given its approval.

The challenge for the interim manager was to secure and document the know-how of the head of personnel services who was serving his notice period and still working in the company before he was released from his duties. The cooperative relationship with the works council was to be restored as quickly as possible so that the processes that urgently needed to be implemented could be implemented with the approval of the works council. Furthermore, the new successor should be able to start his new job in a positive and constructive working atmosphere with the works council.

The main task of this assignment was to resume negotiations with the works councils and to draw up and finalize further company agreements. Due to the behavior of the previous jobholder, some negotiations had been put back by the works council, and the company was unable to make any progress on urgent processes. In the previous months, a significant number of company agreements requiring the approval of the works council had accumulated. In some cases the works council had even gone to the "Einigungsstelle" (arbitration committee).

Often the clients themselves are under greater pressure, and this is sometimes passed onto the interim manager without much filtering. For example, the HR director had the responsibility of conducting the performance review process. However, the relevant company agreement for this was being contested by the works councils and due to differences that could not be resolved was brought before the "Einigungsstelle." In this case the HR director nervously and impatiently asked the interim manager several times on his first day for solutions: "What now? What do we do now? What is the solution?"

Interim managers are often expected to provide quick solutions. The task in this project required a lot of tact, discretion, and powers of persuasion. The trust between the client and the interim manager and the trust in the ability of the interim manager have to be established as quickly as possible. A lot of tact and sensitivity was also required in respect of the head of personnel services who was serving his notice period, as the interim manager required the cooperation of the head of personnel services and the transfer of his know-how. In such severance situations, fronts often quickly develop between the employee and employer and communication between both "parties" becomes more difficult. After having been given a notice that his contract was to be terminated, the head of personnel services was to be released from his duties after 2 weeks. This meant that the interim manager had 2 weeks to gain the acceptance of the head of personnel services and to work with him until he left the company.

What Was the Real Outcome?

With regard to the restoring of the relationship with the works council, it was extremely important first of all to listen to the arguments of the works council and to understand the works council's point of view. It very quickly came to light that the works council attached great importance to working logically and precisely in respect of language and facts. Due to the great pressure it was under to quickly push through processes and quickly conclude company agreements, the HR department had often allowed itself to get carried away and describe these processes in part too imprecisely and did not consider various consequences in advance. The employer's representatives had always met the criticism from the works council with an impatient lack of understanding. Here the task was to mediate between both parties, to make the parties understand the views of their counterparts, and to transform these. After a few discussions and clarification meetings, the works council was prepared to resume negotiations. During the course of the interim project, the works council did not involve the "Einigungsstelle" again. A lot of company agreements were finalized and concluded, and the replacement was given a thorough introduction by the interim manager.

Project 3: What Was the Challenge?

In another interim project, the management board of a Scandinavian company decided that the HR director had to manage an international project in the company. An HR shared services center was to be set up in Eastern Europe. The interim manager had the task of deputizing for the HR director for the duration of the project and performing the original tasks of HR director at the site.

Usually the interim manager does not have a lot of time for the introduction. This was the case here as well. Officially he had 1 week for the introduction. However, the HR director was already deeply involved in the management of the international project with various meetings and telephone calls as well as meetings at the site of the future shared service center. As a result, the interim manager had little opportunity to discuss the various tasks, specifics, and likely difficulties.

In addition to acting as the HR director, the interim manager was at the same time also a member of the management board. The tasks in this project were very varied, widespread, and exciting. For example, the workforce had been very unhappy with the food in the canteen for some time. The HR director had disciplinary responsibility for the food service manager; the interim manager therefore had the task of remedying the situation as quickly as possible. A lot of meetings were held with the food service manager, who had now become very demotivated as he had only received negative feedback on a daily basis. As a result training measures were initiated, a temporary job rotation with the food service manager of another site was organized, nutrition and calorie tables were reviewed, and new menus were developed. The satisfaction levels and frequency of visits by canteen users were measured on a weekly basis.

Other "routine" tasks included the management of the annual performance review process, conducting and evaluating the annual staff survey, and implementation of tariff increases, extending health management to the 50+ age group and the coaching of Generation "Y."

What Was the Real Outcome?

A key part of the task in this project, though, involved working and negotiating with the works councils and the conclusion of company agreements. Here the challenge lays in the particular stubbornness of this works council. The works councils met twice a week and challenged processes time and again, and as a result there were repeated delays and difficulties. The task of the interim manager was to speed up the negotiations with the works councils.

The special projects included also the review and evaluation of positions based on role and competence requirements together with an external management consultancy, to work out a team development training for the management staff and to support the regular HR director in the setting up of the HR shared services center in Eastern Europe. Here data has to be compiled, evaluated, and passed on. The current state was discussed and decided in many telephone meetings and on-site meetings in the European cluster.

Project 4: What Was the Challenge?

In another interim project, the interim manager had the task of driving forward a high-tech company with an annual growth rate of over 20 % in a change process as it grew from a start-up into a medium-sized company. The customer demand for the company's products was so high that the company was not able to produce the products quickly enough and was not able to deliver them on time to customers.

Due to the massive growth process and the recent 100 % takeover by the American parent company, the company acquired a new dynamic, one which many of the workforce could not identify with. The HR manager and other members of the management team resigned. This, together with the enormous workload during this time, resulted in uncertainty and unrest among some employees, and as a result further resignations followed. The HR manager had not been able to recruit new staff and find replacements quickly enough. So the interim manager had the task of recruiting and appointing qualified staff as quickly as possible, temporarily filling the vacancy left by the HR manager and looking for a suitable replacement.

What Was the Real Outcome?

An analysis by the interim manager revealed that the HR management processes were in some cases very circumstantial and almost bureaucratic. The way in which tasks were approached had little to do with efficiency. Accordingly, the HR manager had allowed for a period of 2 months for the interim manager's introduction. The challenge was to immediately take control and to analyze and rationalize the work process without offending the HR manager. Here it was important to create a win-win situation for the HR manager with a lot of tact and not to give the impression that he was competing with him or that he was a know-all.

The recruitment rate was quickly raised to over 400 %. A qualified replacement was also found for the position, with 2 weeks required for his introduction. Furthermore, a lot of new processes were initiated by the interim manager and implemented quickly.

Many companies, including this start-up company, have benefited from the wide-ranging experience and broad knowledge gained by the interim managers during the course of their interim assignments as well as their professionalism.

What Are the Lessons Learned?

With interim management it is always about integrating into a new company and recognizing structures and objectives straightaway and working with the decision makers, project members, and employees as soon as possible.

The interim manager can have an influence that a permanent employee cannot. As a permanent employee, one usually becomes blind to organizational deficiencies after just a few years and operates within a limited area of activity with recurring tasks.

For both parties, the company and the interim manager, it is always a win-win situation. Both have something to give. Both can learn and benefit from one another. As an interim manager, one is always presented with a fresh task in every project and with new challenges and new team colleagues. The many interim projects have shown time and again that interim assignments are more than just work. Interim projects are in every way experiences that help development and broaden the horizons, experiences that an interim manager would in no way want to pass up on.

Administration and Payroll: The Creation of a Professional Payroll Using Software 60

Steven V. Cates

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Abstract

In global organizations today the question that must be addressed is what technology will aid the HRIS in meeting its legal and business obligations and provide the computing power that will provide a competitive strategic advantage.

This paper examines the need for a payroll system that is cloud based and provides the benefits that such a system needs for today and the future.

Keywords

Payroll • HRIS • Cloud computing • Technology

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Introduction

When you are faced with the question of choosing a Human Resource Information System (*HRIS system*) for your organization, one major factor to consider is whether it should reside on premise or the cloud (also known as Software as a Service or SaaS).

New online technology is having a major impact on payroll creation and delivery. Payroll managers can now fully integrate payroll into the overall business management with speed and flexibility. The most efficient, reliable, and cost-effective answer can be found by analyzing the pros and cons for each solution as it applies to your organization and its information technology (IT) structure.

Payroll Then and Now

Most can remember their first paycheck. It was delivered by a manager who had received it from someone in the accounting department where the payroll function was housed. The check was in a small envelope along with a pay slip stating the hours worked, the rate, taxes paid, and the amount enclosed.

Paychecks date back prior to 1000 AD and are thought to have been first used by merchants in the Eastern Mediterranean. Known as "saak," they were similar to modern-day paychecks in that they were documents with written instruction to the bank to make payment to the payee (Baker 2014).

Today the process of paying employees has become a far more sophisticated, but much less time-consuming, process for business owners. We have technology to thank for it. Those ancient merchants looked to the clouds for signs of direction in their business dealings; today's accounting, human resource, and financial managers are looking to a very different "cloud" for the delivery of a smarter, effective. more responsive, and less expensive payroll solution (Anonymous 2014).

Making a Case for Cloud-Based Payroll Systems

Most of all the payroll service providers have now leaped upon the cloud-based bandwagon (Fister 2014). Despite this availability of accounting technology there are still a surprising number of businesses using manual records and spreadsheets to run their payroll (Anonymous 2014). This becomes complicated when you consider organizations in the USA are bound by law (Sorbanes Oxley Act 2002) to store this information for up to 7 years. Payroll data is highly confidential and yet in many cases this information is held insecurely in filing cabinets or on a desktop computer.

The selection of a trusted cloud payroll provider to move this data out of the office and off a dedicated computer into a secure data center is critical. Globally the payroll marketplace is extremely competitive. Businesses have a wide variety of service providers to choose from and a good deal of examination needs to be undertaken in order to select the service that is the right for each firm (Anonymous 2011).

Considerations When Selecting an Automated System

Payroll legislation is also vastly complex and a company may need to completely rebrand its solution range from software such as QuickBooks to other more reliable and compatible software such as Reckon Accounts (McCure 2014). Payroll systems need to be highly compatible and flexible to be of value to business. A payroll system solution is only effective if it can cover the core functionality required for the business (Thite and Sandhu 2014). Many of the newer more "lite" offerings may not do this to the level desired. It pays to do your research on offerings, to ensure the solution you are considering has all the features you need.

Today one sees a change in the way businesses approach payroll systems. Traditionally businesses have approached payroll and payroll systems as an issue of accounting practices and IRS compliance. As legislation around payroll, holidays, and other tax obligations have become increasingly complex, businesses are looking for ways to not only meet their obligations more effectively but also simplify payroll management (Anonymous 2014).

Technology has done a great job of taking the often challenging and ever-changing rules and making them easier for businesses to manage. There is a trend among businesses wanting to make payroll a fully integrated aspect of their business management (Baker 2014). This reflects how important it is for businesses to understand the linkage between their staff costs and their operation. The organization has a critical need to have staff costs to the last cent to assign staff costs to jobs. Therefore a system that ensures your accounting and your payroll work closely together is vital (McCure 2014).

Benefits and Challenges of an Automated System

The use of payroll as an effective business management tool means a system that can give the information needed. For that an organization must go with a payroll provider that has the experience and constant commitment to development to translate the rules for the company and a system that makes it simple to process and understand (Anonymous 2011).

One of the major payroll challenges for businesses is "getting it right" – this is especially so in terms of record-keeping for leave entitlements such as Federal Family and Medical Leave Act (FMLA) in the USA (usgov.org 2015). This is where the most liability can be if calculations are not absolutely correct. It can be a complex legal area and it's vital that organizations understand how this works. Those responsible for payroll should seek guidance to insure accruals are right the first time and save the duplication of work of having to fix a leave issue when an employee decides to challenge the organization's calculations.

Future Considerations for an Automated System

Looking to 2015 and beyond, what, if any, US legislative initiatives coming up could impact on payroll management?

The present administration has made it known they wish to (usgov.org 2015)

- Implement all facets of the Affordable Care Act otherwise known as Obama Care
- Improve wage rates for hourly workers by significantly increasing the minimum wage under the Fair Labor Standards Act (FLSA)
- Change overtime regulations that will include revert formerly white-collar employees from exempt to nonexempt status who make less than $52,400 annually

This will require one of the most important trends in payroll as the systems must interface with government systems. As part of the government's focus on providing better public services for businesses, there is an increasing emphasis on a more seamless engagement with payroll and payroll providers. To reduce paperwork, the government is looking to provide a uniformed, digital entry into their system. The expectation is that businesses will be using payroll systems or working with a payroll provider. The problem with this thought process is this will not be of real benefit to businesses. It will not reduce the range of compliance requirements but dramatically increase them making it much more difficult and complex and more inefficient in engaging with government around payroll. What this ultimately means is that all businesses will need to use some form of payroll system (McCure 2014).

The New Automated Payroll Norm

Cloud-based payroll systems have become the "new normal" for businesses and here, functionality toward a customer's needs is the key (Fister 2014). New cloud-based payroll systems can transparently migrate every scrap of important payroll information you need, especially leave entitlements, accrual, and balances, all from a range of supplier systems. The real advantages of cloud-based systems offer businesses; not least of which is accessibility via the Internet, who run payrolls outside of working hours and are away from the office. There are also the advantages of always having the latest compliant system, updates deployed quickly, and the opportunity to access an integrated system that provides both accounting and payroll services from a single provider. Look for cloud-based systems designed with simplicity and ease of use as a core focus (Fister 2014).

In particular, you want to understand whether you'll be paying for add-on solutions for your accounting and your payroll and if you have to pay more as you grow to have additional staff members. Cloud adopters need to ensure the software is deploy proven, reliable, and globally developed (Thite and Sandhu 2014). Why? Payroll legislation is country specific, and highly complex, so deploying software built for another market is not going to work.

So what are the absolute musts in a payroll system? There are three key considerations one should look for:

- Does it provide everything needed from a compliance perspective?
- Is it easy to use and understand? Does it provide the information needed without unnecessary complexity?
- Does it provide the level of integration and support expected from your provider?

Conclusion

A payroll system must be cloud based, future proof, and reliable. An organization needs a payroll system that provides a solution where it pays one's employees correctly every time. It should be a cost-effective solution with proven ROI and ideally include must-have features such as mobility, automated award interpretation, self-service, and business intelligence (Fister 2014).

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Part VII

Human Resources Governance and Compliance

Human Resources Governance and Compliance: Introduction and Overview

61

Julia Borggraefe

Contents

Abstract

Already before the crisis of the financial and economic markets, topics such as "good corporate governance," "corporate social responsibility," or "compliance" have been on their way up. The crisis accelerated the necessity for companies to deal with these issues. More than ever, companies are measured by the legal and political system, the media, and many other social stakeholders as responsible subjects that are expected not only to act compliant but also to act ethically legitimated.

In this context senior business leaders start to realize: people are the most important asset of each organization. Performance or underperformance, motivation or demotivation, orientation or disorientation can decide on the success or failure of an enterprise. Furthermore, personnel costs are in many industries often the single largest cost effort for an employer.

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For all reasons mentioned above, organizations should have an effective control instrument in place to steer on the one hand their most precious resource (the people) and on the other hand to control major expenses.

To have a working HR governance structure in place helps to align human resources management with an organization's overall strategy and its vision, mission, and values; to treat employees fairly, consistently, and in compliance with the law; to identify best practices; and finally also to control expenses and risks.

Having effective HR governance structure in place means also to create orientation by providing rules, regulations, norms, and standard operating procedures related to people management. In the consequence a proper HR governance structure can even impact the way an organization does business and makes decisions at the highest levels – right up to and including its top management.

Keywords
HR governance • HR compliance • HR policies • Integrity • Noncompliant behavior • Nonethical behavior • UN Global Compact

What Is "HR Governance and Compliance"?

When talking about HR governance and compliance, it makes sense first to clarify the principal terms used in this section.

"Governance" in general refers to "all processes of governing, whether undertaken by a government, market or network, whether over a family, tribe, formal or informal organization or territory and whether through laws, norms, power or language" (Bevir 2013, Governance: A very short introduction). From an organizational perspective, governance occurs when companies define rules and/or standards which have a binding effect on the behavior and the opportunities (including freedom of action) for the majority of the members of the respective organization. This framework of rules and practices is often also defined as "corporate governance." With corporate governance, a board of directors ensures accountability, fairness, and transparency in a company's relationship with all of its stakeholders (financiers, customers, management, employees, government, and the community).

The corporate governance framework consists of (1) explicit and implicit contracts between the company and the stakeholders for distribution of responsibilities, rights, and rewards; (2) procedures for reconciling the sometimes conflicting interests of stakeholders in accordance with their duties, privileges, and roles; and (3) procedures for proper supervision, control, and information flows to serve as a system of checks and balances (www.businessdictionary.com/definition/corporate-governance).

When doing business, companies must abide by applicable laws and rules. Furthermore, companies are more and more expected to be "fair" and "transparent" from the perspective of civil society.

Therefore, on the one hand companies develop monitoring systems to make sure they act compliantly; on the other hand they define their own catalogues of rules and guidelines to ensure internal consistency, fairness and transparency, and external reliability, professionalism, and quality. If a company has branches in different countries and/or different divisions, a major question is how far these internal rules and guidelines are binding for all countries/divisions or if those units are allowed to create their own. One of the big challenges therefore is to find a level that is globally applicable.

While HR governance describes the active part of steering major sensitive areas of HR (e.g., compensation and benefits for executives, expatriates, and sometimes middle management, performance management, major rules of conduct, labor relations), HR compliance means processes to ensure that both the external and the internal rules are being followed ("complied with").

"Compliance" means first to follow all relevant laws, regulations, and policies. In an organizational context, compliance also includes the question how to ensure compliant behavior within the organization and how to make arrangements for a compliant behavior of the organizations' members (see Hauschka 2010, Introduction to Corporate Compliance, p. 3).

Some authors extend the compliance definition by an ethical perspective: basis for all compliance regulations should be ethical and responsible action (e.g., Behringer 2010, p. 39). To combine compliance with ethical aspects, many companies define code of conducts, code of ethics, or other guiding principles that are then broken down into more detailed/more specific policies and processes.

Other organizations, as for example, the consulting and accountancy company PricewaterhouseCoopers (PwC), define a compliance concept that includes the stakeholder perspective and thus also environmental and social standards as well as human rights: "Compliance can be understood as an organizational model, process and system that guarantees the alignment with the effective law, internal standards and policies as well as the alignment with the expectations of the stakeholders, so the company is enabled to protect and improve its own business model, its reputation and financial interest" (see www.pwc.com).

Compliance often has an external motivation, e.g., anti-bribery laws or comparable approaches. Lynn Sharp Paine carried this idea forward to a compliance understanding that is no more motivated externally but focuses on value-based self-determination of the organization and therefore a change process that is driven by internal motivation and no more by external pressure and necessity. In this understanding, the organization has a well-running compass that allows an own positioning, a self-policing with respect to compliance issues that no longer is dependent on external influences, but allows reason and space for self-reflection for the members of the organization (Paine 1994, p. 113): What are the principles for our cooperation, and under which premises do we want to cooperate? How do we want to conduct business? In which areas do we have a particular responsibility (e.g., environment protection, labor conditions, and security), and how do we meet this responsibility? Decisive for this approach is that it is defined by the members of the organization themselves, not by external players:

> While compliance is rooted in avoiding legal sanctions, organizational integrity is based on the concept of self-governance in accordance with a set of guiding principles. From the perspective of integrity, the task of ethics management is to define and give life to an organization's guiding values, to create an environment that supports ethically sound behavior, and to instill a sense of shared accountability among employees. The need to obey the law is viewed as a positive aspect of organizational life, rather than an unwelcome constraint imposed by external authorities. (Paine 1994, p. 111)

Paine sees ethics and financial interests of an organization not as mutually exclusive but as a consequent way to success because requirements of companies, customers, suppliers, employees, and public stakeholders can be considered (Paine 1994, p. 117).

In conclusion, compliance is thought close to the idea of integrity management; related to a change process (e.g., when compliance is introduced to an organization), this approach might strongly support the sustainable implementation of compliance and support governance (for further remarks to this aspect, see section "People Perspective").

Principally, four directions of compliance management can be outlined:

1. Creation of compliant behavior to the largest possible extent
2. Protection or rather increase of the companies' reputation and integrity
3. Generate new chances for growth through differentiation and innovation
4. Establishment and funding of corporate culture based on integrity through a programmatic and behavior-oriented management approach

Due to the strong influence of organizational rules of the game, people obviously need guidelines to adjust their behavior:

> This means that they're highly susceptible to external influences on their judgement about what is ethically right and their subsequent action. (. . .) These individuals aren't autonomous decision makers who strictly follow an internal moral compass. They look up and around to see what their superiors and their peers are doing and saying, and they use these cues as a guide to action. Therefore most people are likely to do what is expected of them as a result of the reward system, role expectations, authority figure demands, and group norms (Trevino and Nelson 2011, p. 82).

This quote emphasizes the people factor within the realization of a governance and compliance strategy and therefore will be further explained in the section "People Perspective."

What do the previous elaborations mean for an effective **HR compliance management**? How does HR contribute to implement a compliance and integrity management system? What should be the consequences and the guidance for the HR department of an organization?

HR should focus on HR processes, systems, and measures that affect a companies' compliance management system. Processes with a heavy impact on compliance effectiveness are in particular:

- Recruiting of employees
- Performance management systems
- Elucidation of disciplinary cases and sanctions
- Training

How to define these processes in detail with respect to compliance will be detailed under "operational perspective" (a very good and detailed overview – including the theoretical background – in German language gives Bettina Ludwig in her Master Thesis (2011) "Compliance & Integrity – neue Herausforderungen, Handlungsfelder und – empfehlungen für das Human Resources Management" ("Compliance & Integrity – new challenges, fields of action and recommendations for HRM").

Weaver and Trevino (2001) have noted that a clear and firm role of HR within a compliance and integrity program is important in order to achieve that such a program is perceived as fair and suitable by the employees:

> HR staff is more likely to be viewed as representing employees' concerns and treating them fairly. In addition, HR functions can play a key role in developing ethics programs with a proper balance of values and compliance orientations, and in integrating ethics programs into important organizational activities, such as the design of performance appraisal systems, management training, and disciplinary processes. (Weaver and Trevino 2001, p. 130)

People Perspective

Governance and compliance always mean that binding rules are defined and someone will check if the rules are complied with. Therefore, on a first glimpse, governance and compliance might be perceived as a restriction to the individual degree of freedom. And if governance and compliance are misused, the rules and their execution might even be frightening from an employee's perspective.

On the other hand people tend to compare with others. Does the other person earn more than I do? Why does he/she receive a bonus while I do not? Why is he/she allowed to book a first-class flight ticket while I got the order to go via economy? Why did I get a formal warning for an action while another colleague did the same without any comment?

Common rules might create structural fairness among people and transparency about the expectation to their behavior within an organization. Governance and compliance rules do only differentiate with respect to roles, scope of responsibility, etc. – in general they are applicable for everybody within their scope of application.

To create impact in a sense of "felt fairness" from a people perspective, an organization has to ensure that people comply with rules and regulations and that in case of violation, actions are taken. This might be consequences on a disciplinary level (e.g., warnings to the point of dismissals in case of profound violations) but also rewards on a positive side in case people have been particularly compliant or have managed difficult situations with a great result from a compliance perspective. In that consequence, some companies have already integrated “compliant behavior” in their performance management systems – what strongly is to be recommended to create a positive “reward” attitude toward the topic.

People have to notice that compliant behavior makes a difference for their specific business life. Therefore, it is absolutely necessary to create awareness among the leaders of an organization. These are the ones who give direction to their teams be it in business or compliance issues. They have to strengthen their people to be able to ponder business interests against existing rules, and to reflect on the consequences of their actions, not only from an individual but also from an organizational perspective (see also section “Risk Perspective”). So in operational life executives have an important governance role with respect to the application of rules (see also section “Operational Perspective”).

Furthermore, rules can – from a people perspective – be facilitation, a guideline for behavior, and decision making. Usually, people have a good sense for “right or wrong.” In a business context – at lease if people work in the economic sector – some actions might “feel right” from an economic perspective because they promise great profit. For example, if goods that can be sold on a market with a high profit margin but will only go through local customs by paying corrupt money, from a pure economic perspective the action will be obvious: to realize the profit margin, you might pay the bribe and afterwards make a great deal for the operational benefit of the business.

If your company now disposes an effective and applicable compliance system, the decision if he or she realizes this business opportunity will be easy to handle for every employee: people then know that bribery in every context is not allowed and might in case of violation cause not only harm to themselves (disciplinary consequences) but might also severely harm their company due to possible sanctions through public institutions (see section “Risk Perspective”).

To make governance and compliance effective and to create benefits from a people perspective, it is necessary to create a maximum of transparency. This means on the one hand to organize efficient and accepted governance structures:

- Rules have to be understood not only by lawyers but by the employee doing the simplest job in the organization. Often, policies are drafted by the legal department of a company with the effect that only lawyers are really able to understand what they produced. Of course, organizations thereby also try to reduce their liability through creating waterproof papers – still this will not support compliant behavior if people do not understand what they are expected to do. An organization should therefore not only focus on the legal perspective while creating rules but also ensure comprehensibleness, for example, by involving the communications department.
- The responsible unit must not be a toothless tiger but be empowered to care for the implementation of their rules. This means without effective governance, there is no compliant organizational behavior. If HR therefore is responsible for creating HR compliance standards, HR also must be empowered to instruct

executives and to conduct consequences in case the rules have not been complied with. Rules have to be binding and people – be it employees or executives – must be aware of this.

- The responsible unit should be received not only as threatening but also as supportive. Again, communication is key: there should be an offer to the employees to get support in any question they might have with respect to compliance with rules. "Stupid questions" do not exist. The company should provide detailed and comprehensible Q & A's within the intranet. Contact persons should be available and competent.

One important aspect the management should be aware when introducing HR governance and compliance to an organization is that this will be received as a profound change process. To make this process successful and sustainable, some essential rules of change management should be considered:

- People have to get a sense of urgency. Introducing efficient governance and compliance might ask many people to change behavior and well-established and – from a subjective perspective – successful patterns. To be motivated to create this change in own behavior in a sense that people do not feel forced to change, but by understanding, they need knowledge why change is so necessary. And if the management is not able to explain urgency (e.g., high liability issues of the organization), people will not feel motivated to change. They might change their behavior and routines because they might feel afraid of disciplinary measures, not because of conviction. To create a sustainable change, you need conviction and understanding. Otherwise, the change will crumble when pressure decreases.
- In addition, it will be helpful to create a link to the companies' strategy and values. If you manage to create a credible positive connotation with respect to compliance, it will be half the game.

  Creating a positive connotation can happen by using terms such as "fairness" or to use the chance and join the UN Global Compact. From a people perspective, the UN Global Compact is a milestone for balancing economic and people interest. The UN Global Compact works toward the vision of a sustainable and inclusive global economy which delivers lasting benefits to people, communities, and markets (see www.unglobalcompact.org) in the areas of human rights, labor, environment, and anti-corruption. By doing so, business, as a primary driver of globalization, can help ensure that markets, commerce, technology, and finance advance in ways that benefit economies and societies everywhere.

  Nearly all HR compliance policies can be subsumed under the headlines of the UN Global Compact. Also, if an organization realizes compliance requests due to litigation risks, the combination with such a framework might strongly support the acceptance by the employees.
- Introduction of governance and compliance needs a leading taskforce that is driving the change process. To gain as much as possible credibility for the change, the "tone has to come from the top." This means that employees have to perceive

the "new direction" as a decision from the top management. In consequence, on the one hand communication has to be carried out by the top management itself (also to underline the urgency of the change). On the other hand top management has to lead by example; otherwise, the intention of change will lack authenticity – and finally fail. So if a change in behavior due to new compliance regulations/internal policies is expected from the employees, they must be able to observe that top management follows its own rules, also if this might hurt because, e.g., privileges are disestablish to minimize the risk of bribery.

Further on, the top management needs support by managers that drive the change and feel responsible to implement the change. Recommended would be, e.g., a project team that is strongly supported by the top management and deeply committed to the task they are supposed to realize.

- As already mentioned, a good communication is key and ensures understanding and commitment to a new direction (see above). Good communication also means that people are enabled to apply new rules or regulations. Therefore, the management of an organization should plan a sufficient budget not only for communication and internal marketing measures but also for training conducted by competent and change-committed trainers who ensure that employees get the right tools. This will also decrease the insecurity among them and the change will not so much be received as a threat. Management should also listen to the concerns of employees and prepare answers.
- When implementing compliance rules the first time, great condition is needed due to the size of change. Therefore, it is advisable to generate short-term wins. In the context of a project, this might be milestones. The realization of a milestone makes change visible and unambiguous and thereby also strengthens the ones assigned with the change process. The successful implementation of a milestone should therefore also be visible for all other members of the organization (see section "Importance of Communication").
- Finally – after concluding the change process – it should be guaranteed that the efforts of the project will be continued in an efficient and effective line organization. In the context of HR, this means to clarify roles and responsibilities of HR with respect to governance and compliance (see above).

Economic Perspective

From an economic perspective, three points can contribute to the "business case" for HR governance and compliance:

1. Noncompliant behavior (in a sense that legal rules are violated) can cost a lot of money. In countries like the USA or UK (see UK Bribery Act – "Risk Perspective"), penalty payments for noncompliant actions can even threaten the existence of a company.
2. Noncompliant behavior can heavily impact the reputation of a company (see section "Risk Perspective").

3. If people know their "action guideline" by having an effective compliance system, the organization might considerably profit by faster decision taking, efficient actions, and smoother processes because people have orientation. Subsequently, transaction costs are much lower.

Risk Perspective

Noncompliant behavior of employees – and subsequently of companies – constitutes a high risk for companies (and also their management) into two major directions: on the one side, noncompliant behavior can create life-threatening situations for companies due to litigation risks they might face. The UK Bribery Act, for example, provides high and severe penalties in case of noncompliant behavior: if an individual is found guilty of a bribery offense, tried as a summary offense, they might be imprisoned for up to 12 months and fined up to £ 5.000. Someone found guilty on indictment, however, faces up to 10 years' imprisonment and unlimited fine. The crime of a commercial organization failing to prevent bribery is punishable by an unlimited fine. In addition, a convicted individual or organization may be subject to a confiscation order (Proceeds of Crime Act 2002), while a company director who is convicted may be disqualified under the Company Directors Disqualification Act (1986), facing up to 10 years of employment ban (en.m.wikipedia.org/wiki/Bribery_Act_2010#Prosecution_and_penalties).

Considering that the UK Bribery Act applies not only to the UK but also to individuals or companies linked to the UK, regardless where the crime occurred, the consequences seem to be high risks as well for individuals as for companies.

On the other hand noncompliant behavior can cause significant reputation damage to a company. The heavy decline due to attack on customer data in 2013 in sales that Target, the third biggest US retail company, had to suffer apparently followed noncompliant management in different fields of action (e.g., data protection rules, risk management guidelines, and others). In the consequence Target lost 46 % profit in 2013. As a consequence the CEO and other leading managers had to leave the company, causing not only a heavy financial damage, but also severe reputation damage. Another example for reputation risks is clothing companies that produce under nonethical conditions. Especially the fires in plants in Bangladesh within the last years that killed hundreds of employees raised the awareness among consumers and therefore might also in the future increase the reputation risks (that in the end are also financial risks) for companies related to nonethical (and therefore also noncompliant) behavior.

Operational Perspective

As already mentioned in the section "What Is "HR Governance and Compliance"?," HR governance and compliance will operationally be explained using the examples of important operational HR processes:

1. Recruiting of employees
2. Performance management systems
3. Elucidation of disciplinary cases and sanctions
4. Training

Whenever defining processes that are also value-driven (what usually is the case when defining "people standards"), it is more than helpful to have a common definition of company values. This could be a mission, vision, value statements, code of conduct, or comparable frameworks that allow the people practicing governance always to follow the golden thread.

Recruiting of Employees

The selection of people is essential because compliance is not only about rules and policies but also about attitude. Warren Buffet said: "Somebody once said that in looking to hire people, look for three qualities: Integrity, intelligence and energy. If they don't have the first, the other two will kill you. You think about it; it's true. If you hire somebody without the first, you really want them to be dumb and lazy" (www.strategicbusinessteam.com/small-business-startups-advice/seven-business-lessons-from-warren-buffet/).

Criminological research has proved that penalties have only few to zero influence on potential criminals, but the individual value system prevails about the planning and doing of a criminal action. The link to recruiting/selection processes is obvious: human resources management (HRM) should ensure that integrity is one of the key criteria when it comes to the recruiting of external staff and the development of internal employees.

HRM has different options on how to check the integrity of internal or external candidates: first, of course, the biography of a candidate should be checked. Within the interview the employer should ask specific questions with respect to the integrity of the candidate; concrete examples should be evaluated from a post-perspective (candidates could, e.g., be asked about an experienced difficult situation from an ethical perspective and should explain their behavior and angles). Also, references from former employers can be obtained. For very sensitive positions (e.g., head of legal department, head of HR, chief compliance officer, and similar positions), the organization might even ask an external provider to compile a detailed "background check." Quite often, employers also use online questionnaires in favor of a preselecting process offered by various consulting companies. The quality of these online tools should be checked properly before application – candidates might be intimidated or irritated if the questions are not professional or appropriate.

Performance Management Systems

A company usually pushes its objectives by defining financial or other key performance indicator at the beginning of each financial year. Those objectives are then broken down in the hierarchy pyramid, defining (especially for management positions) targets for each position that can contribute to the companies' success. Managers consequently receive a defined share of their salary as performance-related variable compensation. The extent of payout is directly related to the achievement of their targets.

Depending on the definition of companies as win-oriented organizations, for a long time it was common only to measure financial achievements, such as the personal sales volume, revenues, and profit ("It's a good idea to look at what you're encouraging employees to do. A sales goal of $147 an hour led auto mechanics to 'repair' things that weren't broken" (Bazerman and Tenbrunsel 2011, https://hbr.org/2011/04/ethical-breakdowns)). With the (re)entry of integrity as a management value for the sake of compliant behavior, also performance management systems have to be adapted: not only financial numbers but also behavior aligned to the company's values should be measured. This increases the motivation to know and also to adhere with the rules of a company. Furthermore, it has a signal effect into the organization: it is not only about numbers but also about (integer and compliant) behavior.

HR should ensure that a company's target/performance management is accordingly established and implemented by defining and controlling of appropriate standards.

Elucidation of Disciplinary Cases and Sanctions

Also, the handling of noncompliant behavior within the organization has an important signal effect and influences a (non)compliant company culture. Compliance systems can only be effective if noncompliant behavior is observed and connected with consequences for the doer.

With respect to dealing with disciplinary cases, usually, HR executes the governance role. This also means that HR has to ensure that the process follows clarification, evaluation, decision, and execution and that the handling of the disciplinary action has to be consequent, fair, and transparent (Ludwig 2011, p. 81). Very important: With the requirement of fairness goes that the affected person receives the chance to explain his/her behavior. Furthermore, the suspicion of noncompliant behavior should be treated confidential so the person is not be harmed in case of misunderstanding of false accusation.

Training

Training is essential for the implementation of sustainable governance and compliance management. People have to know the rules to be able to apply the rules. Furthermore, they usually need support to exercise the right discretion in case they might be in a compliance-sensitive situation. The understanding of rules and their application should therefore be item of a well-prepared and professionally conducted training. If a company does not have an in-house training facilitator, it should invest the budget for a professional training provider that can offer a customized training program, targeting the specific issues of the respective organization.

All employees should receive a basic training with respect to the company's basic rules that belong to every member of the organization. In addition employees should receive specific trainings taking into consideration selected rules for different groups of functions. Sales functions in countries where bribery is usual part of the business need more precise compliance guidance than in countries where legal rules are strict and also tracked, because people then comply with law and policies.

So training also has a protection function for employees – and of course also for the company (see section "Risk Perspective"). The importance of training in the context of governance and training should therefore not be underestimated.

Final Comments and Outlook

Summarizing the abovementioned remarks, the importance of a functioning and sustainable HR governance and compliance structure can only be emphasized again. A sustainable HR governance and compliance structure can not only push the company culture in a positive direction but also minimize risks from an economic and entrepreneurial perspective. Precondition is that the management is committed to this culture and empowers the human resources responsible within the organization to animate and execute this role in any consequence.

Due to the developing consumer mindset that demands more and more products manufactured in a fair and sustainable way, it can be assumed that companies that are strongly managed in due consideration of ethical values, integrating strong HR governance and compliance structures, might even gain a competitive advantage over companies that do not track their HR compliance policies and therefore their culture of integrity.

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Human Resources Governance and Compliance: Essentials of Business Ethics

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Abstract

Business ethics has come a long way from a good to have initiative, captured in glossy reports with photographs of smiling children and pristine nature, to being an integral part of the business strategy of any global corporation. The proliferation and acceptance of global standards of good corporate governance set similar standards of behavior of a global corporation be it in Jakarta or Bogota. The leaps in communication technology ensure that the information on activities of a corporation in one part of the globe will percolate to other parts in a matter of hours and not years, and corporations cannot behave in disregard of these standards without compromising its credibility with the customer base across the world. This rise in expectations of corporate behavior applies to potential and present employees as well. Ethical business practices thus play an increasing role in both attracting high-potential employees who look for more than just a fat pay check and keeping the motivation of current employees high by identifying themselves with the employer's demonstrated values. This chapter analyzes the emergence of business ethics into the management discourse and how it impacts human resource management, the opportunities presented by it in attracting and retaining high potentials, and the pitfalls to watch out for in integrating business ethics into the corporate strategy.

Keywords

Business ethics • Compliance and integrity management • Values management • Employee engagement

Introduction

In 1889, Andrew Carnegie, the steel baron who owned the biggest vertically integrated iron and steel operations in the United States, wrote an article titled "The Gospel of Wealth" in the *North American Review* where he pointed out the benefits of the industrialized society in increased standard of living of both the rich and the poor. He also acknowledged the rise in inequality and the antagonism between the socioeconomic classes, which he proposed to counter with individual and corporate philanthropy.

> This, then, is held to be the duty of the man of Wealth: First, to set an example of modest, unostentatious living, shunning display or extravagance; to provide moderately for the

> legitimate wants of those dependent upon him; and after doing so to consider all surplus revenues which come to him simply as trust funds, which he is called upon to administer, and strictly bound as a matter of duty to administer in the manner which, in his judgment, is best calculated to produce the most beneficial result for the community-the man of wealth thus becoming the sole agent and trustee for his poorer brethren, bringing to their service his superior wisdom, experience, and ability to administer-doing for them better than they would or could do for themselves. (Carnegie 1889)

His vision was not widely shared by the majority of the wealthy entrepreneurs whose enormous wealth accumulated through shady deals earned them the title "robber barons" (Bridges 1958), and the dream of equal society did not materialize. The accumulation of profits by the robber barons through largely unregulated capitalism was increasingly seen critical toward the end of the nineteenth century. The resulting slew of legislations, like the Sherman Antitrust Act in 1890, were targeted at bringing down the monopolistic influence of big business and to make them as equal as possible to other players in the market. The exigencies of the two world wars changed the discourse on corporate responsibility, and the economic boom of the postwar years brought in broad-based economic prosperity in the industrialized countries. Almost 80 years after "The Gospel of Wealth" was published, the renowned economist Milton Friedman wrote the famous article in *The New York Times* in 1970 where he wrote that the business of business is business and its social responsibility is to make profits without breaking the legal guidelines of the market it is operating. Further, he said that decisions regarding social welfare should be made by elected representatives over whom the public can have control and not by managers in corporations who should use their private convictions for their private social activities and not for corporate social responsibility. The resulting discourse influenced the public discourse and even public policy in the United States and the United Kingdom (Hood 1998).

After three decades, multiple corporate scandals, and quite a bit of environmental and social damage caused by corporations, the public opinion has swung in the other direction with corporations expected to have not only a sustainability strategy but also maintain its standards of behavior across all countries of the world (Porter and Kramer 2011).

The discourse has become a global one where organizations like the United Nations and the International Standards Organization (ISO) have moved into this space to concretize as to what constitutes responsible corporate behavior. The UN Global Compact was the biggest step in bringing in corporations across the planet to voluntarily commit and to abide by the ten principles on issues of human rights, labor practices, environmental protection, and anti-corruption. The release of ISO 26000, developed by stakeholders from business, NGOs, governments, consumer groups, and labor organizations from around the world, set the framework of standards which can be used by any corporation which is keen to play a positive role in the society. Unlike other standards, the ISO 26000 is not for audit and certification purposes, quite rightly in the spirit of following ethical principles in everyday businesses. While the UN Global Compact and the ISO 26000 help an

Table 1 New areas of management in a globalized world

Fields of application	Management tasks	Standards
Integrity and compliance management	Fraud Corruption Transparency Integrity Compliance	FCPA US Sentencing Guidelines of 2004 UK Bribery Act OECD Guidelines – Corruption DCGK World Bank Group Integrity Compliance Guidelines
Sustainability management	Ecology (energy, water, waste) Urbanization Economy (operating costs)	Rain Forest Alliance Responsible Care
CSR management	Social standards Environment Human rights	UN Global Compact ISO 26.000 SR SA 8000, GRI EU Communication OECD Guidelines UN Guiding Principles for Human Rights

organization in its everyday business practices, there was a void in terms of a value-based management, which is acceptable across the different religions and cultures of the world. The Manifesto Global Economic Ethic, written from an eclectic mix of theological and economical perspectives, analyzes the values from a humanist point of view, the fundament of which is applicable across cultures and religions (Küng et al. 2010). This can be a useful tool for global managers who have to move from intercultural management where one accepts and focuses on the difference in cultures to transcultural management where one looks at what is common across cultures and works by looking at the common denominators across geographies, communities, and national boundaries.

On the compliance side, governments have been quite active as well by capturing the compliance aspect of responsible behavior in multiple laws, which regulate corporate behavior like the Sarbanes–Oxley Act in 2002 which made it the personal responsibility of corporate top management for accurately filing its financial statements. The scope of activity for which a corporation can be made consequent for has been made broader than the national boundaries. For example, the Foreign Corrupt Practices Act (FCPA) of the United States or the UK Bribery Act of the United Kingdom makes it punishable for corporations either based or listed on their respective exchanges for bribing foreign officials. A pertinent example is that of Siemens, a German company listed in the New York Stock Exchange, having to cough up 1.6 billion US dollars as fines to the Securities and Exchange Commission for bribing Argentine officials for an identity card project.

All of this can be quite confusing for an international organization to manage its risks and to make sure that the various regulations, both legal and self-regulations, are complied with. A way to categorize them would be as in Table 1 into integrity and compliance management, sustainability management, and corporate social responsibility (CSR) management with its own fields of application and the associated management tasks. Compliance management looks into the legal aspect of operations and sustainability management into the economic, ecological, and social sustainability of the organization and its stakeholders. The European commission defines corporate social responsibility as “the responsibility of enterprises for their impacts on society” and encourages enterprises “should have in place a process to integrate social, environmental, ethical human rights and consumer concerns into their business operations and core strategy in close collaboration with their stakeholders” (European Commission 2011).

The various standards correspond to different fields of application and come under different management focus, but for the leadership of an organization, they cannot be separated and made into departmental silos to be treated as a task. They have to be integrated under a leadership which is convinced not just in the sustainable economic gain from compliance and a value-driven management but also as principles to be followed as a responsible corporation as a member of the society which profits from both social and the environmental resources which it consumes in the process of creating economic value.

The scope of culpability and the magnitude of consequences of corporate behavior have tremendously increased for any globally active corporation. The actions of a few errant managers in one corner of the world can cause significant financial and reputational damage to its divisions in another part. Consequently, business ethics has moved in from the periphery to the core of any global business with coherent and consistent standards of corporate behavior across national boundaries and business divisions.

People Perspective

Ever since the article “The War for Talent” came out in the *McKinsey Quarterly* in 1998 (Chambers et al. 1998), the crucial role played by talent management in building a successful organization has gained credo. Over the last decades, increasing globalization, mobility of people and capital, knowledge-based industries, change in the perception of what a typical career should look like, nonfinancial compensations, etc. make talent management more complex. The focus has shifted toward a new innovative, strategic approach which Beechler and Woodward call creative talent solutions (2009). It is in this light that business ethics becomes a differentiator in multiple ways. We identify four definitive advantages a value-driven corporation has in terms of people perspective:

1. Attracting the value-driven *millennial* workforce
2. Breaking sector and location specific taboos
3. Humanizing the corporation and avoiding work alienation
4. Motivation and identity

Attracting the Value-Driven *Millennial* Workforce

The archetype of an organizational man was characterized by Whyte in his bestseller *The Organization Man* (1956) consisting of a staid and loyal employee in a large corporation in the Anglo-Saxon world. He or she was shorn of all uniqueness, which characterized him or her outside the sphere of work. The rules of the corporation were paramount and all individuality was left behind at home. This also conforms to the civil servant mold as defined by Max Weber (1965). For this generation of workers, the corporate strategy had to be implemented irrespective of how this stood with respect to his or her personal belief system.

With the entry of generation Y (or the millennials – those born between 1980 and 1999) into the workplace, the work values have to change fundamentally to accommodate their personal values.[1]

Organizations increasingly encourage each employee to "just be yourself" and bring their personality to work (Fleming and Andrew 2009). Research shows that the millennials value self-expression, which is seen not only in their activity in social media but also in their choice of careers (Pew Research Center 2009). They expect more from their employers than just a stable source of income. A job which meets just the financial expectations, though for many an acceptable bargain, is increasingly becoming insufficient to attract the best and the brightest who see their careers as an expression of their self. It is in such a quest for finding meaning in their professional lives that corporations which differentiate from others through demonstrated ethical business practices and social engagement can become an employer of choice for this cohort (Battacharya et al. 2008). The millennials are the best educated generation in the American history in terms of university qualifications. Despite that, the financial crisis that has dogged the western economies does not end up giving them a commensurate employment when they have completed their graduations. This experience makes them question the whole stress made on the usual approach to career, being the be all and end all of professional engagement. This results in reprioritizing family and personal aspirations above those which are demanded by the profession and whose work ethic is defined by the desire for flexibility and seeking personal fulfillment in the workplace (Bentley University Millennial Report 2012). The respondents rated "being a good parent" and "having a successful marriage" more than twice as important as "being successful in a high-paying career or profession." In the same study, 84 % of the respondents said that "knowing I am helping to make a positive difference in the world is more important to me than professional recognition." This is a clarion call to corporates to rethink job responsibilities and align them with the vision and mission of the corporation in achieving not just economic but also social and environmental goals when faced with a generation of workers who demand much more than economic security from their jobs to meet their new priorities of what they expect from life.

[1](c.f. empirical studies Deloitte Development 2011; Smith 2010; Brammer et al. 2007)

Highly qualified graduates from the top universities do need a well-paying job to compensate for the paid tuition, preventing those socially oriented from taking up lower paying nonprofit jobs. This small but growing segment could meet their financial needs by taking up a regular job as well as their social and environmental needs by working for a company, which has strong values and behaves responsibly toward the society and the environment. Not only does it make sense to be responsible and socially engaged to attract this new cohort, but it could also be a means of attracting more from this group through referrals. Employees who are engaged in corporate volunteering are more likely to recommend their company to their friends than those who do not (Pew Research Center 2009).

On the critical side, in the post-crisis society where many of the middle-class employees saw top management at various multinational corporations break the rules of fair play and some even get away with it, deep-rooted distrust has taken shape. The economic necessities of having to have a good job to afford to live in a megacity both in the west and the emerging markets afford them little freedom but to continue in the system and make a living. This critical and reflective persona, as Fleming and Jones (2012) calls them, hates the world of work in the current economic system with its apparent chicanery but at the same time is motivated to continue to work within so as to make the most economic benefit out of it. Corporate social responsibility is an initiative to respond to this phenomenon. According to Brammer,

> Employees are happiest when they associate themselves with organizations that behave ethically and have positive reputations; association with these organizations is consistent with their personal values and enhances their self-image. (2006, p. 1)

This is not just restricted to creative or subversive industries with countercultural or countercommercial values but also to mainstream corporations with inward-looking CSR-sounding employee-branding activities to reconcile the socially orientated but dependent on economic well-being needs of the generation Y employees so as to minimize their emotional dissonance. Meyerson (2001) calls them "tempered radicals" who want to climb up the corporate ladder without compromising on their personal values and identities even though they are a minority in their organizations. They want to fit in *and* retain their unique identities in a way rock the boat *and* stay in it.

Breaking Sector and Location Specific Taboos

Many industry branches have stigmas associated with it which are inherent to the industry and not particularly associated with any one particular corporation. Examples would be mining or oil and gas industry due to its inherent nature to cause emissions which have a negative impact on the environment or armament industry which could be either seen as ensuring security in a turbulent world or spreading the scope and intensity of armed conflicts depending on which country or political perspective one takes. Despite the vital role these sectors play in keeping the economy functioning smoothly as well as playing a significant role in making our everyday lives safe and convenient, the individual corporations engaged in these industries can have a stigma associated with it. According to a recent Fortune article, the number of science, technology, engineering, and mathematics (STEM) graduates who consider working for aviation and defense industries has been dropping despite the number of students opting for these courses going up (Fortune 2013). Silicon Valley startups are snapping up a majority of them, not least due to their image makeup which many young graduates do not associate with. If this is the situation for engineers who are by qualification more bound to the sector, those who are more flexible like the marketing, finance, or human resource management professionals would tend to be even pickier in their choice of career. In the recent survey by the National Association of Colleges and Employers, government and human services followed by consulting and social services were chosen as the top sectors that American college graduates would want to work in (NACE 2013). Sectors like energy, manufacturing, etc. are not ranked highly thereby making it an imperative for corporations in these sectors to position themselves as attractive to potential employees. With increasing environmental consciousness and expectations of social responsibility, there is already a sizeable percent of professionals who would avoid some sectors which pollute the environment or have a questionable moral function. This is where a well-planned employer-branding exercise would come into play in sensitizing potential employees of the role of the sector and how the organization takes its responsibilities earnestly.

Job location is another crucial factor when potential employees make career decisions. The trend toward increasing urbanization with cities offering a mix of economic and cultural opportunities makes it increasingly difficult for corporations based in smaller towns to attract young graduates who value free time activities to move in. Companies offering more than just a job with possibilities to be engaged in corporate social responsibility projects would be able to attract and retain talent. To be an attractive employer in sectors without a positive image or in locations which are not cosmopolitan, ethical business practices, like implementing sustainable environmental practices, fair compensation for the affected stakeholders, and offering employee engagement opportunities with the local community, would help organizations stay head and shoulders above their respective sectors and be an attractive employer for this target group.

Humanize the Corporation and Avoid Work Alienation

Corporations are being increasingly global, and their ownerships structures are becoming abstruse, making it harder for the employees to know and identify with the parent corporation. With dilution of regulations controlling cross border flow of capital, the number of mergers and acquisitions has weathered the financial crisis and has gone up in 2014 to almost pre-crisis levels (Reuters 2014). This flurry of corporates changing hands and the accompanying organizational change as well as having to work together with new colleagues can cause a lot of employee demotivation and resistance (Van Dijk and Van Dick 2009). A responsible corporation inspires trust in its employees which is a crucial factor in determining employee commitment (Ferrin and Dirks 2003; Innocenti et al. 2011) which helps develop a sort of esprit de corps which is a crucial factor in the success of any merger or acquisition, identified by McKinsey a long time ago (McKinsey 1929, p. 334).

The bigger the corporation and the farther away from headquarters, the less the ability of employees to identify with and be able to feel connected to the values espoused by it. The feeling of being a small cog in the big corporate machinery which in the cases of big corporations is at times unavoidable and can play out especially during times of mergers or acquisitions.

A telltale sign of this is captured succinctly by Peter Drucker where he asks top managers why they took up volunteering despite the high-pressure nature of their jobs. The answer was

> Because in my job there isn't much challenge, not enough achievement, not enough responsibility; and there is no mission, there is only expediency. (Drucker 1989)

The local identity of a multinational corporation is usually lost in the global and standardized processes, which are usually applied en masse. This can be to a certain extent avoided by nurturing a more humane side through demonstration of its values both internally through organizational policies and procedures as well as externally by supporting social and environmental projects, which are strategically relevant to its field of operation (Battacharya et al. 2008). This cements a personal identification with the employer thereby positively influencing behavior.

Work alienation is usually associated with Karl Marx who conceptualized it as alienation from the product of work, alienation in the process of production, and alienation from society back in the nineteenth century (Marx 1932). This was largely applied to blue-collar workers working on the assembly line doing monotonous tasks before the age of automation. Today, the global corporation depends as much on assembly line workers as on highly specialized knowledge workers who are highly educated and are paid to create, distribute, and optimize knowledge (Yigitcanlar et al. 2007). They are differentiated from regular professionals like managers or doctors through their creation of knowledge through research and not easily substitutable codified and tacit knowledge and unique capabilities. Having the right kind of knowledge worker is the key strategic advantage in this scenario where the size of the machinery and the capital at hand are secondary to the skill and creativity of the workers. To apply the concept of work alienation to today's highly skilled workers in the knowledge economy is something that few researchers have done (Bratton et al. 2007). In the report of a special task force to the secretary of health, education, and welfare in the United States, it is stated that alienation and discontent were a growing problem in corporate America and surprisingly not only at the blue-collar levels (Saunders et al. 1986) but at all levels including senior management. Peter Drucker had mentioned the conflict faced by the knowledge worker as early as 1969

> The hidden conflict between the knowledge workers view of himself as a professional and the social reality in which he is the upgraded well paid successor to the skilled worker of yesterday, underlies the disenchantment of so many highly educated young people with the jobs available to them. (Drucker 1969)

Other researchers have correlated work alienation with socioeconomic background or with education levels (Quintanilla and Wilpert 1991), wherein the higher the class or educational background, the higher the work meaning and the chance of alienation when the job is found to be not fulfilling. The category of knowledge workers is also found to be migratory with frequent job changes, not only because of the high demand for them but also due to their autonomous nature. Not only are they hard to catch and hard to retain, their continued loyalty and commitment is also hard to ensure (Alvesson 2000; Flood et al. 2001). Their creativity and need for freedom resist a command and control culture. The need to have these kind of knowledge workers to thrive in the knowledge economy as well as their increased demands and need for fulfillment makes it all the more relevant to use demonstrated values and commitment to the society and environment to attract the indispensable but difficult to motivate employees.

Motivation and Identity

In his book, *The Way We'll Be*, John Zogby surveyed Americans on job satisfaction, family life, political leanings, and consumer preferences. The results were far away from the much talked about American dream where the people expressed a

> deep-felt need to reconnect with the truth of our lives and to disconnect from the illusion that everyone from advertisers to politicians tries to make us believe are real. (Zogby 2008)

This has been examined in detail by Potter (2011), where he looks at the negative effects of technology, mass consumption culture, and bureaucracy and explains the backlash arising out of it. People are fed up of over-promises and under-delivery constantly made from everyone who want to sell them a product or convince them of an ideology or to make them vote for a particular party or to work for a company. Those who are authentic in this group with honest practices following honest communication would stand to gain the trust and acceptance of the masses. The authentic products and services which manage to do so are becoming increasingly big businesses (Potter 2011). Authenticity is increasingly becoming relevant not only in selling products and services but also in the labor market. In the post-Enron business world, the employee potentially finds herself at odd with the world of work as a result of the waning security of long-term jobs through strong unions and the dominant welfare state being increasingly subordinate to the globally mobile impatient capital. In such a background, there is a contradiction between the personal values that one brings to work and the practical demands that the corporation demands of its employees (Fleming and Jones 2012). The diminishing number of long-term jobs makes it increasingly difficult to build trust in organizations that one works for as informal networks and social bonds that one needs to build trust take time to develop. The sociologist, Mark Granovetter, opines that the modern institutions are characterized by the "strength of weak ties" (Granovetter 1973) where the individual team members are loosely bound through projects and tasks and not through long-term cooperation. In such a fleeting work background, it becomes all the more important that the firm provides a value-based leadership in the absence of a previously existing command and control structure with fixed tenures and pensions. Companies which promise the world in attracting new employees but fail to live up to the expectations due to non-authentic people orientation or lack of role model behavior by the top management and so on would be penalized by the workforce who would defect to a more "authentic" organization where the marketing talk of the human resource department is matched by actual business practices.

Collier and Esteban provide a model to understand how the organization is perceived by the employees and how this shapes their identity and consequently their behavior in an organization. According to Weick (1995), organizations are social systems in which participants are socialized by shared meanings created collectively while they try to make sense of their environment. Their role in this sensemaking is then crucial. On the one side, organizational members derive their identity partly from the groups they belong to, and on the other side, individual actions shape organizational culture and practices and thus the organizational system itself (Collier and Esteban 2007). This interplay of perceptions influencing employee motivation and hence behavior which when repeated goes on to shape the organization. Thus even personal social engagement is increasingly routed through the workplace rather than in the private sphere. There again socially engaged corporations have a role to play in channeling this initiative and thereby winning employee's commitment and engagement and help fulfill their need for social engagement. Such a fulfillment has been proven to positively influence employee motivation and raise productivity levels. There has been research which shows that an ethical organizational climate can give rise to employee identification with values of responsibility and concern for others, thereby contributing to greater employee commitment. So it is crucial that an organization not only presents itself as one driven by values but also follows it up with actions so that its employees are able to perceive it so through demonstrated actions of top managers as well as mechanisms to prevent unethical behavior (Seidman 2004).

Economic Perspective

Being an ethical company actually pays off in multiple ways in terms of human resource management, two aspects of which we broach on are:

1. Employee engagement and business outcomes and turnover
2. Organizational development through intersectoral projects

Employee Engagement and Business Outcomes and Turnover

Despite a lot of efforts to make jobs more meaningful, there seems to be a huge gap in employee engagement globally. A 2007 Towers Perrin survey covering about 90,000 employees across 18 countries found that only 21 % of them were fully engaged on their job. The remaining were simply enrolled (41 %), disenchanted (30 %), or even disconnected (8 %) (Attridge 2009). A more comprehensive and recent survey, the Gallup Engagement Index, tracks how engaged the employees feel at their workplace across 140 countries. In 2011–2012, only 13 % of the global employees felt engaged to their work, and the rest felt not engaged (63 %) or actively engaged (24 %) (Gallup 2013). This has immense consequences in a knowledge economy where ideas and knowledge more than just good execution of jobs matter in being a successful organization. If we look at the country-wise scores, North America has a high engagement score of 29 %, but, otherwise, there seems to be not much of a difference between industrialized and emerging or developing countries. This points out to the relatively subordinate role played by economic compensation and the significant role of other “soft” factors which influences worker engagement.

A Dale Carnegie study of 1500 employees across the United States explored the reasons for less engagement demonstrated by employees in almost all the surveys (Dale Carnegie Training 2012). It found out that the three main drives of employee engagement were:

- Relationship with immediate supervisor
- Belief in senior leadership
- Pride in working for the company

The first point on relationship with the boss is something that is more particularistic in nature. The second one on credibility of senior leadership and pride in working for the company are clearly results of the values that the organization stands for and how good they are implemented and lived by the top management in everyday business life. The third point on pride in working for the company assumes the hygiene condition that the corporation is not involved in any business or political scandals and there are no serious charges of maleficence against it.

Now does employee engagement have an impact on business?

There have been countless studies on the impact of employee engagement on business outcomes. Fifty years ago, Katz (1964) identified three basic kinds of behavior which makes an organization function well: (a) people must be induced to enter and remain within the organizational system, (b) they must execute their roles in a reliable way, and (c) they must innovate and deliver beyond just what their roles require them to. This formed the basis of the concept of organizational citizenship behavior pioneered by Smith et al. (1983) which details out altruistic behavior going beyond role requirements and often contributes to other's success than one's own.

> Citizenship behaviors are important because they lubricate the social machinery of the organization. They provide the flexibility needed to work through many unforeseen contingencies; they enable participants to cope with the otherwise awesome condition of interdependence on each other. (ibid)

Employees who can connect their work to a meaningful mission or purpose of the whole organization as such show high levels of interest and ownership in the organization results. There have also been studies which show that engaged employees are more customer focused (Battacharya et al. 2008). At a firm level, in a study of publicly traded corporations, research shows a strong correlation between employee engagement and stock market performance and income growth (Edmans 2011), showing that the market does value intangibles like employee engagement as it can be an indicator of good financial health.

Big listed corporations can be too diverse and be hard to compare with others, and hence a business unit level research would give an ideal size and homogeneity to be made comparable and analyzable. This is what Harter, Schmidt, and Hayes did in their comprehensive and international study using a meta-analysis at a business unit level, looking into employee satisfaction and engagement and business performance at a business unit level within corporations (Harter et al. 2002). They surveyed 7939 business units spread across 36 corporations looking at relationships between employee engagement measured using the now standard Gallup Workplace Audit which is the largest study measuring employee's perception of work characteristics and business unit outcomes of customer satisfaction, productivity, profit, employee turnover, and accidents. They found out that business units in the top quartile in terms of employee engagement earn higher annual revenue in the range of between 960,000 USD and 1.44 million USD compared to those in the bottom quartile. This significant difference in average revenues attributable to employee engagement shows how different organizational cultures across business units within the same corporation could vary and influence the financial outcomes.

Employees who feel engaged in a company are less likely to leave it (Battacharya et al. 2008). Several studies have shown that the employee's engagement to their organization is driven by how they rate its corporate social responsibility. Thus a responsible corporation would have committed workers who are engaged to their jobs and the organization who would have less intention of quitting. In a cross-country study in the United States involving full-time employees, 82 % of the respondents said that they would rather be paid less to work for an ethical company than to be paid more to work for one with questionable business practices (LRN 2006). Thus ethical corporations not only have less employee turnover, but they do not have to compete purely on remuneration with their peers.

Organizational Development Through Intersectoral Learning

The problems of today are interdisciplinary in nature, and in an increasingly complex world, managers need to think beyond their own fields of expertise. For example, environment-friendly mobility solutions need as much a social change as a technological breakthrough. Therefore the innovators of today must be familiar with the various facets of a problem and have a realistic knowledge of the stakeholders and their motivations to be successfully able to come up with relevant products and solutions. In a corporation which is engaged in managing the social and environmental impacts of its operations with external stakeholders, the employees get a chance to develop their skillsets through this engagement and be in a better position to come up with solutions which are workable than by working out only with internal colleagues. This sort of intersectoral approach is increasingly used to solve intricate problems which are intersectoral in nature, facing the society today.

> Intersectoral alliances are coalitions of two or more organizations from at least two different social sectors; they share their resources and a joint governance structure and are – at least partly – set up to produce a good or service for a third party. (Buttkereit 2009, p. 11)

The various interest groups who come into play in cross-sector partnerships as stakeholders are increasingly stakeholders of issues and not of organizations (Selsky and Parker 2005). This is of particular importance to corporations whose role has evolved from that of a separate entity for economic value generation to that of an actor in society who cannot go on externalizing its costs and after repeated perpetuation of social and environmental crises needs to earn its license to operate (Gunningham et al. 2004). Thus these stakeholders from various sectors come together to solve a problem which they are a party to and in the process, learn from each other as well.

In an often cited article in the *Harvard Business Review*, Peter Drucker writes about what businesses can learn from nonprofits way back in 1989 (Drucker 1989). He talks about the cost consciousness which nonprofits have much more than corporations due to the perpetual need to raise funds. This drives innovation and strategies to come up with new ways of doing things to keep the costs down without compromising on the social values which it set out to espouse. Nonprofits are increasingly dependent on volunteers to deliver its services, and since volunteers are not bound by contractual clauses, they need to be kept happy and satisfied. This focus on human capital driven by values and social impact without the financial incentive is something that is increasingly becoming relevant for corporations who cannot assume to attract and retain talent based on pure economic incentives and comfortable working environment. Such a learning experience is an added bonus to corporate management in addition to the legitimacy enhancement in any cross-sectoral project together with nonprofits or the government.

Operational Perspective

Operationalizing business ethics is the determining factor between the success and failure of a value-driven organization. It differentiates between organizations who just talk about it and those which actually walk the talk in bringing values to everyday business life. A useful framework to operationalize business ethics is through the theory of stakeholder management, which looks at firms in a broader view with respect to their internal and external stakeholders (Freeman 1984). The stakeholders base their claim on legal, moral, or presumed basis to influence an organization's behavior, direction, process, or outcomes (Mitchell et al. 1997). A firm which takes the interests of the internal and external stakeholders will stop thinking of them as entities with opposing interests and conflicts built into any interaction, but who can work together to create shared value (Porter and Kramer 2011). Using the stakeholder framework and the concept of creating shared value for the stakeholders, we look at operationalizing values through a Values Management System.

Values Management System

Corporate governance cannot be talked about just in terms of lofty statements from the top, but also implemented, rather systematically implemented to have an effective program in place. Many a times, the tone from the top is not matched by walking the talk. This empty ethical talk without consequent action is a good sign of prioritizing profits above values but posing as an ethically responsible corporation has been ironically named *Enron Ethics* (Sims and Brinkmann 2003). Enron managed to make everyone believe that it was a responsible company with all the right vision, mission, and value statements. In August 2001, just before the collapse of Enron, the Harvard Business Review even published a case on Enron with glowing reviews recommending the Enron model for other businesses to follow. But behind the façade of a good corporate citizen, the CEO Jeffry Skilling was aggressively promoting a culture of high performance by pushing the limits on what was considered acceptable in an ethical sense. Managers talked about the performance bar which was continually being raised every time the results were announced (Bartlett and Glinska 2001, as cited in Sims and Brinkmann (2003). This gradual bending of the rules under pressure to achieve financial performance undermined any possible positive impact of the code of conduct, and other tools used by the company gradually resulted in financial irregularities which finally resulted in its collapse in December 2001 causing irreparable losses to employees and shareholders. This is a classic case of good words from the top not supported by a system to ensure that the everyday business practices follow a corporate governance model. Also, in building a really ethical organization, one has to demonstrate the values. If there has to be employee buy-in of the ethical program, they need to be assured on two counts: that the organization really follows these policies in its every action and that those who violate them are punished (Treviño and Weaver 2001). Let us now look at the process steps, components, and challenges to a Values Management System.

Four Process Steps of Values Management System

The way to set up an effective Values Management System consists of four steps as shown in Fig. 1. The first is to identify and codify the core values of the organization and come out with a code of ethics which has to be followed all the way to the top. The second step is to implement these values through policies and procedures concerning corporate citizenship capturing how the values would guide everyday business activities of the corporation. The third step is to systematize these procedures into the three heads of integrity and compliance management, CSR management, and sustainability management followed by the fourth step of assigning the responsibility to departments and people so that there is a personal responsibility to each of the functions and that the employees do have a contact person for each of the issues concerned. The first two steps are the easiest, and this is where most organizations feel that they have put in place an effective corporate responsibility program, but without an effective system in place and having complete and continuous top management support for these functions, the effectiveness of these programs would not be significant (Jones Christensen et al. 2014).

Components of a Values Management System

The Values Management System works at two levels, strategic and operative as can be seen in Fig. 2. At the strategic level, the code of ethics which regulates the leadership deals with culture of the executive management in terms of CEO

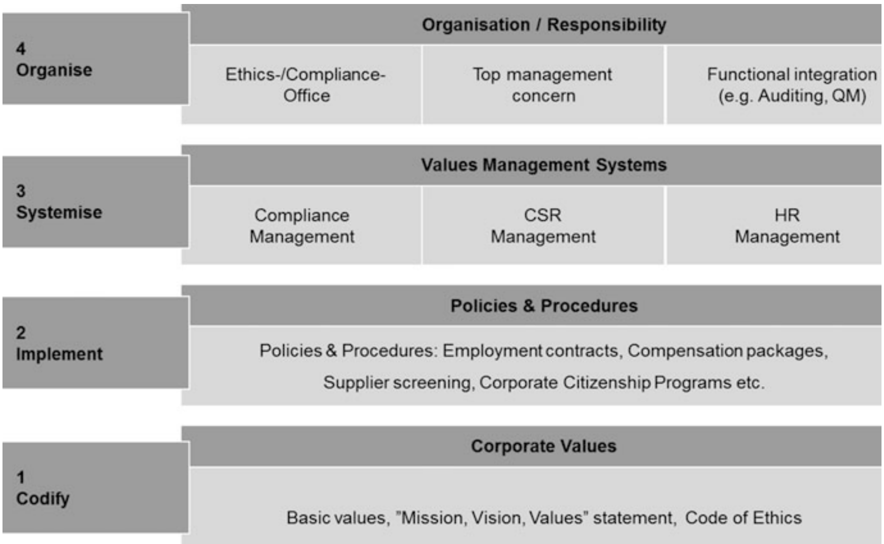


Fig. 1 Four process steps of a Values Management System

Values Management System			Strategic level
Code of Ethics			Normative Strategic Management
Values Orientation Leadership Culture Corporate Culture	Tone from the top & walk the talk Leadership Communication		
Integrity & Compliance Management	**CSR Management**	**Sustainability Management**	**Operative level**
Compliance Office	CSR Office	Sustainability Board	**Organisation**
Code of Conduct …	UN Global Compact …	Sustainability guidelines Responsible care …	**Standards**
Compliance process Compliance conduct Compliance guidelines, instructions, processes Audit Compliance organisation …	Lead process Quality management Contract management …	Value chain management Energy, water management Green products …	**Fields of application**
Training Integrity check Compliance declaration Disciplinary measures Audit organisation Personnel selection practices Career planning, bonuses, compensation …	Training Projects (child labour, human rights) Personnel selection practices Career planning, bonuses, compensation …	Educational programmes Personnel development Work life balance programmes …	**Instruments**

Fig. 2 Components of a Values Management System

compensation, bonus structures, etc., thereby defining the ethics of an organization, in other words, governance ethics as opposed to the values of an individual or a management role (Wieland 2001, 2014) which have a massive influence on both the strategic direction taken by the company as well as on the everyday business decisions.

Mahoney and Thorne (2005) explored the relationship between the time frames of compensation structure and the corporate responsibility actions by its leadership. There was a strong correlation between a long-term compensation plan and efforts to develop sustainable products and services as well as investments in responsible corporate behavior. In addition to fair compensation and responsible leadership behavior, communication is also crucial for the rest of the organization to understand that the tone from the top is also matched by walking the talk. Mayer et al. (2009) examined the possibility of a *trickle-down effect* of ethical behavior of top management by studying close to a thousand employees in 195 departments and found that supervisory ethical leadership was positively related to group level organizational citizenship behavior (OCB). Thus, it is important to act as well as communicate that everyone from the senior leadership to that of the frontline sales team is bound by the same policies and procedures so that values are lived and not only talked about like in the aforementioned *Enron Ethics*.

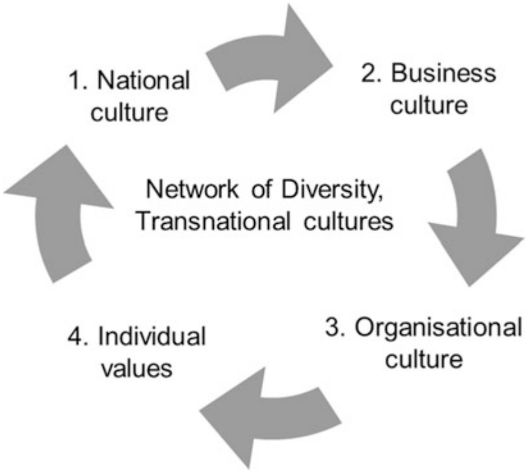
The operative level can be divided into integrity and compliance management, CSR management, and sustainability management. Integrity and compliance management is managed by the compliance department which develops a code of conduct going beyond just legal compliance and involves compliance and audit processes which ensure that integrity in everyday operations is supported through clear policies and procedures on recruitment criteria, bonus systems, career planning, and a continuous training process to keep the employees abreast of the latest developments in international guidelines. The CSR management uses standards like UN Global Compact, ISO 26000, etc. to develop clear-cut standards for corporate behavior in ensuring legitimacy and license to operate in the society. Here again the policies on recruitment, career planning, and compensation would play a significant role in ensuring that the corporate culture does not become diluted through a mismatch between the personal values of employees and the corporate values. Sustainability management focuses on economic, social, and environmental sustainability through corporate policies as well as training and sensitization of its employees. This does not mean just “greening” parts of the company or sponsoring some social projects in the corporate neighborhood but to take a step back and look at the whole picture and identify where systems and processes as well as products can be changed to both reduce the carbon footprint and eliminate waste on the environment side and to identify and build relationships and foster stakeholders to create shared value for all involved (Porter and Kramer 2011).

In the case of human resource management, this means having long-term perspectives on employees as core stakeholders and to work toward a sustainable program. This implies an effective training program for the entire organization so as to institutionalize the values. Ethics training programs have been critized to be cosmetic and ineffective in preventing corporate scandals. An empirical study notes that the more the frequency of communication regarding the code of conduct, the more the unethical behavior declines (Kaptein 2011). A longitudinal study done over years finds that a comprehensive ethics training program has been found to have an effect on the ethical organizational culture after a year of training and the employees have observed lesser acts of unethical behavior (Warren et al. 2014). In this study, sustained behavioral improvements have resulted in inculcation of these values, and employees seem to notice them less as it becomes a part of the ethical organizational culture.

Cultural Challenges to Operationalization

One of the biggest challenges of increasing globalization is the immense diversity in values across countries and cultures. While business processes can be established in a cross-cultural context with relative ease, code of conduct and corporate values offer more subjectivity which complicates the implementation of uniform corporate governance at a global scale. According to a cross-country study by Li and Harrison

Fig. 3 Evolution of values



(2008), national cultures of the home countries of multinational corporations have a strong influence on its corporate governance much more than what was believed. From a human resource point of view, this assumes significance as a global corporation has presumably a global workforce with diverse cultural, religious, and personal values who have to work together for the same organization regulated under international norms and signatory to globally applicable conventions (Ralston et al. 2011). Not only do the definitions of what constitutes a bribe vary across cultures, for example, but also the response mechanisms to a crisis vary as well. Thus, the probability of a mismatch in expected behavior as well as the reaction in case of any untoward incident are closly related to different cultural patterns which affect each other reciprocally as can be seen in the following illustration. The transnational cultures are influenced at multiple levels by multiple actors, starting with the national culture, going on to the culture of a particular business and an organization within that business as shown in Fig. 3. All of these influence the values of the individual who is further playing a role in creating the collective national culture. This loops itself to create diverse permutations and combinations of values of various individuals in an organization.

There are several global standards which can be used as guidelines for corporations like the UN Global Compact, ISO 26000, etc. These are great references for a global corporation, but an individual and virtue-based ethical foundation for managers is what the Manifesto Global Economic Ethic (Küng et al. 2010) aims to achieve. This manifesto draws a parallel on the global ethic of world religions to seek out a global ethic for corporations. Based on it *transcultural values*, which are universally applicable to all cultures, are developed. It starts with the basic principle of humanity which is used to build up the basic principles of sustainability, respect, fair cooperation, and the golden rule (Fig. 4). These principles can be further

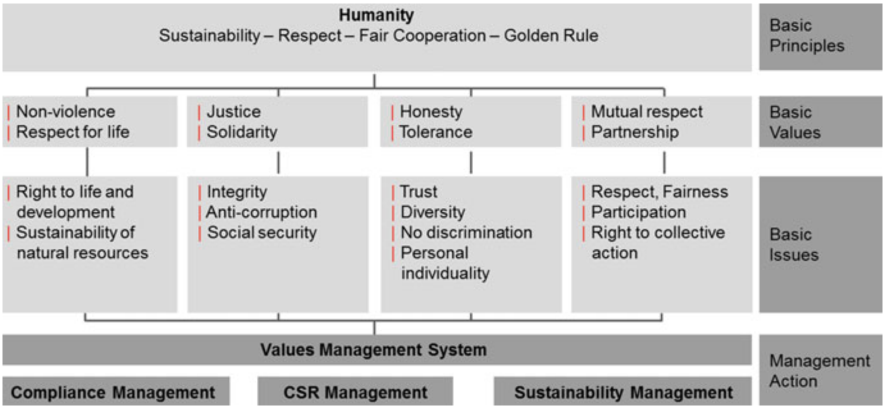


Fig. 4 Structure of a global economic ethic (Source: Küng et al. 2010)

developed into eight basic values defining the fundamental responsibilities and demands for economic undertakings. The Values Management System spoken earlier is thus then derived from the global economic ethic which can be adapted to various cultural and national contexts without losing its core universal principle of humanity and human dignity.

This system also depends on a transcultural leadership at a global level which can lead a diverse team of different nationalities, faiths, and cultures by looking at the basic common denominator across all of them. This is what we aim to build at the Leadership Excellence Institute Zeppelin (LEIZ) at the Zeppelin University in Friedrichshafen, Germany. We have developed a transcultural profiler for global managers based on the UN Global Compact, ISO 26000, and the Manifesto Global Economic Ethic. The forced choice questionnaire brings out their value preference when faced with a dilemma situation. This is a useful tool to also see the values that the organizations manage to inculcate in their managers through long association.

Risk Perspective

The risks to a corporation when it comes to issues on corporate governance are enormous. From having to pay enormous fines which can destabilize its finances, reputational loss, and the resulting financial impact to even having its license to operate canceled by the government as in the case of Arthur Anderson after the Enron affair, risks of noncompliance are significant for any large corporation. The risk perspective entails three aspects:

1. Increasing complexity of operations

2. Increasingly complex and severe penalties of regulation
3. Increasing role of ethics and compliance program

Increasing Complexity of Operations

Businesses have to deal with increasing complexities of operations on the one side with hyper fast financial trading magnifying the chances of irretrievable losses. As early as 1995, the unauthorized trading activities of Nick Leeson caused losses of more than 800 million pounds bringing down Barings Bank Plc., one of the oldest merchant banks in the world founded in 1762 (BBC 2009). This has been followed by a string of cases, especially in the banking sector, the largest of which involved a loss of $9 billion at Morgan Stanley in 2008 by Howie Hubler. Not only the financial sector but also other sectors are increasingly international with supply chains going all the way around the globe. Despite setting up standards of operation and processes and procedures with complex audit system to ensure that it is being followed, multiple scandals with suppliers in developing countries arise in industries like textile and electronics. More systems and procedures are not an answer to this problem, rather an ethical culture which does not just focus on the letter of law but also on the spirit behind it. Thus, careful selection of employees and suppliers, building trust, mutual respect, and ensuring fair cooperation, as envisioned in the Manifesto Global Economic Ethic, would complement the already existing standards and audit systems in avoiding if not reducing scandals in a globalized economy with its complex operations.

Increasingly Complex and Severe Penalties of Regulation

> A Mammoth Guilt Trip: Corporate America is finding it ever harder to stay on the right side of the law

Thus ran the title of an article in *The Economist* on August 9, 2014, which detailed out the $17 billion which the Bank of America had agreed to pay as legal settlements for indulging in financial irregularities. The same month Goldman Sachs agreed to pay $1.2 billion and Standard Chartered $300 million. This trend to financially penalize corporations is increasing both in frequency and number and has totaled 2163 convictions and guilty pleas and fines over $130 billion. A detailed breakup of the crime and the penalties can be seen in Fig. 5.

The article points out to a trend toward increasing financial penalties, especially since the financial crisis, to give a shock value to drive up the compliance efforts by corporations. These efforts to catch up with the latest regulations are becoming increasingly complicated and expensive as well. Estimates by The Economist point out to an annual figure of up to $40 million for large corporations, just to keep the documents as a response to regulatory requests. The number of new or revised

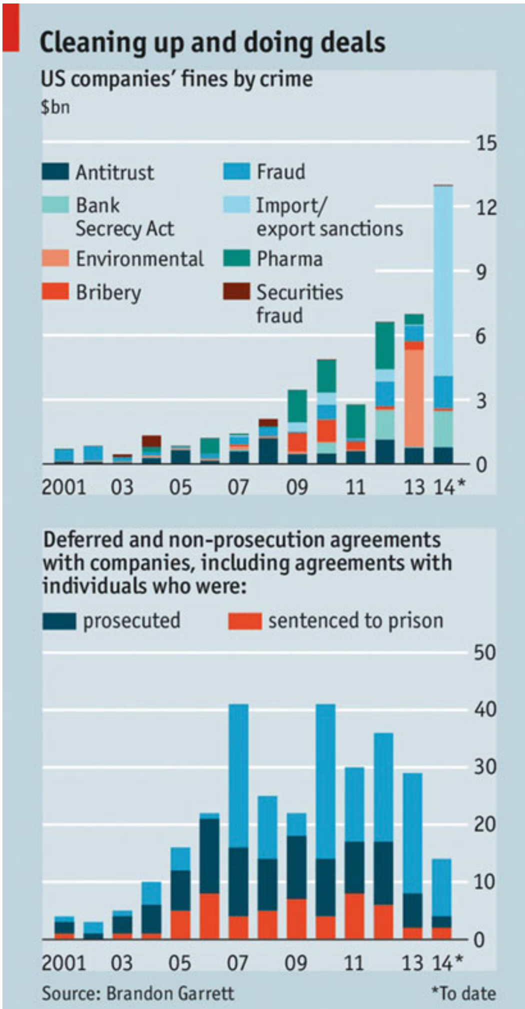


Fig. 5 US companies' fines by crime (Source: The Economist 2014)

regulations has been growing, especially since the financial crisis (The Economist 2014).

Increasing Role of Ethics and Compliance Program

According to the US sentencing guidelines, the formula to calculate these penalties is based on a base fine and a culpability score as explained in Fig. 6. The culpability score is calculated based on a six criteria list which includes an effective compliance

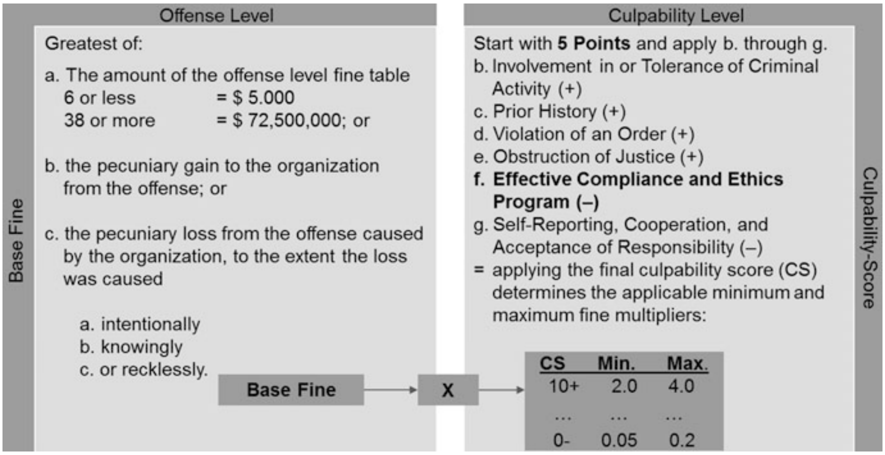


Fig. 6 Penalty calculation – US Sentencing Guidelines (Source: US Sentencing Guidelines 2012)

and ethics program. Thus the presence of a strong system in place can reduce the culpability score and have a direct impact on the penalty calculation.

Further, the guideline describes what it means to have such a program detailing out the due diligence to prevent the occurrence of a criminal conduct and an organizational culture that encourages ethical conduct.

> §8B2.1. Effective Compliance and Ethics Program
> (a) To have an effective compliance and ethics program [. . .] an organization shall
> (1) exercise due diligence to prevent and detect criminal conduct; and
> (2) otherwise promote an *organizational culture* that encourages ethical conduct and a commitment to compliance with the law. (US Sentencing Guidelines 2012, p. 496)

Further, a new approach called the *deferred prosecution* approach has been applied to corporations, wherein a case is filed, which is then put on hold and the defendant is given a chance to stay clean. After this probation period, the charges are dropped. The prominent case of this kind is that of KPMG which avoided a grand jury indictment by agreeing to deferred prosecution in a tax avoidance case on the condition of paying fines and hiring a monitor to supervise its new compliance program. Thus the absence of a good compliance and ethics program can lead to increased culpability scores as well as the imposition of an even stronger one in a deferred prosecution scenario. This leads us to take the management to a next level of focus from compliance to integrity management wherein the leadership sets the compliance systems in place and transcends it from just a tick box approach to a more positive living the values approach which brings out positive behavior from employees and other stakeholders. How integrity management differs from a regular compliance management is illustrated in Table 2 in terms of definition, ownership, processes, consequences, etc.

Table 2 Difference between compliance and integrity management

	Compliance management	Integrity management
Definition	Management systems or departments at corporations and public agencies to ensure that personnel are aware of and take steps to comply with relevant laws and regulations	Integrity management denotes the capability of an organization and especially of its leaders to implement and realize the corporate values through leadership style and role model in everyday business and corporate culture. Integrity management is integrative part of corporate governance and goes beyond legal compliance
Method	Conformity with internal and external regulations	Self-governance based on code of ethics and societal values
Driver	Detect and prevent criminal misconduct	Enable and support responsible business
Driver	Law driven	Business values driven
Action	Develop compliance standards, train and communicate, investigation, and monitoring	Provide role model, tone from/at the top, provide guidance and consulting, and creating speak-up culture
Process owner	Compliance officer	Leadership and management excellence
Motto	Do things right	Do the right thing
Consequences	Legal punishment, fines, and negative publicity	Access to market, best places to work/ preferred supplier, and license to operate

Dos

Make Ethics and Values Tangible

When communicating about business ethics and company values, be as concrete as possible. General statements and philosophical terms will not help real-life implementation of ethics and values in a company. Concrete examples with a clear positioning of the company (“No, we will never accept discrimination between groups of people” and “Yes, we have policies on equal work–equal pay” and “Yes we encourage whistle-blowing and also protect the whistleblowers”) make it much more tangible.

Demonstrate Ethical Behavior Top-Down

The “tone from the top” as well as corresponding behavior of top management is essential for a sustainable application of values and ethical behavior in the whole organization. People have to feel that it is not “just said” but “really meant.”

Train the Decision-Makers

Ethical behavior is understood differently by each person, and hence an organization must sensitize and train its decision-makers, to achieve coherence in its value systems. This translates into implementing integrity management programs to sensitize and update the managers around the world on the latest standards on corporate responsibility and corporate governance.

Adapt the Incentive Structures to Your Values

The corporate values would never get implemented in everyday business life if the recruitment and incentive structures do not match it. The employees' motivation to adhere to the firm's values must be in resonance with the personal financial implications of their decision-making.

Communicate Regularly and Openly to the Stakeholders

The stakeholders should know the efforts made by the company to meet the standards of corporate responsibility and governance. It should go beyond glossy brochures with smiling faces and talks about the goals set for corporate responsibility, the results achieved, and an explanation for non-achievement. In addition to winning their trust, such communication helps in fostering cooperation and support from the key stakeholders, especially in times of crisis.

Don'ts

Do Not Reduce It Just to "Compliance"

Do not suggest in your communication that formal compliance is the only important aspect of ethical behavior. As long as ethical conduct means following laws, rules, and regulations, it is merely "compliant behavior." Integrity management should be aimed at all levels of management to inculcate a sense of integrity from top management to the lowest level of decision-making. The real-life proof of ethical intentions and ethical behavior, however, is if:

- There are no laws, rules, or regulations governing the decision.
- Ethical aspects are in conflict with applicable laws, rules, or regulations.
- The decision is in conflict with other targets, e.g., financial targets.

Do Not Forget Cultural Differences When Communicating

While the core values of your company should be universal, do not copy and paste respective communication tools from your home/HQ country to the rest of the world. Some examples are just not understood in other cultures.

Do Not Overpromise

The more one communicates as "the most responsible firm caring for the environment and the society," the more would be the stakeholders' and the general public's expectation. This could seriously damage credibility for the slightest intransigence.

Final Comments and Outlook

After analyzing business ethics from people, economic risk, and operational perspective, we see it being driven from the society, employees, and governments showing a push effect. On the other side, there is a pull effect where ethical businesses have an advantage in attracting the best employees and command the loyalty of customers and legitimacy from external stakeholders. While we accept the validity and the logic of this proposition, we argue for a more intrinsically driven business ethics where such decisions need not be justified with carrots or sticks but as a natural and taken for granted culture of organizing economic activity which is lived in everyday business life from the executive suite to all the way to frontline employees. Any other approach to ethical business would mean perpetual catching up with the next set of regulations or underwriting expensive marketing campaigns to convince the stakeholders of the "genuineness" of the corporate ethical program.

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Human Resources Governance and Compliance: Sexual Harassment Policy at International Monetary Fund

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Stephan P. Rothlin and Dennis P. McCann

Contents

Abstract

This case study examines the changes in sexual harassment policy and its enforcement that occurred at the IMF in the wake of the international scandal involving its Managing Director, Dominique Strauss-Kahn. The glare of unwanted publicity forced the IMF to remove Strauss-Kahn and to appoint Christine Lagarde, who not only had to meet stricter standards of accountability for her personal conduct but also worked closely with the IMF's Ethics Advisor, Virginia Canter, to develop and enforce more rigorous policies on sexual harassment that eventually were binding on all IMF employees, including its executive leadership. The case study seeks to analyze systematically the challenges faced by Lagarde and Canter and to draw from their experience certain lessons that may be useful to all organizations, and not just businesses, seeking to maintain their credibility in today's global arena. It also attempts to evaluate the IMF's experience in light of the moral standards now emerging as a general consensus in

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international business ethics. The breadth of that consensus is confirmed, we believe, by a review of guidelines on sexual harassment policy now mandated in the venues where we do business, namely, China (PRC) and Hong Kong.

Keywords
IMF • Strauss-Kahn • Sexual harassment • Moral leadership • Accountability • Human dignity • Human rights • Quid pro quo sexual harassment • Hostile work environment • Ombudsperson • Bullying

Introduction: A Seventeenth-Century Libertine in a Twenty-First-Century Service Organization

When Dominique Strauss-Kahn gave his first English language interview following the incident at the Sofitel Hotel in New York and his abrupt departure as Managing Director of the IMF, he told CNN's Richard Quest, "I don't think I have any kind of problem with women. I have a problem with understanding what is expected from politicians of highest level. It's different from what [a] Mr. and Miss in the street [can do]" (CNN 2013). Of course, even by his own account of what transpired between him and the Sofitel maid, Ms. Nafissatou Diallo, he would have been arrested, if caught doing it "in the street." Nevertheless, in his opinion, his office romances and libertine sexcapades are quite normal and are a problem only when one becomes a politician – or business executive – at the highest level. Whatever Strauss-Kahn's expertise in finance and economics may have been, his attitude betrays a remarkably naïve view of organizations and twenty-first-century demands for moral leadership within them, especially now that women and men must work together as colleagues and no longer typically in situations in which males act as superiors and women serve as their subordinates.

There's no need to go further into the salacious details of Strauss-Kahn's sexual history, or his family's attempt to live it down, or the ways in which the infotainment media have exploited his scandal. What once might have been tolerated as the hobby of a libertine, and ignored with a wink and a nod, may now appear as a tragic case of sexual addiction that is a problem not just for addict but also for his or her victims. Once the media have moved on, what remains worth remembering about the Strauss-Kahn affair is its impact on the International Monetary Fund (IMF), where he once served as the Managing Director at a time when the world's markets were still recovering from the global financial crisis. When the furor over his sexual behavior had subsided, Strauss-Kahn admitted that he had failed to understand "what is expected from politicians of highest level." What he may have meant by that confession is worth exploring. At that time he had enjoyed a brilliant career in politics and was considered a leading candidate for the Presidency of France. But what brought him down were not political expectations in Paris, but what people expected of the IMF's executive leadership in Washington, D.C.

In the Wake of the Strauss-Kahn Scandal, What Was the IMF's Problem?

The problem, then, for managers concerned with organizational ethics is what to do when a major scandal involving the firm's executive leadership threatens to undermine its credibility as a whole. In what follows we will examine the IMF's response to the Strauss-Kahn affair, in order to determine the lessons other organizations can learn from their manner of handling the crisis. When the IMF established new levels of accountability for its Managing Director and others involved in its executive leadership, it had to reassess its unique structure as an international organization and the culture that had developed within it. We shall begin with a review of the IMF's governance structure in order to provide the context for understanding the problem that the scandal caused and how the organization responded to it.

The IMF is a public or quasi-political institution operating not within a single set of national boundaries, but globally. Founded in 1943, the IMF was created as part of the Bretton Woods system that was to regulate international financial and monetary affairs in the aftermath of World War II. The IMF's "fundamental mission is to help ensure stability in the international system," by working with its 188 member countries "to foster global monetary cooperation, secure financial stability, facilitate international trade, promote high employment and sustainable economic growth, and reduce poverty" (IMF 2012a). Various governing bodies carry out these lofty objectives. Governance at the IMF consists of two separate supervisory boards and the position of Managing Director. While the board of governors is comprised of two representatives from each member country and is responsible for "approving quota increases, special drawing rights allocations, the admittance of new members, compulsory withdrawal of members, and amendments to the Articles of Agreement and By-Laws," in reality most of its duties are delegated to the IMF's executive board (Independent Evaluation Office of the IMF 2012a). The executive board's 24 directors exercise their collective responsibility for the daily management of the Fund, by appointing and supervising the Managing Director who actually sets and enforces policy for the organization and its members.

The Fund's legal status is complicated by the international character of its governance structure. Although it is based in Washington DC, not all US laws apply to the organization. Furthermore, directors are appointed by their countries of origin and therefore must balance the loyalty they have toward their home governments with their loyalty to the IMF (Bowley 2011). A retired director, who sat on the executive board, told *The Washington Post* on condition of anonymity that the issue of loyalty is a "widespread concern. [Directors serving on the executive board] want a favorable report [for their countries]. Then they are supposed to oversee the Managing Director and the functioning of the institution. There is an inevitable tension. They are structurally dependent on the Managing Director" (Schneider 2011). Given the fact that the executive board's membership is "structurally dependent," it is not surprising that they are unlikely to provide serious criticism of the Managing Director's policies or personal conduct, once they have appointed him or her.

Their reluctance to challenge the Managing Director may have shaped the IMF executive board's response when within a year following his appointment in 2007, Strauss-Kahn was accused of sexual harassment by a former IMF economist, Ms. Piroska Nagy. Although the affair was consensual by all accounts, Nagy claims she felt pressured because of Strauss-Kahn's high profile. Nagy describes the situation: "I was not prepared for the advances of the IMF director general. I didn't know what to do . . . I felt damned if I did, damned if I didn't" (Beattie 2011). Nagy broke off the affair with Strauss-Kahn when her husband discovered it. Soon after, the IMF – coincidentally, of course – offered employees intent upon leaving the organization an attractive severance package. Nagy used the opportunity to leave the Fund as quietly as possible.

The IMF's internal policy at that time stated, "Intimate personal relationships between supervisors and subordinates do not, in themselves, constitute harassment" (World Watch 2011). By contrast, the World Bank – the IMF's sister organization – defines any relationship between superiors and subordinates "a de facto conflict of interest," which must be disclosed immediately (Schneider 2011). Nevertheless, as Masood Ahmed, a spokesman for the IMF pointed out, if allegations of sexual harassment are made, "particularly relating to senior management, [they] need to be investigated" (Shipman 2008). Thus, when Nagy's accusation against Strauss-Kahn surfaced, the IMF hired a law firm, Morgan, Lewis & Bockius, to investigate it. After all, even though the IMF is exempt from following some laws in the USA, there's no guarantee that the executive committee could simply ignore Nagy's complaint, without risking an embarrassing and costly lawsuit.

The primary concern of the investigation was narrowly focused on whether Strauss-Kahn had violated any existing policies at the IMF. In spite of receiving a letter from Nagy, characterizing Strauss-Kahn as "a man with a problem that may make him ill-equipped to lead an institution where women work under his command" (Thomas 2011), the investigation absolved him of any abuse of power liable to punishment with serious penalties, including termination of employment. Since Nagy had not received any promotions as a result of her affair with Strauss-Kahn, there was no violation of his contract. Nevertheless, in receiving this report, the IMF executive board also declared that his actions were "inappropriate," which some observers interpreted as a mere slap on the wrist. The outcome left the impression that senior management at the IMF was exempt from credible scrutiny of their actions, even when a complaint of sexual harassment was reported.

This is not to say that the IMF, even before the Strauss-Kahn scandal, was significantly lacking in ethical policies and compliance procedures. But these tended to cluster around issues of transparency in financial accounting, expense reporting, and conflicts of interest understood primarily in terms of economic incentives. There were also guidelines on sexual harassment, and other forms of harassment in the workplace, specifically directed toward staff at or below the middle management level. But those in top management positions were not subject to these guidelines. When asked to explain the executive committee's apparent shyness about enforcing these rules on top management, IMF employees apparently justified their inadvertence – or, if you will, tolerance – by pointing out the fact that personal relationships are bound to form in an organization where colleagues travel for weeks at a time and work in unsupervised environments (Appelbaum and Stolberg 2011). Susan Schadler, for example, spent 32 years at the IMF, rising to deputy director of the European department before leaving in 2007. She recounted her impression of working conditions at the IMF: “There is this implicit culture that [sexual advances] weren’t really seen as something that the fund is going to worry about. . .I think that’s what bothered women” (Appelbaum and Stolberg 2011).

What apparently bothered the women Schadler worked with – and should have bothered those advising the executive committee, as well as the Human Resources department – was the leadership’s willful misunderstanding of sexual harassment in the workplace. Sexual advances at work – despite the benign view of them indicated in the IMF’s former guidelines – are not the result of working too hard, or of spending too many long hours at work together, or even of seeing one’s feelings of respect and friendship for a colleague magically transformed in a fit of erotic passion. They are, willy-nilly, a form of bullying, an attempt to establish dominance over others through sexual conquest. That, at least, is the well-founded suspicion underlying current assumptions about sexual harassment in the workplace – at least in the USA. If other forms of bullying are not to be tolerated in a modern office environment, characterized by collegiality and professionalism, then neither should sexual harassment be tolerated.

Typically, in any workplace relationship involving a superior with a subordinate – and vice versa – sexual advances are presumed to be a form of harassment, even if the two individuals involved freely consent to them. Coworkers who in the past had to suffer in silence as the two pursued their relationship at the office are now regarded as victims of “a hostile work environment,” that is, a demoralizing environment in which it becomes increasingly difficult to perform one’s assigned tasks. The conflict of interest involved in “office romances” can no longer be confined to the question whether the affair was a “quid pro quo” relationship. Executives – as in this case involving Strauss-Kahn’s activities as Managing Director of the IMF – have a conflict of interest, when their conduct willy-nilly creates or sustains “a hostile work environment” making it more difficult for subordinates, men as well as women, to perform effectively. The problem, then, for the IMF was how to develop forms of accountability that would address the issue of sexual harassment, as it is generally understood in institutions seeking to operate in today’s international environment.

Changing of the Guard with Lagarde: The IMF’s Approach to Solving the Problem

When Frenchwoman Christine Lagarde replaced Strauss-Kahn as the Managing Director of IMF, she agreed as part of her contract to have one-on-one meetings with the IMF’s Ethics Advisor, Virginia Canter (Schneider 2011). Lagarde’s contract also introduced new terminology into the description of Managing Director: “You shall strive to avoid even the appearance of impropriety in your conduct” (Schneider 2011), and promise to “observe the highest standards of ethical conduct, consistent with the values of integrity, impartiality, and discretion" (IMF 2011). The language of Lagarde's ethics clause contrasts with that of Strauss-Kahn's 2007 contract, which stated only that he should "avoid any conflict of interest, or the appearance of such a conflict" (Wearden 2011). Had Strauss-Kahn's affair with Nagy been investigated using the standard demanded of Lagarde – "You shall strive to avoid even the appearance of impropriety in your conduct" – the executive committee could hardly have let him off with just a slap on the wrist.

Given its status as an international organization, the challenge facing the IMF involved negotiating the cultural differences and implied meanings reflected in the diverse attitudes and policies covering issues such as sexual harassment. French law defines sexual harassment as an exploitation of hierarchical power (Saguy 2001), meaning that harassment occurs if and only if the sexual relationship involves an abuse of power, such as the superior's bestowing upon or withholding a promotion from the subordinate involved. This was the standard applied when Morgan, Lewis & Bockius investigated Strauss-Kahn's affair with Nagy. By contrast, in the USA this standard, commonly recognized as forbidding a "quid pro quo" sexual relationship, covers only a part of the legal definition. The Equal Employment Opportunities Commission (EEOC) defined sexual harassment as any "unwelcome sexual advances, requests for sexual favors, and other verbal or physical conduct of sexual nature" (Saguy 2001), whether any abuse of hierarchical power is evident or not. Besides exploitative relationships – that is, interactions in which sexual favors are either exchanged for some benefit such as a promotion or a raise in salary or in which such benefits are withheld in retaliation against the refusal of such demands – sexual harassment under EEOC guidelines also includes consensual activities that create a "hostile work environment" for third parties not directly involved in the relationship. The difference between French and American law is one of many examples of why organizations must try to achieve some sort of consensus on what constitutes sexual harassment. While the path of least resistance may lie in following what the law requires in the jurisdiction where the firm is operating, in our view this version of "when in Rome, do as the Romans do" tends to multiply confusion for firms operating simultaneously in a variety of jurisdictions. The problem is not likely to go away for the IMF, for example, simply by adhering to local requirements and expectations.

With the appointment of Christine Lagarde as Managing Director in 2011, it became clear that the IMF would attempt to establish new rules, stricter guidelines for ethical conduct in the workplace, and how compliance with these will be monitored and sanctioned. An appraisal of the ethical guidelines for IMF employees was already in progress long before Strauss-Kahn's resignation. An ethics committee had been established in 2000, but it apparently existed only on paper until Strauss-Kahn's affair with Nagy surfaced. Prior to April 2008 the ethics committee had not met to discuss a single case of ethical misconduct and members of the ethics committee "did not receive training on how to conduct an effective investigation of alleged misconduct" (Chelsky 2008). Once exposed in the unwanted publicity generated by Nagy's accusation, the failure of the IMF ethics committee prompted an investigation and a report compiled at the request of the executive board to address loopholes in the IMF's governing system. The result was the formation of not only a new sexual harassment policy but also a new Ethics Office charged with implementing it along with other governance policies designed to enforce high moral standards.

Since the release of that report, Virginia Canter – the IMF's Ethics Advisor – has established a new program of ethics education internally and a formal written protocol for dealing with sexual harassment cases. In 2008 an integrity hotline was launched to encourage whistle-blowing among employees. By October 2011 Canter's mandatory ethics training program for staff was established, covering topics such as bullying, sexual harassment, and intimidation (Schneider 2011). The IMF's new Code of Conduct regards sexual harassment and discrimination with what *The Financial Times* said was a much tougher approach than before (Harding 2011). With the new Code in place, all members of the IMF staff are required to sign a contract that commits them to abide by the new ethics guidelines. The Code of Conduct specifically requires employees to disclose any personal relationship between a superior and subordinate and anyone subjected to sexual harassment must report it.

In 2012 the Ethics Office published an annual report detailing employee complaints, in order to increase the Fund's transparency and accountability to its stakeholders (IMF 2012c, d). Despite the evidence of progress in obtaining compliance with the Code of Conduct documented in that report, the men and women sitting on the IMF's executive board remained exempt from the regulations in place for monitoring employee misconduct. "There are a lot of controls in place when it comes to the staff [at the IMF], but not for the leadership," explained Katrina Campbell, a New York-based corporate ethics expert (Freedman 2011). At that time, the newly appointed Ethics Advisor was not authorized to investigate members of the board. The IMF's Independent Evaluation Office (IEO) described the situation: "Neither the policies nor the structure of the Fund encourages any person to report misconduct by an executive director or managing director to any authority" (Walden 2011). Instead the executive board is responsible for the conduct of its own members as well as the Managing Director. While the executive board presumably consults with its own ethics committee, what exactly they do in response to allegations of misconduct at the top is confidential (Bowley 2011). Thus, the changing of the guard at the IMF resulted, at least initially, in very little change in the way in which the organization's executive leadership is held accountable for their conduct. But should more have been done to bring real change to the IMF? If top management is exempt from the policies governing the conduct of rank and file employees, how likely is it that compliance at either level will be achieved?

Analysis: Four Dimensions to the IMF's Sexual Harassment

Problem

The IMF's sexual harassment policy, prior to the Strauss-Kahn scandal, was another example of laissez-faire thinking that, however well intentioned, ends up creating more problems than it solves. That the previous policy is problematic should have been clear in any case, but its risks went on full display when its Managing Director was arrested in New York on charges of sexual assault. Even in the absence of this incident – which some may argue is irrelevant since it did not occur either with an IMF employee or at the office – the nature of the challenge facing the IMF can be mapped in four dimensions, each of which contributes to an understanding of what organizations must do to avoid similar problems.

The first of these is a dimension of concern for the people involved in such situations. The comments that former Deputy Director, Susan Schadler, shared with *The New York Times* indicate that women working at the IMF felt uncomfortable in a workplace environment where sexual harassment policy was so narrowly construed as to render it ineffective. Presumably, the same feeling would have occurred to any men there who had been the object of unwanted sexual overtures. By restricting sexual harassment policy to egregious cases of "quid pro quo" affairs, while exempting top management from standard review procedures conducted by the HR department, the IMF left many female employees not only feeling vulnerable but also powerless were they to be harassed, especially by one of the Directors. In the one case at the IMF directly involving the Managing Director, the economist Piroska Nagy, while admitting that their affair was "consensual," also indicated that she felt pressured into it: "I didn't know what to do . . . I felt damned if I did, damned if I didn't."

It is impossible to know how many people may have decided not to accept a position with the IMF, once they became aware of the working conditions there. The IMF's losses must be counted then, first in personal terms, that is, in terms of loss of one's sense of personal integrity, diminished sense of self-respect, and feelings of powerlessness and cynicism about the organization and its lofty mission. Who would want to work for a firm whose culture was characterized by one report in *The New York Times* as "men are on the prowl and women are on guard" (Appelbaum and Stolberg 2011), if they had any other employment options? While this characterization was the object of a protest signed by a majority of the women employed at that time by the IMF (Hudson 2011), it serves notice that, in the eyes of prospective candidates, the IMF risked becoming the Employer of Last Resort rather than the Employer of Choice.

A concern for the people involved should also be extended to all other stakeholders besides employees. Consider the impact of the IMF's allegedly cavalier attitude toward sexual harassment upon various member nations, many of whom still honor cultures that impose strict standards of gender role differentiation that virtually guarantee that women will not be permitted to function in positions of responsibility. If the IMF adheres to a policy that makes women uncomfortable with working there, how will it recruit and retain a staff that is as inclusive and diverse as its constituent membership? A laissez-faire policy on sexual harassment will only attract those who believe – rightly or wrongly – that they possess the savoir faire or distinctively French sophistication needed to cope with such an environment. The results can easily be predicted: the IMF will remain a Eurocentric institution dominated by French bureaucrats who see nothing wrong with pursuing intimate personal relationships in the workplace, so long as there is no direct "conflict of interest."

A second dimension focuses on the economic consequences of sexual harassment policies and their relative adequacy and effectiveness. As other international organizations have learned, successful lawsuits against firms with inadequate sexual harassment policies and lax enforcement procedures are costly. Just how costly, or how much of an impact the penalties may make, will depend on the overall size of the business. When Piroska Nagy "retired" from the IMF, she received a substantial severance package. Such settlements can run into the millions of dollars, as Toyota – much to its chagrin – discovered in 2006, when a Japanese employee was sexually assaulted by her Japanese manager while both were working at one of its plants in the USA. Toyota's failure to respond to the incident precipitated an out-of-court settlement worth US$190 million (Maynard 2006). Chump change for Toyota? Try telling that to its investors.

The fact is that such costs are likely whenever an incident occurs at work, where the courts – at least in the USA – will assume that the firm's management did not provide adequate safeguards against such predatory behavior, unless there is specific evidence to the contrary. One reason for the recent proliferation of corporate training programs focused on sexual harassment and discrimination is that such programs may serve as proof that the employee who committed the outrage was acting on his or her own, contrary to the firm's stated policies. The firm's vulnerability to lawsuits is minimized if it has already developed adequate policies on sexual harassment and discrimination and has made a serious attempt to enforce these on all concerned, including top management as well as rank and file employees.

Besides the losses that can be incurred in fending off sexual harassment lawsuits, there are other real costs resulting from such cases. When Strauss-Kahn resigned his post, the IMF lost its leadership at a time when he was supposed to help the organization steer its member nations away from the shoals of global recession or worse. Strauss-Kahn had pledged upon his appointment as Managing Director "to pursue without delay the reforms needed for the IMF to make financial stability serve the international community while fostering growth and employment" (BBC 2007). At that time, the IMF was an organization seeking to defend its relevance after being criticized for ineffective economic policies. By the time of his removal, Strauss-Kahn had helped restore the IMF's influence and prestige. In 2009, for example, during the midst of the global financial crisis, the IMF made US$283 billion worth of financing available to member countries, with no policy conditions attached. While many of the IMF's conditions for these loans have been criticized as "pro-cyclical" (Weisbrot 2011) – since they favored schemes of deregulation and privatization and were not designed to offset declining trends in economic growth – nevertheless, they are impressive testimony to Strauss-Kahn's success in carrying out the IMF's economic agenda. Among the costs of its failure in sexual harassment policy, therefore, must also be reckoned the loss of a strong leader whose removal distracted the world from the debate it should have been having over the adequacy and effectiveness of IMF economic policies.

Our third area of concern is risk management, in light of the fact that ultimately, the IMF's own credibility was placed at risk. The new Managing Director, Christine

Lagarde, and the IMF's Ethics Advisor, Virginia Canter, were acutely aware of this. They realized that unless the IMF is seen to be meeting international standards of fairness, civility, and professional responsibility in its internal operations (including its policies on "intimate personal relationships"), the legitimacy of its current leadership will be questioned. Failure to address the scandal will only strengthen the hand of those who are already determined to undercut Eurocentric leadership at the IMF. Even now, how likely is it that the next IMF managing director will be another French politician? As we shall see further on, the policy changes actually made at the IMF after the removal of Strauss-Kahn, and the new Managing Director's willingness to enforce them fairly, may buy her and her colleagues the time needed to repair the public reputation of the IMF that has been, if not, the chief victim in this scandal, surely the most telling example of the collateral damage caused by it.

As critics moved on from the Strauss-Kahn scandal and the negative publicity it generated for the IMF, they resumed airing their concerns about European leadership in the organization (Schneider 2011). Lagarde marked the 11th consecutive appointment of a European managing director, five of whom have been French nationals. With the European hegemony at the IMF becoming increasingly controversial, in 2011 the BRICS (Brazil, Russia, India, China, and South Africa) nations released a statement demanding transparency in the appointment of Managing Directors. They called the tradition of appointing Europeans to the post "obsolete" and argued that it undermined the IMF's legitimacy. How can an organization created to support the economies of developing nations remain faithful to its mission when its executive leadership remains an exclusively European preserve? Furthermore, the Strauss-Kahn scandal prompted a new challenge to the legitimacy of IMF leadership: if Managing Directors are seen as seriously deficient in one area of moral leadership – that is, in the integrity of their personal relationships – how can the membership trust them in other areas of moral leadership? A holistic approach to risk management must include questions regarding the threat to the organization's legitimacy posed by perceived failures in moral leadership.

Finally, in the dimension of operational effectiveness, the judgment of the IMF's executive board, which determined that Strauss-Kahn did not abuse his power by having an affair with Nagy, needs to be questioned. To be sure, the executive board's decision was consistent with the IMF's internal policy at the time: "Intimate personal relationships between supervisors and subordinates do not, in themselves, constitute harassment." But how the executive board could adopt that policy is puzzling in light of the fact that its sister institution – the World Bank – already had in place guidelines that stipulated, for example, that any personal relationship between superiors and subordinates must be regarded as "de facto [a] conflict of interest" which must be disclosed immediately. The superiors involved in such a relationship cannot be exonerated simply because there is no evidence that their subordinates received a promotion or other professional advancement as a result of their affair. Operational effectiveness, arguably, demands that even the appearance of conflict of interest ought to have been a concern for the IMF's executive board.

Positive Outcomes at the IMF

Two years after the Strauss-Kahn scandal had been quietly put to rest, the IMF announced that, under the leadership of its newly appointed Ethics Advisor, it was issuing "enhanced standards of conduct" designed to "strengthen the institution's ethical framework" (IMF 2013). The enhancements include "a new policy on close personal relationships in the workplace," which requires staff to report "intimate" relationships to the "Ethics Advisor, his/her supervisor, or the Human Resources Department," in order to assess and resolve any "potential conflicts of interest and workplace fairness concerns." Those who fail to report will be judged guilty of misconduct and subject to disciplinary action. In addition the revised standards further define as misconduct any attempt to retaliate against staff that report misconduct or participate in the IMF's dispute resolution system. Also noted is greater emphasis on prevention and early resolution of cases involving harassment, including sexual harassment, the penalty for which may include termination of employment.

But how effective are these new policies? Even before their formal adoption in 2013, the Ethics Office had been issuing annual reports in an effort to be transparent about the IMF's progress. The latest published report from 2012 provides detailed statistics on the kinds of issues reported to the IMF Ombudsperson and the recently established Integrity Hotline (IMF 2012b). In Ethics Advisor Virginia Canter's judgment, the statistics showing increased requests for ethical advice demonstrate the success of the in-house mandatory ethics training programs. As staff members increase their awareness of the IMF's renewed commitment to higher ethical standards, there likely will be more requests for advice. One interesting trend that surfaces in the annual report of 2012 is the decline in the number of overt cases of sexual harassment and increase in the number of cases involving other forms of harassment such as bullying. The Ethics Office means to eliminate all forms of harassment, in order to demonstrate the IMF's commitment to its "core values," namely, "integrity, respect, impartiality and honesty."

The IMF's core values statement contains this explanation of "what we want to achieve together": "(1) an intellectually open atmosphere that seeks diverse views to develop the best solution; (2) best management practices that support all of us in making our best contribution, through opportunities for professional development and recognition of achievements; (3) a healthy work-life balance; (4) fair, transparent rules, equitably applied, and avenues to help us seek recourse, without stigma, if we are wrongly treated; and (5) a workplace free of all types of discrimination." The most important of these five goals may be the third one, encouraging the cultivation of a healthy work-life balance. An active concern for supporting employees' efforts to achieve this balance may be far more effective in eliminating all forms of harassment in the workplace than the threat of severe penalties and the imposition of strict guidelines on reporting and reviewing potential cases of "conflict of interest." Negative sanctions are likely to remain ineffective apart from a positive goal for transforming the corporate culture, such as creating a healthy work-life balance.

It would seem, then, that under its new leadership, with Christine Lagarde as Managing Director and Virginia Canter in the Ethics Office, the IMF has indeed begun a process of cultural transformation similar to that which many other major institutions – including international businesses, government agencies, and NGOs – have had to undergo. Overcoming scandals such as the one involving Strauss-Kahn may have furnished the motivation for initiating this process, but the underlying need for it goes far deeper than the personal failures of prominent executives. The historically unprecedented entry of women into the workforce – particularly their service as colleagues and partners, demonstrating competencies and achieving credentials that are equal or better than those possessed by the men they work with – has created a situation in which traditional “patriarchal” or “sexist” attitudes and practices are simply obsolete and increasingly dysfunctional in the workplace. As the struggle to overcome sexism in the office has proceeded, it becomes clear that related forms of bullying and discrimination involving sexual, religious, and racial minorities must also be challenged. The women and men who have stepped forward to challenge the abuses tolerated, if not perpetrated, by the traditional male hierarchy are representing not just themselves but members of all groups whose human dignity has been degraded.

Sexual Harassment Policies and Their Ethical Assumptions, Globally Considered

We need to inquire more deeply into the ethical assumptions animating the struggle against sexual harassment and discrimination, particularly in order to understand its global significance. No one can dismiss this struggle, as if it were merely an odd manifestation of a Western culture now in its final stages of irreversible decadence. There is plenty of evidence that sexual harassment and discrimination can no longer be tolerated in any international business, government agency, or NGO, whatever its country of origin. Hardly a week goes by without reports from somewhere – especially among the BRICS nations that are challenging current IMF leadership – of similar struggles over new rules for interpersonal relationships in the workplace. What, then, is sexual harassment and why is it a problem both morally and legally?

The US government’s Equal Employment Opportunity Commission (EEOC) provided this now classic description of sexual harassment. It has become the standard in virtually all jurisdictions where the UN Declaration of Human Rights is acknowledged:

> Unwelcome sexual advances, requests for sexual favors, and other verbal or physical conduct of sexual nature constitute sexual harassment when (1) submission to such conduct is made either explicitly or implicitly a term or condition of an individual’s employment, (2) submission to or rejection of such conduct by an individual is used as the basis for employment decisions affecting such individual, or (3) such conduct has the purpose or effect of unreasonably interfering with an individual’s work performance or creating an intimidating, hostile, or offensive working environment. (Boatright 2003)

A more recent statement from the EEOC tries to make the same points, but in language that is more concrete and practical:

> Sexual Harassment:
>
> - It is unlawful to harass a person (an applicant or employee) because of that person's sex. Harassment can include "sexual harassment" or unwelcome sexual advances, requests for sexual favors, and other verbal or physical harassment of a sexual nature.
> - Harassment does not have to be of a sexual nature, however, and can include offensive remarks about a person's sex. For example, it is illegal to harass a woman by making offensive comments about women in general.
> - Both victim and the harasser can be either a woman or a man, and the victim and harasser can be the same sex.
> - Although the law doesn't prohibit simple teasing, offhand comments, or isolated incidents that are not very serious, harassment is illegal when it is so frequent or severe that it creates a hostile or offensive work environment or when it results in an adverse employment decision (such as the victim being fired or demoted).
> - The harasser can be the victim's supervisor, a supervisor in another area, a co-worker, or someone who is not an employee of the employer, such as a client or customer (EEOC 2014a).

Sexual harassment, then, is clearly illegal in the USA, and the EEOC provides detailed instructions on how to file a formal complaint, if one has been a victim of this crime.

Because the EEOC was instituted to enforce the USA's "Title VII of the Civil Rights Act of 1964" prohibiting all forms of discrimination in employment, sexual harassment, like harassment in general, is treated under that category. "Title VII prohibits employment discrimination based on race, color, religion, sex and national origin." Thus, in addition to prohibiting discrimination based on sex – which normally means "treating someone (an applicant or employee) unfavorably because of that person's sex" in any aspect of an employment relationship, "including hiring, firing, pay, job assignments, promotions, layoffs, training, fringe benefits, and any other term or condition of employment" – the guidelines consider sexual harassment to be "illegal when it is so frequent or severe that it creates a hostile or offensive work environment or when it results in an adverse employment decision (such as the victim being fired or demoted)" (EEOC 2014b).

The moral basis for the laws and regulations prohibiting sexual harassment and discrimination is the same as that supporting universally recognized human rights legislation. The UN Declaration of Human Rights (UDHR) explicitly affirms that "the rights and freedoms" set forth in it admit of no distinction based, among other things, on sex (Article 2). Furthermore, "the right to work, to free choice of employment, to just and favorable conditions of work" as well as "equal pay for equal work" (Article 23) apply to "everyone" equally. While it is clear that the UDHR did not anticipate a world in which men and women work side by side in virtually every business and industry and thus did not explicitly prohibit sexual discrimination and harassment, its affirmation of everyone's aspiration toward "an existence worthy of human dignity" clearly implies that its provisions cannot be reconciled with any system of employment that supports sexual discrimination and condones sexual harassment. The obvious conclusion is that sexual harassment is simply another assault on human dignity, and as such it is included, at least in principle, in the universal moral consensus respecting human dignity and condemning any violations of it.

Since assaults upon human dignity usually involve some form of abuse of power and privilege, by extension we regard the immorality of sexual harassment as yet another abuse of power in the workplace, usually – but not always – perpetrated by superiors against subordinates. In short, sexual harassment is a form of bullying and in no way should be confused with our all-too-human passion for romance or sexual intimacy. The most important word describing sexual harassment is the first word in the EEOC's definition: "unwelcome." Sexually aggressive behavior, when it is known to be unwelcome, must be regarded as a form of bullying – or abuse of power – and not dismissed as merely an excess of amorous desire. Understanding sexual harassment as a form of bullying is clearly presupposed in the EEOC's description of "quid pro quo" relationships, in which "submission to such conduct is made either explicitly or implicitly a term or condition of an individual's employment" or "rejection of such conduct by an individual is used as the basis for employment decisions affecting such individual." The most acute assault upon human dignity occurs in these situations, since they involve coercing sexual relations on the basis of either promises of more favorable treatment or threats of retaliation. But what about consensual relationships – may these, too, involve sexual harassment?

Assuming that the consent is genuine and mutual, there are two typical cases open to that interpretation: superior-subordinate relationships and peer-to-peer relationships. While some institutions, particularly universities, have declared that all superior-subordinate sexual relationships – for example, between a professor and a student or between a supervisor and an employee – are liable to treatment as cases of sexual harassment, the possibility of genuinely mutual consent is evident in controversies over "office romances." Confronted with the risk of sexual harassment lawsuits arising from affairs that have ended badly, some businesses in the USA have attempted to ban office romances entirely or, if not impose an absolute ban, at least require full disclosure of the existence of such liaisons to one's superiors and the Human Resources department. Both measures, even in business, place the burden of proof upon the superiors involved and are considered necessary in order to insulate the firm from any legal liability should the relationship turn sour. The IMF's "enhanced standards of conduct" is a useful example. While it no longer regards office romances as strictly a private matter, it does require staff to report "intimate" relationships to the "Ethics Advisor, his/her supervisor, or the Human Resources Department," in order to assess and resolve any "potential conflicts of interest and workplace fairness concerns." Those who fail to report will be judged guilty of misconduct and subject to disciplinary action. In that way, professional accountability is maintained, as well as transparency, without imposing a taboo against office romances of either type.

Respecting human dignity involves a complex of rights and responsibilities that sometimes may conflict with one another. Protecting one's own dignity is first of all a personal responsibility. If you don't value it, no one else is likely to. There are obvious limits to what an institution can do to respect the dignity of its employees. Human dignity usually is understood as requiring us to respect everyone's need for personal privacy. If an organization's policies go too far in compromising personal privacy, they are likely to be counterproductive. An organization that seeks to minimize its risk of lawsuits and other embarrassments stemming from incidents of sexual harassment may be tempted to set aside its employees' rights to privacy. But if it does so, it can hardly justify its policies by invoking a concern for human dignity. An absolute ban on office romances, for example, is likely to cause more problems for the Human Resources department than it solves. On the other hand, a policy that focuses on personal privacy to the exclusion of other concerns – as, apparently, was the IMF's policy before and during Strauss-Kahn's term as Managing Director – may permit the development of a corporate culture in which sexual predators can act with impunity. Given the complexities of human interaction in the real world of organizational behavior, while the principle of human dignity – as translated, for example, into the core values of the IMF – may be clear, the best ways of implementing it remain an open question.

When we turn then, beyond the discussion of sexual harassment and discrimination in the USA and the EU, to what is happening in China, where our own work is focused, we see both substantial progress and many obstacles to further reform. The more involved an organization – be it a business, an NGO, or a government agency – is in the globalization process, the more likely it is to subscribe at least in principle to international standards regarding sexual harassment and discrimination. Consider the case of Hong Kong, which still stands as the gateway between China and the West, the venue where the globalization process is most advanced in Asia. Hong Kong's legislative response is contained in "Chapter 480: The Sex Discrimination Ordinance" (SDO) which not only declares "unlawful certain kinds of sex discrimination, discrimination on the ground of marital status or pregnancy, and sexual harassment" but also provides for "the establishment of a Commission with the functions of working towards the elimination of such discrimination and harassment and promoting equality of opportunity between men and women generally" (HKSAR Government 1996). The work of educating the public and supporting compliance efforts in government agencies, businesses, and NGOs is the work of the Equal Opportunities Commission (EOC). The Commission routinely conducts surveys and issues reports on Hong Kong's progress in confronting sexual harassment and discrimination.

The struggle to achieve compliance with existing laws, such as the "Sexual Discrimination Ordinance" in Hong Kong, also goes on in the Peoples' Republic of China (PRC). Most observers recognize that in the past decade the PRC has made enormous progress. "Outlawing sexual harassment against women via legislation by making it both a criminal offense as well as a civil wrong also indicates a remarkable change in attitude in China, which is still a male-dominated society" (Srivastava and Gu 2009). Sexual harassment and discrimination are prohibited by the "Law of the People's Republic of China on the Protection of Rights and Interests of Women" originally adopted by the Seventh National People's Congress

(NPC) of 1992 and amended at the 10th NPC in 2005. The law is "formulated to protect women's lawful rights and interests, promote the equality between men and women and allow full play to women's role in socialist modernization" (Article 1). Besides issuing an absolute prohibition against discrimination, maltreatment, abandonment, and physical abuse of women (Article 1), the law defines women's rights in six key areas of public life and "encourages women to cultivate a sense of self-respect, self-confidence, self-reliance and self-strengthening, and to safeguard their own lawful rights and interests by utilizing law" (Article 5). Chapter IV, on "Rights and Interests Relating to Work and Social Security," guarantees women equal rights in these areas (Article 22), as well as "equal pay for equal work," and equal "welfare benefits" (Article 24). Employment discrimination is specifically prohibited (Article 25), including any unilateral reduction in wages or benefits because of marriage, pregnancy, maternity leave, or breast-feeding. Women shall be guaranteed equal access to "social insurance, social relief, social welfare and health care services" (Article 28).

With regard to sexual harassment, the Law takes up this issue in Chapter VI, devoted to "Rights Relating to the Person." Besides affirming the inviolability of "women's freedom of the person," this chapter also specifically prohibits trafficking in women and commits the State and its various agencies to take "timely measures to rescue women who are abducted, trafficked or kidnapped" (Article 39). The article prohibiting sexual harassment also acknowledges "the right to file complaints with units where they work and the departments concerned" (Article 40). As the final article in this chapter makes clear, the protection of women's rights and interests reflects China's concern to respect the human dignity of women:

> Women's rights of personality, including their right of reputation, right of honor, right of privacy and right of portrait, shall be protected by law. Besmirching women's personal dignity by such means as humiliation and libel is prohibited. Decrying or besmirching women's personality through the mass media or by other means is prohibited. The use of a woman's portrait for profit-making purposes in advertisements, trademarks, window display, newspapers, magazines, books, audio-video products, electronic publications, internet, etc., without the women's personal consent, is prohibited. (Article 42)

As in other areas of contemporary Chinese development, we discover that the laws of China are quite impressive and consistent with relevant international standards. The unanswered question, however, regards the challenge of achieving full compliance with those standards.

Protecting the rights and interests of women, to be sure, requires more than the passing of legislation. A comprehensive review of judicial decisions involving sexual harassment in China argues that "the plight of women in China will not be resolved so long as judges still suffer from the hangover of China's traditional society, which accords women an inferior position to men" (Srivastava and Gu 2009, p. 45). In spite of a number of surveys demonstrating the prevalence of sexual harassment in China, women who are victims of it tend to "suffer in silence [rather than] use legal means to voice their grievances." Nevertheless, in one decision handed down in Beijing in 2004, the court "established four factors to consider in a sexual harassment case":

> First, the conduct of the defendant must be unwelcome to the claimant. Second, the harassment must be sexual in nature. Third, there must be some overt act, such as the use of sexual language, gestures, or other visual signals implying a demand for sexual favors. Fourth, the conduct must violate the claimant's dignity and freedom of her person. (Srivastava and Gu 2009, pp. 50–51)

While these factors are consistent with international standards, the majority of cases reviewed in the PRC in which sexual harassment claims were adjudicated indicate that these involve a formidable burden of proof. While Chinese Civil Procedure Law rightly stipulates "the complaining party must provide evidence to substantiate its claim," in sexual harassment cases, this constitutes an "especially onerous" burden of proof when "a person in a position of power harasses a person in a position of lesser power" (Ibid 2009, p. 56). Coupled with the psychological difficulties involved in making such claims in court and the fact that the penalties for sexual harassment go no further than imposing compensatory damages, there are ample reasons why the legal remedies meant to safeguard women's rights and interests remain relatively ineffective.

Srivastava and Gu pinpoint two other factors in China's compliance challenge that differ from Hong Kong. First, "current Chinese law does not automatically impose vicarious liability on employers for sexual harassment perpetrated by their employees." Second, "there is no law in China providing for the establishment of an equal opportunity commission" (Srivastava and Gu 2009, p. 58). The threat of vicarious liability in the USA's EEOC guidelines, since 1998, is widely believed to have prompted many employers to formulate policies and training programs on preventing sexual harassment in the workplace. Employers could immunize themselves from accusations that they were complicit in the violations perpetrated by their employees, if they could demonstrate that they had such policies and programs in place (Samson 2013). The legal sanction, in other words, promoted effective education and training in the workplace. Similarly, the establishment of an equal opportunity commission in both the USA, as part of Title VII of the Civil Rights Act of 1964, and Hong Kong, as part of the Sex Discrimination Ordinance of 1995, demonstrates institutional support for the long-term process of transforming cultures so that human dignity is respected and human rights are protected. In this, as in other matters, China would do well to learn from what has been accomplished in Hong Kong.

As this review of the progress made and challenges to be faced in implementing China's Law on the Protection of the Rights and Interests of Women suggests, legal reform is necessary but hardly sufficient. A change of heart is needed, one in which the spiritual and cultural resources of China's wisdom traditions may be mobilized to support appropriate forms of cultural change. Contrary to Srivastava and Gu, who tend to assume an excessively negative view of the role of women in traditional

Chinese society (Srivastava and Gu 2009, pp. 45–46), scholars have been reviewing Confucianism, Daoism, and other traditions for signs of hope supporting Chinese women's aspirations for change. One such groundbreaking study is Robin R. Wang's *Images of Women in Chinese Thought and Culture: Writings from the Pre-Qin Period through the Song Dynasty* (2003) which, among other things, featured the writings of female Chinese writers, such as the Han dynasty scholar, Ban Zhao, who argued that, if women are to fulfill their proper roles in Chinese society, they must receive a proper Confucian education (Wang 2003, pp. 177–186). If one is serious about cultivating human dignity on the basis of moral and spiritual traditions indigenous to China, there are resources for regarding Chinese cultural values no longer as an obstacle to recognizing the dignity of women, but as an affirmation of a more humane and inclusive view of women's rights and responsibilities in public life. Just as Confucianism and other Chinese traditions cannot be used to ignore or set aside the basic rights of workers in general, so they cannot be used to justify sexual harassment and discrimination.

Lessons to be Learned from the IMF's Response to the Strauss-Kahn Scandal

Scandals like the affair that brought down IMF Managing Director, Dominique Strauss-Kahn, are a reminder of just how universal the problems are and how challenging the task of transforming organizational cultures so that sexism and other forms of predatory behavior become no more than a relic of a past well lost. In surveying a range of approaches, not only in the West but also in China and Hong Kong, regarding the protection of basic dignity and human rights, particularly with reference to gender and sexuality, we mean to highlight their common moral premise, namely, that willful violations of human dignity and predatory sexual behavior stand condemned and will no longer be ignored or tolerated in a globalizing civilization. Businesses and organizations that promote international trade and commerce are at "ground zero," so to speak, in this struggle toward moral clarity. If they are doing business specifically in China, they must understand that sexual harassment and discrimination are just as intolerable there as they are in their home countries. The struggle, as we have seen, provides an important opportunity to demonstrate moral leadership, but in making such an effort there are lessons worth remembering from the IMF's experience with it.

Among the most important is to adopt a proactive approach regarding sexual harassment and discrimination. While there are important ethical considerations supporting policies based on a robust and inclusive understanding of human dignity, the fact remains that acting against discrimination – including transforming business cultures in which sexual harassment is tolerated – will also impact a firm's bottom line. Sexual harassment lowers morale among workers, which in turn can only lead to declining productivity. If you continue to tolerate sexual harassment, you are likely to alienate your best workers, undermining both their loyalty to the firm and their willingness to stay on with it. You can well imagine the cost of replacing them, when they finally get fed up with your indifference and decide to move on. Both productivity and profitability, therefore, are at stake. If you want a strictly business reason for adopting a proactive approach, this is clearly it.

A second important lesson is to appreciate the ethical complexity of the issue, namely, the fact that there is more than one moral value at stake in formulating effective policies against sexual harassment and discrimination and that these values are not always in harmony with each other. Honoring human dignity entails respecting personal privacy, but it also entails providing protection and due process for those whose dignity has been assaulted, as well as those who have been accused of perpetrating the assault. A narrowly focused priority on protecting the firm against lawsuits may not be the most effective way to honor the human dignity of all concerned.

A third lesson – as the new IMF ethical guidelines suggest – is to frame the policy in broadly inclusive terms that are positively related to the firm's core values or mission statements. Doing what can be done to support healthy attitudes and respectful behavior consistent with these statements is perhaps the best way to insure that the goals informing any negative sanctions are clearly understood, not as punitive but as conducive toward living by those core values. Compliance is more likely to be achieved through persuasive methods that appeal to everyone's better nature than through coercive threats of deterrence and retaliation.

The lessons, negative and positive, can be inferred from the old maxim, "practice what you preach." Don't preach to others what you don't intend to practice yourself. If your firm is committed to respecting everyone's human dignity, then no one at the firm should be exempt from accountability to this norm. If the firm is to have an effective policy against sexual harassment and discrimination, the terms of that policy must be adhered to by all concerned, executive leadership as well as rank and file employees. The IMF's previous policy on sexual harassment was vulnerable to criticism precisely because it laid out one set of rules for subordinate employees while maintaining another set for their superiors. The fact that the IMF Ethics Office has produced new guidelines that appear to apply equally to all employees, both subordinates and superiors, suggests that they, too, now recognize that it is best to "practice what you preach." Anything short of that commitment risks creating a "double standard" that is both confusing and demoralizing and perpetuates all the risks involved in trying to live together that way.

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Human Resources Governance and Compliance: Essentials of Policies and Guidelines

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Contents

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This chapter covers how to professionally manage HR policies and guidelines within a company to ensure regulation of crucial HR processes, how to create transparency toward management and employees, and how to ideally also foster company culture by means of involvement and responsibility of all parties. Policy management should be seen as an integral and continuous process within every company rather than an archiving system that is not accessible or understandable to the employees. Policies are not static; they are always based on local legislation and to some extent cultural specifics but will also change with time. For example, 30 years ago it was not uncommon to drink at the workplace; thus no regulations were needed regarding consumption of alcohol. Today it is standard to regulate/prohibit any kind of alcohol and drugs during worktime and make this clear and transparent to all employees to comply accordingly.

An overview will be given on ***what*** should generally be regulated within a company including respective subprocesses as well as examples of ***how*** to regulate and document these (policy templates, process flows, checklists).

Introduction/Overview

HR policy management as a part of overall HR compliance and governance has a history of being somewhat “disconnected” from HR operations or HR development, and it experienced its full “integration to the HR world” in light of the Sarbanes Oxley Act (SOA/SOX) which was passed in 2002. The central goal of the company’s policies is the mitigation of legal, financial, and security risks within the organization and to protect the legal interests of a company.

On a broader scale policy management can basically cover the full range of all HR work processes, clearly defining which of the HR processes are formally regulated in respective company policies, providing corporate direction to employees and management, and even including company values and company culture.

Definitions: Human Resources Policies

[**www.wikipedia.com**] “. . .The establishment of policies can help an organization demonstrate, both internally and externally, that it meets requirements for diversity, ethics and training as well as its commitments in relation to regulation and corporate governance of its employees. . . . The establishment of an HR Policy which sets out obligations, standards of behavior and document disciplinary procedures, is now the standard approach to meeting these obligations. HR policies can also be very effective at supporting and building the desired organizational culture..."

[**www.uslegal.com**] "...Human resource policies are the formal rules and guidelines that businesses put in place to hire, train, assess, and reward the members of their workforce. These policies, when organized ... in an easily used form, can serve to preempt many misunderstandings between employees and employers about their rights and obligations in the business place. Having policies written is important so that it is clear to all what the policies are and that they are applied consistently and fairly across the organization. Moreover, when issues concerning employee rights and company policies come before ... courts, it is standard practice to assume that the company's human resource policies, whether written or verbal, are a part of an employment contract between the employee and the company. Without clearly written policies, the company is at a disadvantage..."

HR policy management is not only essential for large enterprises but also for small businesses and start-ups in order to avoid legal penalties or individual case-by-case action which eats up time, resources, employee morale, and significant costs. Well-drafted and standardized policies and guidelines will save the company countless hours of management time. The consistent use of such policies reduces management's concern about legal consequences.

HR policies allow an organization to be clear with employees on:

- The nature of the organization and its strategic goals
- What they should expect from the organization (their rights)
- What the organization expects of them (their obligations)
- How policies and procedures work and who has which responsibilities
- What is acceptable and unacceptable behavior
- The consequences of unacceptable behavior

Distinction Between Policies and Guidelines

A field of clarification is the distinction between policies and guidelines, and even in the expert literature, the distinction is often neglected or the word policy misused for a guideline and vice versa. Used properly guidelines are documents that seek to simplify a set of processes with regard to an established practice or manner. Thus, in comparison to policies, guidelines are not mandatory. Although guidelines may not be formally compulsory, they are still an important part of a holistic policy management as most companies seek to regulate more than legally required. The use of a set of guidelines can positively impact the entire system: guidelines really "guide" the company's employees and management to ensure that respective processes are carried out in a standard efficient manner. Policies in comparison to guidelines will be largely compulsory and often follow legal requirements that have to be regulated in a specific manner within a company. They can be complied as a unique map of actions that serve to guide an organization in decision making and conducting a certain process in a certain manner with exact descriptions on how to carry these out (Fig. 1).

Policies can be violated by employees; however it is hardly possible to violate guidelines if these are not legally binding. The distinction of policies and guidelines shall not play a major role in this section on HR policies and guidelines as it can be assumed that in general corporate policy management will incorporate both in addition to company rules, standards, processes, or even company ethics and values.

It differs hugely how many HR processes a company chooses to regulate. Especially the legally and financially relevant HR processes can be seen as the essential backbone of a policy manual (also known as employee handbook); however, it proves increasingly beneficial to not only regulate the "hard HR processes" but also cover those fields that affect workplace etiquette, behavior, and company culture. By including company values and management commitment as the foundation of all procedures and regulations, a much higher leverage for buy-in and implementation of policies and guidelines can be achieved.

As a company's policies and guidelines are developed, they become a framework for countability, consistency, and fairness. Policies will not only regulate the essentials but will outline management standards for decision making in line with company strategy. They are developed in light of the mission and objectives of the

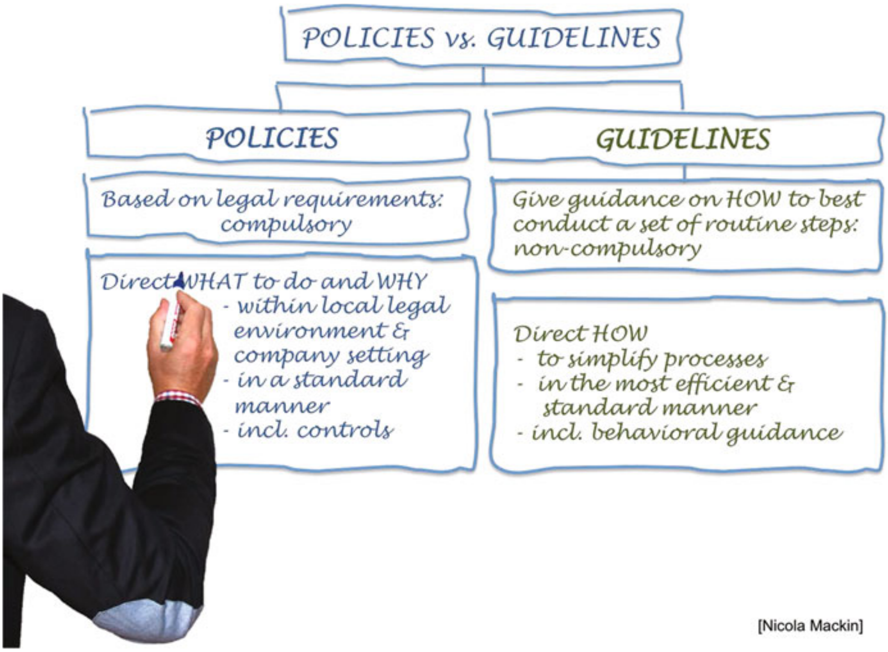


Fig. 1 Policies versus guidelines

company, and they become the media by which management's plans, rules, intents, and business procedures become documented and communicated to all staff.

Benefits of Polices and Guidelines to Employees and Management

- Employees can rely on standard processes and equal treatment as outlined in the company's policies and processes.
- Employees are provided with information and guidance that allow them freedom to carry out their jobs and make decisions within defined boundaries; they are empowered to do the right things.
- Policies and procedures enable the workforce to clearly understand individual and team responsibilities avoiding risky and time-consuming trial and error approaches.
- Clearly written policies and procedures allow managers to exercise control by exception rather than micromanage their staff.
- Handling tasks according to the company's policies and standards will help reduce errors, increase efficiencies, and ensure consistency and professionalism.

Typical Policy Clusters

- General Work and Administration Regulation
- Internal Employee Relations and Communications
- On- and Off-boarding
- Performance Management and Developing
- Safety and Security Regulations
- Code of Ethics and Code of Conduction (Fig. 2)

Exemplary Policies, Guidelines, and Company Regulations

General Work and Administration Regulations

- Attendance and leave
- Regular worktime regulations
- Individual worktime regulations (including overtime, part time, temporary part time)
- Vacation regulations
- Regulations and conditions regarding paid leave (medical/sick leave, overtime leave, maternity/paternity leave, military leave, etc.)
- Regulations and conditions regarding unpaid leave (extended maternity leave, sabbatical)
- Time management and time records

Fig. 2 Pillars of HR work and processes generally regulated via HR policies and guidelines

- Travel management (transportation, accommodation, travel reimbursement, work and travel hours, etc.)
- Expense reimbursements
- Payroll regulations
- Secondments
- IT regulations
- Regulations regarding handling of contract workers (i.e., non-internal employees including consultants)
- Workplace etiquette, personal appearance, and business attire
- Alcohol, drugs, and smoking regulations

Internal Employee Relations and Communications

- Employee communication and information (newsletters, intranet, etc.)
- Confidentiality (see section "Safety and Security Regulations")
- Phone and mobile phone regulations (business versus personal)
- Email regulations (business versus personal)

- External communications
- Engagements outside the company (political engagements)
- Employee problem-solving process and grievances

On- and Off-Boarding

- Appointment and induction
- Probation period
- Employee responsibility (see also section "Code of Ethics and Code of Conduct")
- Separation of employees, termination, and termination pay

Remuneration

- Job grading/positioning
- Company compensation schemes (fix and variable)
- Company allowances and benefits scheme (local employee allowances, company car regulations, company shares, saving plans, employee discounts, etc.)
- Insurance coverage
- Medical insurance

Performance Management and Development

- Goal agreement, performance review, and feedback
- Annual performance evaluation
- Training needs assessment
- Annual potential evaluation and assessment
- Internal placement/succession planning
- Job posting
- Internal transfers
- Promotions
- Personnel administration/ files
- Employee assistance and counseling

Safety and Security Regulations

- Safety standards
- Emergency procedures
- Protection of company assets and corporate data (data protection, confidentiality, user rights management, user own devices, antitrust regulations, conflicts of interest, etc.)

Code of Ethics and Code of Conduct

- Company philosophy, corporate values, and vision-mission statement
- Company code of conduct (company and private rights, ethical behavior, etc.)
- Corporate controls environment
- Handling of violations and disciplinary measures against corporate/ local guidelines (misconduct, serious misconduct, corporate investigations, etc.)
- Plus: companies expectations of employee behavior and/or management ethics

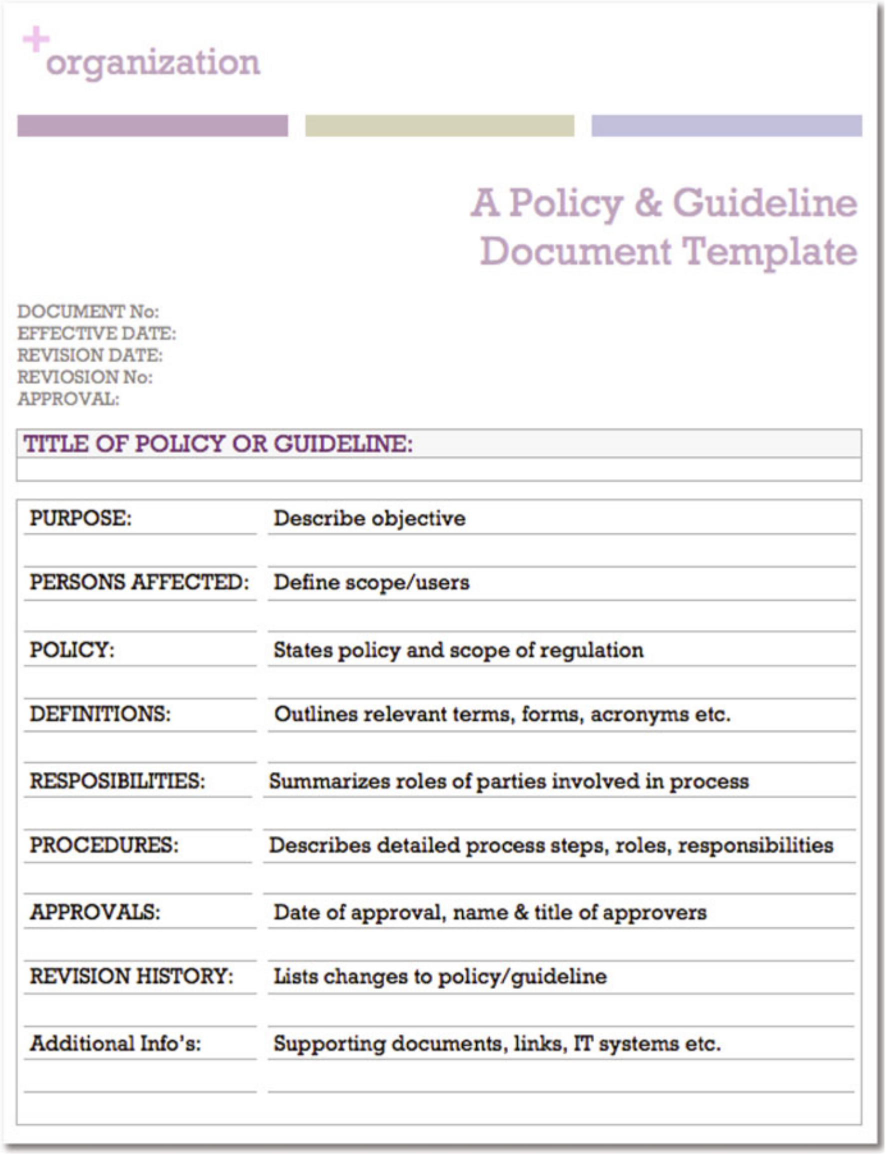
Policy Template

HR policies and guidelines will not regulate HR processes universally; they provide a framework on a corporate level and shall be adapted locally in line with local legislation, specific needs, and also cultural fit. Company policies will always be closely linked to legal requirements, so solid legal expertise or advice is required when designing and outlining policies and guidelines. If a company's employees are represented by a labor union, any collective bargaining agreement between company and union will need to serve as a basis for the respective company policies (Fig. 3).

People Perspective

The people perspective of policy management may not seem key at first glance as the priority aim of all policies, guidelines, and regulations within a company will be the mitigation of legal, financial, and security risks. However, exactly because of the complexity of corporate and national regulations, it has to be made very clear to employees and management specifically what is expected from them and what is not. Without this transparency, employees may unwillingly offend against regulations or expectations simply because they are not known to them or not understandable or even the rationale behind may not be clear. So also for policy management, communication is key! The outlining of the policies and regulations and the compilation into a policy manual are merely the (resource-intensive) basics. By means of targeted and regular communication to those employees and managers who are affected by the respective policy can the specific responsibilities be understood and the policies can "come to life."

Employees will appreciate the transparency and by understanding exactly what is expected from them and why the company can be increasingly confident to ensure adherence to the policies and regulations. Although policies seem restrictive in nature and serve as a means of a control, policies also provide employees with a degree of freedom within defined boundaries. With solid and positively communicated policies in place, employees are able to execute their duties; they are free to act within the limits set by the policy, without constant managerial monitoring. As such policies can also be regarded as a tool of active empowerment to do the right things. Especially if employees are encouraged to provide feedback on existing company regulations or even submit



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A Policy & Guideline Document Template

DOCUMENT No:
EFFECTIVE DATE:
REVISION DATE:
REVIOSION No:
APPROVAL:

TITLE OF POLICY OR GUIDELINE:

PURPOSE:	Describe objective
PERSONS AFFECTED:	Define scope/users
POLICY:	States policy and scope of regulation
DEFINITIONS:	Outlines relevant terms, forms, acronyms etc.
RESPOSIBILITIES:	Summarizes roles of parties involved in process
PROCEDURES:	Describes detailed process steps, roles, responsibilities
APPROVALS:	Date of approval, name & title of approvers
REVISION HISTORY:	Lists changes to policy/guideline
Additional Info's:	Supporting documents, links, IT systems etc.

Fig. 3 Policy and guideline document template

ideas for improvements, efficiencies, or simplifications, the company can benefit from the engagement of their workforce. By actively involving the employees, policy management no longer has to remain a tedious and static compilation of regulations handed down from top management to the employees; it can become a vivid part of the company's organizational development. As such it is also advisable to enrich the policy manual and really make it an employee handbook by incorporating such items as:

- Company philosophy
- Company values
- Vision-mission statement
- Code of ethics
- Corporate social responsibility
- Leadership and management philosophy
- Employee self-commitment

Such company values and cultural commitments can be very powerful, especially if they grow within the organization and are not a top-down management directive. They can prove to be a key driver to ensure compliant and ethical behavior within a company as they define much more than the classic policy manual on the before mentioned “hard HR processes” – they define ***how*** the entire workforce wants to interact and thus support ***what*** has to be regulated on a behavioral and emotional level.

Economic Perspective

The economic perspective of policy management is self-evident as the mitigation of legal, financial, and security risks is in itself an economic benefit. In fact the financial consequences in cases of noncompliance to defined regulations of the mere absence of clearly defined regulations and standards can be so severe that they can ruin the company. In case of nonregulation of certain standards which are more common in smaller companies, individual lawsuits will be costly and time intensive at the least. Clearly outlined regulations and responsibilities will help the company to safeguard itself against wrongful accusations. The larger the company, the higher the risk of severe financial damages through:

- Opportunities for significant financial abuse
- Precedent lawsuits
- Discriminatory practices and violation of equal rights
- Theft or misuse of confidential corporate data
- Business discontinuity after security hazards
- Reputational risks (which in effect can bring significant financial damage or ruin a brand entirely)

It will be the main aim to largely avoid or reduce these and other risks by clearly outlining standards, boundaries, and responsibilities – not only of the company but of all employees. The clearer the regulation, the smaller the risk. That said it should also be analyzed to what extent an overregulation may also increase certain risks. If a company decides to create stricter regulations than legally necessary, it sets itself internal standards which it will always have to comply with, also against internal and external auditors. Thus the right balance should always be considered.

Coming back to the people perspective of policy management and the inclusion of company values and cultural commitments to the employee handbook, there is also an underlying financial aspect. With the increase of transparency and awareness of the dos and don'ts of each and every employee, the risks through nonadherence will be reduced. Also by creating the most efficient policies and processes possible, workload and confusion will be kept to a minimum and help run the organization at its most efficient and effective level. That alone will generate positive financial impact through cost savings and additional revenue.

Another important aspect is employee and management morale. If a company can succeed in boosting the morale of its workforce by actively engaging them in all aspects of everyday work – including its policy management – the loyalty to the company will be higher, work results will be better, and continuous improvement is ensured. Well-managed policies and guidelines cannot only support to mitigate the before mentioned risks but be additionally beneficial to the company.

Risk Perspective

Policy management in itself aims to reduce the company's risks. Professionally managed this can be well achieved. However there are also certain risks of maleficent policy management that can be contra productive:

The Poor Policy

A poorly researched and outlined policy without the necessary legal advice can be a fast track into court. It is essential to create bulletproof regulations; otherwise your internal regulations can backfire fiercely. Also collective bargaining agreements need to be carefully incorporated as necessary.

Overregulation

Once putting together a policy manual, one might be tempted to regulate everything imaginable and, in much detail, maybe even stricter than legally necessary. The risk is on the one hand to set standards that in any case need to be complied with and which can in effect lead to (unnecessary) complications with internal and external auditors. On the other hand, too much detail in the regulation might add unnecessary complexity and lead to inefficiencies in the process.

One Size Fits All

When defining a company-wide or corporate policy, one will most likely realize very soon that certain regulations will not fit in each and every country or company environment. On the one hand, local law will always dominate corporate law and as such there has to be room for local (legal) adaption or amendment if necessary. On the other hand, not all regulations are equally necessary everywhere. For example, in most European countries there is a strong legislation and need for strict regulation and monitoring in regard to employment of contract workers. In many Asian or South African countries, this aspect is (currently) irrelevant and will not require any kind of regulation. On the contrary, unnecessary regulation will add confusion and minimize the acceptance of internal policies. Also cultural aspects should be taken into account. Some countries will expect to find a guideline on corporate attire or dress code, whereas other countries will find that outdated or irrelevant.

The Policy Graveyard

To initially compile all relevant company policies and guidelines is a major task and will bind extensive resources and also expert know-how. Do not be tempted to put the policy manual on the shelf, and let it reside there with the confidence that everything that requires proper regulation is legally in place.

Formally enact the policies; actively and regularly communicate to and engage the employees; use the policy manual rather as an employee handbook and integrate company values, leadership commitment, etc.; review the policies; and update regulations and supporting documents as necessary.

The Management Double Bind

An immediate killer of any corporate compliance regulations or policies is if management is caught not complying with its own standards. Management has to openly act as a role model in regard to both policies as well as corporate values. If this is not accomplished, then the buy-in and adherence of the entire workforce will simply not be possible.

Operational Perspective

The operational perspective will outline in more detail what should be taken into account by the respective management and HR department when creating the company policy manual or employee handbook.

Who Is Responsible?

- In smaller companies there will be one HR department responsible for drafting and documenting the policies. Solid legal partners need to provide expert advice to ensure bulletproof policies and guidelines.
- In larger enterprises, the compilation of a policy manual will be a classic Center of Competence (CoC) task where the legal experts will outline the respective

policies with the help of respective process experts. These process experts will generally also hold responsible for the content of the respective policy or guideline and serve as a contact partner for employees and management in case of any questions.
- Within communication and implementation of the policies, awareness has to be created that in every legal entity or country, it is management responsibility to formally enact and communicate the policies, and it is employee and management responsibility alike to actually comply with the policies and regulations.

What to Consider When Designing the Employee Handbook and Outlining the Policies and Guidelines?

- When compiling an employee handbook and if you decide to cover not only the “hard HR processes,” then start with the company’s mission and goals. A mission statement should be clear and simple so that everyone in the organization can understand and identify with. From a mission statement, objectives can be set, and from objectives, policies and guidelines can be created. Company values will describe behavioral commitments and support compliance to company policies.
- Draw the big picture of both the risk relevant processes as well as those processes which are key to achieve the company objectives. This big picture will serve as the framework for the company’s employee manual and also comprise cultural and behavioral aspects.
- Invest in extensive research on core business/HR practices and (legally) necessary controls, and make sure that all policies are legally sound, also covering relevant aspects related to labor unions – if applicable. For maximum buy-in of the policies and regulations, you may want to choose to involve expert staff in the policy creation.
- Maintain focus on the objective, keep process and language as simple as possible, and avoid redundancies or overregulation with hundreds, even thousands of regulations, approval, and documentation systems.
- Just because policies are formal and legally relevant by nature does not mean that they cannot be written in a lively and easy-to-understand manner for the target group. An appealing visualization can support to better understand and internalize the regulations.
- Make sure to formally enact each policy or instruct those responsible to enact (e.g., in different locations/countries) and document accordingly.
- Ensure to keep policies and guidelines up to date including supporting documents and templates, checklists, etc.
- Review policies regularly (e.g., 1 x p.a.) to check whether they are still in line with local legal and/or corporate requirements and standards. Expand, supplement, or revise according to business, culture, or legal conditions. Also question which regulations may not be considered necessary any longer, and discontinue certain policies or process steps if appropriate (Fig. 4).

Fig. 4 Regular process steps of creating an employee handbook/policy manual

How to Design and Document Process Flows?

Process flows in a standard format will help all persons involved to understand in detail who is responsible for which task at which stage of the process, including carrying out (c), information sharing (i), decision making (d), participating/contributing (p), and accepting (a).

Well designed a process map will also help identify process improvement and efficiency potential and can easily be revised as necessary.

- Clearly define processes and subprocesses
- Who is involved in the project/process? Allocate clear roles, e.g., in line with the so-called **RACI** method:
  R = **Responsible** – Person who is responsible for performing or delegating activities. More than one person can be responsible.
  A = **Accountable** – Person who is in charge of an activity in a legal or business sense. A single person is responsible for this kind of activity.
  C = **Consulted** – Specialist who gives advice. Advice can be given by more than one person.
  I = **Informed** – Person receiving information on the progress/result of an activity or having the authorizations required to receive information. Multiple project/process participants may have these authorizations.
  It is possible that one person has more than one responsibility for an activity, e.g., responsible and accountable.
- Indicate respective activities, tasks, instructions, and decisions to be made
- Indicate input/output of data
- Standard up-to-date forms, templates, and checklists can be added to the policy or process in order to help involved parties to efficiently handle the respective tasks and document as needed.

Example Internal Hiring Process
The below flowchart is a simple generic example of how to describe a process in its single steps with connected tasks. Many IT tools will be able to support process mapping in a much higher complexity and allow to customize to company needs including allocation of roles and supporting documents and/or links to further IT systems (Fig. 5).

Example: Onboarding Process
The below flowchart is more of an internal checklist of what a hiring manager has to consider and prepare before onboarding and for the starting day. Such a chart can be expanded in time (e.g., 100 days check after hiring) or in terms of different responsibilities (e.g., HR, IT, supervisor, employee) (Fig. 6).

Management and Communication of Employee Handbook

How to manage and best communicate the employee handbook and any new or altered policies or regulations within the company?

An employee handbook is a means of communication with employees; it is a first way to communicate to employees the management rules and guidelines of the organization. In addition, policies help to organize and announce management's strategic plans and outline company decisions, investments, employee benefits, and workplace issues.

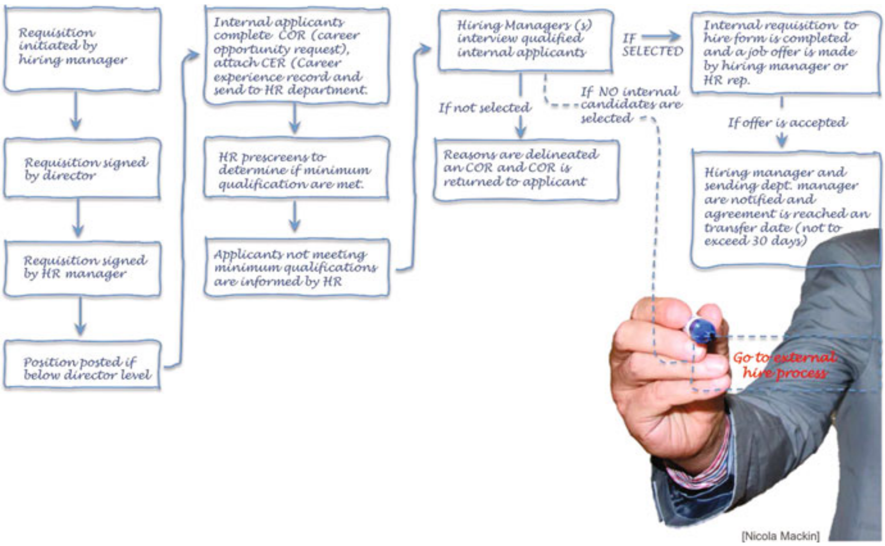

Fig. 5 Internal hiring flowchart

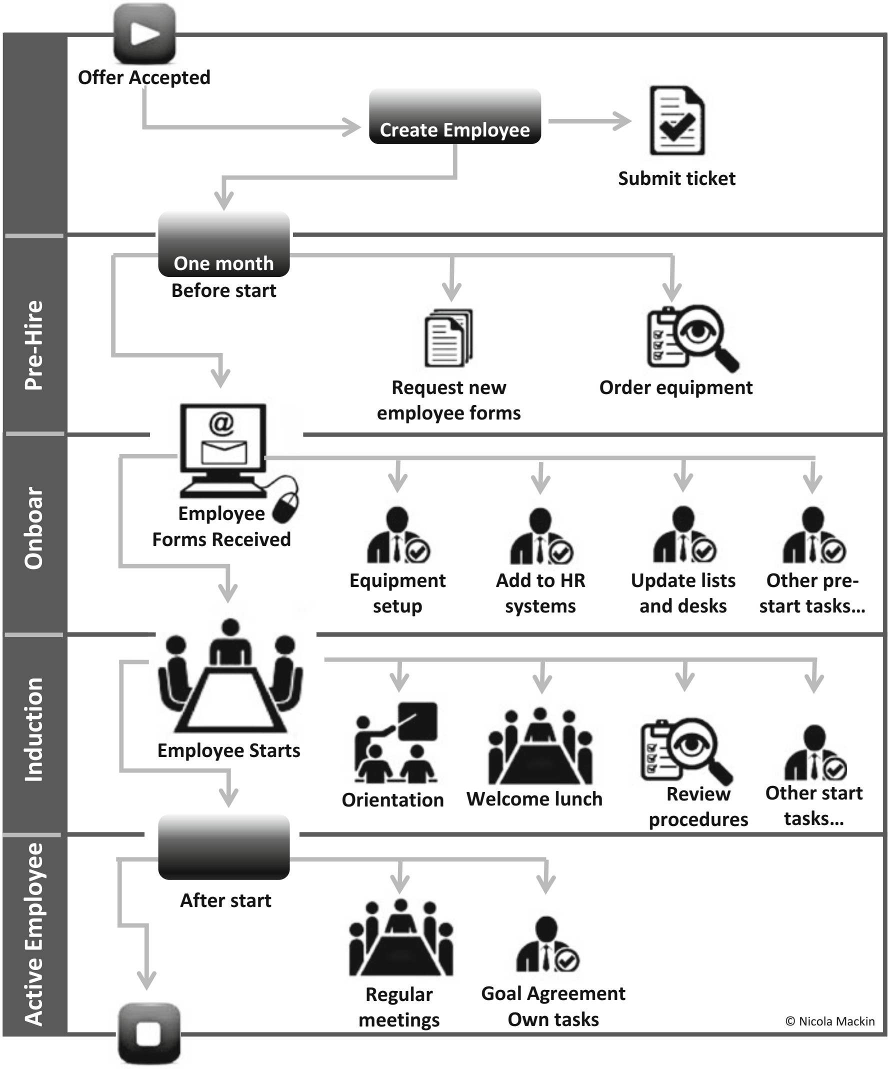

Fig. 6 Onboarding checklist

Make Use of the Existing Corporate Communication Channels and Keep Communication Clear and Simple

- Make the company's policies everybody's responsibility! Even though it is the responsibility of the HR department to define the relevant regulations, it is not HR (alone) who has to comply with these regulations – it is the entire workforce and its management.

- Explain the objective of the employee handbook, the strategic big picture, and also the impact on the company and its employees, mentioning both risks and financial losses as well as benefits to the company if policies and processes are well practiced. If policies make sense, they will be accepted.
- Publish the employee handbook to the company's internal website and make it easily accessible at all times; make the employee handbook part of the welcome package to new employees, and if it seems advisable, have employees acknowledge/sign to having received and understood the handbook and its policies.
- Highlight who is responsible for which processes and regulations so that employees know who to ask in case of any questions.
- If possible allow customization of a "my policies" tool so that employees and management have the opportunity to compile those regulations which are most relevant for them.
- Provide brief information (e.g., via email) on any updates to the policy manual so that employees can focus on what they should look up.
- In case there are crucial regulations that are introduced or altered, make employees and management aware of these, and outline the specific necessities and key responsibilities (e.g., in company newsletter, bulletin, and/or town-hall meeting).
- For particularly risk relevant policies and processes, trainings can be conducted to sensitize employees and management on their responsibilities and tasks.
- Encourage a two-way communication with your employees and provide the opportunity to question certain regulations and/or hand in ideas for efficiencies or improvements.
- Demonstrate that management is a role model for ethical and compliant behavior.

What Happens in Case of Misconduct or Violation?

Part and parcel of a professional policy management is also to clearly outline what is regarded as a minor, major, or severe misconduct or violation and what happens to the employee and/or management in case of such misconduct or violation.

For one, misconduct and violation should ideally be an integral part of the policy manual or employee handbook. The following aspects should be clearly covered and communicated and at all times accessible to the entire workforce:

- Contacts to (anonymously) report perceived misconduct within the company
- Transparency on what is regarded as minor, major, or severe misconduct including concrete examples within the company and respective consequences and also what is NOT considered a misconduct or violation
- Transparency on the general internal investigation processes within the company including closing with/without merit

Do's and Don'ts for HR Policies and Guidelines

	
▪ Do sufficient research and ensure legally sound process steps ▪ Involve expert colleagues (from different locations) to outline the policies and guidelines with their diverse perspective. This is the first step to employee buy-in ▪ Involve expert colleagues (from different locations) to outline the policies and guidelines with their diverse perspective. This is the first step to employee buy-in ▪ Keep policy language professional and simple; provide examples for better illustration ▪ Use easy-to-use standard formats, process flows, and checklists and update regularly ▪ Focus on the objective of the policy or guideline and strive for the simplest/shortest process solution ▪ Provide a framework of which processes require regulation with clear allocation of responsibilities to be defined on local level ▪ Make the employee handbook a foundation for organizational development by including strategic focus, company objectives, company values, and ethics. ▪ Make top management a role model to demonstrate the company's values and walk the talk in regard to taking responsibility seriously. ▪ Communicate to the entire workforce via all internal communication channels and make it very explicit what is expected from them ▪ Encourage employees to challenge and feedback on company processes including CPI suggestions ▪ Regularly review your policies and guidelines (1 x p.a.) and ensure that everything is in line with current legal requirements and all supporting documents are up to date	▪ Do not be misled to think that an employee handbook can be compiled with common sense alone ▪ Do not attempt to do everything yourself. You will need the experts for the various topics ▪ Do not be over-formal, overcomplicated, or vague. This will add confusion rather than give direction ▪ Do not compile a load of different looking material without supporting documents. If it is not easy to use, it will not be used ▪ Do not overregulate; the more specific you regulate the HOW of each process, the more you bind yourself to your own standards that may not be effective/realistic to adhere to ▪ Do not make employees mere recipients of the company's policies and guidelines ▪ Do not strive for one size fits all; leave flexibility for local legal legislation but also for cultural differences. ▪ Do not "only" create a policy manual but make use of the opportunity to incorporate company strategy and values. This way you can truly give the employees long-term direction ▪ Do not ruin the efforts of your policy management by creating the impression that your management has "a different set of rules." They need to lead by example ▪ Do not create a policy graveyard ▪ Do not create a one timer. That would be a massive waste of resources and in addition also a legal risk

Outlook

Active policy management can be so much more than the formalization and documentation of HR policies, regulations, and guidelines. If well managed as an integral part of the company's organizational development and internal communication process, a policy manual or employee handbook can truly serve as a foundation for not only the company's HR processes but even for the company's growth or change.

During the uncertainties around the Sarbanes Oxley Act and the requirements that were imposed, the main goal of any policy or guideline had simply been to rule out any risks or violations. Today policy management is becoming much broader and is increasingly being utilized to display and communicate holistic strategic direction paired with company objectives, tasks, and underlying responsibilities. Companies have accepted and internalized policy management as central to HR and business processes and have gained self-confidence in understanding regulation and control requirements and the respective responsibilities attached. With this maturity management and HR departments should actively focus on incorporating the company's value system and engaging the entire workforce to actively follow the company's principles and form their company culture.

For modern workforce it is becoming increasingly important to work for a company which commits to ethical business practice, equal and fair treatment, and maximum transparency and also encourages employees to shape and change their work environment.

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Human Resources Governance and Compliance: Human Resources Audit and Investigations

65

Bernhard Balz

Contents

Abstract

The following chapter provides an overview of HR audit and investigation processes, conducted by internal auditors (also referred to as internal audit or corporate audit department) as a key tool to ensure a company's long term success – a risk management approach to remediate proactively the risk of ineffective, inefficient processes and undetected weaknesses, as well as incompliance with applicable regulations, unethical behavior, and misconduct.

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A comprehensive presentation of all aspects of an audit is beyond the scope and objective of this chapter. The aspects of an investigation will be discussed only where explicitly a substantial difference to the processes of a business process audit are perceived by the auditee. This is dealt with in separate sections called “Specific Characteristics of Investigations.” In general a business process audit is a systematic screening whether laws, policies, and guidelines are followed in practical application and whether the business processes are effective and efficient. An investigation is targeted usually at one specific incident in which violation against company rules and regulations is suspected whereby investigators use forensic methods, among others. Investigations often are conducted based on a whistle-blower or a hint coming up during another audit and often are individual related due to personal wrongdoings.

The following sections focus on the aspects of the audit processes that are perceived by the members of the human resources department as the audited area. Therefore, it is mainly looked at from the perspectives of the HR management in order to provide tips and ideas for HR professionals on how to cope with challenges of internal audits and how to use the potential benefit that an audit has for the respective HR organization.

Keywords
Internal auditing • Internal audit • Compliance • Risks • Governance • Risk assessment • Investigation • Auditee

Introduction and Overview

Internal auditing is an independent and objective assurance and advisory activity of a company. It is designed to support the optimization of the company’s risk exposure, to add value, and to improve an organization’s operation. Furthermore, it assesses internal controls and processes regarding:

- Compliance with applicable laws and regulations
- Compliance with relevant policies and guidelines
- Safeguarding of corporate assets
- Reliability of internal and external reporting
- Effectiveness and efficiency of operation and administration

Internal audit assists the organization in accomplishing its objectives by bringing a systematic, disciplined approach to evaluating and improving the effectiveness of risk management, internal control, and governance processes.

The overall objective of internal audit activities is to determine whether the organization’s network of risk management, internal control, and governance processes designed and represented by management is adequate and functioning in a manner to ensure that:

- Risks are appropriately identified and managed.
- Operations run efficiently.
- Interaction with various governance groups occurs as needed.
- Significant financial, managerial, and operating disclosures are accurate, reliable, and timely.
- Management and staff actions are compliant with policies, guidelines, standards, procedures, applicable laws, and regulations.
- Resources are acquired economically, used efficiently, and are adequately safeguarded.
- Programs, plans, and objectives are accomplished.
- Quality and continuous improvement is cultivated throughout the organization's control processes.
- Significant legislative or regulatory issues impacting the organization are recognized and addressed appropriately.

Internal audit activities are performed in different legal and cultural environments and in organizations that vary in purpose, size, and structure and by persons within or outside the organization. These differences may affect the organizational structure of an internal audit function and the practice of the audit approach. Nevertheless, an internal audit function is an instrument of the CEO or the board of management of a company. Its purpose is to assist them in their obligation to supervise the group's risk and control framework as well as the compliance and efficiency of the business operations.

In consequence the organizational structure of an internal audit function follows the organization of the company. Thus, an internal audit organization can be regional, divisional, functional, or a mixture of all. Due to the fact that audit engagements should be performed with proficiency and professional care, the auditors should possess the relevant knowledge, skills, and other competencies required to fulfill their task.

Furthermore, there is an increased awareness that an internal audit organization should audit the human resources function. Human resources has an integral role in the company and covers a broad spectrum of employment activities with inherent risks, including employment law issues, compensation and benefit plan design, documentation requirements, data protection, safety regulations, and potential fraud issues. Moreover, it should review whether there is a misalignment between the HR operations and the strategic and operational goals of the company.

Given that, there is usually a certain organizational structure existing, implemented in the internal audit function of a company with specialists for human resource processes, which is responsible for the execution of the audits in the human resources departments.

The Annual Planning of the Audits

The first main task of an audit function is to develop a flexible annual audit plan using an appropriate risk-based methodology including the risk and control concerns that have been identified by the management and the external or internal auditors. This plan determines the priorities of the internal audit activity of the next year, being consistent with the organization's goals. It is submitted to the CEO, the board of management, or other defined stakeholders for their review and approval. Sometimes there are variations in the audit planning process in different companies, for example, audit plans covering two or more years, updated in a roll forward planning, etc.

That requires for an audit function first to determine the potential audit areas:

- The objects which should be audited – like premises, plants, wholesale and retail facilities (legal entities or business locations), business partner, etc.
- The key processes and areas which should be in scope – like payroll processes, compensation system, international assignment processes, administration processes, health insurance and pension plans, etc.
- The key projects which should be observed – like outsourcing activities, major IT system changes, restructuring activities, etc.
- Other HR topics – like safety regulation, data protection of HR data, etc.

Secondly, the audit areas have to be evaluated with an adequate risk-based methodology covering for instance the following information:

- Number of employees in a certain entity
- Number of expatriates in a certain facility
- Number of hierarchy levels
- Relative increase/decrease in number of employees
- Relative increase/decrease in number of expatriates
- Annual payroll
- Number of different IT systems in a certain HR area
- Corruption index of certain countries, where entities are located

In bigger organizations the above information should be delivered mainly via data analyses of the relevant IT systems.

Finally the responsible HR management has to be involved in the risk assessment for the upcoming audit plan of the next period as a further dimension of the evaluation. This has to be organized by the audit function.

The relevant management and professionals of HR have an active and important part to ensure that the most significant topics in the most risky location or entities will be audited in the next audit period. This could take place in different ways, e.g., taking part in a survey or being interviewed.

This means the given information has to be well prepared, as precise as possible, and as well sufficient, reliable, relevant, and useful. Otherwise the goal of the audit plan to detect the most risky topics cannot be achieved. To support this, everyone, who is asked by the audit team to give one's input in a survey or in an interview, has to consider multiple sources of relevant information, like minutes of meetings, presentations, process descriptions, project plans, personal information from colleagues, staff members, business partners, counterparts of interfaces, etc. The collection of relevant information and documentation should take place beforehand or is organized permanently throughout the year.

Subsequently the information from every dimension of the risk assessment methodology will be concentrated (see Fig. 1), enabling the executives to develop a final audit plan for the next audit period and submit it to the CEO, the board of management, or other defined stakeholders for their review and approval.

After the audit plan is approved by the relevant top management, the audit department subsequently starts conducting the audits. Depending on the overall risk exposure and the available resources, the number of HR audits varies in each audit period.

Specific Characteristics of Investigations

Since incidents triggering investigation audits occur unexpectedly, no formal planning process can be applied to.

The Execution of the Annual Audit Plan

The second main task of the internal audit function is the execution of the planned audits.

The approach of a business process audit varies from audit function to audit function. Nevertheless, the major process steps are always similar but sometimes named and tailored differently (see Fig. 2).

The following sections describe the main phases and steps of an audit especially in the HR area, the underlying audit procedure, thereby focusing on the roles and responsibilities ("R&R") of the involved HR management and professionals that will be audited ("auditee").

Usually the general rule is that in order to execute its duties, internal audit ("IA") is authorized to obtain the necessary assistance from personnel in units of the organization where they perform audits. These rights shall only be exercised within the scope of approved audits. The internal audit receives relevant information from

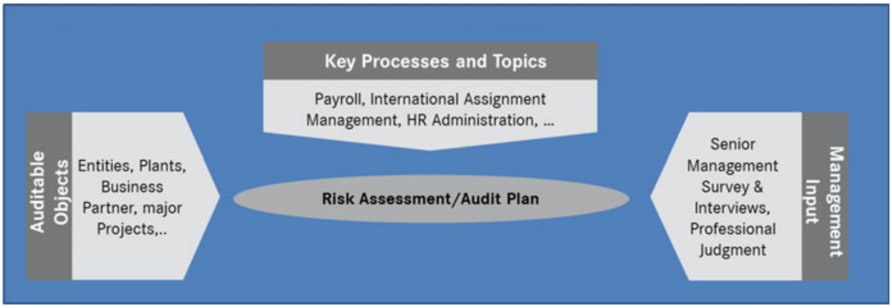

Fig. 1 Risk assessment for audit planning process

Fig. 2 Audit approach

management regarding significant occurrences, decisions, and strategic plans which are necessary for achieving its objectives.

Preaudit Phase (Preparation)

Step 1 Audit Notification
R&R Internal Audit (IA)
Usually a standard timeline applies to a business process audit. Therefore, a few weeks before the audit starts on-site, IA announces the audit by sending an engagement letter (also known as audit notification) to the responsible management and all concerned stakeholders of the audited area. The letter informs the auditee about key data of the audit:

- Start and end of the on-site audit
- Names of the involved auditors and key contact persons of IA
- Scope of the audit (processes, regulations, outsourced services, etc.)
- Next steps, e.g., information request, start meeting (kickoff), preparing telephone interviews upfront, etc.

Afterwards IA coordinates the kickoff meeting and asks for support in the organization of the audit.
R&R Auditee (HR)
The tasks and duties of the auditee are:

- Check feasibility of the timeframe and ask for adjustments if necessary
- Organize the availability of all needed HR management and professionals during the on-site audit phase
- Give organizational support if requested

Specific Characteristics of Investigations
There is no formal audit announcement for an investigation. Usually IA informs the alleged person about the investigation, if there is no risk that the disclosure will adversely affect the investigation.

Step 2: Information Request, Pre-analysis, and Setup of an Initial Audit Schedule
R&R Internal Audit (IA)
IA places a formal information request during the Preaudit phase a few days after the announcement. According to the audit scope, IA asks for:

- Contact persons and responsible staff members and their availability
- Process descriptions and related presentations and documents
- Relevant policies and guidelines
- List of relevant IT systems and sometimes remote access to these systems
- Selected supporting documents, if possible
- Verbal information (e.g., phone calls)

By analyzing the obtained information, IA derives a more detailed audit scope and creates an initial audit program (also known as work program).
R&R Auditee (HR)
The tasks and duties of the auditee are:

- Provide the information, documents, and data as complete, correct, and reliable as possible in accordance to the information requested
- Provide confidential data encrypted and under consideration of data protection regulations
- Check whether access for IT systems is feasible under consideration of the given skills of the auditors (auditors are obliged to have the relevant skills)
- Ask for clarification, if necessary

Specific Characteristics of Investigations
Multiple formal information requests could be placed during the preparation of an investigation.

On-site Audit Phase: Fieldwork

Step 1: Start
R&R Internal Audit (IA)
The on-site procedure of an audit starts in general with an initial meeting (kickoff meeting). During the kickoff, IA informs about:

- Reason for the audit
- The advanced audit scope and the objective of the audit
- The audit approach
- Request for additional documents/information
- The timeline and further steps
- Cooperation model and communication milestones (status meeting, end of fieldwork/closing meeting, etc.)

R&R Auditee (HR)
The tasks and duties of the auditee are:

- Ensure the attendance of all relevant managers and professionals, including senior management and stakeholder from interfaced processes
- Give input concerning further aspects updating the scope
- Ask for clarification, if necessary
- Ask for additional status meetings, if necessary
- Inform the auditors about possible restrictions regarding the availability of important contacts, so that they could consider it in their interview schedules

Specific Characteristics of Investigations
Investigations usually do not have mandatory meetings. The local HR management might be informed before start of fieldwork that an investigation is ongoing. Further communication is not usual and decided case-wise.

Step 2: Accomplishment (Field Research)
R&R Internal Audit (IA)
The audit approach for the fieldwork, which is chosen by IA, consists mostly of:

- Performing interviews, including walk-throughs, with key process owners and persons involved in the process to understand the process
- Determination and assessment of the relevant risks in the process under review
- Analyzing the received information with respect to efficiency, effectiveness, transparency, and compliance with applicable laws, policies, and further regulations
- Testing mostly on sample basis whether the intended procedures are in place and the installed controls are sufficient and work as intended
- Identification of root causes for weaknesses, improvement opportunities, and control gaps like:
  – Lack of knowledge skills
  – Inadequate monitoring of controls
  – Redundancies in processes
  – Inaccurate reporting
  – Unclear roles and responsibilities
  – Misbehavior
  – Working error
- Development of solutions to eliminate the weaknesses and gaps, to reduce risks, and to increase efficiency and effectiveness

Generally IA offers various opportunities to discuss the progress of the audit fieldwork and preliminary results by holding formal and informal status meetings (weekly or sometimes daily). A potential issue (weakness, control gap, process inefficiency, etc.) will be discussed usually with the auditee during the daily audit work. The auditors ask and discuss:

- Whether the issue is precisely described (confirm the understanding)?
- What is the root cause of the issue (Why)?
- What should be the standard or best practice?
- What is the needed action for improvement (What next)?

R&R Auditee (HR)
The tasks and duties of the auditee are:

- Find a common understanding through discussion with the auditors
- Give input concerning the determination of the root causes
- Ask for clarification or additional status meetings if necessary to avoid surprises at the end of the audit
- Deliver additional documents if it is helpful for the verification of the issues
- Evaluate if the chosen samples were representative
- Evaluate whether the recommended remediation actions are feasible

Specific Characteristics of Investigations
Fieldwork includes on-site and off-site activities. Moreover informal information meetings can be arranged. If necessary, IA initiates interim ad hoc measures during the investigation to reduce the risk of further damage.
Interviewees are informed about the rights and duties in an investigation; this information is provided before the start of an interview and considers whether the interviewee is an alleged person or asked as an expert or as a witness.

Step 3: Closing (End of Fieldwork)
R&R Internal Audit (IA)
Finally there is an end of fieldwork meeting (closing meeting) performed by IA (last day of the on-site visit). Invitees to the closing meeting are kept at a minimum:

- Main contacts
- Responsible management
- Persons who will be responsible for remediation actions

In the closing meeting the audit results are summarized in a detailed and comprehensible manner:

- Detailed description of the issue as already discussed during the various update meetings (status meetings, briefing meetings with the auditee's management level, etc.)
- Risk validation (see below)
- Recommendations to be agreed upon
- Responsible departments/people/persons for the remediation
- Due dates, when an action or a recommendation has to be implemented
- Further timeline and next steps of the audit

Risk Validation: Usually IA assesses the issues and assign a rating (e.g., low, medium, high, or severe or occasionally in categories like A, B, C, D, E. . .). This assessment is an exclusive task of IA and usually not negotiable. There is not always a clear distinction between the categories, and the auditors have to use their professional judgment. The main criteria here are:

- Violations of legal or internal requirements
- Financial impacts
- Absence or ineffectiveness of controls
- Negative consequences on the company's reputation
- Misalignment with the company's targets
- Process weaknesses

R&R Auditee (HR)
The tasks and duties of the auditee are:

- Verify the description of the issues
- Evaluate, whether the recommended actions are agreeable
- Check, whether the defined responsible persons are the correct ones and whether they have the appropriate management level
- Evaluate, whether the due dates are feasible
- Ask for clarification or for corrections, if necessary

Specific Characteristics of Investigations
There is no formal end of fieldwork meeting.

Postaudit Phase: Reporting

Step 1: Report Preparation and Reconciliation
R&R Internal Audit (IA)
IA drafts the audit observations in a report, which can either be kept very lean, i.e., the closing meeting presentation added by a management summary and some background information or very elaborately formulated. Occasionally there is no formal report, and IA creates only a list of measurements (agreed actions or recommendation) with few amendments. Nevertheless, the content reflects the information given at the end of the fieldwork with minor adjustments. Usually IA forwards a draft version of the report to the auditee for reconciliation. Finally, the comments and remarks of the auditee are considered for the final version, which is then distributed by IA to all relevant people.
R&R Auditee (HR)
The tasks and duties of the auditee are:

- Verify the extensive description of the issues in cooperation with the concerned departments and people

- Reevaluate, whether the recommended actions are agreeable
- Check again, whether the defined responsible persons are correct and if they belong to the appropriate management level
- Evaluate whether the due dates are feasible, particularly with regard to the workload caused by the several actions required
- Ask for clarification or for adjustments, if necessary

Specific Characteristics of Investigations
The report contains sensitive data; typically only excerpts will be sent to and reconciled with the investigated entities/relevant departments. In certain cases a reconciliation of the report with legal department and certain external consultants might be necessary.

Step 2: Report Distribution
R&R Internal Audit (IA)
The final report is distributed by IA to all persons who have to implement or supervise an action and to the senior management and depending on the importance and/or urgency of the issues (illustrated in the risk classification) to the CEO and top management of the company.
R&R Auditee (HR)
The tasks and duties of the auditee are:

- The senior and top management should be kept informed during the whole audit project in order to avoid surprises for them, if the results are communicated merely through the final report.
- The final report should be accessible by everyone, who needs the contained information for his operational work.

Specific Characteristics of Investigations
Where appropriate only an excerpt of the report with regard to the action plans and recommendation could be distributed separately to the investigated entities and relevant departments. It might be necessary that individuals investigated and deemed responsible for an improper conduct do not receive the report.

Follow-Up Phase: Action and Remediation

Step 1: Risk Mitigation
R&R Internal Audit (IA)
Generally IA tracks and documents the implementation of the agreed actions or recommendations during the remediation phase after the audit project is finalized.
R&R Auditee (HR)
The tasks and duties of the auditee are:

- Implementation of the agreed actions or recommendations in accordance to the timeline; if necessary request extension of the implementation date in a timely manner
- Providing required information to IA
- Sharing best practices with colleagues from other HR departments with similar processes in order to avoid similar control gaps or failures

Step 2: Validation
R&R Internal Audit (IA)
Depending on the defined audit standard procedures, the verification of the remediation status varies from company to company. Either IA checks the successful implementation of the agreed actions and recommendations by asking for relevant supporting documents (off-site desk research), or a separate audit is conducted. Such a follow-up audit is conducted in the same manner as the preceding audit, only within a shorter timeframe. The scope focuses on (a sample) the content of the related audit.
R&R Auditee (HR)
The tasks and duties of the auditee are:

- Supplying all relevant documentation as a confirmation of the successful implementation of the agreed actions and recommendations, even if the actions were changed but still mitigated or eliminated sufficiently the addressed risk
- Supporting the follow-up audit in the same manner as a full scope business process audit

Examples for an HR Auditing Process (in Extracts)

In the following, two examples of audit projects (audit scope), each with some exemplary audit content (checks and questions of the auditors) and a list of further examples:

HR Administration

Recruiting and Hiring

- Recruiting process:
  Check whether the recruiting process is appropriate and meets the organization's strategic business objectives and that all relevant and required approvals as well as segregation of duty exist.
  - How is it ensured that adequate and suitably experienced staff are recruited (candidates are evaluated against the job requirements and adequately screened) so that the organization's strategic business objectives are achieved?
  - Are standardized recruitment policies and procedures established (including legal regulations if necessary)?

  - Does proper segregation of duty exists during the recruiting process (HR and functional department)?
- Hiring process:
  Check whether the hiring process is appropriate and that all hirings are processed complete and prompt, that all relevant and required approvals exist for hiring, and that the employee integration is efficient.
  - Does the process ensure that the hired position is considered and approved in the personnel planning?
  - Does the process ensure that all relevant and required approvals and documentation exist for hiring (signatures on contract, signature on entry form, etc.)? As a minimum requirement all employment contracts need to be approved by the HR department.
  - Does the HR department support the functional department regarding employee integration? For example:
    Company orientation day
    Checklists to ensure the general company requirements are organized and prepared for the employee timely (intranet, e-mail access, etc.).
    Support the functional department regarding integration concepts (mentoring concept, department workshops for new employees, etc.).

Personnel Files

- Structure and access:
  Check whether the personnel files are structured, complete, and not accessible to other employees besides the HR department.
  - Does the personnel file have a clear structure, and are they complete (all individual-related changes have to be filed)?
  - Are the personnel files stored in the HR department in a protected environment (e.g., fireproof)?
- Filing:
  Check whether there is no other filing besides the personnel file.
  - Do additional personnel filing besides the main personnel file exist? This has to be avoided.
- Archiving:
  Check whether the retention period of documents and their archiving method is appropriate.
  - Are the retention period of personnel files and archiving methodology defined? Are they documented and according to the legal requirements (paper filed/electronically filed)?

IT Administration

- User access management/access process:
  Check whether the administration of the system in scope of the review is appropriate and that the user access process is approved, working, and documented properly.
  - Is a single person or a limited number of individuals ultimately responsible for approving and granting access to the system/application?

  - Has a formal documented process been developed and implemented for managing access to the application/system?
  - Do the processes include a standard methodology to ensure that adequate levels of access (user profile consisting of user roles) are properly defined according to job requirements, i.e., restricted only to the actions necessary (need-to-know principle)?
  - Are the user accesses independently reviewed and verified on a regular basis?
- User access management/user and user profiles:
  Check whether the user roles and user profiles are created appropriately according to the SoD requirements and that no "super-user" profiles are in place.
  - Have the user roles been created with the segregation of duties (SoD) concept in mind? A single user role should not consist of rights violating the SoD concept or principles.
  - Have "super-user" profiles been allocated to employees? This should be avoided. In case of "super-user access rights," have adequate compensating controls (e.g., regular review of all transaction and system entries performed by a "super user" by an independent individual) been designed and implemented to minimize/reduce the risk?
- User access management/password management:
  Check whether the password management process is properly designed and adheres to the guideline requirements.
  - Do the local password requirements for the application adheres to the overall guideline requirements (minimum password lengths, character requirements, frequency of password change)?
  - Are passwords shared or openly written down at employee desks? This has to be avoided.

Payroll

Payroll Preparation

- Data input control – interfaces:
  Check the data and the data provision to the payroll department in terms of adequacy and correctness.
  - Does the organization have all data interfaces/data requirements in order to prepare the monthly payroll?
  - Are the HR and payroll departments always notified about changes in the corresponding law? All these changes need to be assessed and timely implemented. Income tax rates/brackets (defining the income tax deduction) and the social security contributions to be deducted show the highest criticality in this aspect.
- Data input control – transfer:
  Check the data provision to outsourced payroll provider.
  - Are data provided to an outsourced payroll service provider adequately protected (transmission of a protected/encrypted file (e-mail) or secure interface transmission (secure web portal)?

  - Has a written communication taken place with the service provider about individuals being authorized to transfer data and/or send instructions?

Payroll Calculation

- Payroll calculation process – test run:
  Check the payroll test run calculation process in detail.
  - Is the organization in scope performing a "test" payroll run (meaning a payroll run based on the latest available data for the month under real-life conditions)?
  - Are the results of the "test" run reviewed to identify any errors or anomalies? Also, the preliminary "test" results could be compared against previous months' results to detect significant deviations requiring follow-up.
  - Is the payroll data locked during the "test" run and the review of identified errors?
  - Are error reports available for the test run and are these reviewed and all errors consequently corrected before the final payroll run?
- Payroll calculation process – final run:
  Check the payroll final run calculation process in detail.
  - Is the payroll data locked during the final payroll?

Payroll Output Controls

- Payroll output control process – payment by electronic bank transfer:
  Check the process of the payroll processing after calculation till disbursement to employees.
  - How are the electronic payment files generated and handled?
  - Are the files adequately protected against any data modification at all times?
  - Who is able to view the data through file access? Payroll information is considered as confidential; therefore, access to view the data has to be granted only on a need-to-know basis.
- Payroll output control process – payment by check:
  Check the controls required for check payments.
  - Are payments by check necessary?
  - Are checks adequately stored in a lockable safe (if no safe is available, the checks should at least be locked away in an adequate environment)?
  - Are all checks issued documented in a register with payment details like amount, recipient, issue date, etc.?
  - Is the controlling of checks assigned to and performed by an independent individual (independent in this context means independent from having access to checks) on a regular basis?

Further Samples of Audit Scopes (No Claim to Be Complete)

- Strategic management
- HR organization
- HR technology and information control
- HR services outsourcing

- Total rewards (compensation system)
- International assignment process
- Safety regulation system and processes

Final Comments and Outlook

Handle and Communicate with Care

Both HR audits and investigations are activities with high sensitivity. At times, audits have the potential to turn into individual investigations. Those who are subject to audits or investigations might interpret the audit/investigation as a lack of trust in their motives and actions.

On the other hand, only with trust the company leadership would not fulfill its obligation to safeguard the company's interest. Investors want to be sure that their investment is in good hands. If, for example, decisions of a purchasing manager are influenced by bribes, the decisions will certainly not be in the best interest of the investor.

Sensitive communication to all those involved is of utmost importance, to do what is necessary and not destroy motivation of employees who did nothing wrong.

Give the Utmost Support

All concerned HR employees should give all needed/requested information and their valuable input during the audit process and help to set up a treatment plan. Otherwise it is not possible to gain a common understanding of the situation and the root causes of process weaknesses and risks. It is also not possible to uncover any unfavorable conditions, misalignments with operational goals, and incompliance with laws, regulations, and policies. Only the experts of HR together with the auditors are able to find the best solution and agreed actions to remediate those risks and weaknesses.

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Human Resources Governance and Compliance: Essentials of Compliance

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Eckart Jensen

Contents

Abstract

Corporate compliance made it to the agenda of many board meetings. The full integration of compliance in the human resources function is still on the agenda of many organizations. On one hand, the increasing number of HR-related compliance obligations and, on the other hand, the tight resources in the human

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resources function/department are generating a challenge for every person responsible for human resources in the organization.

The outline below looks into HR compliance from four different perspectives and targets to give some guidance:

- **People**: How to bring the message across and integrate compliance into the daily work in human resources?
- **Economic**: How to deal with cost to implement compliance in human resources, the potential damage of noncompliance, and the overall benefit of being a compliant company/function/department?
- **Risk**: How to manage the compliance assessment and remediate findings?
- **Operational**: How to integrate controls into the HR operations to ensure a sustainable, reliable handling of compliance topics?

In December 2014, the International Standard Organization (ISO) has introduced a new standard for compliance (corporate compliance). This standard needs to be integrated into human resources. Organizations will have to revisit the current situation related to the compliance in human resources, perform a comprehensive assessment, and integrate the findings while implementing the new ISO standard. The outline below will provide some advice how to manage this task.

Keywords
Agency worker • Audit findings • Benefits of being compliant • Benefit reporting • Business continuity plan • Code of conduct • Compliance culture • Compliance obligations • Employee master data • HR IT applications • HR policies • Internal control system • ISO Standard 19600:2014 • IT infrastructure • IT user rights • Legal compliance • Monitoring • PESTLE analysis • Privacy data protection • Process compliance • Public investigations • Remediation actions • Risk assessment • Risk management • Segregation of duties • Steering of external vendors

What Is HR Compliance?

Definition of HR Compliance

Compliance in human resources (HR compliance) governs the business and the human resources function to adhere with the employment-related legal framework (**legal compliance**) and the organization's specific HR policies, guidelines, processes, supporting applications, and templates (**HR policy and process compliance**).

HR compliance can be split into parts which forms "the two sides of a coin."

Legal Compliance

To ensure full legal compliance, all employment-related laws and regulations have to be transparent in its actual version to the organization. Those laws and regulations can be grouped into:

(a) Direct employment-related external regulations such as employment law, diversity and discrimination laws, privacy data protection law, regulations to set up a union, tax law, social security or other mandatory insurances, immigration regulations, as well as health and safety regulations
(b) External rules and regulations with impact on HR practices (e.g., anti-money laundering or anti-bribery laws)

HR Policy and Process Compliance

The organization and the HR function have to ensure that the respective legal framework and the corporate rules and regulations are implemented and enforced. Organization-specific HR rules, regulations, policies, or procedures and internal HR standards and HR processes have to be defined, implemented, and monitored. Additionally, all applications and templates to administer the employment have to be aligned with those to ensure a 100 % compliant HR operations.

Scope of HR Compliance

The scope of HR compliance is not limited to the human resources function. To ensure 100 % compliant HR operations, other functions like finance and accounting, legal and corporate compliance, procurement, and information technology have to contribute.

Furthermore, the scope of HR compliance is mainly influenced by the country culture (e.g., high risk), respective legal framework, size of the organization, age of the organization, industry, business model, organizational structure, experience with compliance, and other company-specific factors (e.g., leadership model, experience of the senior management team, corporate tradition, corporate culture, or use of HR IT applications). Therefore, the scope of HR compliance is unique for each organization.

Standards for HR Compliance

The International Standard Organization published the ISO Standard 19600:2014 “Compliance management systems guidelines” (ISO 2014a) in December 2014:

> ISO 19600:2014 provides guidance for establishing, developing, implementing, evaluating, maintaining and improving an effective and responsive compliance management system within an organization. The guidelines on compliance management systems are applicable to all types of organizations. The extent of the application of these guidelines depends on the size, structure, nature and complexity of the organization. ISO 19600:2014 is based on the principles of good governance, proportionality, transparency, and sustainability. (see ISO 2014b)

This new standard needs to be aligned with the respective requirements in human resources, implemented, and monitored.

HR Compliance as Part of Corporate Compliance, Risk Management, or Human Resources

The functional setup of corporate compliance (usually part of the legal function) and risk management (often part of corporate strategy or finance and accounting) is impacting the setup of HR compliance.

HR compliance can be part of those functions or be included in the human resources function (see also KPMG 2014, p. 90ff).

As HR compliance is influencing or impacting corporate functions, an additional steering committee to align all HR policies, guidelines, and procedures across the organization is recommended (KPMG 2014, p. 96). Additionally, it is recommended to integrate selected aspects of the HR internal control and monitoring system into the organization's internal control system.

Factors Impacting HR Compliance

The PESTLE analysis can be used to analyze all factors impacting compliance. **PESTLE** is a mnemonic which in its expanded form denotes P for political, E for economic, S for social, T for technological, L for legal, and E for environmental (Pestleanalysis 2015).

Currently, the legal changes are the most impacting factor related to HR compliance.

Legal Changes

An increasing amount of new or revised laws (international, transnational, and local) in almost all legal areas related to employment (as listed above) is impacting compliance in human resources. As a result, the complexity to manage HR compliance and the risk to be noncompliant are increasing. Small organizations acting in several countries and employing a multinational workforce are especially facing difficulties to comply with all legal requirements (ADP 2014a).

On the other hand, the governmental bodies are enforcing the implementation of the laws (e.g., governmental investigations in several countries (Germany, the USA, and Singapore) related to accurate classifications of employment and contribution to social security) and are charging high penalties in case of any violation. This can lead to a serious financial exposure of the organization (Ministry of Manpower 2014).

Process Changes

Process Changes Caused by Changes of the Legal Framework

To comply with the respective legal framework, the HR policies, HR guidelines, HR processes, templates, or HR IT applications to administer the employment need to be set up, adjusted, or deleted.

To be 100 % compliant, it is recommended that the employees of the organization and in selected cases also the nonemployees (agency workers and contractors) working for the organization acknowledge the new or adjusted corporate regulation/HR policy.

Process Changes Due To Changes of the HR Business Model

Just to highlight one important aspect of process changes: outsourcing of functions, processes, or parts of processes is common practice for most of the organizations (e.g., outsourcing of payroll). Outsourcing to third parties can require the setup of a new control framework or the extension of the existing internal controls to the third party. The objective, performance, timing and documentation, and effectiveness testing of the controls need to be agreed as part of the outsourcing contract. The responsibility for HR compliance still remains with the organization outsourcing the service (Ernst and Young 2014, p. 18).

Risk and Audit-Driven Changes

Findings derived from risk assessments and external as well as internal audits in HR or other functions (e.g., FC or IT) can lead to remediation actions impacting changes of HR policies, HR guidelines, HR processes and templates used to manage employment, HR IT applications, and HR-related controls (performed in HR or outside HR). Please refer also to section "Common HR Compliance findings," p. 10ff related to common HR compliance findings in Asia.

Changes Due To Changes in the IT Landscape

The introduction of HR IT applications or changes of existing HR IT applications can impact HR operations (mainly related to HR processes and controls performed in HR). The high number of transaction codes in, e.g., SAP can require a regular review of the HR IT access rights and a review of the process to grant access rights to HR IT applications (SAP 2014).

Integration of HR Compliance into the Whole HR Value Chain

All relevant aspects of HR compliance need to be integrated with the HR processes of the organizations. The respective HR strategy, HR business model, HR policies, or HR guidelines are setting the framework for the mapping of the HR processes and integration of the mandatory (as part of the internal control system) and nonmandatory controls (e.g., additional controls to track the implementation of remediation actions and additional controls defined by HR).

People Perspective

The FCPA (Foreign Corrupt Practices Act), US sentencing guidelines, OECD (Organisation for Economic Co-operation and Development) framework, and UN Compact (Baker and McKenzie 2012) are providing the basis for any code of conduct or code of ethics. Those are setting the frame to implement compliance in the organization.

The organization should have enabling policies and procedures to give proof that the requirements of the code of conduct or code of ethics as well as the policies related to bribery, corruption, and accounting practices are implemented (Fox 2014a).

ISO 19600:2014 highlights "leadership and commitment" as one central element of the new standard (ISO 2014a, p. 8).

As per IDW PS 980, a compliance culture should have the following sub-elements: top management commitment ("tone from the top"), leadership behavior, HR policies, corporate culture, sanctioning mechanism, and supervisory bodies (KPMG 2014, p. 16).

To foster a culture change, the transformation model being used in several organizations can be applied.

Noel Tichy (Daimler-Benz 1996) highlighted to align the following steering elements to support a cultural transformation:

(a) "School" (leadership behavior and education)

Implementing HR compliance is an ongoing process and not a onetime activity as the importance needs to be addressed regularly to all employees, agency workers, and contractors.

Internal compliance training might be required due to the following reasons (ISO 2014a, p. 15):

- Change of legal framework/obligations
- Change of HR policies
- Significant compliance findings (topic or functional area or system deficiencies)
- Change of the organization
- Change of the business scope (e.g., new business: "governmental business")
- Individual move or promotion into a compliance relevant function

The top management of the organization has to act as role model, and the importance of a compliant organization needs to be highlighted in events of the organization (e.g., town hall and department meetings). Internal education measures related to HR compliance topics (e.g., onboarding training, policy training, risky business workshops, or "lunch bits" related to legal changes) and external trainings and workshops offered by the chambers of commerce, employer associations, or trade unions are platforms to learn and exchange compliance knowledge.

To send a strong and committed message to the organization, it is recommended to label selected internal education measures as mandatory for all employees and engage all members of the top management as facilitator, lecturer, or speaker (Baker and McKenzie 2012, p. 7). This offers the opportunity to align HR compliance with the business objectives and to discuss possible gaps between the written policy and the actual execution/implementation (Fox 2014b). This exercise can be combined with the yearly review of the HR policies and the recommended yearly acknowledgment of the employee handbook or the HR policies.

(b) "Media" (communication of expected behavior and treatment of misconduct)

The importance of HR compliance cannot be overcommunicated. All media (e.g., HR newsletters, homepage of the HR department, direct mailing, social media, posters, information boards, and message areas at the bottom line of pay slips) can be used to bring the message across. While communicating the compliance norm, the informal rules within the organization need to be taken into consideration (Roger Miles 2013).

As HR compliance is a joint effort of several functions (e.g., corporate compliance, IT, FC, CEO office, and HR), it is recommended to set up a small steering committee to steer all related activities (Baker and McKenzie 2012, p. 7).

A simple template indicating the topic, the message(s), the communication period, and the media or mix of media will help to provide transparency and level of penetration. Internal or external communication experts can help to tailor the respective media.

In today's world, it is more important to use existing media and focus on an appropriate (culturally accepted) message than spending too much time to develop new media. An individual note from the CEO or the board of management delivered directly to the workplace of the employees addressing the importance of expected compliant behavior and the treatment of violations can create more attention than another e-mail, newsletter, or series of corporate posters.

The difficult task coming along every year is to reinvent the HR compliance program. The organization needs to "keep the fire burning" and not to deliver "new wine in old pipes." There are several sources to design the new content for the HR compliance program:

(a) Assessment or audit findings
(b) Changes in legislation or processes
(c) Feedback from employees or analysis of Q&A related to compliance
(d) Internal focus groups (highlighting operational compliance topics)
(e) Best practices from other organizations outside the respective industry or other countries
(f) Input from universities or external experts

(g) Internet research
(h) Discussion in social media (e.g., LinkedIn groups related to compliance or HR compliance)

It is recommended to design the program modules according to the work experience, the years of services within the organization, the exposure to compliance topics, and the mandatory content. One driving topic (e.g., privacy data or harassment or compliance as profit accelerator) can be used to set the priority for the respective year.

A full comprehensive program can have the several layers:

(a) Beginner's program
(b) Program for employees with HR compliance experience
(c) HR compliance expert forum

(c) "Police" (internal control and monitoring system in HR)

It needs to be ensured that every employee knows the rule set of HR compliance and the consequence of any misconduct. The onboarding training for new hires, re-joiners, and movers from other entities within the group can be used to provide the basics.

The HR compliance-related controls are on one hand part of the internal control system (e.g., all payment-related controls) (KPMG 2014, p. 75) and on the other hand functional specific (controls related to HR policies or HR processes).

Effective controls are needed to show that the compliance requirements are met and fully documented. The controls have to be documented, and the effectiveness of the control needs to be tested (ISO 2014a, p. 19).

As highlighted above, those controls need to be extended to third parties in relation to outsourced processes, or a new control framework has to be set up (ISO 2014a, p. 20).

Assessments in two multinational companies showed that the HR internal control systems do not have enough controls to ensure a 100 % compliant HR operations (refer also to common HR compliance findings).

Only a full comprehensive HR compliance assessment will indicate whether the HR internal controls are sufficient. It is recommended to assign a function in corporate compliance, risk monitoring, or HR (e.g., HR head or the function, "HR policies and HR processes," or "HR compliance") to track the required remediation action, the performance and documentation of internal controls, and the further improvement of the HR internal control system.

Economic Perspective

Based on a survey related to budgets of corporate compliance functions from Thomson Reuters (2013, p. 9), 67 % of the respondents are expecting a higher budget in 2014. It can be assumed that this is also valid for the other functions contributing to the overall compliance of the organization.

On the other hand, the cost of being noncompliant needs to be taken into consideration. The top 20 FCPA settlements (2008–2012) sum up to an amount of 3.627 billion USD (Baker and McKenzie 2012, p. 16).

In the last years, the number of governmental investigations related to accurate payments of tax, social security, and other statutory payments increased in many countries. The information sharing agreements of the tax authorities (e.g., the USA and Switzerland) (PricewaterhouseCoopers 2014) led to information transparency and further investigations. Underreporting of taxable items (e.g., benefits) led to substantial back payments of taxes and additional penalties. As a result, the organizations are forced to set up an internal control system or implement additional internal controls and allocate additional capacity to perform and document the controls.

It is right that in general the costs of doing business (especially when doing business in several countries or global) have increased; those are mainly cost related to setup of the business (e.g., regional functions), expatriates, IT infrastructure, travel, communication, and legal.

The increasing changes of employment-related laws and regulations in many countries led to increased costs for legal advice (external and internal). Additionally, the number of employment-related law suits increased (e.g., in the USA by 400 % in 20 years) (ADP 2014a).

In comparison, the benefits of being compliant (Deloitte 2012) are multifold and can include the following:

1. Higher customer reputation
   Customers are paying more attention where products and under which circumstances products are produced and are willing to pay a higher price, if the organization can confirm that the product was produced under compliant conditions (e.g., investigations of production facilities of extended value chains/suppliers of sport article companies in Pakistan to turn down any child labor).
2. Higher shareholder value
   A well-managed organization with a clearly defined strategy, objectives (including compliance targets), innovative products, and action plans is in a position to create a higher value for its shareholders. The value can be delivered via transparent and consequent execution.
3. Transparent HR policies, guidelines, and standard working instructions
   Transparent HR policies, guidelines, and standard working instructions are supporting managers in their leadership of their respective organizations and can contribute to a higher retention rate.
4. Lower operating costs in HR due to less employment-related law suits and well-organized HR processes
   A well-organized HR function with clearly defined HR standards, key performance indicators, aligned HR processes, HR processes and guidelines, HR internal controls, and operating procedures will be able to perform the tasks faster, with a higher output and a higher quality and at lower cost than organization on a lower standard.

5. Less investigations initiated by public authorities
   Public authorities (mainly in the USA and Europe) are taken more attention to enforce the respective law. Investigations related to possible incidences of any tax evasion (e.g., procurement of account information of German tax residents related to Swiss banks by German tax authorities) led to further investigations resulting in high tax payments and penalties (FAZ 2014).
   A compliant and transparent cooperation with public authorities will lead to less investigation and information requests.

Risk Perspective

Approach to Assess Risk

The HR-related risk assessment can be done using a two-level approach:

(a) Participation of the human resources function in the yearly risk assessment process (part of the corporate strategy process) to identify possible HR-related risks and the probability of the appearance
(b) Separate assessment of possible HR compliance risks
   The scope for this assessment needs to be defined (see point 2).
   The assessment of the compliance situation within the human resources can be done by using the framework provided by ISO 19600:2014 IDWPS 980 (Ernst and Young 2011) or an HR process-oriented questionnaire (HR standards and questions related to every HR process) or a combination of both.
   This might be required when performing the assessment for the first time or the implementation of ISO standard is pending.

Process Steps

Based on the experience of the author performing HR compliance assessments in Asia, it is recommended to perform the following process steps. The list of questions for each step does not claim to be comprehensive and needs to be adapted to the requirements of the organization.

Step 1: Plan
In the planning phase, the following decisions need to be made:

- What will be the scope of the assessment (e.g., whole organization, selected entities, HR function, selected HR processes, or only certain areas of HR (employment law or authorization rights to HR applications)?

- Who will perform the assessment (e.g., external or internal experts)?
- What kind of methods and tools will be used (e.g., standard or customized tools)?
- Which expertise level is required to perform the assessment (e.g., comprehensive knowledge about employment law, IT, or in-depth knowledge about HR processes)?
- Which resources are needed to perform the assessment and maybe later to remediate the findings (e.g., external or internal)?
- Which pilot area or entity to test the assessment tools (e.g., high-risk or low-risk country) will be used?
- What is the appropriate steering model to manage the progress of the assessment and discuss high-risk findings immediately (e.g., monthly meetings combined with on the spot information, if required)?

Step 2: Assess

As soon as all decisions in step 1 are made and the stakeholders/ departments involved are informed, the assessment can start. The project team will specify the assignment and allocate roles to ensure that the assessment is done within the given timeline, within the budget, and within the expected quality.

The project team will need to discuss and document the following decisions:

Process-related questions:

- What will be the process to execute the assessment?
- How will the line management be involved (e.g., interviews or workshops)?
- How will the assessment results be documented (e.g., using the documentation function of the tool or separate documentation)?
- Which process will be used to get the final confirmation of the interview/workshop results (e.g., confirmation within three working days)?
- How are all proof documents be collected and stored (e.g., SharePoint or upload into the assessment tool)?
- When and how will the initial findings be presented to the steering committee (e.g., conference call or meeting)?
- When and how will the final report (including risk identification, risk portfolio, and proposed remediation actions) be presented to the steering committee and all parties involved?

Content-related questions:

- How will HR-related results coming from the review of the legal requirements tracker; the recommendations from experts, auditors, and regulators; the review of recent compliance cases; and the cultural assessment integrated into our assessment?
- How will we integrate the feedback from management and employees (ISO 19600:2014, p. 21)?

Step 3: Remediate
Once the assessment is finalized and the findings and remediation actions are confirmed, the remediation can start. This can be done by the existing project team or handed over to the responsible line organizations/ functions.

It is recommended to assign a small team to track the implementation status and report back to the highest level of the organization in scope and provide answers to the following questions:

- Are all findings – starting with high-risk findings – remediated?
- Did we get all remediation confirmations in writing (including proof documents)?
- Did the organization/function/department set up infrastructure/controls to avoid respective risks in the future?
- Are additional investments in people, education, or systems needed to stay 100 % compliant?

Step 4: Control and Monitor
Based on the findings, it can be required to review the existing internal controls related to HR compliance or to set up additional controls. The accurate performance and documentation of the individual assigned controls need to be tracked. Action will have to be taken, if controls are not performed on a timely manner and with a sufficient documentation (audit trail). For details, see section "Operational Perspective," p. 16ff.

Step 5: Optimize
To adopt the changes related to HR compliance and stay 100 % compliant, it is required that the HR compliance setup is undergoing yearly reviews and a continuous improvement process.

The improvement process should always target the required level of HR compliance and the efficient administration. For details, see section "Operational Perspective," p. 16ff.

Common HR Compliance Findings

The author used a questionnaire to assess the HR compliance situation of German companies operating in Asia.

The following areas are common sources for HR compliance findings:

Privacy Data Protection

Privacy data protection regulations are becoming a standard in most of the legislations (LRN 2013, p. 56). Nevertheless, the respective standards and the enforcement of the laws can be different. Therefore, a comprehensive knowledge is required to avoid any misconduct or violation of the laws. In some countries (e.g., Singapore), a violation of the law can expose the organization to serious penalties (PDPC 2014).

The following questions can be used to assess the organization-specific situation. Remark: The questions have to be aligned to the respective legal obligations and the organizational requirements:

- Did the organization appoint a privacy data protection officer?
- Does the organization have any data protection policy/guideline covering all privacy data protection law requirements?
- Are all privacy data classified as confidential?
- Did a legal expert (external or internal) check the policy or guideline?
- Was the policy/guideline communicated to all employees and included as a part of new employees training?
- Does the organization only collect privacy data needed for future purposes inside or outside the company?
- Does the application form have a privacy data consent statement (if legally required)?
- Does the organization have a privacy data inventory, which also shows who has access to the data?
- Does the retention of documents satisfy the local regulations and the company guidelines?

HR Policies

HR policies are formal rules and regulations that organization put in place to manage their workforce. From an HR compliance perspective, it is crucial that this rule set is always up to date and compliant with legal framework. Assessments done by the author in multinational organizations showed that selected local HR policies are either not existing or are outdated or not aligned with global HR policies. Those instances are incorporating risks, and therefore an assessment – using the following questions – of the situation might be required:

- Were all HR policy checked by a lawyer prior to the management board decision and the employees communication?
- Was an assessment made to ensure that all the areas where benefits were granted are covered by HR policies or guidelines?
- Are all decisions that affect HR policies and procedures recorded in a log?
- Is there a person in charge to set up, review, and implement the changes of every HR policy?
- Are the scope and the duration of each policy clearly defined and regularly reviewed?
- Were the records from reporting systems (Q&A from hotlines or investigations) used to recommend changes to existing policies?
- Is the introduction of all HR policies part of the new hire training?
- Do all employees have access to all policies at any given point of time?

Transparency About the Legal Framework

As the employment-related laws (international, transnational, and local) are constantly changing (new laws and revision or termination of laws of regulations) (Mayor and Brown 2014), it is important that the employees working in the HR department are fully aware of the regulations and the respective implications for the organization.

An assessment can be done using the following questions:

- Does the HR department have a clear framework about employment, home and host taxation, social security, data protection, diversity and discrimination law, and immigration regulations?
- Do the HR employees and the managers of the company get regular training related to the prevailing laws?
- Did a legal expert (external or internal) check the legal framework? Is it reviewed on a regular basis?

Reporting of Benefits for Taxation Purposes

The accurate reporting of benefits (especially for expatriates) is a very complex topic and requires a comprehensive knowledge about the respective taxation (home and host). It is recommended that the organization uses tax consultants while maintaining a high level of knowledge within the organization. This is required as the organization still has the full responsibility for accurate information related to taxation (home and host). The financial exposure to the company related to underreporting of taxes can be substantial (e.g., for Germany see www.steuerstrafen.de).

The following questions can be useful to check the expertise level in the organization related to this topic:

- Are all the entity contractual agreements related to employments fully transparent?
- Does the organization have a contract between the two legal entities to clarify all cross-charging cost topics in case of foreign assignees/delegates?
- Is it clear for the organization in which contractual topics belong to the expat home contract and are relevant for the local taxation?
- Is the expat's home organization used to communicate all expat information needed for the local taxation? Is this made on time to be included in the annual filings?
- Does the organization have any control in order to guarantee the tax payment on time and in the right amount?

Business Continuity Plan (BCP)

The organizations have to be prepared for any kind of disaster (political, environmental, economical, or technical) and ensure that the business does not get interrupted or can continue after a short shutdown. In 2003, the US government published a comprehensive tool kit for American individuals and organizations to prepare for any kind of crisis. This tool kit can be used as a reference in case country-specific tool kits are not existing (FEMA 2014).

An assessment of organizations operating in countries along the “ring of fire” showed that the BCPs are not existing or are not regularly tested or the employees are missing guidance on how to handle any kind of crisis.

The following questions can be used to assess the situation:

- Did the organization perform a full assessment of all possible risks (political, environmental, economical, or technical)?
- Does the organization have a business continuity plan to deal with all these risks?
- Does the business continuity plan describe all tasks and responsibilities before, during, and after the crisis?
- Is the plan communicated and have all employees free access to the plan?
- Does the organization perform regular drills, and are the results discussed in the local board of management?
- Does the organization know at any point of time who is at the premises (including contractors, guests)?
- Did the organization or persons representing the organization get the consent from the employees – if legally required – to use their private e-mail or mobile phone numbers for communication during a crisis?

Steering of External Vendors

More and more organizations are outsourcing HR departments, HR processes (e.g., payroll), or part of HR processes (e.g., tax calculation) to external vendors. As the vendor is part of the extended value chain, it is required that all organization-specific internal controls also need to be performed at the vendor side.

US regulators are using the following guidance: when something is outsourced, the outsourcing company still owns it, is responsible for managing it, and needs to control it (ISACA 2014).

The following questions can be used to perform an assessment of the respective organization:

- Are the organization's external service provider contracts and the deviation from any approved standard properly signed and documented by the right person?
- Does the organization have a task, process, and control map to describe the vendor's daily operations?
- Does the organization have a yearly process to audit the internal control system of the vendor?
- Did the vendor sign all privacy data protection regulations of the organization?
- Is there a secure way in place to communicate personal data to and from the vendor?
- Does the organization have a control system in place to proof any evidence about transactions with the vendors?

Segregation of Duties

The segregation of duties is in place when at least two persons from different functional areas (Yale 2014) – with no solid reporting line – are performing a task. This always includes the "4-eye" principle (e.g., hiring request, master data entry, and performance of payroll controls). In case the segregation of duties cannot be implemented in the respective function (e.g., HR department of one), an additional system control or the review done by a person outside the organization is sufficient for the segregation of duties.

To ensure a 100 % compliant HR operations, the segregation of duties needs to be implemented, and the questions can be used to assess the situation:

- Does the organization have a clearly defined bill of authority or signature guideline?
- Are the individual duties allocated according to the bill of authority or signature guideline?
- Does the job description reflect the segregation of duties?
- Are all the controls related to any employment performed and then reviewed by different people (4-eyes principle)?
- Are the controls properly documented in order to proof the evidence to an auditor immediately?
- Are all the control principles (4-eyes principle, segregation of duties) applied to every payment relevant process?
- Is the organization doing an IT-documented testing of the controls?

User Access Rights to HR IT Applications

Every organization needs to ensure that only authorized persons based on their roles in the organization have access to HR IT applications. An unauthorized access to employment-related data (e.g., employee master data) could generate a serious financial impact to the organization, if an employee has logged a complaint to authorities (e.g., for Singapore, PDPC 2014).

The following questions can be used to check whether the access rights are properly allocated:

- Does the company have a formal approval process to grant IT rights access?
- Are these IT access rights differentiated into reading, writing, and editing rights and reviewed on a regular basis?
- Does the company have a control to block payroll people to be granted with employee master data editing rights?
- Are the IT user rights immediately terminated once an employee leaves the function or the organization?

Changes of Employee Master Data

Employee master data are the backbone of a 100 % compliant HR operations. Incorrect employee master data can lead to wrong payments, benefit entitlements, and withholds for public authorities (Forrester 2011).

It needs to be ensured that persons handling the payroll do not have editing rights related to the employee master data and vice versa.

The employee master data can be either only changed by HR or HR can grant selected change rights via employee self-service. In both cases, a full documentation with supporting documents is required.

An assessment of the situation can be done using the following questions:

- Does the organization have an IT user right control to ensure that only a small number of employees can change the master data?
- Does the organization perform a monthly review of change log related to master data, and was this review performed by someone, who is not handling the master data?
- Are the master data only stored on a secure server or in a central HR IT application?

Agency Workers

Agency workers – employed by a manpower agency – are performing a task within an engaging organization, which is similar to tasks performed within the organization. Agency workers are usually engaged to close a capacity gap (e.g., person in stand for an employee on maturity leave). Certain jurisdictions clearly define the responsibility of the agency and the organization (e.g., joint liability for salary payments in Singapore) (Singapore Employment Act) or have clear regulations (e.g., for Germany AUEG) related to the engagement (AUEG 2014).

As per respective law, the organization can either have a joint responsibility or the agency worker can claim employment with the engaging organization in case the agency worker was treated similar to an employee and engaged beyond a defined period.

As the consequences of a wrong treatment of agency workers can be serious, it is recommended assessing the situation using the following questions:

- Does the organization have a guideline or framework describing the whole process of hiring workers from agencies and did a legal expert check on this?
- Do the agency worker get special onboarding package (e.g., containing the company's code of conduct and other relevant documents related to the engagement)?
- Can the agency worker be differentiated from the organizations' workforce in topics such as separate office, staff pass, lanyard, or participation in company events?
- Are the access rights to corporate IT applications approved in a separate process?
- In case of a joint liability (engaging organization and agency), is a control in place and is the control performed jointly?

Operational Perspective

Framework

To get or maintain a 100 % compliant HR operations, it will be required to define or constantly adopt/improve the HR strategy (as part of the business strategy), HR business model, HR processes, HR policies, HR guidelines, HR IT applications, standard operating procedures, and templates to administer the workforce and the knowledge of employees working in HR.

The HR departments should target to achieve operational excellence by assessing the internal customer requirements and additionally, if not already existing, implement a continuous improvement process (CIP). The achievement of improvement targets should be tracked weekly (e.g., via shop-floor meetings similar with a CIP in a production environment) (Roos 1991).

Additionally, the HR internal control system needs to be implemented or reviewed. This control system will consist of controls coming from the corporate internal system (e.g., all payment-related controls) and additional HR internal controls (COSO 2013, p.6).

HR Internal Control System

To ensure consistency and sustainability within the HR organization or across HR organizations (multinational organizations), it is required to define, perform, and document the HR internal controls and link those to the HR processes. In the setup phase of the HR internal control system, additional training and support from experts (internal or external) might be needed.

An effectiveness testing of the controls and the management testing will deliver the evidence whether the control is properly defined (COSO 2014).

A comprehensive control description can contain the following elements:

1. Control number and control objective
2. Control description
3. Control responsibility
4. Control performance
5. Control documentation
6. Results of the effectiveness testing

Remark: The listing of controls is based on the author's experience and does not claim to be comprehensive. Each organization needs to set up their respective HR internal control framework.

Based on the respective business setup and legal framework, it can be useful to set up the following minimum standard of HR internal controls:

1. Controls applying to all HR processes:
   (a) Implementation of segregation of duties and "4-eyes" principle for every control.
   (b) Approval rights are followed and checked at all times.
   (c) User rights to HR IT systems can only be granted by HR.
   (d) Management of the whole employee life cycle can only be done by the HR department or the assigned person to handle HR (smaller organization without an HR department).
2. Controls related to specific HR processes:
   (a) Workforce planning
   Recommended controls: Accurate employment classification and specific planning requirements for selected employee groups (e.g., foreign assignees)
   (b) Recruitment (including HR marketing)
   Recommended controls: Discrimination and diversity regulations, state-of-the-art recruitment HR policy, and complete preemployment checks
   (c) Selection and onboarding
   Recommended controls: Valid employment contract templates for each employment category, complete documentation of the whole recruitment, selection and onboarding process, complete and valid onboarding package, and acknowledgment of the onboarding package
   (d) Compensation and benefits
   Recommended controls: Up-to-date compensation and benefits policy and complete documentation of deviations from the policy
   (e) Learning and development
   Recommended controls: Documentation of the participation in all compliance-related trainings
   (f) Talent management and succession planning
   Recommended controls: Internal compliance check prior to transfer on the same level or promotion into compliance exposed function
   (g) Performance management
   Recommended controls: Fulfillment of compliance targets (if any), compliance risk assessment as part of the performance appraisal, and documentation of all disciplinary measures
   (h) Engagement and retention
   Recommended control: Documentation of treatment of violations
   (i) Payroll
   Recommended controls: Validation of actual head count against number of employees in the payroll run, accuracy of employee master data, accuracy of withholds (e.g., tax and social security) and deductions, accuracy of data used for the payroll run, and accuracy of amounts and time of the actual regular payments. It is recommended to set up special controls related to final payments (as part of the termination) and all payments to foreign assignees.

(j) HR administration
Recommended controls: Validation of HR policies related to HR records, time recording, leave management, years of service with the company, on- and off-boarding, privacy data protection in HR, document retention and agency workers, and user access rights to HR IT systems granted to agency workers and contractors
(k) Employee relations
Recommended control: Validation of all required HR policies
(l) Supporting processes: HR governance, HR strategy, and risk monitoring
Recommended controls: HR participation and contribution in the overall HR strategy process (including assessment of all HR-related risks)

Recommendations to Set Up and Sustain HR Compliance

Some do's and don'ts will provide guidance while implementing, monitoring, and ensuring sustainability HR compliance.

The employment-related compliance obligations have to be transparent at all times. It is recommended to set up an HR compliance directory that captures on one hand all employment-related laws and regulations:

1. Direct employment-related external rules such as employment law, diversity and discrimination laws, privacy data protection law, regulations to set up a union, tax regulations, social security or other mandatory insurances, and immigration regulations
2. External rules and regulations with impact on HR practices (e.g., anti-money laundering or anti-bribery laws)
3. Internal rules, regulations, policies, or procedures

This directory can also be used to flag local requirements and local deviations related to corporate policies.

On the other hand, the directory can be used to highlight compliance obligations while integrating HR compliance into the whole HR value chain. It is recommended to incorporate the links to the directory into the HR processes/HR process model. This will ensure that the HR compliance requirements are present when performing daily HR work and required documentations and reports are made.

The updated directory and the complete and sufficient reporting (including proof documents) will be the basis to check if the HR compliance program is integrated into the daily HR operations and can provide a solid database for a recommended annual HR compliance risk assessment.

The risk assessment can show whether an organization is in line with the ISO compliance standards, be used to adapt policies, and reevaluate the rules and regulations in case of violations.

It needs to be clear to every employee, persons performing a work attachments, volunteers, agency workers, and employees from suppliers how the organization treats violations. Compliance violations have to be notified, investigated, documented, and if required penalized without exception.

It is important to highlight the need of a compliant business culture in company events; department meetings and role models should be honored (e.g., HR compliance award). It is recommended to have a target group-specific communication concept and use all media to bring the message in a short and memorable way across.

The implementation of compliant business practices and behavior is a part of the leadership task. Only the setup of an HR compliance function and the implementation of additional monitoring and tracking systems might require additional funding. The cost of being noncompliant (law suits and penalties) is much higher (e.g., penalties for breaches of the privacy data protection).

The implementation of HR compliance requires a full comprehensive approach. An implementation of only selected parts will leave the employees in uncertainty and expose the organization to risks.

HR compliance can be quite complex and requires integrated expert knowledge covering, e.g., HR, law, and IT to understand all relevant aspects. This expertise needs to be made available to the respective organization.

The investment into HR compliance pays off. Data show that compliant organizations have a higher shareholder return, higher profits, and lower operating costs (especially in HR).

Final Comments and Outlook

The implementation of HR compliance is still at the beginning. Multinational companies – especially those operating in high-risk countries – are putting effort and resources into the implementation process.

The overall approach is mainly deficit oriented and targets to close “loopholes.”

As a next step, the development of a fully integrated HR compliance framework – in alignment with the framework for corporate compliance and corporate risk management – and standards for HR compliance is required. Such framework would increase the acceptance and provide the opportunity to compare the organization’s specific situation with the reference. The implementation of the new ISO standard for compliance would be an important fundament.

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Human Resources Governance and Compliance: Compliance and the Importance of Human Resouces Management

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Jeremy Gump

Contents

Abstract

Similar to any other area of a company, Human Resources executives and leaders are faced with a growing list of compliance issues and tasks. Where compliance issues sit on a leader's list of priorities is often dictated by the organizational structure of the company. HR leaders who report to the Chief Financial Officer are often tasked with getting the job done without spending too much money. HR leaders who report to the General Counsel or other legal professional are tasked with making sure the job gets done without getting the company in trouble. The most desirable reporting relationship for an HR leader is directly to the CEO where compliance is balanced with the overall needs of the business. This practical case focuses on how one HR team balanced its compliance demands with the company's strategic priorities to earn a reporting relationship to the CEO. During the banking crisis, a small, regional bank in the United States determined that HR was no longer a strategic organization and terminated the HR Director. Ultimately, the HR staff was relegated to reporting to the CEO's administrative assistant. During the ensuing 6 years, the department plodded along making payroll, hiring, firing, and generally keeping things in order. In late 2013, the bank hired a new HR Director to work through issues that had been identified in

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an audit report. Subsequent to completing the various audit issues, the reporting relationship for HR was changed directly to the CEO.

Keywords
Compliance • Employee compensation • Executive compensation • Strategy • Employee benefits • Recruiting • Retention • Great workplaces

Introduction

Over the years, the Human Resources department has gone through a series of name changes – Personnel, Staffing, and Human Resources. Its leaders as well have gone through a series of title changes – Personnel Manager, HR Director, and Chief Human Resources Officer. As times have changed, so has the role of Human Resources and Human Resources leadership to a company.

A simple Google search for "HR reporting relationships" will return a series of articles promoting the HR-CEO reporting relationship with nearly as many articles denigrating HR as worthless, narrowly focused, and having too little knowledge of business in general let alone knowledge of their employer's actual business.

Whether it is in Human Resources, Finance, Procurement, or Sales, compliance plays a significant role in business decision-making. However, compliance is often seen as a constraint to effective business and an additional cost and burden to doing what the company would otherwise like to do. The global banking crisis of 2008–2012 demonstrated that compliance was about more than just following the rules. In the United States in particular, the banking crisis was created due to over-leveraged yet legal financial products. Furthermore, the crisis was enhanced due to governmental policies that encouraged home ownership. In this particular situation, being "compliant" actually contributed to causing the crisis. As a result of the crisis, governmental regulation has increased significantly, and banks have become even more conservative. It is in this environment that the following case study is based.

What Was the Problem/Challenge?

Since the banking crisis began in 2008, over 500 United States-based banks have failed. Due to the extraordinary financial losses banks were facing as well as significantly increased costs to comply with new banking regulations, banks were looking for cost savings opportunities wherever they could find them. These savings were not needed just to enhance the bottom line and please shareholders. These savings were needed for survival.

At Local Community Bank (fictitious name), the leadership of the organization decided that Human Resources was an area they could save some money. The leadership of the organization viewed the HR department leader as underperforming. Furthermore, for several years, the department had completed few, if any, strategic projects. When it came time to achieve some difficult cost savings, the decision was made to terminate the HR leader and transition the remainder of the organization to a reporting relationship underneath the CEO's administrative assistant.

For the ensuing several years, there were few ramifications of this decision. The business-staffing model continued as is, and there was little to no growth to deal with in the business. Furthermore, given the government's focus on the causes of the banking crisis, little was being changed on the federal or state level as it relates to employment rules and regulations.

Beginning with the passage of the Affordable Care Act ("Obamacare") that all began to change. As the unemployment rate dropped and business started to pick up again, the federal government and various states also began promoting legislation to increase the minimum wage. President Obama also instructed the Department of Labor to rewrite the rules regarding overtime pay. The compliance environment regarding Human Resources was rapidly changing, and a shift in the organization's staffing and strategy was needed.

What Was the Plan to Solve the Problem?

As the Human Resources compliance environment was heating up, the bank decided to bring in a new HR Director. The bank had survived 5 years without such a Director, but the CEO believed strongly that such leadership was again needed. Awaiting the new HR Director was an external audit report with several findings. While none of the findings were material or severe, there was certainly a significant backlog of Human Resource-related projects.

A sample of the "Compliance" issues included:

A salary structure that had not been benchmarked against the market in over 5 years.
Job descriptions that contained wording that did not comply with certain federal laws.
Managers were not properly trained on wage and hour laws.
The employee manual had not been updated to reflect changes in federal law as it relates to genetic information and other areas of healthcare.

There were also several other non-audit-related ("Strategic") issues facing the new HR Director including:

An increasing difficulty in recruiting and retaining bank tellers
Developing a long-term plan for providing health insurance benefits under Obamacare
Developing a future people strategy to facilitate the bank's growth over the next decade
Implementing a strategy that would enhance the bank as a great place to work

In addition to the items listed above, the bank had an overall headcount-to-HR headcount ratio of 200:1. The typical benchmark used for such staffing is 100:1.

Accomplishing the list above would have to be done in the context of an understaffed department and the completion of day-to-day department tasks.

The first step toward successfully completing the list of objectives was to prioritize. One could argue that audit findings and other compliance issues should be the top priority. After all, only the compliance issues can get you in trouble with regulators. However, what we found from the banking crisis following the rules is not always the path to success.

Ultimately, the "Compliance" issues needed to be prioritized according to their ease of completion as well as their affect on "Strategic" issues. This simple statement is the most important statement one can make about compliance – "Compliance issues must be balanced and considered in light of a company's strategic objectives." It was possible to combine both the "Compliance" and "Strategic" lists to come up with a short-term plan for addressing "Strategic" issues while also crossing "Compliance" issues off of the audit list.

The two largest and immediate issues facing the bank were the recruitment and retention challenges in the branches and the impending effective date of Obamacare. Since the need to finalize healthcare plans had a concrete due date so employees could enroll in their healthcare plans for January 1, 2014, it was necessary to tackle the healthcare question first.

The Affordable Care Act (more commonly known as "Obamacare") requires employers with more than 50 full-time employees to provide certain minimum levels of healthcare coverage or be subject to paying a fine. Furthermore, Obamacare imposes a number of new taxes and coverage requirements upon health insurance providers. It was immediately necessary to work with the bank's external providers to implement health insurance plans that met the requirements of the new law while also keeping down costs and not increasing the already difficult recruitment and retention challenges.

With support from its external vendors, the bank was able to implement a plan that increased certain per-use employee costs while keeping their monthly insurance premium the same despite the increased tax costs to the company. The process served as an example of how "Compliance" and "Strategic" priorities can be accomplished in unison with one another. At no time did the bank abandon its strategic people priorities for the sake of complying with the new law. And at the same time, the bank ensured its compliance with the new laws and prevented any fines from being imposed.

The remaining "Strategic" and "Compliance" issues were subject to internally imposed deadlines in agreement with the auditors. The remaining items were then prioritized, and necessary amended deadlines were discussed with the auditors. As a result of this work, it was determined that the compensation issues were the next most important "Compliance" item to deal with. It was believed that addressing the compensation programs would have a significant effect on reducing turnover at the bank.

It was also determined that developing a training program regarding wage and hour law would occur at the same time. Since the two efforts are so closely related as it pertains to how employees get paid, there would be significant overlap in the efforts of the two projects. Furthermore, the projects would take quite some time to complete.

Over the ensuing 6 months, external market data was gathered regarding the competitiveness of the bank's compensation programs, and meetings were held internally to compare the internal equity of each position. Despite not having completed such a review in over 5 years, the bank's compensation programs had withstood the test of time. Fortunately, many other banks had taken the same approach and since 2008 had done little with their compensation programs. Many had not provided any pay increases for at least 2 or 3 years during the period and had focused on other issues affecting the bank.

The wage and hour training was also completed during this time period. As a result of these efforts, managers were better educated on how to manage the time of their workforce, less than 5 % of the employee population received an ad hoc adjustment to their compensation, and a new compensation system was implemented for bank tellers recognizing the varied scope of responsibility from one teller to another. Over the course of 6 months, the bank was able to address a significant strategic objective while also being able to cross another "Compliance" item off the list.

Next on the priority list was helping the bank achieve its objective of becoming a great place to work. Leaders in the organization believed that it was necessary to define the bank's people strategy before embarking on a growth strategy that would bring significant numbers of new employees to the bank. Given the ever-increasing regulation being faced by banks of all sizes, employment in the banking environment is lacking the appeal that it once had. Compensation at the large investment banks is down, processes have changed to comply with new laws and regulations, and compliance has reduced the flexibility and personal decision-making once exercised by financial professionals.

Leadership at the bank decided that it was necessary to define what behaviors, skills, and attributes the bank was wanting. Ultimately, the bank established a set of core values that could be used in evaluating prospective candidates as well as current employees. These core values would become the backbone of the selection process, the performance management system, and interactions with customers. The core values demonstrate the interrelationship of "Strategy" and "Compliance":

Trust
Respect
Integrity
Open and honest communication
Social and financial responsibility

One could read "Compliance" into any one or all of those core values.

Next, it was necessary to develop the 10-year strategy. The strategy was developed based upon both organic growth as well as growth through acquisitions. Ironically, the new compliance requirements being imposed on banks are causing most small banks to look for larger buyers. The cost of compliance is simply too high for small banks to endure. For larger banks, the cost of compliance can be spread across many more accounts and transactions and can be absorbed into the bottom line.

The ultimate strategy was developed over an 8-week period with significant discussions being had with bank leadership and the Board of Directors. All of the work discussed above laid the groundwork for the future Human Resources strategy of a growing bank. Compensation systems were in order and competitive. Strategies to enhance recruitment and retention were in place including a compliant health insurance program. Core values were adopted to aid leadership and Human Resources in their efforts to select future staff to the organization.

Without these foundational issues completed before implementing the 10-year strategy, these issues would have been enhanced as the number of employees and locations grew. The ramifications of noncompliance would have also increased as the size of the payroll grew. With these items in place, the 10-year strategy can be implemented with speed and agility.

The final items to be addressed from the "Compliance" list were the amended employee manual and job descriptions. Both items were important for compliance reasons but had little "Strategic" effect. Both items are important, but the issues identified by the auditors were very minimal. Therefore, these items will be addressed in the coming months and implemented by year-end.

What Was the Real Outcome?

By combining "Compliance" with "Strategy," the projects faced minimal objection for project leaders and participants. Phrases such as "we have to do this because the auditors said we had to" were replaced with phrases such as "if we want to grow the bank and be successful, we need to complete these projects."

Without making any formal proposal or even announcing a change, the result of these efforts is that Human Resources leadership now has regular meetings with the CEO and has been invited to participate in the bank's weekly leadership meetings. The HR leader never had to ask for the support of the CEO. The strategic nature of the department as well as the importance of the HR projects to the bank's overall growth strategy made the CEO want to meet with the HR leader and develop a clear understanding of each project's direction. Given the short-time period the new organization has been in place, time will tell the ultimate effectiveness.

Lessons Learned

Ultimately all organizations are about people. Regardless of the challenges and cost pressures an organization faces, so long as the organization has employees, there should be a leader of that portion of the business. A manufacturing organization would never dream of not having a head of procurement. A technology company would never go without a head of research and development. An oil company would never go without a head of exploration. Yet, for some logical reasons, companies that depend upon people often relegate their HR leader to a place in the organization where having an effect on strategic direction is nearly impossible. At the same time, many HR leaders have earned the reputation of being too narrowly focused, lacking business savvy, and failing to understand the nature of their employer's business. HR leaders need to be business people who happen to be responsible for the people side of the business – both people compliance and people strategy.

Part VIII

Human Resources Strategy and Change

Human Resources Strategy and Change: Introduction and Overview

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Oliver Grohmann

Contents

Abstract

HR Strategy and Others The sections in this chapter "Human Resource Strategy and Change" will guide through some of the cornerstones of the human resources work. To share insights about these areas is both an honor and overwhelming at the same time. Each of these chapters covers a major topic, and uncounted number of books and articles from famous and really experienced experts can be found. Highly experienced professionals from diverse backgrounds will in the following elaborate about a list of exciting chapters in their role as experts and operational HR colleagues.

Being an HR practitioner who has been holding different HR roles during the professional career, it was always essential to be up to speed regarding the latest

Note: It is very important to note that the thoughts in this chapter are purely personal opinions and do not represent the position of the author's employer, LG Electronics.

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trends and needs, in order to add as much value as possible. However, having packed calendars and being involved in numerous burning topics constantly make it really challenging to follow each and every publication, trends, and ideas. It is important to understand that it is neither intended to compete with any author of another book or article nor to discuss about right or wrong. It can be taken as given that any article is based on specific experiences and serious analyses and a lot of brain and effort has been put into them.

What is offered in the following are just some thoughts from hands-on HR experts for HR professionals, not more, not less!

In order to kick-start a certain thought process, the opening remarks present some thoughts which might appear a bit radical, but there is a strong belief that it is time for some changes in HR.

What Is HR Strategy?

General Thoughts: Zero-Based Approach

Before providing some brief thoughts about the different chapters, it is recommended to raise some fundamental questions. It is important to spend some time here and to do this at the beginning of any general thought process, as it has or should have a strong influence on topics like HR strategy, HR transformation, change management, etc.

What would happen if a company wouldn’t have an HR department?

This question might sound provocative, but it guides to the real question of the core role of HR in a company. Is it only that HR professionals see themselves as important, or is there a strategic significance of their role? What would happen in a scenario in which an organization operates without HR? Would the company go bankrupt? Would it really make such a big difference?

Yes, these are “ugly” questions, which the HR community doesn’t really like. But this has to be clear that either this question is anyway in some minds or should be brought up by HR!

Obviously that radical question is usually not (openly) raised. It often can be heard how important the HR function is. And of course HR colleagues are dedicating endless hours to the different areas of the HR arena. Such a general question could mean that HR is not important or jobs are in danger.

There should not arise a wrong impression! Human resources can add significant value to the success of any organization, and obviously a number of processes have to be handled anyway. But only if the HR practitioners look into that question, it can be ensured that HR provides sustainable value added to the overall success of any organization.

The zero-based approach is a healthy and fair starting point. Which of the processes do really add value? Is HR dedicating appropriate time and capacities to the relevant topics? Is the setup of our HR organization still up to date, or does HR follow old habits? Which new topics should be picked up or tackled in a completely different setup?

There is an endless literature about the organizational setup of HR as well as benchmarking studies all over the place. In the end, the structural setup of HR and the portfolio of HR services are often very similar and have not really changed over the last few years. Yes, there are some minor differences, some job titles differ, and some new roles come and go, but the basic concept is and has been very consistent.

Of course, the explanation could be that this is exactly the right way and there is no better and more effective solution for all the organizations. But it is also a fair observation that this consistency over years and the limited changes in the HR portfolio are not in line with many developments in other areas.

A dramatic example is the development of technology over the last few years. All the Android and Apple applications have significantly changed personal lives not only of generations X, Y, and Z. Hardly anybody can live without mobile solutions anymore. The dimension of time has changed significantly, everybody is expecting and getting information and services at the flick of the fingertip, and availability of information 24/7 has become normal. In sensitive areas like banking or health, it is completely accepted that everything is provided and handled online, with helpdesks located across the world. Globalization has reached almost every industry. Huge investments out of countries like China and Russia or also smaller players like Indonesia take place in all kinds of industries.

Life in general and industries are changing, and in comparison, HR seems to be a rather slow mover.

Again, there should be no false impression! These thoughts should not sound naïve or like crazy dreams! It is obvious that not every organization has completely changed. Needless to say, legal frameworks, unions, and work councils ensure consistent frameworks and require sustainable answers and procedures. The HR world will not and cannot change overnight. A significant number of processes and products will and have to be delivered with no or little change over the next years.

But at the same time, there should be a strong belief that within respective frameworks, organizations and HR teams can be more progressive, and bolder steps toward an evolutionized HR are possible!

Do organizations really need HR Development departments and colleagues in different parts of multinational organizations or couldn't and shouldn't that be done by the leadership team? With all the technological possibilities and availability of data, shouldn't each HR department have a strong HR IT organization that is combined with strategic people topics? Couldn't or shouldn't HR bundle, offshore, or even outsource a significantly bigger part of the current portfolio? Is it true that the internal HR department with limited scale of economy can still deliver certain processes as fast, lean, compliant, etc.? These should just be a few thoughts which can be answered in different ways and could have an impact for the future of HR.

Of course a question that could come up now is "why all that?" Because HR practitioners have to do it, it is their role and responsibility, it is a pure necessity.

HR is or should be an integral part of the leadership team and has to ensure that the organization is successful. Sustainable success can only be ensured if the current status will continuously be challenged. Long-term success also requires understanding of external trends and what they could mean for HR and/or the organization. No one else will or should tell HR what the trends or needs are. The HR function is the expert and should bring that discussion to the table. Some might argue that the CEO or leadership team would not allow such a discussion. This is wrong! The CEO, the board and the management team care about the financial and sustainable success of the organization. Often, it could be the wrong approach, timing, or platform where these fundamental topics are discussed.

And there is another reason why it is not only ok but urgently necessary to ask all these questions. The external mega trends will not stop. The speed and the impact of changes will continue to grow, and even if some people or organizations think that all these have nothing to do with their organization, think again! It should carefully be watched if this is still true in the near future.

How much further will China grow and how big will the influence be on the world economy? Will Europe recover soon, or will the debt crisis have an even bigger impact? Is Africa the next Asia? Is poverty going to increase, and will the people continue to accept awfully low salaries? What about our generations X, Y, Z, etc.? Will they have a normal job as today? Maybe they will rather have several employers or "professional partners," and they will ask for flexibility that one cannot think of today. What are the next bold steps in technology? Needless to say, it is not possible to answer all these questions, and for sure the questions and answers in the context of each organization are different.

It can just be strongly recommended to watch the trends and better start the future of HR today.

As the authors will provide detailed and comprehensive inputs about the respective topics in this chapter, at this point only some very short and sweet thoughts are shared.

HR Strategy

The most important thing of a strategy is to have one.

This might be a citation that has been used before and should be highlighted here. For sure it is reality that has been proven several times and has been used by some smart leaders.

Taking business seriously, it is an absolute must to know the current position, the aspired future perfect, and the gaps. This refers to the HR function as well as to the people's situation in any organization. The HR Strategy is an important anchor point for the people in the organization, the management, and the HR team. It should be a regular process to review the HR Strategy. Is it up to date, are the latest trends taken into account, is the communication of the HR strategy appropriate, and have all HR colleagues been fully involved? The strategy is only as good as the buy-in of any key stakeholder.

Communication

This is probably an area which has experienced the most dramatic changes over the last few years. Trends and developments from private and personal live had a huge impact on business live. Social media platforms like Facebook, Instagram, or Yammer have mainly been developed for private use. But you cannot and should not underestimate what that could mean in professional life. People are expecting similar things anyway! Investments in modern technology and the open sharing of information are not optional but key preconditions for success!

Business Partnership

It is surprising and scary at the same time that this trend or ambition of having strong HR business partnership is already existing for so many years now but still discussed over and over again today. It is hard to believe that the model of HR business partnership is still the topic for numerous company internal discussions as well as HR conferences. Just fill the role (at least partially) with people from the business and organizationally integrate them as much as possible in the respective business area.

Organizational Development

Often, HR setups can be found within an organization department, which focuses mainly on the organizational structure. The more holistic approach of organizational development (OD) aligns the structure with the strategy, the leadership team, the learning strategy, and so on. Usual OD processes are program designs, business diagnostic, etc. In today's complex environment, these are topics of highest relevance for the success of an organization. It is strongly recommended to have a clear focus (less is more) and again check what you should handle internally and when it is time to consult with external experts.

HR Transformation

All the changes and different general trends which have been mentioned have, or should also have, an impact on the HR organization. The one-size-fits-all approach will not be possible, so it has to be explored what the right setup and portfolio for the HR organization will or should be! In many cases, HR outsourcing projects have not been successful, but it has to be said that there are highly professional business process outsourcing (BPO) providers with skilled and motivated people, who could deliver certain services with higher standard and lower cost than certain internal teams could ever do. And that has nothing to do with the fact that internal HR people are not smart, capable, or motivated, not at all! But there are situations where economies of scale can make a difference! HR transformation is not a target but a journey. You should constantly look into bigger and smaller transformations for your HR team!

Labor Cost Reduction and Crisis Management

This area might not sound so inspirational, but let's face it, this is at least a potential part of all our businesses. Can anyone afford to be or lead an organization that does not have to look into its profitability or has never been in a crisis? If these topics do not have any relevance for the respective organization, congratulations! But don't expect that it will never come! The handling of structured labor cost reduction and a professional crisis management require specific skills and experiences. Again, the perfect match between the respective situation and the necessary measures is the key to success! As these specific situations require not only specific skills but also specific characters, it is recommended that relevant positions are filled rather on a project basis. After successful implementation, it might do good for the affected colleagues, as well as for the organization in total, to bring new people in the lead and start emotionally at a new point.

Workforce Planning and Controlling

This field is especially of high relevance in bigger corporate organizations and also often in manufacturing organizations. Of course, there are other industries and smaller organizations where the strategic impact isn't that big. However, also on a smaller scale, it could be worthwhile to invest some capacities. This is an arena which unfortunately in many organizations not only mainly dominated by finance and controlling but also often a cemetery of figures, with too few qualitative information. Less is more, and investments in technology should be made so that comprehensive and value-added information can be provided with appropriate effort.

Mergers, Acquisitions, and Joint Ventures

This is an arena which sounds rather fancy and inspirational. But exactly like all the other fields mentioned, these topics cannot be underestimated and require very specific and technical skills and experiences. If an HR team never has been part of a merger, acquisition, or joint venture and suddenly is confronted with such a challenge, you better look for professional external help! These projects may seem short term but usually require significantly more time and effort than expected. Additionally, they need both technical know-how and soft skills!

Human Resources Strategy and Change: Essentials of Human Resources Strategy

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Contents

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Abstract

An HR strategy is essential to steer the qualitative and quantitative development of the workforce.

The HR strategy describes the overall plan on how a company creates for itself a competitive advantage in the area of people and their skills and behaviors, which more and more become the main differentiator in the global markets.

An HR strategy should be comprehensive and long-term oriented and have a clear connection to business success ("strategically aligned").

The globalization of competition demands both highly efficient, cost-optimized HR procedures and higher quality of the workforce. HR has to balance both aspects by delivering base processes at the lowest possible cost and to align the development of people with business strategy.

A pure cost-optimizing HR strategy might be appropriate in economically difficult situation; as a long-term strategy, it will, however, lead to quality problems with the products and services. With an increasing focus of customers rather on quality than on quantity, this will eventually create a problem for the company.

Outsourcing of base processes should be considered as an option in order to focus on strategically important aspects of HR management.

HR departments have to sharpen their role and ensure that their focus is really in line with business needs and the needs of different groups (e.g., generations) among the workforce. HR has to build a bridge between both and not simply play the advocate of one side "against" the other.

While in companies with rather repetitive work the focus of HR strategy was rather efficiency (i.e., getting a defined result with ever-decreasing cost of labor), there is a global shift toward higher-level work due to a higher sophistication of products and services. This development drives a rather effectiveness-oriented approach (i.e., getting optimal results with a defined cost of labor). In an effectiveness-oriented HR strategy, the qualitative development of the workforce is key.

HR strategy has two aspects: One that refers to the HR department and its further development and the other to the workforce of the company as a whole.

As a major success factor for implementation, both the company-specific HR value drivers and HR Key Performance Indicator have to be selected and defined according to the needs and strategic direction of the company. Ideally this becomes part of an overall strategy map (e.g., "balanced scorecard") of the company.

Introduction and Overview

As soon as the classic "personnel department" wants to become a "human resource" department, it has to take a proactive role in steering the development of people resources in the company.

Steering the people resources of a company, however, is like steering a container ship: Any movement of the steering wheel will change the direction of the ship only with a longer delay. This is why many HR decisions are by nature strategic decisions.

In most countries, labor legislation does not allow for immediate drastic measures in workforce management, so HR instruments, whether they are growth oriented or reduction oriented, usually have a significant time lag until full effectiveness.

As examples:

- If the company decides to implement a trainee program or internal development group to ensure the talent pipeline toward leadership positions, the first graduates of such program will graduate only in 1–2 years.
- If the company decides to implement a hiring stop to reduce workforce, the total workforce will only be reduced by voluntary and involuntary turnover.

Because of these time lags, most proactive HR decisions have to be based on a long-term plan regarding the qualitative and quantitative development of the workforce, in other words on an "HR strategy."

Coming back to the picture: If the captain of the container ship does not have a plan of the destination and the icebergs in-between, he will not be able to make the right movements of the steering wheel.

Let us now take a closer look at the significance of an HR strategy within a company.

According to the aforementioned "zero-based approach," the value added of having an HR strategy at all has to be discussed first.

Why not just start recruiting, administering, developing, retaining, and rewarding people without creating piles of presentation slides nobody is really interested in? Just as a "me too" of the HR department, proudly stating "Look we also have a strategy?"

Or, as this applies in many companies: If the company could be successful without an HR strategy in the past, where does the need for an HR strategy come from? Why fix something that is not broken?

To see the need for an HR strategy in today's business word, first a broader perspective has to be chosen:

It is one effect of globalization and technological development that products become more and more commodities. While some years ago, the *noticeable* difference between products of daily life was significant, in today's world even low-priced articles offer most of the quality and features that consumers really need.

Due to this development, the differentiating factors become more qualitative and hence more depending on the *quality* of people designing/producing/delivering these.

For example, attention to detail and customization in product development/design, customer orientation of sales, friendliness and professionalism in delivery, service orientation of after-sales, and speed can only be ensured by people – people who are willing to do discretionary effort (or easier said: "Walk the extra mile").

In service businesses, the importance of the "human factor" has always been seen, because business owners directly felt the impact of the quality of their staff on their economic success.

An HR strategy has to create the bridge between these business needs and the people in the organization – this is also called "strategic alignment."

What Is?

An HR strategy is a comprehensive, long-term plan for how to make the human resources of the company and the human resource department contribute to company's success.

Comprehensive: Usually, an HR strategy includes all major HR practice areas (e.g., HR marketing, recruiting, training, talent development, compensation and benefits, administration).

Long Term: While tactical plans include concrete targets for the current year, a strategy provides a direction. At times, an HR strategy also includes a vision, i.e., a description of a strategic goal (e.g., "To be the No. 1 employer in our industry").

Contribute to Company Success: To contribute to company's success, the HR strategy has to be closely aligned with the business strategy.

HR Strategies' Focus

(a) Either on factors regarding the workforce of the *whole company*
(b) Or on factors regarding the *HR department*

Or both

Focus: Whole Company

If the focus is on the whole company, an HR strategy even could exist without an HR department. Statements like "We make the service orientation and professionalism of our people our key unique selling point" can also be created by business management.

An HR strategy that focuses on the whole company views the workforce as a critical success factor and describes general paths on how to drive value of the company *through its people*. "Driving value" can either mean "driving efficiency" or "driving effectiveness." Depending on the type of business, but also depending on the mindset of the top management, the one or the other is priority.

If "driving efficiency (= minimizing input)" is priority, the HR strategy outlines ways how to drive and achieve results with less and less cost for people. This can be, for example, by replacing workforce with technology (e.g., production robots) and via outsourcing of noncore functions or new forms of process organization (e.g., creation of shared service centers). This type of HR strategy can limit qualitative growth opportunities through people. It fits into a type of business where the outcome is quite clearly defined and processes are quite straightforward. People in such a strategic framework are often mainly seen as a cost factor, and – as for all cost factors – expenses for them should be reduced to the necessary minimum. While such a strategy might be advisable in crises situations of the company (or the whole economy), it can become in the long run a self-fulfilling prophecy: Because people are seen as cost factors, they also behave like cost factors, minimizing their effort for the company to the necessary minimum – same as the company minimizes its effort to the people.

If "driving effectiveness (= maximizing output)" is the focus of the company's HR strategy, qualifications and behaviors of people become most important. Such strategies view people rather from an investment perspective than from a cost perspective: Same as investors focus on the potential of the assets they purchase, companies with an "effectiveness" HR strategy focus on the potential of their people.

In reality, HR strategies have to be a mix of both, efficiency-oriented and effectiveness-oriented aspects.

Clearly, efficiency aspects have to play a major role in an HR strategy, especially because usually expenses for people are the largest cost factor of the company. But that is neither the only nor the most important reason.

Business has changed! Some years ago it was possible to run a successful and profitable business for years, sometimes even for generations, just by having a good idea or a specific product. Competition in general was more local; companies were developing, producing, and selling products often in one or two locations. Only a very few big blue-chip companies were already "global players," and even here the majority of the business took place in a very few selected locations. Information flow was much slower; it needed years until certain products, processes, etc., could be copied. All that meant that competition was not at all an issue like today. The sustainability of a successful business model was completely different. You spoke about years or generations. Driving efficiency was important to maximize your profit but not so much to ensure the overall success of the business.

This comfortable situation has changed completely. Hardly any organization produces products, provides services, and sells or consults in only one location. Even small- and midsized companies have to operate regionally, if not globally. Ideas and know-how can hardly be protected; every detail is out in the Internet and can be found and copied in any part of the world – 24/7! The importance of being fast and flexible has increased dramatically. This is why efficiency aspects with regard to human resources cannot be neglected.

In addition to that, a decreasing amount of consumers is willing to buy "just a product" or receive "just a service." Customers focus more on the detail quality and/or exact matching to their needs. If the workforce of a company is just delivering the minimum quality of products and services, customers will eventually chose other companies to better fulfill their needs.

Clearly, there will always be a market for affordable simple products and services and hence a justification for a rather strong focus on effectiveness, also regarding people. But: Also less financially capable customers demand quality and respect. They usually also have a choice between different low-cost products and services.

This means that also the HR strategy in low-cost businesses should include a certain amount for “effectiveness” aspects.

If the efficiency factors in the HR strategy become too dominant, however, there is a risk that the company trades in its future for short-term savings, because qualitative factors of companies’ products and services become more and more important as well.

Taking both aspects together, the need for efficiency and increasing qualitative demands, the overall conclusion is the need for a highly effective HR organization and hence an HR strategy that brings business and people goals together. Companies need well-trained people and effective processes in order to be fast and flexible, or even fluid. A constant review of market conditions, competitors, processes, communication, etc., is needed in order to sustain a successful business.

Clearly, there will always be a market for affordable simple products and services, and hence a justification for a rather strong focus on effectiveness, also regarding people. BUT: Also less financially capable customers demand quality and respect. They usually also have a choice between different low-cost products and services. This means that also the HR strategy in low-cost businesses should include a certain amount for “effectiveness” aspects.

Focus: HR Department

The HR department itself is an organizational unit within the company (as long as it has not been outsourced) which, same as all other organizational units, has to define their value contribution to the company.

Depending on its self-understanding and/or the expectation of the top management toward the HR department, its role can vary. This role will be reflected in the strategy for the HR department.

Examples

(i) If the key role of HR is to ensure that internal and external regulations are followed, then the strategy for the HR department will focus on driving governance and compliance.
(ii) If the key role of HR is to ensure perfect administrative services within the company, then the strategy for the HR department will focus on internal process optimization/quality management for administration and payroll.
(iii) If the key role of HR is to ensure fast and optimal placements, the strategy for the HR department will focus on its deliverables in HR marketing, recruiting, and talent development.
(iv) If the key role of HR is to ensure development of internal talent, the strategy for the HR department will focus on its deliverables in training, qualification, and talent management.
(v) If the key role of HR is to ensure fair and competitive salaries, incentives, etc., the strategy for the HR department will focus on its deliverables in performance, compensation, and benefits.
(vi) If the key role of HR is to support major changes in the organization, the strategy for the HR department will focus on change management.

Again, in reality the expectations toward the HR department will be a mix of several aspects. Same as mentioned under "Focus: Whole Company," it should be critically observed if the expectations toward the HR department still match the real needs which come from the market. Traditionally the major expectations toward HR were roles (i) and (ii). In most businesses these two roles alone will not more ensure future competitiveness because qualitative factors of the workforce gain more and more importance (compare to "Focus: Whole Company").

However, it has to be mentioned that (ii), the need for a highly effective and efficient HR organization with cutting-edge processes and systems, has to be an integral part of each HR strategy. It is a strong belief that the poor performance of HR in that area is a major reason for the often bad reputation of the HR function in an organization.

Unfortunately old and complex processes, the need for multiple signatures, missing automated work flows, and a fragmented HR IT landscape are still existing in many companies. All that leads to slow delivery and frustration for all parties involved (employee, supervisor, HR) and the increasing question of HR outsourcing.

It took quite a while until convincing new solutions came up. Especially due to the trend of cloud-based computing with improved and easier system and data interfaces, more and more software providers (not only the big players) have come up with comprehensive and attractive solutions. Another important trend is more and more professional business process outsourcing providers which are focusing increasingly on HR administrative services. Both trends together have started to change the landscape of HR administration.

Especially for small- and midsized companies, it will be tough to compete with professional service providers, where HR administration is the key focus of the overall business model. But even for bigger companies with their often old systems, little room for flexible solutions, and high labor cost, it is a challenge to keep up.

That leads to the next question: Does it make sense to keep up? Is it realistic that companies can run the "HR administration" business as effective and efficient as an outsourcer who is doing nothing else and who has the latest IT solutions, effective processes, and flexible and qualified workforce? Today, this question is often still not openly asked or answered with arguments from the past, negative examples from the early stages of outsourcing. This will for sure change, and the HR function should start to openly and proactively discuss and review that question before a third party (the CEO, the CFO, an external consultant, etc.) will ask the question or even provide the answer without asking HR in advance.

It will not always mean that the only answer is "outsourcing." There can be very good reasons why the analysis could show that it does not (yet) make sense, to change the organizational setup, or that maybe only selected parts of the HR delivery could be handled differently.

To wrap up that discussion, two things are essential to be mentioned:

First of all, it should be clear and clearly said that HR administration (internal or outsourced) is not an unimportant, value wasting, and boring area, not at all! It is a field that requires specific know-how, competitive processes, top IT solutions, and last but not the least highly qualified people! The questions are how to run such a business most effectively and efficiently and why should working in a "high-performance HR administration factory" not be a by far more attractive ambition than working in an HR team dealing with self-invented topics far away from core business.

The second point to mention here is that this should be used as an example of what developing a strategy should really mean. The process should include a holistic and open review of the current situation and future potentials. Even if some questions are tough, and individuals have to leave their very personal comfort zones, this is exactly what needs to be discussed. Otherwise you can skip the strategy process. If an (HR) strategy is just the summary of already known topics without involvement of adjusted trends and critical perspectives, the time and capacity should rather be spent in other areas.

People Perspective

Focus: Whole Company

An HR strategy for the company is only valuable from a people perspective, if it is broadly and effectively developed and communicated. Posting a final document in the Intranet or distributing the HR strategy via email will not drive any significant changes.

In the early development phase of the HR strategy, HR heads should already consider to involve representatives of the workforce (if applicable even union or works council). Such participation can both drive the "grounding" of the strategy in real-life experience and is also a way to enhance acceptance of the HR strategy.

Needless to say, the (top) management of the organization also should be involved from the beginning. Not only that, they should come up with their perspectives and needs, in order to develop an HR strategy that supports the overall success of the company. Involving them at all phases also helps the buy-in and communication overall. It can often be seen that there is only a few meetings with the CEO, and then HR is developing the HR strategy purely internally, without sufficiently involving the management. That often leads to an HR strategy that is not accepted/supported and thus does not create value added.

HR must use the different perspectives not only from a buy-in or communication point of view. It is critical to consider the different needs and requirements of different areas and people. Only by doing so it can be ensured that the HR strategy consists of the right fields.

There is only a thing that should not be forgotten. Often HR strategies are purely based on the business strategy and the expressed requirements of the management team. HR has the obligation to bring some people relevant topics to the table. As the CFO is the expert if it comes to numbers, it should be clear and accepted that HR is the expert if it comes to people and HR. If there are trends, for example, the need for flexible work solutions in order to attract, develop, or retain the best talent (especially, but not only among Gen X, Y, Z), that has to be brought up by HR. CEO and the management team should expect those insights from HR, even if they might not always agree with all needs and trends.

After the HR strategy has been developed, a communication plan of the HR strategy should be developed and designed.

Certainly, if the HR strategy is more efficiency oriented, the communication is more difficult. How to explain to people that it is the intention to rather reduce expenditure for them? Clearly, a traditional – and valid – argumentation is that through this, the jobs of those who remain in the company will be better secured because the company stays competitive. Brining in the competitive position of the company will be key in such argumentation, and business management should explain to the workforce the major economic/market challenges and how the company wants to master those. A spirit of "We are all together in this" is desirable, also if really not easy to achieve. Only if the management can credibly show that efficiency measures also apply to themselves – and not only to the operative workforce – people will buy-in to the "We are all together in this" story.

Focus: HR Department

The HR department can derive valuable information about its reputation and about opportunities for improvement from employee surveys. Especially if verbal comments are requested in addition to check-marking evaluations, HR will get valuable hints for the further development of its strategy.

As it is important to involve people from other areas at early stages, it is of course also critical for the success of an HR strategy to involve HR people from all levels and areas in that process. It should not be something that is developed between the CEO, head of HR, and maybe some senior HR business partner.

The process of developing an HR strategy must be used as an integral and important part of a change process. Strategies should not be developed and changed on a yearly basis. We are talking about the longer-term need to adjust service delivery, products, organization, etc. That needs time, support, and commitment of the people who are involved.

If there are bigger changes necessary, there should be enough time spent at the beginning. "Walk slowly at the start, to run fast later" should be the motto! Under no circumstances the power of keeping the current status and the need to make "affected people to active partners" should not be underestimated! For example, as described above, do not believe that the organizational setup of HR administration could be successfully changed if you have not involved the respective colleagues at an early stage.

Economic Perspective

Focus: Whole Company

Even though there is a temptation to identify the economic perspective only with the "efficiency" approach in an HR strategy, this is not necessarily the only way to see things from an economic perspective.

Clearly, the economic perspective demands facts and figures. And clearly, an efficiency-oriented HR strategy can save cost: Goals for cost savings can be defined and their achievement can be tracked.

The basic dilemma of HR is the lack of exact proof of the connection between investment in quality enhancement of the workforce and tangible additional economic outcome.

This is why the discussion from the economic perspective often defaults back to the cost and hence to a more efficiency-oriented HR strategy.

In other words:

If a company cuts one position and saves the salary cost, there is a tangible saving of cost (i.e., the salary of the former job holder, potential severance payments, or else set aside).

But: If a company spends a certain amount for an employee engagement program, the direct effects (e.g., additional sales, enhanced customer satisfaction) cannot directly be measured as these also are also due to other factors (e.g., market conditions, changes in products). In real life, there is probably no laboratory extraction of this one factor possible.

Different consulting companies have tried to develop highly complex models in order to measure such correlations; however, it seems that this is hard and cost intensive to implement, and the buy-in is even harder.

HR leaders who are challenged with this argumentation ("Why should we invest in employee motivation, if you cannot tell us the exact ROI?") can be advised to do two things:

Collaborate with other areas of the business, where similar conditions exist (e.g., sponsorships, CSR activities, marketing events), and try to find joint solutions for that "dilemma."

Another suggestion is to look for showcases which are easy to understand, can be easily compared to the "external world," and have a comparable massive impact. If possible, facts and figures should be used to present the case. But the effort to generate the data should be in line with the potential output. Often the respective approaches of consultants are complex to implement and the results are not straightforward. It should rather be intended to describe stories and examples which are easy to understand and buy-in. If you take, for example, the impact of training in productivity and profit, it is helpful to compare the impact of training for an athlete.

Who would doubt if a successful athlete should practice and have training sessions? You can discuss the training methods, the training intensity, the training location, etc. But who would discuss the training in general? What is different between an athlete and an expert in a corporate environment? Both have to perform a certain discipline, and both of them should perform at a high level? How can it be that training costs are cut, sometimes to zero? How can the management team believe that the workforce will be able to perform at a high level in mid-/long term?

Focus: HR Department

If the company has a strong cost focus, HR has to align its departmental strategy with this as well. Especially HR has a broad multiplier role in the company and will get under attack, if it tries to exclude itself from a general cost-savings philosophy.

Often the cost focus is on a benchmark with comparable companies, e.g., regarding the relationship of HR staff to total staff. The "1:100" (1 HR person to 100 staff) can certainly be challenged as it does not provide any clear definition what "HR" means (e.g., with or without payroll? with or without internal trainer? including interns or not?). This is why a total cost comparison for a clearly defined scope of activities is preferable to a 1:x comparison.

Talking about the economic situation of HR, the HR service ratio is an important field that also enables external benchmarking. Another key element here is the organizational setup of HR and the service delivery model. As discussed above it has to be a key element to review the effectiveness (and thus in the end, the economic strength) of HR. The area of HR administration is often still binding significant capacities which are not always organized in the most effective way. And to make it crystal clear, that has nothing to do with all the HR professionals who are working hard every single day. It has to do with the HR leaders who have not really tackled that challenge during the last few years.

So a strategic goal in the "efficiency" sense for the HR department can be "Deliver state-of-the art HR services with resources on or below benchmark."

Risk Perspective

Focus: Whole Company

Opportunities have to be used and risks have to be avoided! That very general statement is very true if it comes to people and HR.

In some industries (e.g., banking/finance), you can find mandatory risk assessments that require specific structured processes in order to evaluate respective risks and ensure appropriate actions. Especially the Sarbanes-Oxley Act has changed the landscape for organizations and their HR departments significantly. Comprehensive internal control systems had to be set up.

But even in under industries, it should be considered to define some relevant Key Performance Indicators (KPIs) to ensure that the HR strategy and the respective initiatives tackle the relevant topics.

In general risks should be considered with respect to the likelihood of the event, the scope of the potential damage, as well as the potential measures to manage the risk. It might be difficult to start thinking about those topics; however, the moment HR starts to think about it, it will very soon be able to define relevant areas.

There are significant people-related risks for the success of an organization, which should be evaluated and monitored. You can find rather straightforward risks like lowered productivity due to outfall of employees (sickness, accident). Here it is important to monitor and invest in prophylactic measures (training, health programs, etc.) and ensure proper processes. But there are also other long-term risks like loss of know-how due to experienced employees leaving the organization, changing requirements for staff, etc.

It is also important to understand that not every risk can be fully avoided. There are risks that can be avoided, those that can be reduced, those that can be limited, those that can be delegated (e.g., insurance), but also those that have to be accepted.

On a more general note, the worst that can be done is to overpromise and underdeliver. If the company "sells" more than it really does, especially to the employees, that will soon lead to a loss of overall credibility.

In a world of social media, such false statements are disguised immediately and can lead to a long-term damage of company reputation.

Strategic statements, which stand in clear contradiction to the reality which employees experience in the company, will lead to cynical remarks, especially by employees of the company.

Focus: HR Department

In an effort to be "everybody's darling," HR might define strategic goals which are not achievable.

A classic mistake is to promise even more deliverables within existing processes (e.g., interviews with all applicants prior to sending them to the hiring departments), new areas of activity (e.g., change management support), and more responsibility (e.g., for driving follow-up to the results of employee surveys in all department) while also accepting significant cost reductions.

The problem of HR is that the scope and depths of its deliverables are not clearly defined, and its resource allocation often still comes from times when it was purely an administrative/payroll department. Not always have increasing demands been matched with increasing resources. This is why in companies, often the lights in the HR department are on still late in the evenings.

Operational Perspective

Focus: Whole Company

As already mentioned, an HR strategy only becomes tangible if there are goals and finally targets derived from it and measured.

Such measurements can cause high additional workload for HR if these data do not come as a by-product out of existing databases or survey processes.

When designing an employee survey, HR has to ensure that the survey asks questions in a way that the achievement for defined targets is clearly measurable and also that the necessary breakdowns (e.g., by division, department, tenure, hierarchy level, etc.) are possible.

Focus: HR Department

To drive its own departmental strategy, HR should organize internal workshops and communication events to develop and review its own strategy. All employees in the HR department should at least understand the departmental strategy and be able to break down what this strategy means for their individual job.

The HR leaders should decide, down to which level employee should be involved in this process, and hence organize ways to ensure continued service delivery of HR during this process. The more and broader the inclusion of staff, the more difficult it will be to have HR fulfill its day-to-day duties and to be reachable for its business customers.

Dos

Align HR strategy with overall company strategy and market. Driving the success of the organization is the only objective of an HR strategy. Needless to say, it therefore has to be closely aligned with the business strategy.

Bring your own topics to the table. Of course, the people topics in the strategy must be derived from the business strategy! However, it is insufficient to purely describe HR goals based on business goals. The management expects you – the expert when it comes to people topics – to advise which topics should be considered and tackled, e.g., the changing expectations and behaviors of the younger generation, and therefore the related need for flexible workplace solutions must come from you!

Describe goals for both the HR function and the organization. Get your house in order; describe what is needed to get an effective and efficient HR organization; this is your responsibility in the first step. However, the part with the higher impact on the overall organization is to describe the people goals in general. This can only be developed and executed in close collaboration between HR and the management.

Don'ts

Do not underestimate buy-in and communication. Of course, the content of an HR strategy is important. There are HR strategies which address the right topic, but without the full buy-in and support of the (top) management and the HR organization, they will never fly! Spend sufficient time with the management and the HR organization at the early stage of developing a strategy. Involve as many colleagues in a structured way and ensure that it is their strategy and their language that are used.

It is strongly recommended that you ask for a strong commitment of the (top) management and ask for some concrete strategic decisions regarding HR. This will allow the HR leader to set priorities for his/her team.

Questions like the following can bring the necessary clarity and turn a one-size-fits-all HR strategy into a real-life HR strategy for your company:

- If you could pick one people topic that ensures the success of the organization, what would that be?
- Do we want a "family feeling" or internal competition?
- Do we want to be average or premium in compensation and benefits?
- Do we believe in an "elite approach" in talent management or a broad approach?
- Do we believe in diversity of leadership teams?
- Do we believe in empowerment of local leaders?

Do not make it too general, but focus on the specific situation. While HR strategy cannot be changed yearly, it should at least connect to the specific situation of the organization to ensure successful implementation.

Do not forget to measure. Ideally, use a balanced scorecard or similar tool to break down strategic goals into measurable targets. Track the progress of the achievements and report them to the top management. This will draw attention to people topics, making it easier for the HR leader to obtain approval for necessary decisions and investments.

Final Comments and Outlook

"Only what gets measured gets done." Even though it might disregard intrinsic motivation of people, this famous quote by Peter Drucker points at an important aspect: If the HR strategy remains a stack of presentation slides which once has been shown to the top management and just published in the intranet of the company, it will not have any major real-life impact.

An HR strategy has to be made tangible via clearly defined strategic goals, which are derived from the strategic statements and are made operational in clear, e.g., yearly targets.

Ideally, the top management discusses the achievement of HR targets in the same format and same meetings in which it discusses all other crucial topics related to markets, customers, internal processes, finances, legal, etc.

Only with such an embedding, the HR strategy gets the exposure and alignment with the business that it needs to be effective.

This is why both the development and the measurement of an HR strategy ideally should be part of the company's strategy mapping and strategy process, e.g., a balanced scorecard process. In case there is no company-wide strategy-mapping process, it is recommended that HR develops its own "HR cockpit."

As a first step of development of an HR cockpit, it is necessary to identify the value contribution to the overall success of the company from each HR area. Only if the specific value contributions are understood, meaningful Key Performance Indicators can be derived. Unfortunately many HR reports forfeit the purpose of becoming a meaningful strategic instrument, as they often report figures which are "nice to know" but have no clear connection to the company's success.

To systematically monitor HR-related topics, Key Performance Indicators (KPIs) have to be defined. As a structure for these KPIs, it is one option to use the eight sections of this handbook as a guiding principle.

Please find a selection of find potential KPIs for each of the eight sections of this handbook, which are relatively easy to measure (more sophisticated measurements might cause high operational effort for HR).

The following value drivers and Key Performance Indicators are quoted from HRMnext Limited, Hong Kong (www.hrmnext.net):

HR Marketing and Recruiting

Value Drivers

Quantity of Candidates

The direct impact of HR marketing is a higher quantity of applicants for open job positions. The more the applicants apply for a posted position, the less a company needs expensive candidate searches from search firms.

Company Image

The more a company actively markets its employment opportunities and attractiveness, the better it enhances its image as socially responsible employer. The willingness of customers to buy products and services from this company might increase due to this positive image.

Applicants Are Potential Customers

In companies whose products and services are sold to retail customers, current applicants, including those who are not successful in their application process, are potential future customers. A recruiting process in which all applicants are treated with respect and courtesy increases the future customer base for the company.

Key Performance Indicators

Employer Rankings

These are surveys among broad target groups (e.g., university students) or the employees. For example, a car company may have the following goal: We want to be among the top 100 employers for engineering graduates in all our markets where we develop cars.

Application Rate

Application rate refers to how many applications does a company receive when posting a job (e.g., in an online recruiting website). An even better indicator is a "qualified application rate" which excludes those applicants who definitely do not have the skills required for the job.

Hiring Volume/Plan Versus Actuality

This measures the number of people hired within a certain time frame. This number is both important to review the quality of headcount planning and to track the actual headcount development of the company.

Offer Acceptance Rate

Offer acceptance rate refers to the percentage of job offers sent out to candidates and acceptance ratio by the candidates. If the percentage is low, the company should carefully review which types of offers should be made to which types of candidates.

Probation Pass Rate

Probation pass rate refers to the percentage of new recruits who pass the probation time (e.g., 6 months, length of probation depends on local legislation). If the percentage is low, it indicates that too many people who have been hired do not fit to the job.

As Part of an Employee Survey

Also internal employees see a part of the company's external HR marketing and recruiting activities. Recommendable questions could be asked in how far the company's employer branding is consistent with how the employees see the company.

Training and Qualification

Value Drivers

Performance Increase

If the right people receive the right type of training at the right time, their performance will increase. The value of this performance increase can be significantly higher than the training costs; in other words, it is a good return on investment.

Employer Attractiveness

For job seekers, training activities enhance the attractiveness of the company as an employer, because it means that job seeker's own competences will be further developed while working for the company. Job seekers also consider a company's intensive training activities as a sign of the company's long-term commitment to its employees.

Retention

Similar to the arguments under "employer attractiveness"

Networking

In addition to the "official" contents of the training classes, any type of internal training and qualification session/courses/classes which brings people from different departments together also offers people a chance to network.

If, however, the main positive feedback after a training class is: "it was good to meet so many new people," then the contents and the method of the training class should be reviewed.

Key Performance Indicators

Feedback

Typically, a direct measure of the quality of training is the participants' feedback regarding the training session.

In addition to asking the participants some months later, also ask their supervisors whether the training has had a positive impact on their performance.

Attendance

This measures participation rates in training classes ("seats" versus actual number of participants). It is a measure of the efficiency of the training program as well as a measure of the discipline in training attendance. Clearly, "empty seats" mean money lost for the company.

As Part of an Employee Survey

A recommendable question in an employee survey asks in how far the current training offering effectively supports employees in developing necessary skills and behaviors. Ideally it also asks for recommendations, in which areas additional training should be offered and which current offerings are of lower value added.

Performance and Talent

Value Drivers

Talent Retention

If talented people observe an active and fair process in talent development, they see development perspectives for themselves. For talented and engaged people, this is the most important criterion to decide whether stay with a company or leave.

Losing talented people obviously means a financial and cultural loss for the company, while retaining them means safeguarding a company asset.

Better Placements

The better the fit between peoples' job roles and their competences is, the higher the value they add to the company. Neither overqualified people nor under-qualified people will be able to consistently do a good job! Overqualified people will get bored/de-motivated and might either leave the company or even worse go into an inner emigration. It is convenient to fill positions with people from within the department; however, there might be better candidates somewhere else in the company. The more knowledge HR has about talented individuals in other departments, the better HR can propose alternative candidates for open positions. In this way talent development drives a higher quality in placement and, thus, a better usage of the talent within the company.

More Diversity

Good talent development processes create a broader base for placements. Together with more objective criteria for placement decisions, the odds of placing a more "diverse" candidate increases because talent does not depend on ethnicity, cultural background, gender, or sexual orientation – just to name a few.

Better Employer Image

Companies which are known for active and fair development of their talents have a high attractiveness in the labor market and thus will more easily get excellent people.

Key Performance Indicators

Quality of Talent Pipeline

These are indicators that show how well the company is prepared to fill key positions in the future with internal qualified candidates, for example, average number of identified potential successors for key positions, diversity of talents (quota of female, quota of different ethnic backgrounds, quota of different nationalities, etc.), and potential quota (number of people identified to have talent of the next level versus positions on the next level).

Plan Versus Reality in Placements
If there is placement planning as part of the company's talent development, it can be measured by how many placements really took place according to plan versus "surprise candidates." The higher the alignment between succession plans and actual successions, the more effective the talent development process is.

As Part of an Employee Survey
Some surveys ask employees how they overall rate the performance of their peers. This may not be confused with 360° feedbacks because surveys are anonymous and only provide general data about the company rather than individual ratings.

Engagement and Retention

Value Drivers

Discretionary Effort
There is a German proverb that "The way you shout into a forest is the way it echoes out." In other words: if you limit the company's efforts to engage employees to the required minimum of compensation and benefits, you will also get in return only the required minimum performance.

In a competitive environment, however, it is necessary to deliver products and services which create additional, higher value to your customers than just the standard. To deliver this higher value to your customers, you need employees to create this value for the customers, you need product developers who find new solutions to make your products more attractive to customers, you need sales people who develop an in-depth understanding of customer needs and go the extra mile for their customers just as you do for your sales staff, and you need after-sales people who maintain patience and friendliness when being challenged with all kinds of customer problems/complaints, just to name a few.

Even if the company's strategy is to offer its products/services at the lowest price, it requires your employees to find, for example, new smarter ways to reduce costs compared with other competitors, and it requires employees to have better internal processes or smarter product/service solutions.

As if employees go this extra mile for the company, it is called "discretionary effort."

Lower Turnover
Lower turnover leads to lower costs for recruiting and stronger staff cohesiveness. Particularly if engagement and retention programs have a focus on key talent, lower turnover means safeguarding company assets.

Key Performance Indicators

External Surveys

There are several providers of external surveys regarding employer attractiveness.

Some of these are also offered for structured surveys for internal employees which make the company comparable to other companies.

Voluntary Turnover

Undoubtedly, voluntary turnover in comparison with market average is an indicator for the effectiveness of the company's engagement and retention program. In addition to general turnover, having a separate calculation of key people turnover is advisable because these are the people the company should retain the most. Key people can be identified via the performance management process.

As Part of an Employee Survey

If done on a regular basis with a consistent set of questions, internal employee surveys will provide valuable information on the emotions and motivations and ideally also provide ideas for improvement by the people in the organization. Questions should focus on actionable items, i.e., things that can be changed.

Compensation and Benefits

Value Drivers

Employer Attractiveness and Retention

Clearly the level of compensation and benefits provided by the company has a direct influence on the company's external attractiveness as employer and ability to retain employees.

It is, however, not only the level of compensation but also the fairness of distribution: Even if the overall level of compensation and benefits is high, employees can get dissatisfied if they feel that their compensation level compared to other comparable colleagues is too low or if they feel that benefits are not distributed by fair criteria. This is why HR, in order to drive this emotional value, has to develop fair compensation and benefit processes and policies and has to communicate these as transparently as possible.

Caring for Employees

One of the fundamental questions in compensation and benefits is whether to compensate people for their work with cash or benefits. From an emotional perspective, a large set of benefits (health, pension, family emergency, wedding, childbirth, house loan and car loan, etc.) indicates a caring employer who goes the extra mile for its employees. Also such a generous catalogue helps in attracting new employees to the company. There are, however, other arguments from an economic and operational perspective, which make the argument to replace benefits with cash, which will also be discussed.

Key Performance Indicators

Benchmarking

For compensation benchmarking, there are established processes and companies specializing in this area. The first step for the company is to make itself comparable with other companies via a global ranking system. Benchmarking companies then compare how much your company pays for a certain position rank and how other comparable companies pay for the same position rank.

It is a major strategic decision of the company where it wants to position itself within the relevant peer group of companies. A low positioning will certainly save cost, but might also have negative effects on its employer attractiveness and talent retention – unless the company finds other ways to make people excited about working for it.

As Part of an Employee Survey

Questions about fairness and level of compensation can be asked in employee surveys. In addition to the more objective measurement with benchmarking, employee surveys display the more emotional side of the coin. Obviously, questions raise expectations, so if the result of a survey is a clear dissatisfaction with compensation and benefits, and the management does not intend to do anything about this, it will certainly have a negative effect on motivation. In other words: If you do not want to make any change, do not ask your employees for feedback.

Payroll and Administration

Value Drivers

Contractual Obligations and Statutory Compliance

As a fundamental value contribution, HR administration and payroll ensure that the company fulfills its contractual obligations with its employees, agencies, and other counterparties and fulfills all employment-related statutory obligations (i.e., obligations the company has with the government and their ministries).

Employee Satisfaction

With a well-organized administration and payroll department, employees will receive salaries, benefits, and other HR services on time and in the right quality/ amounts. This increases confidence and trust in the company. A company which fails to pay salaries or benefits on time or in the right amounts sends the wrong message about diligence and discipline to their employees. Why should an employee execute 100% diligence in his/her job, if the company fails to fulfill their part of the contract?

Also, with IT systems and a properly communicated HR process landscape, HR makes its decision-making transparent within the company which enhances trust in the fairness of HR and thus enhances employer attractiveness.

Key Performance Indicators

Error Quota and Reruns in Payroll

With these two indicators, the quality of payroll processes can be measured. Reruns might be necessary due to last-minute changes in employment contracts, last-minute hiring, or severance payments; however, a high number of reruns indicate either process deficiencies, human errors, or problems with the IT systems.

As Part of an Employee Survey

Opinions and feedbacks regarding the administrative services of HR and the company's vendors should be asked in employee surveys. Examples are accuracy and timeliness of payments, transparency/understandability of pay slips, correctness of provision of benefits, service quality of HR regarding availability, customer orientation, and competence. Some more are service quality of vendors (e.g., health insurance), service quality regarding availability, customer orientation, and competence.

HR Governance and Compliance

Value Drivers

Rules and Business Effectiveness

If well designed, clear rules enhance transparency and thus lead to higher business effectiveness.

Whether a rule is well designed depends on the following factors:

– Can the rule be easily understood?
– Is the rule clear or does it allow for various interpretations?
– Are approval processes strict?
– Are data/documentation requirements realistic? (Often backup requirements take more time than the original request!)
– Is the quality of the rule so high that it will not require amendments within a short time?
– Have the operators/executors of the process/rule been involved in the making of the rules?

Avoid Cost of Noncompliance

It will never be possible to only have rules with a direct "positive business case," meaning that the cost of creating new regulations should be lower than the gain in process efficiency.

In the bigger context, however, noncompliance with major external rules (or even internal rules which have been made public) can lead to significant penalties, loss of public credibility, and, at worst, loss of the business license. Taking this into account, the business case for complying with meaningful rules might be significantly positive.

Key Performance Indicators

Number and Severity of Audit Findings

With HR audits the company can check implementation quality of rules and regulations. Repeated findings of the same deficiencies are a negative success indicator of the effectiveness of governance.

As Part of an Employee Survey

With employee surveys the company can check regularly the knowledge of and acceptance of major governance-related topics by all employees (e.g., the company's compliance program).

HR Strategy and Change

Value Drivers

Value Added of an HR Strategy

HR strategy adds value to the company, because it focuses HR on the things that matter most for the company and thus ensures that HR resources are optimally allocated and ensures that today, tomorrow, and the day after tomorrow, there are the right people in the company to support the achievement of company goals.

Value Added of Change Management

Change management adds value to the company by helping the company to successfully master periods of change. Mergers and acquisitions, economic crises, unexpected growth, sudden changes in regulatory environment, groundbreaking new technologies, and even large-scale natural catastrophes become frequent game changers. Change becomes the norm, stability the exception.

The people-related part of such changes often is most critical for success. HR can add major value in such process by contributing its expertise regarding the "people factor" to the overall change project. In the event the change is primarily a people-related process, HR should head up the change project.

Key Performance Indicators

Representation in Management Board

A good indication of the CEO's view on HR's contribution to company strategy is the presence of HR on the management board. There are different levels of involvement, ranging from:

(i) Low: only attending the BoM for HR-specific topics
(ii) Medium: attending the BoM as permanent guest
(iii) High: BoM member with all rights and obligations

Automatic Involvement in Change Projects

It is a good indication for a successful change management by HR if in new change projects, HR is automatically requested to take over the HR subproject or even asked to head up the project.

As Part of an Employee Survey

It is recommended to ask in an employee survey on how far employees know the HR strategy of the company. Ideally, the survey captures also the leadership level of the surveyed employees so it can be monitored if leaders in the company are aware of the HR strategy. If the results for leaders are low, the HR strategy remains a dream of the HR department rather than reality, because finally leaders have to make the HR strategy become real.

The bottleneck in HR strategy usually is not a lack of good ideas and sophisticated statements – the bottleneck is implementation. If HR strategies start with common phrases such as “People are our most important asset,” odds are high that the HR strategy under this phrase remains a nice decoration for the CEO’s speeches rather than an impactful strategy. To become impactful HR strategies have to be closely aligned with the business; they should be unique because each company is unique. As a test, one might give leaders of the company three to four HR strategies from different companies including the own, not mentioning which HR strategy is from which company. If those leaders are not sure which is which, the HR strategy forfeits its purpose.

A well-crafted HR strategy is the basis for a sustainable provision of those people resources the company needs for its success. This is why HR and business management together need to invest time and energy in developing an HR strategy that is part of the identity of the whole company.

Human Resources Strategy and Change: Systemic-Complimentary Consulting Project on Bridges Between Two Worlds

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Roswita Koenigswieser and Klaus Entenmann

Contents

Abstract

Organizational development and change management are these so-called soft topics which are often not adequately covered by HR departments but with increasing dynamics in markets become increasingly important.

Keywords

HR strategy • Outsourcing • Social media • HR business partner • HR transformation • Change management • Labor cost

Note: It is very important to note that the thoughts in this chapter are purely personal opinions and do not represent the position of the author's employer. Daimler AG.

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Systemic-Complimentary Consulting Project: “Bridges Between Two Worlds”

Organizational development and change management are these so-called soft topics which are often not adequately covered by HR departments but with increasing dynamics in markets become increasingly important.

These topics are usually picked up too late in transition processes and among the most underestimated areas! The success of change management will make or break bigger changes in any organization. Whoever has been involved in a bigger change process, especially if professional change management support has come in at a later stage in the process, knows what the difference for the organization can be. It is also important to understand that you would need very specific skills and experiences which do not exist in most of our organizations or simply not used often enough. It is also important to understand that one would need very specific skills and experiences which do not exist in most of our organizations or simply not used often enough. It is recommended that a professional change management consultant is coming in if one or one’s organization is planning an organizational change. An important point to remember - do not start too late! One should have the support from a very early stage of the project. Last but not least, this is not a soft topic; this is hard stuff that can cost big bucks!

To fully illustrate the importance of change management, here is a case on a systemic-complementary consulting project. This case details how staff and management in a German corporate group rallied after a difficult restructuring project and worked together as a whole to find a constructive new path to change and strengthen their “sustainability.”

Authors Dr. Roswita Koenigswieser and Klaus Entenmann give their individual opinions.

Klaus Entenmann (K.E.): Together, Daimler Financial Services (DFS) and Mercedes-Benz Bank (MB Bank) had taken the decision to realign the strategy and bundle the future activities in the German market at three sites. The aim with the realignment was to ensure continued competitiveness in the long term. To this end, DFS global headquarters was relocated from Berlin to Stuttgart, where its functions were merged and brought under one roof with those at the headquarters of the German subsidiary, MB Bank. The DSF headquarters and the MB Bank’s remaining central functions in Stuttgart were to be streamlined. MB Bank planned to merge most of its operative functions for corporate clients in the automobile sector (which had previously been handled by eight branch offices), its headquarters in Stuttgart, and its existing service center in Saarbrücken into one completely new service center. The eight branch offices were to be closed as part of the plan.

Around two thirds of the 2,000+ employees across Germany were affected by job cuts, regional relocations, or new job profiles. The workforce was informed at length about the clear reduction goals. A change management project was set up as an independent, intercompany measure.

The goal of the restructuring was to improve competitiveness by:

- Bundling competences and clearly distributing tasks in automobile operations and central functions
- Making increased use of synergies
- Streamlining structures and optimizing processes
- Improving DFS links with the Daimler Group
- Reducing the need for travel between Berlin and Stuttgart
- Reducing costs
- Establishing the "change in mindset" that was needed to ensure sustainability

This goal was communicated to staff in a large group event with video conferencing between the locations in Berlin and Stuttgart. The change process was to be largely completed within a period of one year.

The reactions from managers and staff were hefty: shock and resistance. There was talk of "trauma" and "total breach of trust." The workforce was up in arms, and strikes were threatened!

Since, for tactical reasons, it was only possible to inform a few managers of this strategy in advance. That is why many of the middle managers sided with the workforce. To address this problem, the help of a consultant/trainer was first enlisted, who – despite being very professional – ultimately only really held numerous ineffective seminars on how to convey bad news "in the right way." When the realization sets in that this was not actually helping to change the mood, the HR department was quickly instructed to seek qualified change management and mediation support. Alongside corporate success, a fair and trusting relationship with the managers and staff had always been of great importance to the company.

The choice ultimately fell – after some initial ambivalence toward the systemic-complementary approach and its inherent focus on feelings and emotions – on Königswieser & Network.

Roswita Königswieser (R.K.): The first thing done was to carry out a "system diagnosis." To this end, a series of individual and group interviews were held with about 10 % of the workforce. This allowed the company to identify and analyze the manifest and latent issues and gave the people interviewed the feeling that they were "being taken seriously" and "listened too." They were involved in the change process right from the start. After all, the changes affected everyone, regardless of whether they were staying or not. Once the results had been analyzed by the consulting team, the findings were mirrored first to the board, then to the interview participants, and to the members of the works council. After some intense discussions, the most important measures – including some more unusual ones – were agreed and implemented step by step.

Some of the images put together and presented (from an external perspective) in these mirroring workshops illustrated the different ways people regarded the situation and their states of mind at the start of this project.

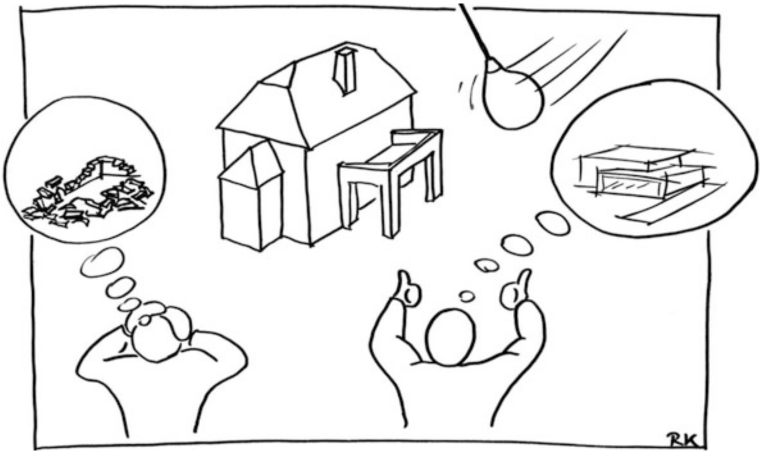

Fig. 1 Demolition house

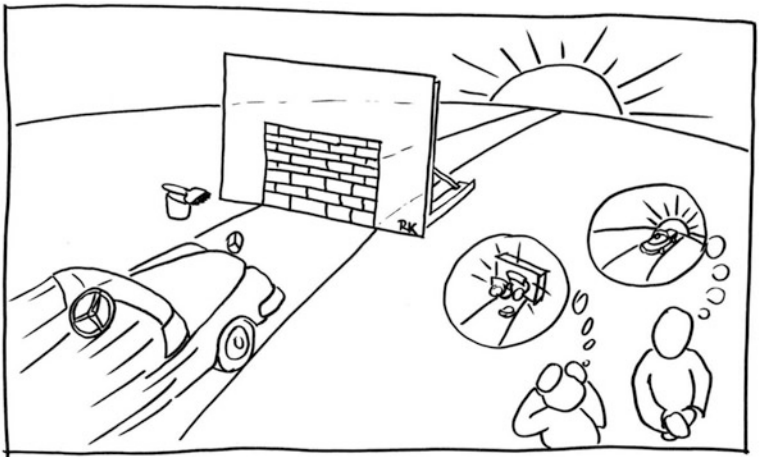

Fig. 2 Brick wall versus sunny future

Figures 1 and 2 show that there were two contradictory sets of perceptions of the situation: those of the responsible, farsighted executive management, who sought to use the planned new structure to create sustainability, competitiveness, and modern, efficient processes, and those of the workforce, who identified strongly with the company, yet for now essentially saw only a heap of rubble, the loss of their "home" – their "star" – and who were being exposed for the first time to a major change process. The former were sure they had found a promising model, while the latter were convinced they were running into a brick wall.

On the top levels (Fig. 3), all that purportedly mattered were numbers, data, facts, return on investment, and success. Some of the company's middle managers felt the

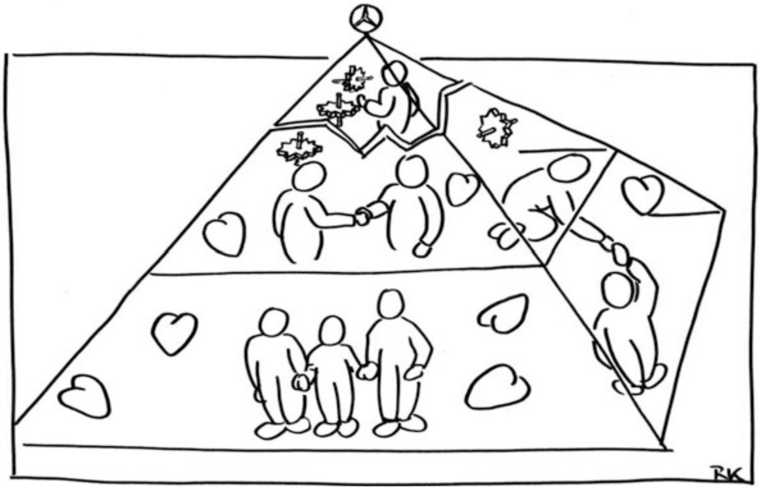

Fig. 3 The pyramid of contradictions

same way as the staff. They sided with them and felt that they had been alienated or steamrollered. Their trust in the board was greatly exasperated. The rational world of corporate management stood at variance with the emotional world of the workforce.

Hidden management deficits now also came clearly into play: too little dialogue, insufficient feedback, and lack of regard for the consequences.

Despite generous financial offers, many of those affected (and that was ultimately everyone) lacked understanding, appreciation for the situation, and a sense of being understood. A massive work would be needed to calm their disillusion (Fig. 4). The "star" was no longer the safe harbor they had been able to count on all their lives.

K.E.: It became clear that ultimately only a minority of the workforce at each of the new sites would remain with the organization. Teams were split up and even experienced people left – taking their know-how with them. New people came. Process security was an issue. Yet despite the depressive mood, it was imperative that the new service center was established with spirit and verve. It was known that there had to be a focus on reestablishing trust and on understanding each other's standpoints – and thus also understanding each other – if the organization were going to be able to work together again constructively. The organization itself was also willing to learn, invest our time and energy, and actively contribute to the change process.

R.K.: The members of the management board and, in particular the chairman, Klaus Entenmann, drove the process forward with maximum commitment and untiring effort and energy.

Without this will to turn the vision into reality, without this willingness to learn to talk about their own motives and feelings, without this "leading the way," the forces that sought to keep things as they were would have had a stronger effect if our courageous – and at times even unusual – interventions had not been possible.

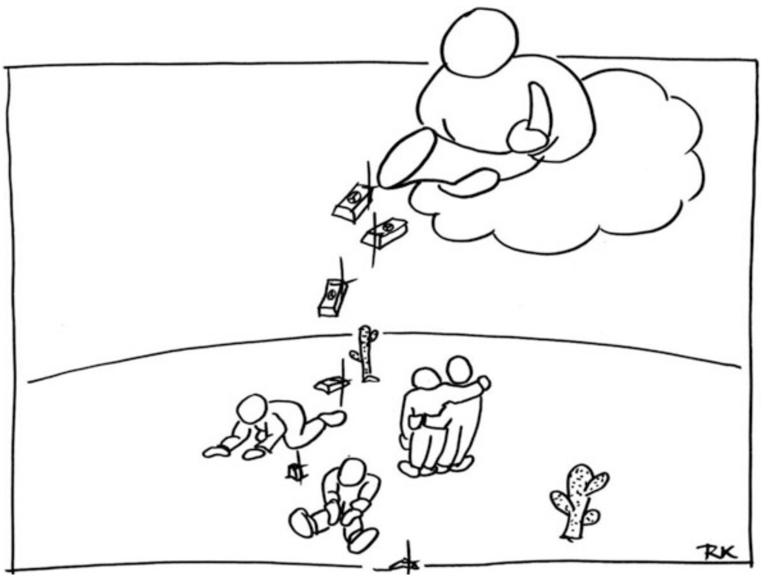

Fig. 4 The deceptive cornucopia

In particular were the regular open workshops with the 15-member management board, the systematic strategy dialogues in cascades from the top to the bottom, the genuine and moving sessions with delegates from the various units, and the challenging large group events.

The dialogue-based mirroring processes regarding the diagnosis set the initial impetus for reestablishing mutual understanding. Slowly but surely, people began to be able to speak to each other again and understand each other's logic. Management, on the one hand, had underestimated the emotional dimension, while the workforce had to accept on the other that management had to focus on securing the company's long-term competitiveness and that the decision in itself was the "right" one, even if it was hard for many of the staff. However, the way the situation had been handled – the information and implementation process (i.e., the HOW) – should have been different.

K.E.: Königswieser assumed the role of "translators" and "mediators" and helped the organization to talk not only about the facts but also – and this was the decisive factor in this phase – about grievances, misunderstandings, emotions, and conflicts. Everyone involved ultimately then accepted the way the other side saw and perceived things.

Strategy and Implementation

R.K.: Change architecture measures were developed and agreed in a joint cooperation between a carefully selected change team, which represented a microcosm of the system as a whole, and the management board. The aim was to develop a powerful, visionary image of the future and then communicate and discuss this vision in dialogue cascades – despite, and indeed because of – the conflict situation. Everyone should understand the strategy, be able to identify with it, be allowed to voice their misgivings and fears, learn to look for and identify solutions to problems together, and learn to handle the existing conflicts and uncertainties.

Dialogue was therefore a key focus, i.e., new discussion formats, no one-way delivery of information, but rather mutual communication based on appreciation and esteem. In this context, management was able to accept different standpoints and admit its own mistakes. This step in the process was central to the success of the change program. “Management workshops” were held in which the organization worked with the participants on concrete cases. This gave them a feeling of relief, since it allowed them to discuss their uncertainties and receive feedback. This, in turn, created a collective emotional and structural focus and a shared identity on the different levels of the management hierarchy.

K.E.: The organization provided team development workshops for the new teams, clarified roles, and addressed expectations.

The dialogue-based large group events also had a clear, positive effect. In the safety of a round table setting (10 people at each table), people could talk about delicate subjects and discuss them openly in plenary sessions. Decisions were made interactively. This format gave important impetus to the emerging spirit of optimism.

R.K.: Figure 5 below shows the actual architecture used and provides an overview of the key interventions. As can be seen, multipliers were given “train the trainer” courses in a later phase of the project to allow them to organize subsequent dialogues, workshops, etc., on their own. This training enabled them to apply the know-how gained without the help of external change consultants and is a measure that provides sustainability.

The figure below shows the intervention steps and offers to accompany a change process.

Since the approach used for the project as a whole did not initially foresee a concept phase and then an implementation phase, but was instead organized as a continual process in which planning and implementation were closely interlinked from the start, the step-by-step planning and actual events were carried out simultaneously.

The complementary approach integrates both hard facts and soft factors. It addresses the manifest issues (the WHAT) and works closely with the people affected to carefully and mindfully plan the steps in the process (the HOW). The consultants’ interventions form part of the actual work process, e.g., in the mirroring of the identified patterns of behavior and in the facilitation of feedback and reflection processes (e.g., in the course of project reviews, standpoint definitions, interface discussions, or conflict resolution meetings).

This facilitates appropriate self-organization processes, while the changes in patterns of behavior through the focus on solutions not deficits produce a lasting effect. The consultants assume a compensatory role, contributing the elements that are “missing” and still need to be developed.

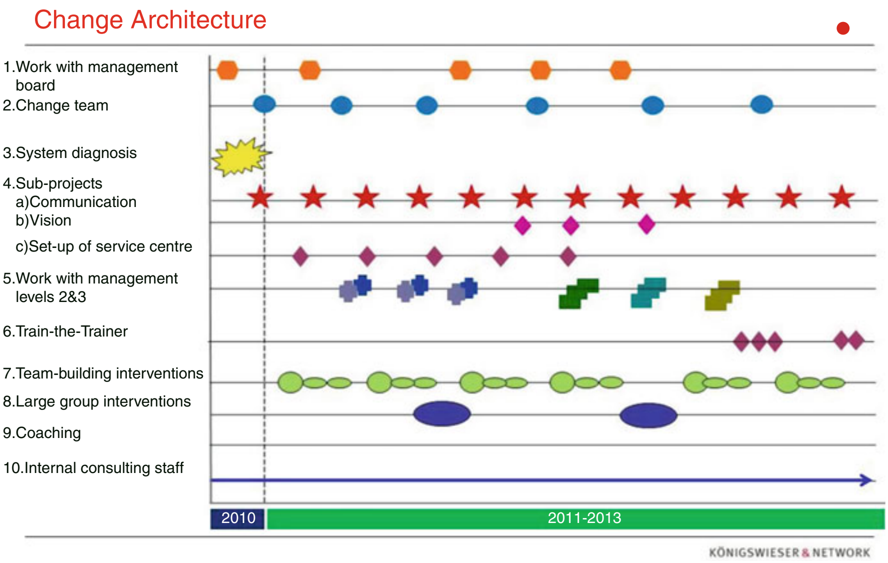

Fig. 5 Change architecture

This case centered less on hard facts and technical competence – the level of internal expertise was excellent – and more on the design of adequate communication and development processes. Indeed, the organization even initiated a change in the complementary project leadership team when it became apparent that there was competitive resistance to one member of the team – resistance that could not be removed despite the efforts at reflection.

Nonetheless, this integration of business and systemic process know-how was – and is – still important, because it facilitates trust and the coming together of the client system – both on the business and the (soft) process level – and it is only through this that comprehensive consulting and guidance becomes possible. Figure 6 illustrates this complementary consulting approach.

K.E.: The effort and work involved were enormous, but it was definitely worth it – regular "great place to work" surveys have indicated a continual upward trend and allow the comparison of results on a year-by-year basis.

What was particularly difficult? The organization learnt the hard way that emotions can render rationale totally irrelevant and that one have to prepare for this prior to any corporate restructuring and provide plenty of room for dialogue.

What was the most surprising? How quickly success was achieved after reaching the cultural low point in inspiring confidence and motivating large parts of the workforce to actively participate in shaping the company's future through our intensive internal "relationship building" efforts and by sticking to the newly introduced dialogue formats.

What else was learned? A further learning curve was the cultural differences between Germany and the USA. While employer loyalty and career mobility are

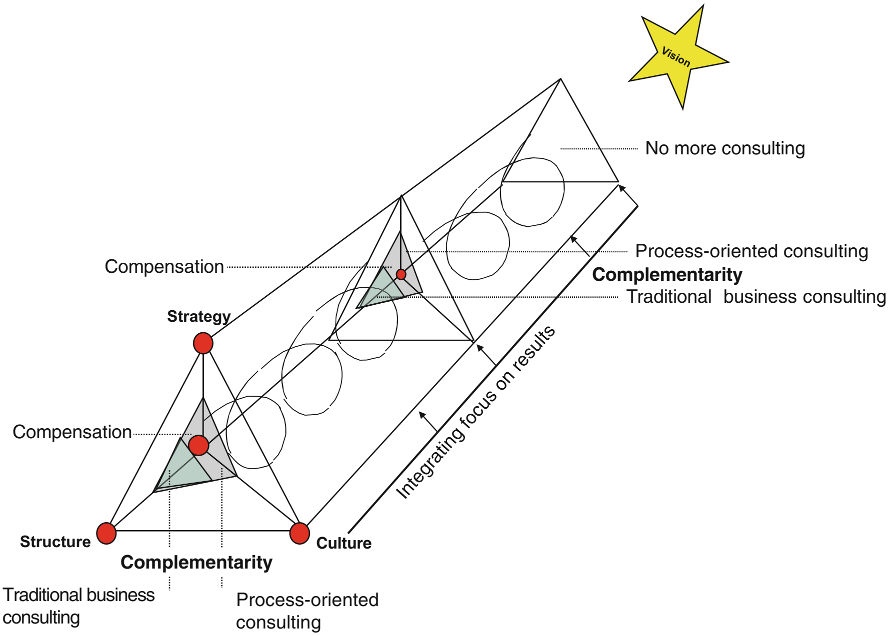

Fig. 6 SIM Model = Systemic Integration Management (cf. Königswieser et al. 2006; Königswieser and Keil 2012)

prominent in the USA, the restructuring of the company was seen by many of the staff here in Germany both as a major breach of trust and as a betrayal.

Lessons Learned

K.E./R.K.

- A corporate restructuring or constructive change process is not possible if one does not succeed in rebuilding the relationship of trust between top management and the workforce.
- Top management must credibly assume the role of mediators between the different, contradictory standpoints. A prerequisite for this is that they themselves (preferably collectively) work on their own conflicts and uncertainties (preferably with support).
- A key to success are good dialogue-based communication formats like workshops, large group events, and cascades in which problems are genuinely brought to the table and discussed, thus establishing a constructive feedback culture and a new level of quality in problem solving.
- The establishment of a steering group, which – as a microcosm of the system – represents the different movements in the company and co-defines the process, is a further success factor.

- All interventions that allow people to "speak from the heart," i.e., give them a forum to express their fears, hopes, and emotions, are particularly valuable in setting the impetus for lasting change (e.g., feedback processes, plenary discussions in small groups, dialogues, etc.).
- Linking business process aspects (the WHAT) with reflection on patterns of behavior and systemic process know-how (the HOW) brings rapid progress.

Summary

Again, it should be said that some of the perspectives are hopefully not too provocative! There is a strong belief that HR is a core function for the success of an organization!

But like any other area, or most probably even more than any other department, HR should continuously look into further evolution. Standing still means moving backward – and if it comes to development of people and the HR department, there should be no question about it!

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Human Resources Strategy and Change: Competence Development in a Changed Environment

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Michiel van den Berg

Contents

Abstract

Building competence in a changing environment is a journey. It is a journey where it is essential to have communicated and envisaged a picture of the destination. The details of this envisaged picture will look different probably upon "arrival" at the end of the journey. However, communicating the destination is essential. It helps employees to understand what the direction is. It helps employees and managers to use existing competencies along the way. Moving ahead very often demonstrates unexpected strengths in colleagues one has not been aware of. Moving ahead with a plan can also show the team their current level of competence and the desired state of competence. Explaining and talking about these differences may often prove not to be that easy and clear for many involved.

A changing environment shows also weaknesses of current practices, processes, and services. It requires strong managerial skills to keep discussions having a focus

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on the future and preventing these discussions to turn into complaint sessions of past events. Human Resources practices and processes are executed in a triangle of employees, managers, and Human Resources. Therefore, building competence requires strong and dedicated involvement from these three groups of participants. Competence building is most effective when learning happens during day-to-day work events and the collective and individual learning has a meaning: something "tangible" will be achieved and recognized.

Keywords
Competence building • Change management • Human resource management • Process analysis • Change program • HR processes

Introduction

This case study is about a response by the Human Resources Department of a major financial institute in the Czech Republic to the changing world of customer behavior, customer service, financial market crises with its impact on the country's economy, and social and welfare systems. The financial institution (hereinafter, bank) has been established almost 200 years ago and is for decades the major retail bank in the Czech Republic. The mission of the bank has been – and still is – "to help individuals and companies build a financial future for them." The bank has for decades played an enormous role in the development of the social infrastructure that enables individuals and companies to take charge of their own future. This balance between social and individual CQ company responsibility is an exciting challenge for the bank.

Two years after the financial crisis in 2008, the bank has seen itself confronted with a society where companies notice severe drops in their revenues. Across Europe governments and companies cut back their spending. The decrease in revenues put pressure on wages for employees and reorganizations led to higher unemployment rates. This in turn led to lower tax income for governments and higher expenditures for keeping a certain level of social welfare.

In the banking industry, competition has been increasing. eBanks gain a strong market presence in certain market segments. Contrary to regular retail banks, eBanks provide their services to customers primarily through the Internet and mobile technology; eBanks typically do not have an extensive network of branches. Consequently, these eBanks deploy a customer service infrastructure at a significantly lower cost level (due to, e.g., no expensive buildings to maintain and no staff needed for these branches) than the traditional retail banks can achieve. The traditional retail banks see themselves with no other choice than:

- Investing in the retail branch infrastructure (buildings, more modern customer desks)
- Investing in new hardware and software technologies (e.g., online banking) while having to maintain a high level of data security in relatively "old" technologies

- Decreasing the price levels and at the same time increasing the customer service levels putting profit margins under pressure

What Was the Problem/Challenge?

Questions for the management team of the bank – The Board of Directors of the bank understands competitive measures are required. For months in a row, reports on declining customer satisfaction, on declining market shares, and pressures on product and service margins land at the desks of the Board. The overall complexity of the environment asks for deliberate actions. One of the objectives is to build upon the competitive advantages of the bank and improve in relative weak business areas. Another factor further complicates the daunting task. In 2010 a first wave of strong regulatory requirements makes a way through the banking industry (McKinsey 2010) such as:

- Requirements to significantly improve capital and liquidity situation in a short period of time. An estimated amount of 60 % of currently outstanding Tier 1 capital is required to be added in just 8–9 years.
- Expected drop in return on equity (ROE) for an average bank by 4 % on ROE levels that have already been under pressure in retail banks.

In light of all these developments, the Board of Directors formulates three key questions for the line managers:

1. Is the bank doing the “right” things in the market place?
2. Is the bank doing enough of the “right” things?
3. Is the bank doing the “right” things “right”?

The line managers are asked to analyze together with their teams the respective business lines along these three questions and formulate action plans for overall business improvement.

Is the bank doing the “right” things in the market place? – Several trends in the market place are identified and strategic action themes are agreed, as shown in Fig. 1. Overall, the bank is assessed on its competence to deal with and respond to these trends. One of the outcomes of this assessment is that the bank lacks certain competences in a couple of key business areas in order to keep successfully competing on the market. The lack of certain competences is classified in two categories:

1. Lack of capacity to do the “right” things in certain key areas (“capacity” in the meaning of organizational competence and availability of individual resources – skills, knowledge, experience – and competences)
2. Requirement to change behavioral skills in servicing customers

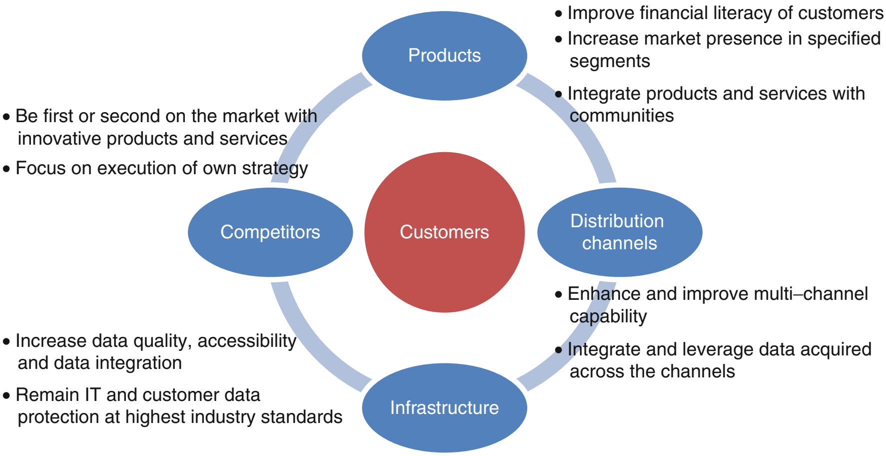

Fig. 1 Strategic action themes with the customer in the center

When the results of the analysis are presented to the Board of Directors, the respective line managers are requested to prepare action plans on a business unit level that provide an adequate response to the aforementioned categories.

The Human Resources Director discusses the strategic assignment from the Board of Directors with the HR management team. They agree to be in the group of first movers within the bank. One of the reasons why the Human Resources Director wants to be a front-runner is the identification of an extra dimension for Human Resources. The Human Resources Department needs not only to change itself; the department has as well the chance to support other business units in going through a change process.

What Was Our Plan on Solving the Problem or Mastering the Challenge?

Situation in the Human Resources Department – The Human Resources Director notices that the Human Resources teams are good in execution of processes. There is a good atmosphere in the department. The internal customers are reasonably satisfied with the Human Resources services that are being provided. However, the Human Resources teams (recruitment, training and development, compensation and labor law) execute services that the business has demanded in past years. Some line managers have started with designing their own Human Resources services and solutions to respond to the changes in the business environment. Often the Human Resources Department is aware of such solutions months after these services have been deployed by the business. In the retail business line, even an own Human Resources department has been created executing recruitment for key positions and designing special training programs. In short, Human Resources is not considered a strong partner for business challenges but rather a department who makes sure the basic needs are fulfilled: timely and accurate run of the payroll, mass recruitment for the retail branch network (searching, selecting, and assessing candidates), and planning and organizing trainings.

The focus on execution has led to fragmentation of Human Resources services – services which are being provided in isolation. The recruitment team focuses on delivering as fast as possible candidates for job vacancies. The compensation team delivers compensation data, benefits, and market benchmarks. The training and development team runs a "training factory." The teams act very much independent from each other, although they have regular meetings to provide each other an update on what has happened and what is next.

An analysis of the work activities shows that the Human Resources department spends about 62 % of its time on administrative, operational, and transactional Human Resources services. Examples of these transactional and administrative Human Resources services are:

1. The compensation team spends each year 5–6 weeks and about 40 man-days on calculating the desired merit increases per employee.
2. The recruitment team spends about 50 % of the time on preparing and communicating the employment contracts. Another 25 % is spent writing job advertisements and scanning through thousands of CVs each year.

The Human Resources employees spend further about 13 % on designing and improving services and a mere 25 % of the time is spent in dealing with internal customer problems and demands. Even the senior Human Resources experts and Human Resources managers spend about 50 % of their time on administrative and transactional work. This is contradictory to the expectations of a Human Resources expert role. The job description of the Human Resources expert states the main responsibilities are:

- Designing new or improved services and processes
- Expertise advisory to line management on Human Resources processes
- Project management to implement Human Resources processes

Various line managers signal to the Human Resources Director that they need better integrated and aligned Human Resources services from preferably one single point of contact. Additional feedback is that these line managers signal that the Human Resources teams are operating in silos. The Human Resources employees are perceived as skilled, competent, and experienced. One line manager says: "HR is more a bundle of professionals rather than an integrated team." And when Human Resources comes to the business, the managers have five Human Resources employees at their table instead of one or two Human Resources experts. A detailed work-activity analysis that has been made supports this observation by the line managers. On average a Human Resources employee spends 2–5 % of his/her time on a single Human Resources process; and on average 40–50 HR employees are involved in the execution of a single Human Resources process. This means, for example, that on average 40–50 HR employees are involved in a recruitment process, in a compensation process, and in a training process.

The line managers also want that Human Resources employees use their knowledge and experience from a business reality perspective and less from what they perceive from a "Human Resources handbook approach." The Human Resources solutions are presented in nicely formatted and styled presentations following the objectives and opinion of the Human Resources expert. However, at the end the line managers each design their own Human Resources processes and assign the execution of these processes to Human Resources. This leads to too many differently executed training processes, recruitment processes, compensation processes, and performance management processes.

The Human Resources Director proposes a plan of action to the team which is guided by an external consultant team. The plan is cut into three main phases. The end of each phase does not automatically trigger the next phase. Several requirements are critically assessed and an approval for entering the next phase is to be provided by the Board of Directors.

The first priority is to stabilize key processes and services such as recruitment, payroll, and training logistics. The team sees itself confronted with an organization in change, and for the Human Resources Director, it is important that during the change program of the Human Resources Department, certain levels of services are maintained. A situation where the business will start complaining about the basics in Human Resources services will further complicate the very challenging assignment. Like the other teams in the bank, the Human Resources team needs to make a change in a changing environment.

In a second phase, the Human Resources Director focuses on providing a strategic but limited list of Human Resources priorities. It is better to deliver a few projects excellently than having many projects in a never-ending process. Focus on a few projects also allows for having a continuous stream of quick wins and periodically the celebration of a major achievement. In this phase a clear split between a team working on setting the framework for (strategic) Human Resources direction based on the bank's strategic choices and a team working on the execution of Human Resources practices (e.g., staffing, performance feedback, personal experience, and career management and learning). The latter team shows and highlights what "happens" in the bank and what managers effectively do (Randall and Schuler 2007).

In the third phase, the Human Resources Director sees a continuation of phase two based on efficient and effective processes and a continuous delivery on agreed strategic priority items. The third phase has a focus on putting Human Resources as a strategic partner for the business from a people perspective. As a strategic partner, HR can continuously support the development of people, advice and coach line managers in people management skills, and adapt together with the business to Human Resources services – instead of adapting Human Resources services based on Human Resources expertise.

There is another component in the change program the Human Resources Director realizes that requires full attention. The whole change program will have a major impact on the job roles, skills, and competencies of the Human Resources employees. The Human Resources Director decides to use the change model of John P. Kotter (1996). She wants the employees to realize what it means to build new and strengthen competence in an environment where change is ubiquitous.

The three phases of the change program are:

1. Find the right balance.
2. Catch the right wave.
3. Become surfers on the business wave.

Phase 1: Find the Right Balance

The Human Resources managers invite each three to five employees from their respective teams to contribute to the discussions and analysis. During this phase the Human Resources Department is intensively discussing and analyzing various topics:

- Strategy of Human Resources
- Processes and services
- Workload
- Job profiles: responsibilities, knowledge, and skills

- Effectiveness of meetings
- Travel time
- Communication with employees and line managers
- Internal communication
- The work climate in the team

All these topics are viewed from an "as-is" and a "to-be" perspective. The Human Resources employees identify and describe accurately the current processes and services and the required competences. Process maps are updated. Each process activity is analyzed. The team measures the time spent on these process activities. They review activities that require travel and assess whether other communication channels can be used instead of a face-to-face meeting. The team reviews what communication skills they need for presenting materials to the Board of Directors, for coaching line managers, for providing expertise advise, for answering employee queries, etc. And, the team discusses the work climate in the team: how they cooperate together, how they take responsibility, take actions in personal growth, and help colleagues to grow.

As the team is working on the "as-is," they realize how many strengths they actually have, and they realize that they are not using all their strengths effectively. One of the employees, for example, notices that she is always struggling with words and confidence when assisting line managers in personnel decisions like hiring and terminations. However, she gets feedback that there is no other person in the bank who knows more about labor law, has an incredible dedication to accuracy in contracts and personnel data, and can solve fast and competent technical employee contract details than her.

This process of going through the current situation helps visualize the problems and challenges the Human Resources Department is facing. The data analysis and presentation in forms of graphs and tables help in understanding the qualitative feedback from the business. The in-depth interviews with line managers provide a list of requirements and help in picturing a future Human Resources model. The Chief Executive Officer provided a clear statement: "Get me the best Human Resources services of the group." This statement implies continuous improvement.

So, the team organizes series of workshops that help them design a Human Resources service delivery model, which allows for designing and implementing Human Resources services that meet the (upcoming) business demands. In the first workshop, the focus is on active listening to the business. Feedback through interviews is being discussed and additionally two line managers are invited for participation. During the workshop several assignments are completed by the participants. Assignments which have been set up in a format that allows for open-minded thinking and proposing ideas and solutions that are all equally good.

In the second workshop, the external consultant brings together the outcomes of the first workshop into four possible Human Resources service delivery models. Each model has strengths and weaknesses. Each model is a stretch to achieve. When the team discusses the Human Resources service delivery models, also the experiences and reality examples of other companies are presented that have organized their respective Human Resources departments according to one of the presented models. The team recognizes that the model which allows for meeting the outcomes of the workshop is not just a step forward; it is a huge leap forward. The discussion starts focusing on defining realistic steps that over a period of time (measured in years) brings the Human Resources Department at the envisioned Human Resources service delivery model.

Between the second and third workshop, the team works hard on preparing the details for calculation of the business case. The business case explicitly states the objectives of the entire change program. A challenge is to formulate the qualitative objectives in concrete and actionable words. It is the first learning practice in communication – to find a language that engages others to join the journey. The team reflects that the communication language that is surfacing is different than the communication language they have been used to in past years when providing the Human Resources services to the business. The words change from Human Resources terminology to using the day-to-day speech of managers and employees.

The business case is also to some extent confronting. The business case explicitly provides in numbers the changes to the current Human Resources organization structure. For the first time the team realizes that the business case numbers have a major impact on the work life and family life of their colleagues – and very likely also on themselves. The business case triggers a moment of self-reflection: "Is this a change the team really wants to go through?" The team decides collectively that it will make the change program happen. Part of the change program is going to be communicated as a learning journey providing development opportunities to all employees equally.

In the third workshop, the final business case is intensively discussed. The business case is not debated. The discussion focuses on concretizing the several work activities, change management, and learning journey. The Human Resources Director presents the business case in two meetings to the Board of Directors and finally receives the full commitment and resources from the Board of Directors. The competence building journey can start.

Before the HR team moves to the second phase "catch the right wave," the team identifies a number of quick wins in the current processes and services. Examples of these quick wins are:

- Focus expertise work in the hands of key experts and link selected Human Resources employees to these employees. This set-up of work brings a first wave of efficiency advantages. Due to focusing work activites in certain jobs, working time is made available for others to work on the project during the second phase. The focus of expertise work also brings energy and engagement levels up. The experts take up responsibility and train their colleagues in the design and execution of respective Human Resources processes.
- Cancelation of unnecessary process steps and documents. In many Human Resources processes, many documents exist with the same purpose. The team defines one template for publishing a job advertisement as a replacement for the five templates that are being used by the business. The team defines one template

for job descriptions instead of the eight being used. Process steps are also eliminated. A merit increase for an employee does not require anymore that seven Human Resources employees are involved before payroll processes the merit increase. Again, these quick wins provide for time that can be used in the second phase of the project. The cancelation of unnecessary process steps and documents also improves the quality of data.
- Actively involve business managers in defining the Human Resources strategic priorities through one or more workshop sessions.

The first success in building competence is achieved. This success is primarily achieved through assigning and bundling job activities to the right Human Resources employees. The Human Resources Department in essence is capitalizing on the strengths of the individual employees. The experts further are provided the opportunity to utilize the potential of less-experienced Human Resources employees. The first phase "finding the right balance" has been actually very much a learning-on-the-job journey.

Phase 2: Catch the Right Wave

The feedback from the business is positive on the small but relevant improvements made. Although the Human Resources processes have only been changed slightly, the business recognizes that processes are executed more effectively, that data is made available quicker for business, and that conversations with Human Resources employees are more frequently discussing employee matters and less the correctness of numbers and side details. Such feedback encourages the Human Resources team to continue with the second phase. The objectives of the second phase are perceived in the team as a real stretch (see Fig. 2). Some of the core team members during the phase "find the right balance" start expressing doubts on how realistic it is to achieve these goals. An atmosphere of uneasiness and discomfort is arising. In phase two, one of the key components is a significant reduction in Human Resources staff numbers and on top a redefinition of about 70–80 % of the existing job profiles. The Human Resources Director talks with all team members and encourages the other Human Resources managers to do the same and reinforce the open-door practice. Concerns, fears, and happiness are all around. Some Human Resources employees look very much forward to achieving the envisioned Human Resources services delivery model. The vast majority of strong opinion makers, though, is doubtful and has many, many concerns. The Human Resources Director identifies a handful of Human Resources colleagues that believe in achieving the objectives of the phase "catch the right wave." Identifying employees who can lead a change process is one of the keys to make change happen.

The second phase is planned to take three to four times as long as the first phase. Indeed, this means quite an extensive effort along business as usual and a journey with many ups and downs.

Objectives of „Catch the right wave“

1. Implement operational excellent processes that support the characteristics of the business and/or HR customer – operational excellent and customer – driven process design.
2. Use mature and stable Human Resources processes and services for an “upgrade” towards more strategic Human Resources services.
3. Create a Human Resources structure that brings Human Resources closer to the business – introduce the roles of Human Resources business partner and Center of Competence.
4. Centralize administrative and transactional services into a Center for Personnel Services (CPS) in one office and follow the “transform and transfer” method rather than the “lift and shift” method when establishing a centralized Center for Personnel Services.
5. Focus on improving Human Resources capabilities at line managers and Human Resources employees (Human Resources business partner, Center of Competence, CPS).

Fig. 2 Objectives of phase 2 – catch the right wave

These new core team members are again a mix of managers and employees. One of the first topics the team takes up is articulating once more in clear wordings and pictures the “look and feel” of what can be achieved when realizing phase two. It is making the step from having learned the theory of surfing on the waves to actually practicing and improving the skills of surfing in open sea. These core team members discuss that an atmosphere of openness and respect is absolutely a “must have.” Employees will be learning new skills, will be working in a different team setup, and will be making mistakes. The core team also decides to ask about 25 line managers to act as ambassadors for Human Resources during the phase “catch the right wave” and to provide Human Resources with regular open, straightforward, and constructive feedback. An environment for learning by doing is a key component in making the change program a success. The business actively supports this change program as they see this program as a pilot of something the entire bank will be facing. In fact, at this moment in time, the colleagues from the IT division have just launched their phase 1 “find the right balance.”

The team selects two processes that are considered mature and stable from an administration and transaction perspective – processes that are used and well understood by the business. The team uses these two processes and starts working on defining those processes from a business purpose and planning perspective. The processes are taken from the point of view: “what do we want to achieve with the process?” Is the purpose of a performance management that all employees have a key performance indicator scorecard and personal development plan? Or is rather that the performance management process supports the recognition, reward, and talent dialogues between managers and employees? Is the performance management process about looking backward or forward? This activity helps the team to describe the role requirements for the Human Resources business partner and the Center of Competence. Together with an external consultant, a staffing procedure is designed.

What Was the Real Outcome?

Staffing for competence building – The selection process is considered a critical step in the competence building for the Human Resources services delivery model. The selection process focuses on identifying the current level of competencies of the candidates and the potential these candidates have. Each candidate (both internal and external) for a Human Resources business partner job position goes first through a whole-day assessment center. Those candidates that pass the assessment center are put through interviews with a senior line manager and with a member of the Board of Directors. Each Human Resources business partner gets a personal development plan that is based on the feedback gathered throughout the selection process. The personal development plan focuses on behaviors and soft skills such as communication, negotiations, giving presentations, team cooperation, conducting constructive conversations, and interviews. The personal development plan is based on the 70-20-10 concept in learning:

- Seventy percent from challenging job assignments
- Twenty percent from colleagues, peers, and superiors
- Ten percent from formal learning courses (online, class room)

A first assignment the Human Resources business partners (HRBPs) get is to introduce themselves to the respective business divisions and together with the business develop a working agenda with concrete objectives and action steps. This working agenda is discussed with an assigned mentor from the business line. The personal development plan is prioritized based on the working agenda. Important in the competence building is the exposure to situations where the HRBP uses the competencies and experience gained so far. Deliberately a decision is made to have the HRBP deal with all Human Resources and personnel matters concerning the employees and line managers. The Human Resources Director remains responsible for the Board of Directors. The HRBPs are exposed to challenges such as negotiating employment contracts with line managers, preparing a reorganization plan for the business divisions, and achieving buy-in for implementing new or changed Human Resources services and processes in the business divisions. Exposure to and responsibility in these situations provides a learning situation when these situations are continuously evaluated. Such continuous evaluation is possible when all parties involved treat each other with respect, is honest and constructive, and is open to receive feedback. After a couple of months, a difference in competence development between the HRBPs is observed. One of the factors that led to this difference has been the acceptance of the feedback received and the willingness to actively work with the feedback. Another factor that is noticed is whether the line managers accept feedback from HRBPs on what they actually do in day-to-day business.

A similar approach to selecting HRBPs is used for recruiting employees for the Center of Competence. Candidates go through a whole-day assessment center where they are asked to demonstrate skills in strategic Human Resources analysis, bringing concepts and practices from international human resource management to a realistic and pragmatic Human Resources service for the bank, and ability to lead functional teams without hierarchical responsibilities. The candidates that pass the assessment center have a further interview with the Head of the Competence Center and the Human Resources Director. Also, the employees in the Center of Competence get a personal development plan.

Demonstrate competence through processes and services – The team is using the Human Resources process data gathered during the development of the business case which is one of the input materials for new or updated Human Resources processes and services. Another input the team uses is process design examples of companies that already have implemented the HR business delivery model based on competence centers, Human Resources business partners, and a centralized center for personnel services and administration. The team selects those companies that have such a model for several years in place. An observation that is made is that many of these processes and practices – those that are lying now on the table – actually work though there are some key differences in how the same processes (e.g., recruitment, performance management, compensation management) are practiced. During the redesign of the processes and services, the team keeps in mind the following saying: "best principles help in catching the right wave, not per se the best practices."

Processes and data are part of the infrastructure of providing effectively Human Resources services as well as managers and employees practicing people management principles. Some of the processes rely on speed, observation ability, and high volumes (e.g., mass recruitment for the retail branch network). The payroll process relies on data accuracy, 4-eye principles, high volumes, and data input dependencies. An effective performance and development management process is characterized for example by regular and ongoing communication, respect, and ability to gain experience.

The team discusses the principles for each of the processes with the business. A difficulty in designing many of these processes has been the gap between desired state, current state, and "what is actually possible to achieve." Human Resources processes and services that support a desired state but cannot be executed or practiced miss their purpose. Often it happens that such processes and services are becoming a hygiene conflict between Human Resources and managers. The dirt is getting back on the table as a discussion between Human Resources and managers over and over again. What happens regularly then is that Human Resources and managers do not discuss the purpose anymore but instead focus on side details and on complaining toward each other. Also, other people and Human Resources topics are then often not discussed anymore as each conversation tends to start with complaints. Therefore, the team makes an effort to keep the redesign of the process as realistic as possible. Mature and stable processes are selected for a first redesign.

The recruitment department faces the challenge of mass recruitment for the retail branch network and specific and nonstandard recruiting for open job positions for staff functions and senior management positions. One of the limiting factors in execution is that the assessment centers for selecting candidates for the retail branch network in ten different locations are dispersed over the entire country, whereas the recruitment team is centralized in the capital city. The team does have a mobile phone with basic functionality but lacks the software infrastructure and smartphone and laptop technology to work effectively while traveling to one of these assessment center locations. There is no possibility to invest significantly in software and hardware improvements to support the desired situation. Hence, the team identifies the restrictions in the work environment, the business needs of the management for recruiting services, and the labor market situation. The recruitment team makes the difficult decision to keep three from the ten assessment center locations. The business reacts in first instance negatively as they fear they will lose access to possible good candidates. The result is that three bases for assessment centers are equipped that are easily to be reached by public transport and car. Further, based on demand two other locations are selected where ad hoc an assessment can be organized. Rather quick several benefits from this decision bear fruit, such as:

– Competence of logistics of materials and people (candidates, managers, recruiters) is less complex providing a boost in quality (documents are printed and available on the location, assessors are present, candidates are present on the date and location they are expected).
– Travel time for recruiters is significantly reduced leading to less overtime hours, better accessibility for candidates and managers, and more time for building an internal and external network. The ability to build and maintain a network is a critical technical competence for recruiters.
– Sufficient amount of candidates per location to allow for better connection between workforce planning and staffing (building a pipeline of candidates) leads to an improvement in the indicator time to fill a vacancy.
– The assessment center locations can also be used for trainings, which decrease the cost for the bank significantly.

The training and development department consists of three teams. One team is responsible for the logistics and administration of all training events. A second team is responsible for coaching and design of trainings for staff functions. The third team executes the more soft-skill trainings for the retail branch network. The retail business also has a team for training and development. This team focuses more on training the hard skills such as product knowledge and software trainings. Retail branch employees provide feedback that sometimes conflicting information is provided leading to confusion. Also, there is an imminent conflict between these two training and development teams on who provides which kind of trainings and training services. During the workshop sessions on designing the processes and services in the area of training and development, the decision is made to merge the two training teams that serve the retail branch network. The new department is positioned under the Head of Retail Business Development with a functional dotted line to the Head of Learning and Leadership Development in the Human Resources Department. After a period of getting to know each other, these two teams notice that by combining their strengths, they are able to provide much more interactive learning situations than before. The new team has now the capacity to develop and offer a much more improved blended learning environment combining aspects of on-the-job learning with peer coaching and with technical product trainings during a class room session.

Behavioral competence – A real challenge in the change program was the acceptance by Human Resources business partners to take along employees from the Center of Competence to business events. The HRBPs had a tendency to monopolize the contacts with the senior management team in the business and provide selective information to the Center of Competence. The feedback from the business to both the HRBPs and Center of Competence is that it looks like HR is not cooperating as a team and proposed solutions are not meeting fully the business requirements.

The employees in the Center of Competence see themselves confronted with a lack of accessibility to data and information. Accessibility of information from the business that is provided through the HR business partners is viewed as inconsistent and incomplete. Data that is stored in Human Resources information systems is not provided timely or in the right quality. As a response the employees of the Center of Competence start collecting on their own the deemed necessary information and data. This behavior causes a conflict with both the HRBPs as well as the employees in the Center for Personnel Services. Both perceive the Center of Competence is acting alone without informing anybody upfront about what they plan to do or work on.

The Human Resources Director takes the three teams together for an offside and let them provide positive and improvement feedback, action points, and commitments based on the core competency model of the bank. The Human Resources Director believes that establishing and reinforcing these core competencies (see Fig. 3) will create a positive and engaging working environment in the Human Resources Department again.

It takes much time and effort to get to a working climate the Human Resources Director has envisioned. The teams decide to put a key focus on the following three core competencies: cooperate as a team, foster growth, and excel in execution. They set up a structure of meetings and information sharing opportunities that allow for plain and open discussions, knowledge sharing, and sharing of working agendas. The HRBPs take it up to invite with them expertise knowledge on meetings with managers. These meetings provide both the HRBPs and the manager learnings about how to execute Human Resources practices. On the other hand, the Center of Competence employee has a chance to experience what is on the hearts and minds of managers and they can learn the language of managers.

An unexpected outcome – As time is passing and employee engagement in the bank keeps being monitored, a positive trend is observed. The employee engagement is gradually increasing. The bank measures employee engagement from several perspectives:

- ❖ Cooperate as a team – Join forces to achieve common goals
- ❖ Act responsibly – Before making a decision, ask whether ‘is it the right thing to do?’
- ❖ Be accountable – Stand behind decisions and accept consequence of actions
- ❖ Foster growth – Actively seek opportunities to develop business and people
- ❖ Excel in execution – Get the job done well and on time

Fig. 3 Core competencies

- Management style of the manager
- Performance management
- Learning and development
- Diversity and culture
- Reward and recognition
- Career management and staffing

The positive development in employee engagement results show that bringing Human Resources services into the business reality has a positive effect. Apparently, making Human Resources processes less complex, less cumbersome, and more organized in workflows instead of ad hoc activity execution provides the opportunity to focus on business, management, and employee priorities. The Human Resources services are not provided as a “one-size-fits-all” service but also not anymore upon individual request and needs. A certain level of harmonization and alignment is achieved.

The business provides further feedback that they understand now better the purpose of people management and how several Human Resources processes and practices can support their people management of their respective teams or business lines. Bringing in the competence of ability to build relationships with managers, listening to the business (needs), observing trends based on data and information, and implementing pragmatic solutions have helped the Human Resources Department to catch the right waves.

Phase 3: Become Surfers on the Business Wave

The bank has upon writing this case study not yet embarked on the journey for Human Resources to “become surfers on the business wave.” Several business lines are currently in the phase of learning to catch the right wave. Human Resources is learning how to guide these business teams through such a change process. The success of an organization depends on the capability of all business lines and employees involved. A positive element for the employees in Human Resources is that by supporting others they have the opportunity to make the changes in competences (functional and individual) stick.

Another outcome of the competence building process has been that Human Resources is now part of guiding other business lines through their change processes. In the past years such a role has not been seen fitting for Human Resources. The Human Resources provides now services based on business needs instead of providing services from a Human Resources expert design perspective.

What Are the Lessons Learned?

How to learn surfing – "What can be done when wanting to learn surfing on open water?"

Learning how to manage competence building can be a life-changing experience. Consecutive actions are to be performed in a structured way to allow for feedback, observations, and reflection. Important has been as well that from the start a dialogue takes place on the desired level of Human Resources competence. The bank did not want a world-class Human Resources team; it wanted a Human Resources team that can identify Human Resources solutions and act upon business priorities and needs. Common understanding or at least awareness of what to achieve is essential in building competence.

Choose the right competencies to learn first. It is easier to build upon strengths then to try and reach for something (relatively) unknown. Whenever the Human Resources employees take their strengths as a starting point, the learning experience is progressing. When going for unknown skills without too much guidance, the learning process was slowed down. During the entire competence building journey, the Human Resources Director always has tried to find colleagues in business or experts from outside the organization to keep competence building of Human Resources employees at a realistic stretch. Indeed, trust, respect, belief, and constructive feedback are important elements in this process of competence building.

The same approach applies for building competence on process or service level. Take those Human Resources processes and services that are mature and stable.

Start with piloting changes in small business events before reaching out to the entire organization. Using selective business managers in the competence building process has helped Human Resources to pilot Human Resources processes and practices. Also, assigning business managers to Human Resources business partners and specifying learning actions along a working agenda have supported the competence building on a personal level. Employees have to learn to stand on their feet in various situations.

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Human Resources Strategy and Change: Essentials of Business Partnership

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Jered Hol

Contents

Abstract

This contribution discusses the many perspectives on the so-called HR business partner, the partner to the client system. The author argues that the HR BP is a strategic consultant to clients, who can add value using deep insights into the activities of the organization, the environment, and the trends that will impact future performance. Knowledge of the client organization is important, as well as understanding of the economics of the operating and earning model, the potential risks for the organization and how to mitigate these risks, the way the components within HR operate to solve for issues, and last but not least the people component of the system: knowing the talents and developing a trusted advisor relationship with the key clients. The contribution closes by mentioning typical career pathing toward the strategic HR BP role and a number of the trends that will impact the organization and thus the nature of this (leading) support function in the next decade.

Keywords

HR business partnership • HR client manager

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Introduction

“So,” said William with a sigh, “Jackie, what do you suggest I’ll do?” William, a regional BU manager for general insurance at a global insurance company Ardon Insurance, had just shared with his HR advisor Jackie Robertson a range of issues that had come out of a regional executive committee meeting where he had received many questions (and, to be frank, veiled criticism) as to why so many of the insurance policies in his portfolio did not get extended beyond the first 12 months, despite competitive pricing.

Jackie, a mid-career HR professional who had joined Ardon 3 months earlier from another insurance company, was actually in a way delighted with William’s question. Thus far, William had seemed a hard-nosed businessman who oftentimes did not conceal his indifference toward HR which he seemed to consider as an administrative backwater. This troubled Jackie as she wanted to contribute to company’s success. Having him come to her with this question was a sign of recognition.

In the first months Jackie had indeed heard about the troubles around policy extension, and she had done some research of her own. She had listened in to a webinar from a major consulting firm on trends in the insurance industry, she had talked to the HR team looking after data analytics and compared some numbers on staff attrition, and she had a 1 h conversation with the service center manager in the low-cost location who proudly shared they were able to keep labor cost low by hiring fresh grads and giving them 3 weeks boot camp training. This way they were able to cope with the 45 % staff turnover which was actually below industry average for the customer contact center.

But what Jackie also heard was that customer surveys suggested that people were quite unhappy with how Ardon responded during the claim process, the time available to discuss issues, tone, and follow-up. This could very well be a factor for customers to decide to go elsewhere on expiration of the policy. She started thinking about the service agent profile and wondered whether a different staff profile could actually lead to a different customer experience. The key to policy extension could be in the service center staff that makes the difference to the customer. Perhaps those employees with a background in the hospitality industry display the type of behaviors, which are appreciated by clients and hence lead to a change in quality perception.

Jackie talked through this early research she had done during which William responded positively, with a few “Really?” and “How come I did not know this?” interjections. Jackie also questioned him a few times after he commented on the service center quality and invited him to tell her more about his own observations and concerns. They continued to talk for another 90 min about various topics like how to attract different people, how to train and motivate them, how to pay them, and what kind of careers would be open for them, and Jackie clearly felt that William “got it” and was willing to take HR proposals as his own to the senior executive team.

They agreed that Jackie would take another 2 weeks, work with various disciplines in HR, and then summarize her findings in a paper that was going to be discussed in the upcoming BU exco meeting; William would invite her along to copresent the recommendations.

As one can guess, it did not take long before William's manager asked Jackie to become a permanent member of his own management committee.

This section deals with the relationship manager of human resources, the "front-line" professional who brings the whole of HR to the business and at the same time influences decision-making and helps to shape the organization's future: the HR business partner or HR BP. A term, coined by Dave Ulrich in 1996 when he described the role of the HR professional as a partner to the business. Although his groundbreaking book *HR Champions* (Ulrich 1996) introduces this concept as a cornerstone for HR teams, in later years, he has acknowledged that the pure business partner model may be less suitable or effective for small organizations (or small holding companies) and probably certain government organizations. The model however stands and is still being introduced by many companies that wish to upgrade the quality of their HR services. In follow-up work, Dave Ulrich has worked closely with Wayne Brockbank providing additional insights for the HR discipline. Later on this chapter, we will look into emerging trends that may predict a "post-Ulrich" era in HR organization design and the role of the relationship manager.

The business partner role is widely seen as a crucial part of a strategic and effective HR team and often regarded as the most enviable career within the HR organization. Rightly or wrongly, all components of the HR system play their role as can be read throughout this book. Reading the HR magazines and management books, there seems to be ample room for improvement of the HR function, represented by the HR business partner.

The role will be described and analyzed throughout this section along four perspectives same as per the structure of this book. The focus will be on HR as an enabling function for current and sustainable business success. Often the terms business or clients or client system will be used interchangeably, in all cases meaning the prime receivers of the services from the HR "client manager."

Generally speaking, if the HR interventions or the people agenda are not aligned with the company's strategy and goals, huge opportunities are missed to contribute to company's bottom line. The economic and risk perspectives will focus mainly on the "what" dimension of the role and the "how to" people, and operational perspectives will look at the role through a people and operational perspective lens.

"The What": The Economic and Risk Perspectives

Economic Perspective

As a support role to the business, an HR BP needs to have a deep understanding of that particular business. Although HR skills in itself are seen as "transferrable skills," having knowledge about the HR toolkit alone will simply not be enough to help the manager in his or her business context. So what is meant by deep understanding of the business?

Firstly, it is a general interest in the type of goods or services the company or the institution delivers and an intellectual curiosity in what is going on in that particular industry, by reading the relevant newspapers or weeklies or through membership of professional (HR chapters of) industry organizations; by relating news from the outside world to what that means for the organization in relation to the economy, the industry, company's strategy, and leadership, teams, and competencies of individuals; and by understanding and helping to craft the vision of the company and the values of the organization, as a means to position the company in the market. At this level, it is really about having a certain business acumen and seeking to understand megatrends that will influence or define the future of the company. In literature, the external trends are often captured and analyzed under the acronym DESTEP, demographic, economic, social, technological, ecological, and political trends that influence the world or shape the particular arena where the organization seeks a competitive advantage. Later on the focus will shift to emerging trends as the Internet, the "Internet of things," the so-called "big data," and location agnostic workplace trends.

A few short examples to demonstrate the point of having a more than usual insight into drivers of business or industries and implications where the HR professional can help to shape the future of the organization are presented:

Example HR BP at a global investment bank would probably have a subscription to the *Financial Times* and a Bloomberg desktop application: his or her clients will read the same news and talk about the same events, and the BP understands what's going on in their world of business, how decisions on interest rates made by the FED or ECB affect the type of business his or her clients look after, and how the BP could advise proactively in seizing opportunities or responding to adverse market conditions, which in the case of I-banking is often about hiring successful individuals or teams or in the adverse scenario letting go of staff quickly.

Example A BP working in the health-care sector finding intrinsic motivation from megatrends as personalized medicine based on DNA profiling or access to medication and health care for a growing part of the world population and translating the vision into the employer value proposition and reward models, seeking to attract the brightest minds who can help to bring dreams alive.

Through knowledge of relevant trends, the HR professional will understand the so-called ecosystem of the organization. No organization, company, or institution operates in a vacuum. Having a broad understanding of the DESTEP variables will help the partner in business to respond to changes coming from the environment. In discussing the strategy of the organization, it comes down to the questions what does the organization wish to achieve, in which markets will it compete, what are the key trends for the future, etc. The HR BP should feel comfortable discussing these issues with managers, employees, and even customers of the firm. A second dimension of the business component is all about having a good understanding of the organization, from a perspective of governance (a set of rules around decision-making, accountabilities for board, executive team and committees, managing with integrity, and doing what is right not per se what is allowed), the organization design, and the guiding principles why the organization is set up via product, via geography, along process lines, as a system of independent business units or as a complicated matrix structure, and being able to navigate in this structure. This will be dealt with more in detail as part of the operational perspective.

Do: Understand the Business of Your Customer

As a business partner, you have to understand the challenges and priorities your customers have. You will only be able to come up with the right HR solutions if you develop a deeper understanding of the processes and priorities of your customers. Based on this knowledge, you will be able to effectively develop, in cooperation with your business partner, selection criteria for candidates and development programs and drive specific leadership qualities within this area.

Knowledge about how the business makes money is necessary, accompanied with basic knowledge of finance because every business person needs to be able to read and interpret financial data and have knowledge about profit and loss statements, balance sheets, present value calculation, compound interest calculations, and expense accruals, just to name a few basic skills that need to be acquired some time during the career of an HR BP. No business person can without this knowledge measure company's success in financial terms. In that sense, successful HR BPs have often been described as a businessman/businesswoman first and foremost, with an HR specialization (Ulrich and Brockbank 2005).

Do: Understand Who Are the Stakeholders and Recipients of the Services

Next, it's about the system: who are the key stakeholders, decision-makers, talents, and ultimate recipients of HR service? In the 1980s McKinsey & Co. introduced the so-called 7-S model to analyze the company; although a rather coarse tool, it remains helpful for a quick analysis of the organization in a number of dimensions (Waterman et al. 1980). All this is really meant to answer to the questions what are the core capabilities of this organization, or in other words what does this organization want to be known for? How will it translate its strategy into meaningful objectives that can be cascaded in the organization and used to give direction and enthuse employees and contributors? Knowing your organization or client system is a first step, a quick way to get an overview is by doing a SWOT analysis (strengths, weaknesses, opportunities, and threats) and by simply knowing the people and having a grounded opinion on key talents and potential successors, based on observations and facts.

Having progressed from the simple organizational diagnosis in the 1980s, now more tools are available to assess the companies' strengths and shortcomings and the increasing importance of corporate culture as a predictor for performance and success. McKinsey has build on early work through the organizational health index used by many MNCs, and IMD professor Dan Denison, a longtime friend of Dave Ulrich at University of Michigan, has made culture diagnostics and action planning transparent and accessible to many businesses, small and large. The importance of these lessons is that companies need to be viewed as holistic systems, and changes in one area will affect other areas, no dimensions can be ignored. Advisable for further reading is Dan Denison et al.'s *Leading Culture Change in Global Organizations: Aligning Culture and Strategy* (Denison et al. 2012).

Example Loosely Derived from Denison's Book On the back of dreadful employee survey results, the company decides a more rigorous and in-depth culture survey, supported by focus groups. Relevant findings lead to recommendations on how to improve the workplace and fix a number of IT problems leading to dissatisfaction. After implementation and a quick pulse survey, staff seem happier; however, the quarterly results are not getting any better and even indicate a drop in revenues. A follow-up survey looking at broad dimensions discovers that the customer focus is low and feedback from customers often ignored and that the company lacks a strong and compelling mission translated into a strategy. In short, too much attention has been given to internal factors, losing sight of the external environment. Time for the HR BP to step up efforts!

Example A culture diagnostic has been undertaken, and the executive committee meets to discuss the results. They are delighted with the scores demonstrating huge improvement for the executive committee in the areas of the company's mission: the vision and strategy articulation, in the consistency dimension showing strong governance controls, procedures, and core values; the involvement focus with empowered teams, a team orientation and capability development, and a healthy score in the adaptability dimension of the organization to the environment with customer focus; the ability to create something new; and the organizational learning. But one level down in the organization, the results are half of those in the executive team, and the teams below the scores crumble and still leave the impression of an organization without a direction.

Going back to organization design and organization development, each BP should have a more than basic understanding about how the work is being divided and structured, along hierarchies and RACI tables for stakeholders (responsible, accountable, consulted, and informed), principles around spans and layers, and process efficiencies, informing insights in governance and required skills and competencies to get the work done, and how careers could look like. This took up a lot of time for Jackie in talking to William on the changes in the service center staff profile. In discussions with managers who wish to start new activities or the creation of new roles, design principles will support the dialogue.

In summarizing the economic perspective, having a deep understanding and insight of the business earning model and the environment the company operates in is a key competency for a successful HR BP.

The Risk Perspective

It looks from the above as if the HR BP needs to be an all-rounder in about every discipline, and in fact he or she needs to demonstrate a good understanding on how to run a business. Besides the many HR skills that will be dealt with throughout this book and more specifically this chapter, additional key competencies are in projects, marketing and legal compliance, and, as an umbrella view, risk.

Risk can be viewed as an overarching principle for the people dimension in doing business or entering any economic activity. On equal footing to the business plan, the marketing plan, and the mid- and long-term financial plan, strategic workforce planning is to be seen as dealing with the people risk: the company needs to have the right people in terms of capacity and capability to execute its strategy, or it will underperform or even fail.

Risk has the potential to negatively impact the organization's results or bottom line and is often equal to financial risk. Within this, key risk areas can be identified: market, operational, and reputational – besides other possible risk areas such as currency risk, country risk, etc. The HR BP often needs to play a role as "police man" or safeguard in the areas that could affect the reputation of the company – in its hiring practices, reward, as an equal opportunity employer, etc. Broadly spoken it is about risk mitigation for the institution. To further explain this, a few words on necessary bodies of knowledge or competencies that are part of the overall risk role are presented:

Marketing. Often ignored by HR professionals who often do not seem to appreciate the value of bringing the right messages at the right time, the right place, and the right price. Think about the best moment to engage a senior team for a proposal to introduce new HR tools that will drive the business result, build the business case for change, use the right language, use the most suitable meeting and agenda item, socialize the proposal with key stakeholder prior to the meeting, etc. Having a conscious strategy around this will help driving change and supports the objective of improving the bottom line. In fact, marketing starts with placing yourself in the receivers' shoes in every detail of the work: how to answer the phone, how to use the subject line in that email, who to include or leave out from the copy list, etc., small things but need to be understood and lived with discipline. Reading and applying the principles of a good handbook in marketing should be part of any HR BP's capability building.

Legal and Compliance. Two functions in their own right, here together as one, to demonstrate the natural bonding between HR and other functions that protect the company and manage risk. The HR BP needs to see consequences of proposals down the line or over time and team up with other support functions (which may also include audit or internal investigations) to protect the organization against undue risk. In the current world that is often described as volatile, uncertain, chaotic, and ambiguous (VUCA), the BP needs to manage risk the same way as managers and other support functions have to.

Example The HR BP in the investment banks gets the request from senior managers to find internships or traineeships for sons and daughters of important clients in parts of Asia, where this is a common practice. Yet the BP feels and should feel uncomfortable as the realization is that yes a short-term economical goal may be served, in the long term, this could very well backfire on the organization as this practice can easily be construed as inappropriate influencing of business dealings potentially leading to major claims and newspaper headlines. Instead, the BP designs a transparent application process that all need to go through; an objective pass or fail will support the decision engage to clients' relatives rather than favoritism.

Example The BP notices the trend in the company that the makeup of the workforce is changing. More and more, traditional permanent positions are being replaced by contractors and self-employed staff that do not need or ask for company plans, benefits, etc. With volumes at the contacting end rising dramatically, the BP starts to wonder whether HR is actually the best function to support the company in this. It could be very well that involvement of the purchasing department leads to much better financial results for the business, and hence it may be wise to hand off this task of contractor engagement to purchasing. The BP will instead focus on areas as employer brand, how to engage different types of workforce on the team and ensure the necessary compliance with local regulations, how to develop a contractor pool as a source of key talents, etc. In addition, it will be about managing the risk of external workforce that is not directly employed hence missing the regular (legal) controls to influence behavior.

Most planned changes happen through projects: restructuring, mergers, new technology, and implementation; in fact most initiatives in any given organization will be managed as a project. Having understanding of how projects are being run, using project planning, and having a grasp of funding and project costs, dashboards and traffic light indicators, escalation processes, steering committees, and program management should be no secrets to the BP, and in fact he or she will often find himself/herself in the position of a project lead or a work stream HR lead within a change project.

To finish this section, the following are some of the characteristics of exemplary business people turned HR: BPs that think as managers with a time perspective, meaning the ability to project solutions into the future and think back to what it takes today to get there; BPs that have a legal frame of mind, meaning the ability to think from the abstract and general toward the specific and the individual case; BPs that can function well in complex matrix environments, meaning that they show organizational sensitivity and able to balance interests of stakeholders and feel who needs to get involved in problem solving and decision-making; and BPs that keep a cool head when needed during times of crisis, meaning the ability to refrain from quick opinions, count to 10 before speaking, and let the process do the work instead going with the emotions. This touches on personality traits, which we will discuss later on. As a final observation, we will also later discuss more about HR as a coach to business leaders, being a selfless consultant who wants their clients to succeed.

This concludes the section on the "what" of the HR business partner with a strong focus on the economic and risk perspectives, and focus will shift toward the "how" of becoming a truly great partner to the business with an impact to the bottom line of the organization, or any other metric relevant to the institution, with the people and operational perspectives of the role.

How To: The Partner Part in the Business Partner Function, the People and Operational Perspectives

"HR knows what is good for the company but the managers won't listen," how often haven't HR people utter these or similar words? If only the managers would listen and support their ideas for a graduate event or a diversity day or a new funky performance appraisal system.

It is fair to argue that most HR business partners with a perfect understanding of the organization and deep rooted business acumen will struggle to be effective if they do not get it right on the "how" part in the partnering with the client or client system. Luckily, all is not lost, and it can be learnt how to go from good to great in mastering the relationships in the workplace as a relationship manager, a business consultant with an HR specialization.

Returning to the conversation between William and Jackie, a few things can be noticed as the relationship is growing. First, it is clear also from William's further response that Jackie has really listened to him and tries to understand his real needs. He clearly appreciates this and one can sense that mutual respect is emerging. William is sensing the added value that the HR function can bring beyond sound administrative processes and flawless execution, through Jackie who seems a person he can trust.

Jackie displays the behaviors that are important to anyone if it comes to building a trusted relationship. She listens to William, and she really shows she does. By taking the time and using silence effectively, William opens up to more sharing on things that bother him or are on his people agenda but he has not gotten to it yet.

Looking at the "how to" dimension of business partnering, it is also about effectiveness in a (or any) consulting relationship. Many books have been written on the subject, one that continues to stand out for its sheer simplicity and powerful messaging remains a classic, the 1989 book *The 7 Habits of Highly Effective People* by Stephen Covey (1989). Reading the book and perhaps rereading after a year could be part of any curriculum for HR people who are climbing the professional ladder. Just as a 1 min refresher, the 7 habits in short are to be proactive; begin with the end in mind; put things first; think win-win; seek first to understand and then to be understood; synergize, positive teamwork, so as to achieve goals no one can achieve alone; and sharpen the saw to further master these skills. Be conscious about these principles at work, and frequently reflect on these, and clearly effectiveness will grow over time.

The People Perspective

To no surprise for the readers of this book, it is about people and talent, the key talent that will make the difference for the organization. Gyan Nagpal's excellent book *Talent Economics*, with the telling subtitle "the fine line between winning and losing the global war for talent," provides good reading on this (Nagpal 2013).

A particular subset of talent that needs special attention from the BP is the leadership capability or the leadership pipeline. Although critical talent is owned by the senior leader in the organization, HR will be the party to know about the talent in pipeline, develop programs to attract and develop them, and drive programs that establish and nurture the behaviors in the firm that align with the desired corporate culture. Leadership development as such is an art in itself. Recommended reading for inspiration are Margot Morrell and Stephanie Capparell's *Shackleton's Way* (2001) on the example of an exemplary leader 100 years ago and Ram Charan, James Noel, and Stephen Drotter's *The Leadership Pipeline* (2001) which deals with the issues around the learning and perhaps more importantly unlearning when supervisors and managers are being promoted in six distinct "passages" to higher levels with different requirements as leaders.

The talent dimension can also be more narrowly described as the HR BP being the custodian of employee data or the "big data" in the area of people. Suffice to say that the HR BP should feel comfortable with the terminology and the predictive analytics of numbers and trends.

Going through a few management books can absolutely be part of any HR professional's education on the job. While not as academic education, it serves as useful reflection and self-development that can contribute to professional growth.

Do: Develop Mutual Respect

As in all partnerships, there are times of harmony and times of disagreement. As long as both sides value the position of the other, listen to each other, and treat each other with respect, the final outcome will be better than a single decision by only one of the partners. In the end, it is about a joint decision in the best interest of the company.

At the start of this century, David Maister wrote a book that framed many of the "how to" issues, *The Trusted Advisor* (Maister 2000). In a nutshell, trust as a basis for success in a relationship is a function of credibility as advisor being an expert in their field, plus reliability as someone who follows up, plus intimacy, feeling of security or safety we have when we entrust someone with something; the sum of these three divided by self-orientation is the orientation of the advisor primarily focused on the client, or does the client get the feeling it is more about the advisor himself/herself? Clearly, the trust equation is higher when self-orientation is low (as Jackie showed to William), and the three elements in the numerator of the equation are as high as can be achieved. Dave Ulrich in his recent work at the RBL Institute calls the denominator party the credible activist, an advisor who is really there to selflessly help.

Unfortunately, with these two books as self-help materials, this is not enough. Living the principles described in the above standard management books seems hard enough, yet more is required to become that outstanding HR business partner who goes beyond responding to business challenges but rather creates the chaos and change leading to new levels of performance for the organization.

Example An HR business partner at a government-subsidized welfare organization that provides counseling to distressed people understands the trend away from expensive face-to-face counseling toward virtual counselors and even computer-simulated conversations. The HR BP successfully secures a budget for management to set up virtual communities with freelance part-time counselors and cosponsoring of research into computer counseling as a disruptive technology in this field of work, as a means to stay competitive as an organization competing for scarce resources.

Do: Frequent Communication

Even though almost nobody wants to have more regular appointments in their calendar, try to do this with customers. If one waits until there is an urgent need, the BP may already have lost time for proactively addressing it. In frequent conversations, the BP will be able to "hear the grass growing."

In engaging with the client, more and more frequent communication is better than none or infrequent; however, finding the right frequency in face-to-face contact can be a balancing act: clients are busy and perhaps often traveling; in their eyes the meeting has to be called for and serve a purpose. Weekly fireside chats are a luxury, and any consultant knows he or she has to come to a meeting prepared, which can mean a number of things: having information that will trigger the attention of the client because of its business relevance, as Jackie did, and having prepared a sound discussion on people around development, succession, assignments, project, etc. In general it is helpful to structure the meeting and have an agenda, as to maximize the time and cover all the necessary topics. Face to face is ideal, but in current times, video conference or telephone call will do in most cases. Keeping regular meetings in the diaries has the added benefit of knowing what is going on and sensing what is emerging as an opportunity or concerns and maintenance in the trusted advisor relationship.

Don't: Try to "Sell" to Your Business Partners

Before developing HR products, listen to the needs of your business partners. Do not try the opposite: invent something new in an ivory tower and then try to convince them about it.

Don't try to sell great HR ideas to the clients without first considering whether these ideas will solve for a real business issue. HR is as guilty as any support function in willing to apply the latest thinking, trends, and technology without the proper business case for change – as can be sensed from the first paragraph in this "how to" section. Often, clients are willing to help HR because they from their part wish to maintain the relationship with HR, but the question is really to whose benefit.

Example HR organizes a talent day for all employees and arranged a large meeting rooms with various corners for one-on-one conversations and kiosks around themes, and managers are encouraged, or arm-twisted as one complained in private, to attend for a half day and chitchat with staff about careers and development. In the end, there is no tangible follow-up. Apparently, most of the attending employees are not known as talents to the management and some low performers seemed to enjoy hanging around for quite some time. In the end, management found it a waste of time and really did this only because HR told them so. Does this add to capability building for the organization?

HR as coach in the organization is an interesting concept with pros and cons. Surely the business partner ideally has the skills to act as a coach and knows how to lead coaching conversations and structure sessions. The question remains whether internal or external coaches are the best solution, given the sensitivity often perceived by coaches certainly at more senior levels. Being open and vulnerable with an internal HR BP can only take place with a trusted advisor with full marks on the intimacy and minimal scores on the self-orientation dimensions, as we have seen earlier. This will possibly be an aspirational goal for most BPs who are not in that space yet.

Do: Act as a Consultant and Follow Their Working Practices

A number of time reference has been made to the HR BP as a consultant, and indeed it can be argued that a successful BP in any discipline possesses many of the consultant skills as analyzing problems, putting issues in a larger picture, and using a methodology for solutioning and obviously well-honed presentation skills. From experience a few traits or habits can be added.

The first is the permission to answer to a question with a question, not to be obnoxious, but to explore whether the right issue is going to be addressed as asking managers could very well be signaling and querying symptoms of a larger issue in the back, related to that the reflection whether the HR BP is the right person to address this or the hinter lying problem can better be addressed by another function.

The second is to mirror the turnaround times consultancy firms typically use. Answer to emails and phone messages within 2 h, just realizing your client has something on his or her mind and would feel comfort with a response – any response, also if it is to say: "yes I heard you, understand your concerns, we will look into this and we will get back to you in two days time." Often a query surfaces and needs quick attention, not per se the final outcome right away. Related to this, use the 20/80 rule effectively in query handling.

Example A senior banking manager goes into a board meeting of a local subsidiary in China and suspects he will be asked after the high turnover in China that is being talked about a lot. Five minutes before the meeting, he calls the HR BP, who does not have the numbers at hand but is able to provide a rough estimate by saying: "It is around 18 %, which is better than the market at 21 %, and the 6-month trend is downward. I could give you the exact figure to the decimal point if you like but that will take me 2 hours to obtain and verify." Obviously the off-the-cuff answer is good enough for the manager as trends and position against the market are oftentimes the sort of information needed. If one buys a bottle of water, the content will not be exactly 500 ml but it will be within a margin of plus or minus 3 %; it is not that different for management information.

To complete the toolkit of an effective HR business partner, a number of skills come in handy if not indispensable.

Think about negotiation skills: oftentimes the HR BP will be negotiating salary packages or severance packages, or negotiating terms of separation with lawyers, or negotiating during a labor dispute. Often this happens based on gut feeling or a certain leniency or feeling of discomfort, but it would certainly help most professionals to take a look at these following negotiating skills as an add on: how to formulate a strategy on possible and minimum outcomes, how to aim for a desirable outcome, how to go through the stages of negotiations reaching a mutually acceptable outcome and prepare options or alternatives as to strengthen the negotiation position, etc. Going into negotiations after doing the homework, a better result for the organization can be achieved. As so often is the case, it's all in the preparation.

Similarly, influencing skills will be part of the standard kit for a high-impact consultant: doing the stakeholder analysis, considering what will help others to buy into ideas, and exploring ways to build a sound business case for change, not a topic for this book per se but certainly worth a reflection.

The Operational Perspective

This section could also have been labeled as HR BP effectiveness: what gets measured gets done.

Further, it's a valid question to ask how to know when a BP has developed the right relationship as an influential strategic consultant to the business.

The credentials and certification of an HR practitioner are a good first measure at the input side: you don't know yet the outcomes or results, but at least education, training, and certification are a first indicator to predict future success. However, not necessarily the HR degree leads to the most successful BPs. Sometimes the rock-star BP is the one that works in lockstep with finance or comes from a very different background.

Performance management, i.e., setting and evaluating specific, measurable, achievable, realistic, and time-bound goals, is a way to see how BPs deliver on their promise. Certainly it is a way to guide attention to required HR interventions, for instance, to bring down staff turnover to 8 % in 12 months and increase staff engagement to 70 % on a given scale as a specific assignment where the BP needs to work with management and other parties to get this done. This also helps to create clarity on what success stands for in strategic activities. Assessing skills may also be a way to chart a BP's development needs based on feedback on the level at which he or she is able to perform in various dimensions of the role: foundational, developing, fully proficient, advanced, or expert.

Multisource or 360° performance feedback is a useful way to get input from multiple parties familiar with BP's objectives to ascertain if and in how far the BP is effective in achieving targets.

A periodic informal check-in with the key client relationships or stakeholders by the BP's manager is another good way to gather information on effectiveness and possible development areas.

Another angle to the operational perspective is to look at the HR BP navigating in the organization, understanding what can or cannot be delivered by HR, and ensuring the right promises are made to clients and not overpromising.

Some HR staff successfully transition from a role in operations to HR advisor (or HR generalist) to HR business partner. The HR advisor or HR generalist function is the useful role of an HR practitioner who does look after client groups yet still has primarily transactional components in the role, and only a fraction of time is spent on more change-related or strategic initiatives. This is often a function of where the incumbent operates in the hierarchy. The benefit of this career path from operational expert to BP is that the BP has a good grasp of how management decisions affect other systems "downstream."

Example The cutoff date for salary inputs is the fifth of the month, and batch files will then be sent to the external payroll processing company, and actual payout is the fifteenth. The manager puts a lot of pressure on the HR BP to accommodate same month payroll for a new recruit on the sixth, mentioning HR should not be too inflexible or overly bureaucratic. Some BPs may put pressure on their teammates in operations to make this happen and make their client happy, at the expense of a lot of extra work for negligible benefit for the new employee. The HR BP with ops background will explain what it means to do an extra payroll run and its costs to the organization, plus the extra work of reconciliation of accounts, which simply does not outweigh the perceived benefit to the staff.

It is an example demonstrating the knowledge HR BP needs to have about the policies, processes, and systems in the organization in order to manage the relationship with the clients well.

After the four perspectives, a few additional thoughts will be given to two topics: the career pathing toward HR BP and current and emerging trends that will have impact on the role in the future.

Careers Toward HR Business Partner

The question is how to become that influential, respected senior trusted advisor who helps building organization's capability and shapes the organization's future from a people's perspective? The long and winding sentence suggests: not easy and not for everyone. HR business partnering happens at various levels in organizations, providing useful and valued assistance to managers and employees. Let's take a close look at possible careers and career transitions leading to senior business partner roles.

In the operational perspective section, the way to become HR BP from within HR coming from operations has been described.

Other careers from within HR – through the HR graduate program, via recruitment or the compensation and benefits function, all have their own merits, as long as employees display the right personality traits and business acumen described earlier. In the setting up of ideal BP teams facing the client organization, the HR manager can choose to select BP with a learning and development background for a client group that needs attention in that area or a BP with recruitment background to a fast-growing business unit as to benefit from the talent attraction expertise.

Example Investment banks are going through lots of changes in the compensation structures and bonus rules for senior bankers as a result of regulation in various parts of the world, often not aligned and with different treatments of USA-based versus European Union-based banks, leading especially for European banks to complex reward structures that need a lot of explanation and buy-in from the affected employee group. As the expectation is that this situation with changing regulations will continue for a few years, the manager asks a BP with a strong background in compensation to take on this specific client group, again as to maximize a combination of competencies.

Other careers leading to BP can typically be found by having employees from the client side or "the business," moving to HR and spent a number of years in an HR BP role, with the clear benefit of having a good understanding of what the business needs. The added benefit is that when the individual moves on to a new role back in the business, he or she will have a better understanding of the HR function and can be a good partner of sponsor in HR programs going forward. The downside could be that business people have not received the necessary training to act as a BP in all aspects can be overcome: things can be learnt, the most effective learning takes place on the job, and it will be people with a certain predisposition for HR work who will have agreed to the transfer.

Not observed that much but unquestionably a good "source" for HR BPs can be from consulting firms, where second step consultants with 5 to 8 years of extensive training and exposure to real business issues "under the belt" transfer to an internal role with a (client) organization. The benefits are clear: the work style, skills, and business acumen are there, and the consultant has seen various industries and will have made a clear choice for the type of organization.

These are just a number of examples. In the end, no career path is set in stone and timing and availability of roles, being in the right place, having the support from a manager, and a bit of luck may decide next steps in any career.

As to the point of manager support, as many will agree, the manager is often of significant importance in nurturing new skills, providing opportunities, throwing people in the deep where needed, taking talented staff along to important meetings to observe or prepare and present parts of the HR contribution, etc. – this is certainly not unique to HR BP grooming, but it should be mentioned as a way to create a strong HR BP function with the organization.

Now that we have gone through what makes a HR business partner successful both from a contents and an effectiveness perspective, it seems appropriate to end this chapter with a few emerging trends which will lead to changes for the role.

Trends 2015–2020 that May Impact the Role of the HR Business Partner

Globalization in the last twenty years has definitely had an impact on the role: not only more BPs are in positions where they need to oversee (sub)regions with all the complexities of cultures, languages, and legislative systems, adopting a global mindset, but also how the role is being performed. From a role sitting close to clients with the ability to meet frequently face-to-face, this has changed dramatically to often remote relationships and meeting clients very infrequently. As globalization has also led to increase in travel, the perceived benefits of being based in the same location have lost validity: clients are often traveling anyway, so the argument rises whether HR BPs should be based in what are often called high-cost locations.

The trend to move HR advisory or HR generalist roles (with more transactional components in the role) to low-cost locations has already started with the rise of shared services centers, and it may be a matter of time before this starts happening with BP roles as well. Benefits from moving HR advisory roles have been described as better and more standardized quality. Whereas in the past, the same question to five different HR advisors could lead to five different answers; having teams in one location with proper case management tools and team meetings often leads to a rise in quality and better standards in turnaround times and backup arrangements during absence. The question remains whether the same trend applies for business partner roles where client intimacy and self-orientation are important elements in the trust equation.

Technology mentioned here is given to self-service, the Internet of things, robotization, and the virtual consultant, very different concepts yet captured under the technology heading. Self-service tools will improve with the manager being able to find many answers online, and many conversations can be replaced with chat function where the answering party sits in a low-cost location, deriving most suitable answers from a knowledge database supported by case management for follow-up. Clients or managers don't need much face-to-face time with HR; if the bulk of the query resolution happens via easy accessible click-to-chat on desktop or smartphone apps, the need for physical meetings declines. The rise of Generation Y employees to the ranks of managers will reinforce this trend. Much as many of the current HR practitioner's population consists of the touchy-feely people, this is less so for the next generation of leaders, more tech savvy and more comfortable to communicate in a virtual community. Same as executive coaching already happens over the phone and via Internet video applications, the same may be true for the way HR BPs interact with the clients in the near future.

The Internet of things (as a classic example, the fridge that receives a recipe for tonight's dinner checks what is in stock and automatically orders missing ingredients online for same-day delivery) and robotization where the prediction in a realistic scenario is that millions of regular jobs in multiple industries (no longer in automotive or manufacturing only) will be replaced will have an impact on the composition of the workforce. It is safe to assume this will also affect the required numbers in most senior strategic BPs, with less workforce to oversee.

Example The Taiwanese company Foxconn that assembles hardware as mobile phones in China has experienced a few waves of labor unrest, a number of suicide cases, and a pressure from local governments and unions to increase wages in the years 2010–2012, leading to the decision to replace up to 800,000 jobs by around 1 million robots in the year 2020.

Big Data. It has been mentioned before, and it will not go away any time soon: the HR BP needs to have a good understanding of the available data from HR systems and be able to analyze and explain underlying trends and crafts this into a compelling story or business case to discuss with the clients. It is not about the volumes of data or the amounts of numbers that can be pulled out of systems, but the validity and the cause and effect relationships that matter. It is all about insight and insight facilitation. Leading with data aligned to business goals. The shift will be from information (looking back) toward predictive analytics. New HR roles will emerge or gain importance over the next years; as a result, the HR BP will have to team up with the data function as to stay relevant in strategic discussions.

Example In designing a new frontline manager program, a BP together with a colleague from the HR analytics team goes into historic data and tries to discover correlations that could help predict best outcomes. After a few rounds of data mining and comparing outcomes, they see that certain managers emerge as better people managers over an extended period of time based on the number of good performing staff, promotions, and longer tenure with the organization; in analyzing these managers' personal traits based on prior assessment work, patterns emerge that could serve as a basis for training, selection, and promotion to frontline manager roles.

Outsourcing and hybrid workforce models. Mentioned before, the workforce of the future will be very different from today's. Trends that started in the 1980s and 1990s on outsourcing are to continue as soon as another party is able to leverage synergies, focus on a service as a core competency, and invest in the technology to further improve efficiencies. This trend is making way into the HR domain as well. From payroll services in the 1980s via external recruiters and training in the 1990s and transaction services like on-boarding, background screening, benefits handling, and off-boarding in the first decade of this century, the next phase will be about HR activities with a judgment component: advisory in generalist area, compensation advice, and employee relations. Third party vendors that specialize can do the work or contractors/self-employed specialists who are comfortable to work on a day rate rather than through a classic employment contract. With outsourcing and contracting also comes the location question: as observed earlier, most HR activities are location agnostic, and costs per transaction or unit of measurement will decide who will perform the work. That will lead to significant changes to the HR BP function that remains in the organization to help shaping the organization's strategy and related people agenda.

Final Comments and Outlook

In conclusion, the above justifies the picture of a professional who is a true generalist in business with a deep understanding of the industry or ecosystem the company operates in, not only able to respond to changes or predict changes, but helping to shape the organization's future based on trends in population, the use of the Internet, the different makeup of the "millennium" employee population, and what this cohort of workers drives, translating emerging trends into action plans for employee training or collaborating with local universities, helping to craft an appealing employment value proposition, and, as stated in this section, being a businessperson who is able to bring all of HR to the client. A people strategy has had the input from the specialists in compensation and benefits, the talent function, the operations teams, labor relations, and diversity and inclusion team and supported by predictive analytics or “big data”: meaningful facts derived from in-house data combined with relevant public (or purchased) industry data.

The roles that support the organizations are as prone to change as the organizations itself in a world characterized as volatile, uncertain, chaotic, and ambiguous. The role of HR BP is not immune to this. Trends as technology, globalization, changes in the workforce, robotization, big data, etc. will all impact the capabilities and competencies of the HR frontline relationship manager.

The HR transformation of the HR function and the role of the HR BP within the function will take place in the next decade as a result of these trends, driven by costs, efficiencies, advancement of new technology, and a new, tech savvy generation.

In this section, reference has been made a number of times on HR disciplines that the HR BP needs to master, among which are change management, organizational development, HR transformation, etc. The next chapters will go into more detail in these and other areas of the broader HR domain.

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Human Resources Strategy and Change: Essentials of Organizational Development

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Abstract

In recent years, the design of the organization has increasingly become a crucial factor in an enterprise’s performance. As a result, the skill of assessing one’s own organization and of developing it further in a professional manner has become a new challenge for HR management.

In this chapter, the organizational design is conceptualized against a system-theoretical backdrop. In this theoretical understanding, which is based on Niklas Luhmann, organizations consist not of their members and not of buildings, production facilities, or similar elements, but of specific communicative events that we refer to as decisions. The basic elements of organizations, then, are decisions rather than people. If we take this system-theoretical approach, we understand organizational design as a set of premises that determine the day-to-day decisions and communication channels in an enterprise. The interplay of these premises is illustrated and explained in an integrated depiction of the organizational design. For us, these elements of the organizational design are strategy, formal organization structure, horizontal connections and communication structure, leadership structure and systems, requirements for human resources, business processes, and infrastructure and leadership practice.

This chapter also outlines the assessment and further development of an organizational design. The most important steps in such a sophisticated and demanding development process are communitizing the strategic requirements, reviewing the organization, developing options, taking a design decision, detailing the new design, developing an implementation architecture, and anchoring the design.

Keywords

Organizational development • Organization design

Introduction

In recent years, the organizational design of a company has increasingly become a key factor in modern business performance. In the light of external developments such as the specific market dynamics, technological or social changes, or increased cross-company cooperation, a periodic adjustment of the organizational structure of a company has turned into a matter of necessity. But even internal restructuring measures require HR managers to professionally set up, implement, and support such processes.

This chapter describes the dimensions of an organization and provides an overview of the processing architecture when developing an organizational design. It provides guidance on the performance of this key task of business management.

A System-Theoretical Understanding of Organization as a Conceptual Backdrop

When addressing the subject of organizational design, one ought to be clear about one's own conceptual understanding of *organization*. This is necessary because highly divergent mental models and definitions for understanding *organization* are in evidence, not only in the academic reference works on organization but also in corporate practice. In common parlance, organization is understood as something physical and tangible involving, for example, members, production facilities, or a technological infrastructure.

In this chapter, we shall assess the organizational design against a system-theoretical backdrop.

In the opinion of Niklas Luhmann (2000), the essence of an organization consists of *decisions*. An organization ensures that there is decidability, in other words, a transformation from uncertainty into certainty. Every decision is founded both on knowledge derived from the past and on a lack of knowledge about the future. An organization solves this problem of uncertainty by making decisions. In the here and now, it makes decisions for a (supposed) future. In this sense, an organization *consists* of nothing other than the continuous communication of decisions.

To be able to make decisions at all, however, the organization must have alternatives for action. Without alternatives, there can be no decision. After the decision has been made, the members of the organization behave as though the future were certain. As they see it, then, a world full of uncertainty, ambiguity, contradiction, nebulosity, and ambivalence becomes a world of certainty (Simon 2011, p. 67). Therein lie the performance and function of an organization: in making follow-up decisions possible without calling previous decisions into question. As long as the making of decisions remains a necessity, the organization will continue to exist. From this point of view, unsolved problems in the future are the reason for an organization's existence.

In this theoretical understanding of the material, organizations consist not of their members and not of buildings, production facilities, or a technical infrastructure but of specific communicative events that we refer to as decisions. The basic elements of organizations, then, are decisions rather than people. People do, however, constitute highly relevant environments within organizations, without which an organization cannot exist. "Decisions are the operations through which organizations reproduce themselves: Without alternatives there is no uncertainty, without uncertainty there are no decisions, and without decisions there is no organization" (Simon 2011, p. 69).

Decision Premises

Luhmann refines this understanding of organization by introducing *decision premises*. Decision premises are specifications that give an organization's day-to-day operational decisions a framework for orientation (Luhmann 2000, p. 222 f.). Decision premises determine the scope within which decisions can be made freely.

According to Luhmann, organizations are defined by three basic decision criteria:

- *Programs*: It is through these that the organization's programmatic position is taken up from a functional viewpoint: Why do we exist as an organization? With what tasks do we concern ourselves? What future orientation are we striving for? In essence, these decision premises are programmatic specifications issued by the organization. We refer to this leadership practice, which produces and regularly enhances collective notions of one's own future in a changing environment, as *strategy development*. It is a dimension of leadership that constantly forces an enterprise to assess the surroundings in such a way that future potential opportunities and threats with regard to its own continued existence are discernible.
- *Way of communication*: This premise deals with the principles of organizational internal distinction: What logic constitutes the basis for our way of being organized? What cooperation models and communication channels result from that? "Decision premises can also be used to specify communication channels that must be complied with if the decision is supposed to be acknowledged as one made by the organization. In this case, the expertise specified as decision premises are all-important: especially the right to issue binding instructions, but also the right to be listened to. This very extract from the self-regulation of an organizational system is often referred to as formal organization" (Luhmann 2000, p. 225). In essence, this decision premise is the establishment of a framework for an *organizational design*. This chapter is devoted to the definition of this decision premise.
- *Persons*: "Persons as decision premises have an advantage over programs in that the focus is on coupling the organization with mental systems (persons) as a possible way of making decisions. As it cannot be foreseen which questions, problems, and challenges are going to confront the organization, regulations (programs) cannot be relied on in the long term. This deficiency can be compensated for by trust in persons. Coupling the organization with unmistakable mental systems (persons) enables it to access expertise, intelligence, creativity, and judgment of individuals" (Simon 2011, p. 74). The reason why people are so important for the survival of organizations is that they can prevent the organization from becoming stagnant.

Together, these three decision premises constitute a set of frameworks that give shape to an organization's day-to-day operational decisions. Luhmann characterizes these three decision premises as *decidable decision premises*. That is to say, frameworks can be determined and decided upon through leadership in a communicative process. There is no permanent primacy between these types of decision premises, in other words, no superordination and subordination between the premises (as with Chandler's postulation, e.g., *Structure follows Strategy*, 1962). In one situation, the person can be to the fore as the organization's decision premise; in another situation, this is the formal structure; and on a different occasion, it is the program and/or the strategy.

In addition to the above, Luhmann introduces a fourth decision premise:

- *Organizational culture*: This substantially influences the possibilities and limitations of the three decision premises explicated above. Cultural rules do not develop in a purposively rational way; instead, their development is evolutionary. They emerged and are nevertheless binding for concrete actions. Luhmann therefore describes this decision premise, in contrast to the others, as *undecidable* (Luhmann 2000). There is nobody who can give direct instructions regarding which values and norms apply, yet these constitute decision premises for those members who have a sense of belonging to the organization. The cultural norms are taken for granted to such an extent that they do not become observable until they are not complied with, that is to say, infringed. In relation to organizations, cultural rules and patterns are important because they contribute to the bonding and motivation of the members beyond their contractual obligations (cf. Simon 2011, p. 97).

Basic Features of an Organizational Design

As explained above, a social system – such as a business enterprise – is constituted by way of four decision premises: programs, communication channels, persons, and the organizational culture (Luhmann 2000).

From this system-theoretical perspective, we understand organizational design as a set of premises that determine the everyday decisions and communication channels in an enterprise, in other words, those decision-making materials that Luhmann referred to as communication channels in the pie chart in Fig. 1. “Organizational decision premises are present in the establishment of the communication channels that connect decisions with decisions, and thereby make the autopoietic production of such decisions possible in the first place. For this purpose, contact points that serve as addresses for communication are required. In addition, the content-related description of the contact points makes it clear which contact points must be involved in which procedures” (Luhmann 2000, p. 316).

In essence, these organizational decision premises are the general specifications of an organizational design. These premises of an organizational design should answer the following questions:

- What is our structural response to the developments – such as market and technology trends – in our relevant environments?
- What organizational consequences can we draw with regard to the enterprise’s strategic position?
- What is required of the current jobholders’ skills and mind-sets?
- What are the criteria and logic by which an organization’s subsystems are constituted?
- Who can issue binding instructions to whom?

Fig. 1 A social system's decision premises

- What communication channels must be adhered to and how? Who has the right to be informed about which activities?
- What are our structural specifications as regards leadership (leadership structures, leadership concept)?
- What vertical and horizontal forms of communication connect the organizational units and their members?
- How are the work processes regulated between the contact points and the organizational units?
- How are the information technology solutions and the forms of production structured?
- What type of spatial design is chosen to positively influence communication and the working processes?

How an enterprise answers these questions determines the scope of the formal organization within which the protagonists in the enterprise can make their decisions. A framework like this, however, not only restricts members of the organization but also encourages the protagonists to use this scope in the interests of the success of their organizational unit. Baecker (1994) refers to this as *conditioned autonomy*. These structural specifications produce reliability of expectations in collaboration with the organization's members and therefore facilitate continuity within the organization.

These decision premises of the organizational design must, on the one hand, be closed enough to facilitate follow-up decisions in the organization while, on the other hand, being open enough to keep the organization open for still unknown future possibilities and consequently to increase the system's ability to survive.

Therein lies the fundamental paradox of an organizational design: On the one hand, if an enterprise is to fulfill its tasks, it has to depend on the stability of its processes, routines, and premises, so that it can cope successfully with its day-to-day business. On the other hand, if an enterprise is to survive, it will repeatedly be required to review its structures and processes and to reinvent them in the light of the requirements arising from its environment. Wimmer (2012, p. 40) refers to this organizational ability as a *metacompetence of an organization*. That is to say, it takes a detached view of itself in order to generate new momentum for its own further development from this perspective.

This means that an organizational design is quite clearly more than an organizational chart that regulates an enterprise's hierarchical decision-making structure. Within the framework of an organizational design, the communication channels are determined in such a way that they advance an enterprise's strategic orientation. The organizational design – as already described – constitutes a set of organizational decision premises that link the individual energies of people with the purpose of an enterprise.

Elements of an Organizational Design in Detail

The following diagram illustrates the core elements of the organizational design and their interplay.

The Strategic Orientation as the Organizational Design's Frame of Reference

Within the framework of a strategy development process, the management deals with its markets, customer requirements, and the relevant developments in its environment. These are analyzed, evaluated, and transformed by the management into a strategic picture of the enterprise's future.

A strategic specification of this kind defines an enterprise's distinction in the world. We understand *strategy* as a set of business-related premises that guide an enterprise's everyday decision-making processes.

A strategy understood in this way defines the basic orientation of an enterprise. It determines, in particular, the portfolio of products and services, the target markets and target customers, and the technologies required by the enterprise in question. One element in this picture of the future is a clear understanding of the business model that makes the enterprise's inner mechanics explicit. This strategic specification constitutes an important framework for the concrete elaboration of the organizational design's individual elements. It guarantees the structural coupling of the

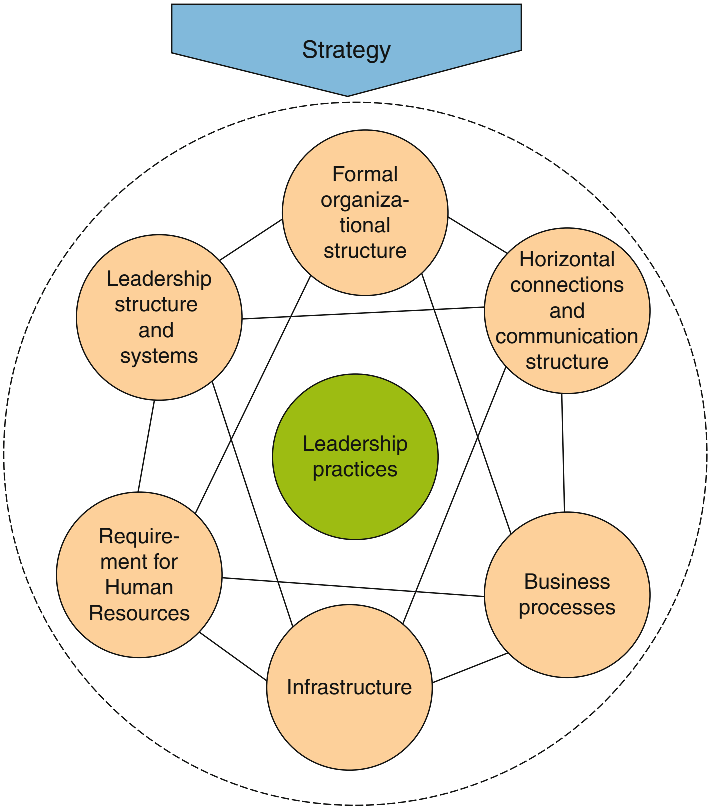

Fig. 2 Elements of an organizational design (according to Nagel 2014)

strategic specifications with the organizational design. We have therefore depicted the corporate strategy in Fig. 2 as a framing of the organizational design.

Formal Organizational Structure

The structure of an organization determines where the formal power and authority within the enterprise resides. It defines the primary classification logic according to which the enterprise's subsystems are differentiated. It determines the number of hierarchical levels and the content-related structure of the subunits; it delineates the size of the organizational units and puts the functions, jobs, and roles into concrete terms. This formation of organizational structures and subsystems serves to make the organizational goings-on transparent and, with the help of standardization, predictable. Paradoxically, this very aspect, in turn, is making the system as a whole more complex. Specialization and differentiation are making it more difficult to gain an overview, thereby making the integration of the parts a key challenge of the organizational design (cf. Schreyögg 2008, p. 90).

The organizational structure is typically depicted in an organizational chart. This establishes a framework for the relationships, the distribution of influence, and the official communication channels. It determines who is connected with whom and should come formally into contact with whom. For interested observers, the organizational chart is frequently also an indicator of what inner logic is particularly important to an enterprise.

Using the metaphor of the human body, the organizational structure can be compared with a skeleton. It constitutes the shape of the organization and a framework where everything is arranged. In this depiction, the functions and roles are also referred to as the organs and muscles of a body.

Leadership Structures and Concepts

The debate about organizational architecture has another side that is frequently underexposed or, in other words, left to the individual handling of roles by different executives. The different leadership prerequisites of every organizational logic are paid little attention either in business administration organizational theory or in corporate practice – if the subject matter at hand is the assessment of an organization. This could almost be described as a *blind spot*.

This is because every design logic chosen has very specific implications for an enterprise's leadership structure. In the case of ambiguous organizational logics, in particular (e.g., *hybrid organization*), the leadership is required to resolve or to handle the associated conflicts of objectives. The expected competitive advantages of the organizational design in question can only actually be realized if the enterprise's leadership consciously counterbalances the unavoidable dysfunctional consequences of an organizational restructuring.

Communication Structures for Horizontal and Vertical Connection

While the formal organizational structure *disunites* an organization due to the differentiation of subsystems, the organizational design with its entire architecture must ensure that the individual parts, in turn, are affiliated and linked for the overall performance of the enterprise.

A central element of the organizational design is therefore *systematic and continuous communication*, with formats which ensure that vertical and horizontal coordination takes place within the enterprise. In which communication vehicles and via which media should the connection be made? In what temporal intensity as systematic and continuous communication or event-driven? Is the emphasis more on formal communication structures, or are informal coordination processes being relied on?

In addition, the continuous *design of communication architectures and platforms* (such as strategy dialog, leadership conferences, and large group events) for a structured discussion process involving current business topics pertaining to an enterprise is becoming increasingly significant. Communication settings like this frequently only make interface conflicts visible for the people within the enterprise and can be an inducement to use these in order to find a solution-oriented way of handling this situation. The management of such enterprise-wide communication formats has now become an important task in the structuring of organizational design.

The organizational design is realized through communication processes. It materializes through communication.

In the reference works on organization, particular attention is paid to horizontal coordination (Ostroff 1999; Galbraith 2009; Worren 2012). Executives, for example, often complain that *silos* prevent their employees from cooperating. As a metaphor, *silo* suggests an invisible and windowless tower in which the individual working groups work on their assignments for themselves. The walls prevent teams from interacting and from making use of other groups' perspectives. As a result, *breaking silos open* is a frequent requirement in redesigns. But all structures create their own silos, however. The differentiation of subsystems consciously separates organizational units from one another. This makes it possible to focus attention within the enterprise.

This, though, will not be particularly problematic as long as the enterprise's strategic orientation does not encourage a notably pronounced degree of communication and cooperation between organizational units. If the enterprise's strategy requires a great deal of coordination, however, an organizational differentiation can lead to a situation where barriers to cooperation are obstacles to the enterprise's success. In this case, the organizational challenge lies in fluidizing the internal boundaries and stimulating the integration between the subsystems.

For however an organizational structure is shaped horizontally in formal terms, it too creates barriers to cooperation as a result. These boundaries can become more porous because of an organization's lateral abilities. Informal networks, IT-supported communication media, team and matrix relationships, lateral processes, and integrative roles can serve as a *lubricant* that keeps the organization as a whole functional.

Analogous to the metaphor of the body referred to above, the communication structure can also be described as an organization's blood, lymph, or nervous system.

Structuring the Business Processes Within the Scope of Process Organization

Goal orientation and efficient working require not only the formal organizational framework but also rules for the organization of working processes. This is because while the formal organizational structure primarily shapes and classifies an enterprise into individual organizational units and allocates their tasks and powers, process organization regulates the course of the working procedures.

In practice, it makes little sense to observe the organizational structure and process organization in isolation, because these questions are usually linked closely to one another.

What is a process? A process can be understood as a series of activities "that generate a defined work result (output) from a defined use of production factors (input)" (Klimmer 2011, p. 95).

As the success of an enterprise is determined more by the swift and cost-effective mastering of cross-departmental processes than by processes within an organizational unit, the simultaneous design of formal structures and processes for an organizational design is a critical factor in an enterprise's success. In hotly contested markets, in particular, excellent mastery of processes is a crucial success factor. Poorly organized processes can bring about a situation where sales potential is not realized or orders are lost due to long offer preparation or delivery periods.

An enterprise must organize and harmonize its processes in such a way that the results fulfill the requirements and expectations of the various stakeholders such as customers, suppliers, or supervisory authorities (cf. Klimmer 2011).

Requirements of HR Systems

The corporate strategy also creates an orientation framework for ascertaining which of the employees' and executives' skills and expertise are necessary in an enterprise. This is because different strategy types require different manifestations of talents: Flexible organizations need adaptable employees, while cross-functional teams need staff with generalist skills who can cooperate well with one another. Matrix organizations are dependent on employees who can manage the unavoidable systemic conflicts and can get their bearings without resorting to the resources of authority.

The individual-related aspects of the organization are observed under this design element: What *skills* and *mind-sets* the employees will need if the enterprise is to be successful? This element creates the interface to Luhmann's third decision premise – *the personnel decisions*.

We (Nagel et al. 2008) have referred to this relationship as *the inner logic of HR development*: "The specific tasks of an enterprise or organizational unit give rise to highly concrete expectations and key tasks for a particular position. The job description in question is determined by the organization's strategic orientation. The market dynamics in recent years, however, have led to substantial changes in these job descriptions" (Nagel et al. 2008 p. 49).

The organization is faced with a particular employee with their specific suitability profile, their observed performance, and their theoretical potential. Between the organizational job description and the individual persons' expertise profiles, there is always a gap of some size or other that we refer to as the *qualification gap*. For those involved, this means informing themselves continuously about new expectations and tasks and agreeing on objectives that have changed accordingly. This gap between the organizational expectations and the employees in question can, if necessary, be reduced, or, ideally, closed, by systematic HR development measures.

Infrastructure of the Organizational Design

IT Drives Business

The developments in information and communications technologies in recent years and decades have changed many commercial activities profoundly. Many of them are now unthinkable without IT. This means that IT has become the driver for many commercial activities. Thanks to IT, goods can be transported around the world quickly and bought and sold online, processes can be automated and made cheaper, supply chains can be virtualized, and new business can be developed more quickly.

What consequences does IT have for the structuring of the organization? The outstanding significance of IT is still new to most organizations. In many enterprises – with the exception of Internet-based companies such as Amazon, eBay, Google, etc. – the structuring principles inherent in IT (*first the technology, then the organization*) must first be learned painstakingly within the evolved structures that prevail in the enterprises in question. In many organizations, the friction between the logic of IT and the evolved organizational structure is reminiscent of two tectonic plates rubbing against each other, producing tremors in the enterprise that can be compared with earthquakes. In the absence of an understanding of and vocabulary for dealing with the respective other "world," the conflict between IT experts, on the one hand, and many managers of the interplay between organizational design and IT, on the other, usually remains unresolved.

Space and Communication

Spatial design has a huge impact on an enterprise's communication processes and practice. This is because overall architectural conditions determine how communication can be practiced within enterprises.

The trend toward mobile and flexible working has now arrived in Germany, too. Do *digital natives* still need a desk, filing facilities, or conference rooms? Yes, say experts. But the way offices function is changing fundamentally. More and more companies, such as IBM, SAP, BMW, and Deutsche Telekom, are now putting their faith in flexible, open office solutions in which employees can exchange ideas creatively and spontaneously form project-specific teams – if they are in the office at all, that is. For more and more people, it is now results rather than their presence in the office that count.

The increasing significance of *coworking spaces*, too, illustrates this trend toward architectural solutions which stimulate communication within and between enterprises. *Coworking* established itself as a style of working in the USA from 2005 onwards, emerging originally from the requirements of self-employed people, freelancers, and small start-ups that originated mainly from the creative, media, and technology scene. Graphic artists, Web designers, programmers, and other members of the *Digital Bohème*, who otherwise work in relative isolation at home or in cafés, now share a working environment. Most of all, though, they share common values: openness, diversity, flexibility, creativity, and community spirit. In addition, they are interested in synergies that can develop as a result of professionals of all kinds working in one place. *Coworking spaces* provide the necessary infrastructure for that. Workstations are made available at reasonable cost for rent on an hourly, daily, or monthly basis and are equipped with all of the required necessities, such as Internet access, printers, and lockers. Needless to say, meeting and conference rooms, catering services, and coffee bars are also part of the arrangement and are often the centerpiece of the space – after all, this is a place for conversations and contact with like-minded people.

A review of the organizational design can be an inducement to think about new spatial conditions that stimulate and/or change the communication processes.

Leadership Practice as the Key to Organizational Design

Ultimately, an organizational architecture without the concrete *leadership actions of executives* would be unthinkable. Leadership connects and steers the interplay of the design's individual structuring elements, because if an organizational design is not supported, observed, and corrected by the leadership, it remains a formal and largely ineffective construct.

As a special function, leadership helps to maintain the respective enterprise's proper functioning and the securing of its further survival and/or that of a subsystem within the enterprise. In this sense, leadership specializes in giving targeted stimulus to development by carefully observing both the internal conditions in an organization (or organizational unit) and the relevant organizational environments. In other words, leadership ensures that divergences from a desired target state are identified at an early stage and that these potential problem areas are dealt with in the organization. In order to provide this necessary stimulus for development, which can concern both individuals and entire organizational units, leadership is inevitably dependent on communication.

Leadership as a special function in an organization is always a team performance as well. Its success or failure depends directly on the people doing the leading, the available structures, and the distinctive rules of this interaction across all levels. That is why the efficiency of this management interaction is crucial for the effectiveness of leadership and for the proper functioning of an organizational design.

As regards the organizational design, leadership is assigned a meta-level: On the one hand, it is at the service of the organizational design because, thanks to its way of performing a leadership role, it can be influential in making a chosen design *fly or crash*. On the other hand, leadership is required to retreat into a meta-position at certain intervals and to repeatedly reflect critically on the organization's performance and, if necessary, to change it by virtue of its decision-making authority.

It is therefore no accident that the leadership processes are at the center of our depiction of the organizational design. Indeed, the central role in this depiction symbolizes its function – critical to the organization's success – for ensuring the effectiveness of an organizational design.

Organizational Development as a Process for the Deliberate Design of an Organization's Performance

This chapter aims to provide an overview of the individual tried-and-tested steps of how an organization can be reviewed and professionalized.

Communitizing the Strategic Requirements

The development of an organizational design begins with a review of the strategic challenges and specifications. After all, the design is intended to provide answers to the important questions concerning the future of the organization:

- Why is a new organizational design required? Why now?
- What are the rules of the game governing the way our market works and what is the logic underlying our business?
- What are the future core challenges of the organization?
- Which strategy does the organization pursue (e.g., with respect to its products, market developments, business model, growth, internationalization strategy, etc.) and which requirements will the organization have to face as a result?

The general rule is that a new development or revision of an organizational design becomes necessary when a *case for action* appears plausible to those involved and, thereby, a correspondingly high pressure for change and legitimization arises. The result of this phase is the creation of transparency on the strategic and organizational requirements within the company.

Reviewing the Organization

A second phase sees a review of whether and to what degree the internal dynamics of organization can keep up with the external development dynamics of the market, the customers, and technological or other relevant developments (*Current State Assessment*). The following dimensions are put to the test:

- To what degree does the current organizational logic match the strategic requirements?
- To what extent do the current management structures satisfy the management requirements resulting from the organizational logic of the subsystems?
- What is the quality of the business, support, and management processes and how well are these coordinated with each other?
- Do the prevailing decision-making and communication channels within the organization satisfy the current challenges?

This analysis of the strategic requirements and the organizational diagnosis identifies the key criteria for a future organizational design.

Developing Design Options

In this third phase, alternative design and decision options are to be worked out for the organization. Harnessing creativity toward rethinking one's own organization is the challenge for those involved:

- Which alternative organizational designs are conceivable?
- Which lateral models of coordination and exchange between organizational units are conceivable (e.g., cross-functional teams)?
- Which forms of international orientation are conceivable?
- Which incentive systems and communication formats will get the organization more quickly to its destination?

In this key phase, it comes down to reconceiving the organization newly or differently. Benchmarking with other companies and their organizational designs may be helpful. The research of comparable companies in similar industries or, in the case of component designs, the analysis of the various constellations of individual functions (e.g., marketing, research and development) can widen one's vision.

Taking a Design Decision

The next step consists of evaluating the different options for the organizational design. A strategic decision is made about which of the worked out possibilities provides the best answers to the jointly defined requirements. The following considerations help in the selection and specification of the future design:

- Which of the options best exploits the available strategic opportunities while at the same time dealing with the points of weakness identified?
- Which version most effectively supports the implementation of the existing strategy?
- To what extent does the respective option address and answer the key developments of the market and the technologies?
- To what degree can the respective option be implemented and culturally integrated in the existing company?

These and other questions provide an orientation for the substantive preselection in terms of a plausibility check. This strategic decision has implications on the design of future communication, leadership, and decision-making principles of the organization.

Detailing the New Design

For further clarification of the future organizational design, the new structures, roles, processes, communication structures, and responsibilities must be specified and coordinated through a cooperation of the different levels:

- What are the details of the individual organizational units?
- How are the business, support, and management processes to be designed?
- What are the objectives and tasks of the individual organizational units?
- Which resources will be required for the organizational units in the future?
- What criteria are used for filling the posts?
- What are the design details of the new rules and regulations for job descriptions, processes, work instructions, competence rules, etc.?

Developing the Implementation Architecture

A structured approach based on proven principles of change management is recommended for the planning and specification of change measures as part of the implementation of the new organizational design:

- What projects and activities become part of the agenda and how do the various concurrent activities get coordinated?
- How do the communication cascades and platforms get designed and established?
- How does one manage the change process and what does management have to pay particular attention to?
- How does one achieve the qualification for the development of new or modified skills?

Anchoring the Design

A variety of measures and projects are required for the implementation of a new, workable organizational design. A continuous monitoring of the implementation process renders the project progress transparent and points out any needs and opportunities of intervention in order to ensure the success of the implementation.

Examples of implementation activities are the following:

- Design of the interfaces
- Adjustment of the regulatory framework (e.g., job descriptions, processes, work instructions, competence rules)
- Monitoring of change activities and consolidation of results
- Securing the learnings about the organizational design process

Four Perspectives of Organizational Development from an HR Perspective

The enhancement of an organizational design is not a trivial task for HR. The particular challenges will be highlighted using the four perspectives of this book.

People Perspective

One of the most important framework conditions for a successful organizational restructuring is that the possible negative consequences at the personal level are dealt with. Person-specific decisions must be made in good time and with particular care. If an organization possesses sensitivity with regard to what effects a change has on its members, it devotes time and energy to dealing with the resulting fears, anger, and sorrow. Then, there will be a good chance that the personal controversy can be separated from the discussions about suitable structures, processes, and decisions on appointments to particular jobs. If this procedure is unsuccessful, it will release destructive energy that will be difficult to channel. This demands a great deal of the leadership practice by executives at all hierarchical levels.

Economic Perspective

Financial problems are often the reason behind an organizational review and development. In practice, however, the desired financial effects are merely rough quantified targets that top management wishes to achieve. Ultimately, these financial expectations are reduced to cost savings associated with anticipated job cuts. More complex efficiency effects are difficult to quantify with reliability and are therefore often just desired numbers that do not always stand up to later scrutiny of the effects achieved.

On the other side lie the hidden costs of organizational restructuring, which are difficult to quantify in advance. Organizational restructuring almost never happens in the "dry dock" but rather "when the engine is running." Confusion and uncertainty among employees and unplanned departures by key staff members cause "the engine to splutter," usually resulting in unexpected costs that are difficult to quantify explicitly.

Risk Perspective

In European companies in particular, the scope for organizational change is sometimes very restricted. This is due, on the one hand, to employment and social laws and, on the other, to the codetermination requirements of employee representatives or trade unions for new regulations that affect the work duties and tasks of groups of

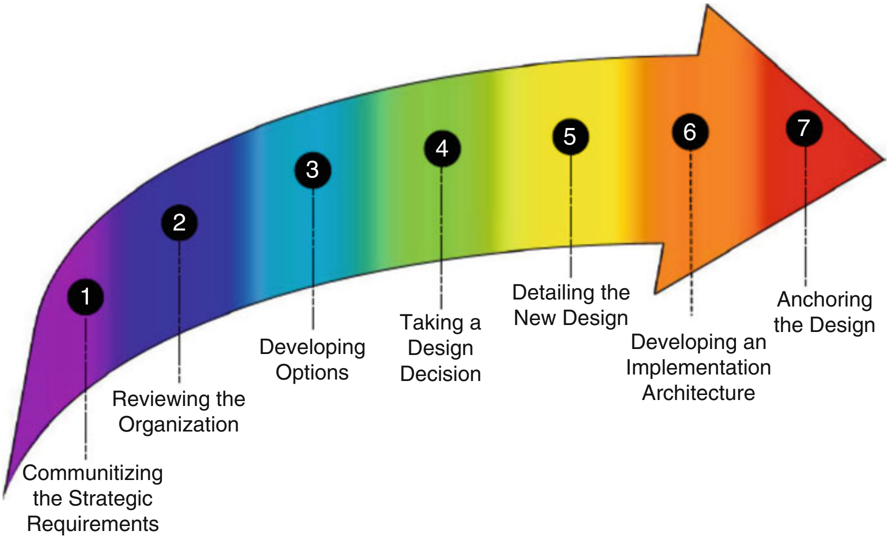

Fig. 3 Phase model of the review and professionalization of an organizational design (Nagel 2014)

employees. This can frequently lead to unexpected delays, idle compromises, and associated costs that could not have been foreseen during the planning stage.

With its expertise and core competence in this area, input from HR is needed here.

Operational Perspective

Organizational restructuring is usually a radical change for an organization. For this reason, two phases – "developing an implementation architecture" and "establishing the design" – are dedicated to the implementation stage in the process architecture (Fig. 3).

The following issues arise here: defining and adjusting the interfaces, adjusting the rules and regulations (including position descriptions, processes, working instructions, and defined areas of responsibility), implications for IT and infrastructure, migration plan for staff, staff development measures, reformulating and designing management understanding, implementing a monitoring system, etc.

The success or failure of organizational change will only become clear during the implementation stage.

Organizational restructuring ultimately also requires new skills from HR. In addition to the core area of staff-related issues, the skill of managing an organizational change process is also needed. This does not just refer to the social process (the "how") but also the content-related aspects of developing an organizational design (the "what"), in other words, a level of expertise that, in our opinion, HR does not yet provide the company with by a long stretch. At the same time, however, this would be an equally challenging and rewarding enhancement of the skills profile of HR as a partner to the management.

Dos and Don'ts

The following recommendations can be derived from the experiences gained in the development and implementation of an organizational design.

Dos

- *Communicate an orientation with regard to the purpose of altering the organizational design.*
  Initiatives for restructuring the organizational design are not infrequently suspected of being launched by the senior management with micropolitical motives. If a design project is to be accepted, it is therefore helpful if the reason given for the review of the organizational design is comprehensible and plausible for those involved.
- *Design an attractive image for the future organization.*
  As well as an accepted case for action, an attractive new organizational image mobilizes energies for its realization within the enterprise. The toil involved in the change is accepted if the new organizational perspective arouses hopes of a substantial improvement compared with the status quo.
- *Follow keenly and help to plan the implementation of the organizational design from the outset.*
  A convincing future picture of an organization is only half the battle. Only felicitous implementation can make a new design a success. That is why the later implementation steps must be followed keenly and initiated in timely fashion, as early as the development phase.
- *Carefully balance the burden between management and staff.*
  In situations of drastic organizational change, people look at fairness of the burden's distribution. A change in the organization that demands changes only from the employees and leaves the management untouched is in great danger of making the employees reluctant to change.
- *Develop OD skills.*
  HR leaders should have at least a basic education in organizational development to effectively partner with external consultants. Also, OD skills enhance the general capability of HR to partner with business and drive change within the organization.

Don'ts

- *Delegate the redevelopment of the organization to external experts and consultants.*
  A successful OD process requires the active participation of the enterprise's most important executives and their readiness to commit time to the project. Although large-scale delegation to external experts saves the management time, the danger

of a standard solution "off the shelf" is high if this key issue is delegated to experts. Experience shows that acceptance of an organizational structure from outside is limited among the workforce.

- *Avoid too much complexity.*
  Many enterprises tend to determine the organizational design in all of its ramifications. The danger of this approach is that the overall view can be lost sight of. It is highly recommended to increase the complexity step by step.
- *Don't stay on the surface.*
  A design transformation requires – as any transformation project – that you roll out new structures, processes, roles, accountabilities, and capabilities not only at the higher levels of the organization. We often see projects that change the organization structures and roles at n-1 and n-2 levels but leave everything below these managerial layers untouched, assuming that change will just happen here as well – which in reality never does. If an OD transformation shall have a real impact, consistent change has to occur at all levels of the organizations, not only at the top.
- *Make derogatory remarks about past performances and their protagonists.*
  The arrival of a new executive in the upper reaches of the management not infrequently serves as an occasion for a new organizational design. This is a situation in which all the supposed mistakes of the past are attributed to the individuals who were previously responsible. In the process, it is easy to forget that most of the protagonists from that time are still with the enterprise and they become additional targets of the critical remarks by the new executive – and their motivation to contribute actively is consequently reduced.
- *Don't forget communicating results.*
  One of the biggest challenges is to communicate the results of the organizational change in good time and to the right people.

  Not fulfilling this responsibility will destroy your employees' trust in your seriousness and reliability. Do not forget thanking your employees for their participation. Furthermore, communicate the actions and changes which have been made based on the new organizational design.

Final Comments and Outlook

The above should make it clear that the formal organizational structure and the respective organizing chart represent only one element of the professionalization process in the course of an organizational development. However, in practice, the structure is often overemphasized in the course of organizational development – not least due to its importance for status and power in an organization and its suitability for the top of the company to signal strength of action by means of a structural change. As a result, much time and attention is often spent on structural issues and less time on the design of the communication structure and its formats.

Especially in a fast-changing environment, the importance of the formal structure becomes less important for competition, while the horizontal and vertical coordination, the performance processes, the available IT solutions, and the skills of the employees become increasingly important viability factors. Therefore, there is no single solution and no one-fits-all design when it comes to the design of an organization. Different markets and different strategies each require a tailor-made organizational architecture with viable solutions.

A third implication of these considerations stems from the interdependence of the various elements of an organization. At the end of the day, the mutual requirements and the fit of the individual elements are of substantial importance for the viability and performance of an organizational design.

Finally, the organizational design has to stand the test of concrete everyday management situations. Leadership coordinates and controls the interaction of the individual design elements. For if an organizational design is not supported, observed, and corrected by leadership, it will remain merely a formal and largely ineffective framework.

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Human Resources Strategy and Change: Intervention on Leadership Development at the Department of Energy in South Africa

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Marion Keil and Edzisani Daniel Ndou

Contents

Abstract

This chapter focuses on the importance of leadership development as the cornerstone of success in the Department of Energy in South Africa. The first part focuses more on the diagnostic process which was followed to establish the root

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cause of misalignment between the leadership of the department and the rest of employees with special focus to the clean and renewable energy branch.

After this diagnostic process, the focus of the intervention was extended to the whole department with the basis of using the culture survey results and recommendation. The understanding was that if the leadership of the department understands their role and the impact, it will have an impact on the whole organization. After the training of two groups of leadership (executive leaders and senior managers), all participants were requested to come up with the change architecture which focused on their specific areas of operation. At the end of the program for the two groups, a joint workshop was arranged where both groups drafted a departmental change architecture which was to be implemented by the whole department.

Due to the success of this program, it was also decided that the program will be rolled out to all senior managers in the Department of Energy in South Africa. The program was a very good combination between practical and theoretical input, using intense role-playing and individual's actual work experiences in order to propose or come up with the possible solutions to address the identified gaps.

Keywords
Organizational development • Leadership • Strategy • Stakeholders • Culture • Core competencies • Change

Introduction

Since South Africa is a developmental state, it is important to ensure the development in all areas of the state is given necessary attention. Since energy is one of the most important economy drivers, necessary attention must be given to it. Chapter 13 of the National Development Plans 2013 focuses on "building a capable and developmental state," and one of its focus areas is to ensure that staff at all levels have the authority, experience, competence, and support they need to do their job.

The pilot project on leadership development was solely focusing on that. This chapter will be focusing on the following areas: The first part will focus on the background of the pilot project as well as where the whole Department of Energy came about. The second part will focus on the identification of the "issues" which were problematic in the department. The third part will be focusing on the proposed interventions for the identified gaps. The fourth part will focus on the leadership development intervention content for the DOE. The fifth part will be focusing on the objective of the leadership development program. The sixth part will be focusing on the effects observed during the implementation period. The seventh and the last part will be focusing on the lessons learned from the whole project.

Background: The Challenge

In 2009, the Department of Energy in Pretoria, RSA (DOE is the name for the Ministry of Energy in South Africa), was established through a split of the then Department of Minerals and Energy. The DOE has the oversight of the South African energy sector which in recent years has undergone a major shift from a centralized, monopolized, and conventional energy-based market toward a more liberalized and decentralized structure in order to meet the triple challenge of ensuring security of supply, reducing CO_2 emissions by introducing or encouraging the use of renewable energy, and promoting socioeconomic development.

Key processes were the introduction of comprehensive energy efficiency measures after blackouts in 2008, the preparation of a long-term capacity extension plan (Integrated Resource Plan 2010) stipulating that approximately half of the new installed capacity shall come from renewable energy, the launch of a Renewable Energy IPP Procurement Programme in August 2011 aiming at procuring 3725 MW of renewable energy from independent power producers (IPPs) by 2016, and the intended establishment of an Independent System and Market Operator (ISMO), removing these functions from the so far vertically integrated power utility Eskom. Furthermore, various core policies were amended or newly created, affecting the distribution of roles and responsibilities among existing and establishing new institutions. The DOE undertook a restructuring process in order to adjust its internal structures and capacities to the requirements of the profoundly changed energy sector.

The GIZ, the German International Cooperation, supported this process in course of the comprehensive South African–German Energy Programme (SAGEN) which aims at improving framework conditions and capacities for enhanced investment in renewable energies and energy efficiency in South Africa. In August 2012, the GIZ asked for the support from the team of Koenigswieser & Network in Vienna to undertake a system diagnosis of the DOE's branch for clean and renewable energy. A series of interviews was conducted, and a feedback workshop was held on DOE premises for the interviewees.

The results of this diagnostic process formed the basis of the leadership development intervention. After engaging with the management of the department, it was established that one of the identified gap established during this process also featured in the culture survey findings. The identified area was a need for leadership development to strengthen leadership role of senior managers in the Department of Energy.

Koenigswieser & Network usually structures its diagnostic observations along the so-called SIM model, systemic integration management, by a joint analysis of *strategy, structure*, *and culture* of the organization and their interdependence for development toward specific goals or vision. Individual and group interviews are conducted, written material is analyzed, and behavior is observed. All data are then analyzed and put in a written form as assumptions about the system's situation. These assumptions are then shared with all interviewees.

Strategy

While a strategy existed in the form of a strategic plan of the ministry, which got updated yearly, there seemed to be little strategic guidance in day-to-day life. According to the survey conducted in the clean and renewable energy unit, the strategy was only partly known to lower echelons and not broken down in branch objectives or work streams derived from it. This in itself could partly be explained by communication patterns of the leadership. On a lower management or staff level, strategic considerations were little known, and it was an often heard complaint that strategies get imposed from the top and not discussed with the members beforehand. Equally, even where other planning documents and processes exist, they seemed not aligned and badly communicated.

The strategy contained the socioeconomic goals of the country and postulates the general obligation of the DOE to contribute to social development objectives by way of increasing the livelihood through electrification and the creation of employment opportunities. Other than that, there seemed to be an ad hoc and top-down instruction on strategic priorities from the political sphere and little other priorities stipulated beforehand and longer term.

In short, strategy in its formulation, communication, and guiding functions was underestimated. A good strategy was badly needed – especially given the limbo and disorganization of the whole energy sector – as a severe lack produces a vacuum with strong implications on all other fields.

The risk was that strategy became a dysfunctional, dead paper instead of the living process that guides and gives orientation and fills the organization with shared purpose and therefore energy.

See John Kotter (2012) and Henry Mintzberg (the Strategy Safari 2012).

Structure

As in the case of the DOE clean and renewable energy unit, *structure did not follow strategy, but rather strategy got preceded by structural and size decisions*. It was a serious dilemma: as a lot of energy and attention went into this structural reorganization discussion, where a lot of questions could not meaningfully be answered as a result of good strategic reasoning, but in some instances, decisions had to be taken in a void. This created some confusion. So structure – the element that is supposed to give stability and orientation – did the opposite and impeded what it should create.

In the interviews about structure, the following came to light: the proposed introduction of the new structure – higher number of jobs, more branches, more detailed directorate structure, and description of tasks and obligations; this was however not properly communicated to some officials in the clean and renewable energy unit. So the way from state A to state B remained unknown to some employees in the clean and renewable energy unit. Only very belatedly people got informed about the new structure and their opinions were asked on how to fill the branches after the fact. To some extent, the macrostructure and management had been decided without proper consultation, creating all kinds of rumors. While a joint mapping process could have been used to communicate the meaning of the new structure and equally fill the new branch structure with life and purpose, the lack of such an effort is taken as an offense and creates disenchantment with the reorganization. Like strategy, the whole process was very much top down and avoided all participation by an otherwise eager body of highly motivated staff.

The effect of this approach was further detachment of leadership and membership, fragmentation, confusion, and loss of energy and motivation. Inside the branch structure are normally important discussions about purpose and content – e.g., in the way the clean energy section should be divided or integrated into a new strong integrated branch. If the resulting reorganization was to result in a new identity, a strong image of an organization geared toward the future, an effort should have been made to consolidate the green/clean energy topics into one proposed new clean energy branch, bundling all knowledge and capacities there and creating an innovative role model for the whole ministry. New developments are however underway in this regard.

See Duck (2002).

Culture

As regards a specific DOE culture (or identity), respondents were not aware of a DOE culture, which would inspire a feeling of belonging or pride. In terms of management behavior, skepticism of the new energy discussion or people was labeled “old style” and belonging to the past, when the two departments were still one.

There was a sense of detachment from higher levels; in terms of the feedback culture, the term “friends-and-fear” was expressed. Meaning that one could only get on and receive appreciation if one was part of a group that was on friendly terms with leadership. So a culture of “no leadership” and persons acting in isolation – or a personalized system of communication – adds to a sense of loss and non-belonging. Randomized communication and a certain absence of guidance through leadership led to a culture that did not inspire to act decisively and in an innovative way. This surprisingly contrasted with high motivation and talent on the personal level of the individual member of the organization. They actually seem to be longing for a chance to finally form and express a common culture and feel proud of being part of DOE. This became a clear gap in the Department of Energy that needed urgent attention.

See Königswieser and Hillebrand (2005).

Processes

In terms of processes, these seemed not clearly defined and followed. If, however, processes are not defined and guided by planning processes, the results of which are implemented and monitored, it is hard to see how objectives can be obtained and work efficiency heightened. The risk is obviously an inefficient or overlapping work program, where ultimately a big hole in the middle makes achieving things even harder.

To turn this around, work stream or process design, linking up of objective systems and planned outcomes, and good monitoring and communication (feedback) should be established. See Keil (2012b).

Our Plan on Solving the Problem or Mastering the Challenge?

After the system diagnosis and a very successful feedback session, in which the assumptions have been agreed upon by the interviewees, the window of opportunities was wide open. A relatively new DOE which tried to reinvent itself was a big chance. It seemed that there was big hope within the system, as of how to approach all the challenges.

It was suggested to establish beforehand a close working relationship/rapport with the director general. A kind of top steering meeting every 6 months, this group should address own observations and needs, offer services, and get a feedback. The suggested interventions listed below were based on the need of high management attention to be implemented within the DOE.

Strategy

The situation and a buy-in created from the clean and renewable energy leadership level for extended services in the following areas should be discussed:

- Enable facilitation of an inclusive structured process of strategy development and a broken down objective *system* with good underlying communication in the area of clean and renewable energy.
- Enable facilitation of team retreats which combine content and team-related topics.

Structure

- Enable and encourage facilitation of clean and renewable energy-related stakeholder management within the DOE (cross functional).
- Encourage, enable, and invest in a structured and regular facilitation of the clean energy sector on various topics.
- Support technical and soft skill development that will support a new branch of clean and renewable energy full of excellence and innovation.
- Get the buy-in for these services from higher management level than the existing one.

Culture

- Announce the willingness to invest in the DOE’s overall leadership approach as a special, unusual offer extending the normal program – or smaller version: for all clean and renewable energy-related managers.
- Support HR in setting up a leadership program, which addresses all leadership levels.
- Enable facilitation of inclusive team retreats.
- Encourage and enable facilitation of cross-functional, efficient exchange fora.

Processes and Systems

- Enable facilitation of a clean and renewable energy-related process chain definition.
- Enable facilitation of process chain-related interface negotiations.
- Establish a close relationship with HR by offering them your support in leadership development process on all levels.
- Encourage them and offer support in setting up a performance goal setting process.

Role

- Enable, encourage, and support the regular facilitation of an external, regular stakeholder forum, in which roles, mutual expectations, and task division get discussed and reflected.

The Real Action: A Leadership Development Program for the DOE

The topic “leadership” had been addressed by many internal and external stakeholders of the DOE as a core priority. This had been reinforced by the results of a DOE-internal culture survey which was conducted by Laetoli (pty) Ltd in 2012.

The quality of practical leadership is a main success factor for every organization: its performance, the passion to deliver, retaining talents, and the impact it creates in its environment and with its respective stakeholders – and as a ministry, to serve the country.

Against this background, it had been decided to go for further DOE leadership needs analysis and out of this to design options for a leadership development program.

The **overall assessment** revealed the following results:

- A visionary DOE strategy is in place and may serve the department as a guiding force – however, the strategy does not have binding power because it has not been translated to branches and directorate/team strategies as yet.
- Appealing identity values have been defined – however, they seem to have a limited relevance for the real life at the DOE.

- Talented people are in place with a high commitment to the strategy implementation; they are yearning for sound orientation, personal guidance, and specific goals – from leadership.
- Ability to handle complex tasks and a high knowledge and network management competence is needed of each expert – however, team work at branch and directorate levels seems to be not strong enough. Using synergies and collective know-how sharing is still limited.
- Good information and communication flow is crucial for talented people to do their job. Leadership plays a crucial role in this – the leaders may not yet have this role completely internalized.

Among a wide range of necessary **leadership competencies** identified during the needs analysis, the following aspects featured most prominently are:

- Establish common vision and goals.
- Manage change proactively.
- Apply leadership styles in different settings.
- Build high-performing teams.
- Build trust.
- Take responsibility and assume accountability.
- Establish steering and controlling mechanism for projects.
- Manage expectations of relevant stakeholders.
- Conduct professional dialogues.

On the basis of the overall assessment and the identified leadership competencies as well as training needs, it has been agreed to conduct separate leadership courses for SMS members (executive management consisting of director general and deputy director generals on the one hand and nonexecutive management consisting of chief directors and directors on the other hand), and each will consist of three modules with a duration of 3 days per module.

The following **general structure of the training courses** for both groups of SMS members has been agreed upon:

Module 1, competencies, responsibility, and vision focus on:

- Day 1: Leadership competences and styles.
- Day 2: Take decisions under uncertain conditions, be self-reflective, take responsibility, and assume accountability.
- Day 3: Manage stakeholders actively, establish common vision and goals, and inspire others with your vision.

Module 2, strategy, planning, and change management focus on:

- Day 1: Translate DOE strategy down to branches/directorates, set goals, and check performance.

- Day 2: Plan, budget, control, and implement projects (project cycle management).
- Day 3: Manage change proactively, involve, delegate and empower people, and get organized (time management and organizing meetings).

Module 3, communication, team development, and feedback focus on:

- Day 1: Conduct professional dialogues, apply coaching skills, collaborate and establish profound working relationships (vertically and horizontally), and build trust.
- Day 2: Address conflicts and confront if necessary, foster team work and peer support, and build high-performing teams.
- Day 3: Transfer to the DOE's reality, feedback, and transfer to own daily management, closing.

Objectives of the Assignment

The objective of the assignment was to implement a pilot leadership development program for the two groups of SMS members. By training and coaching DOE management, individual leadership skills should be strengthened with a positive effect on the capacity of the institution and the energy sector which the DOE is mandated to govern as a whole.

The consultants were asked to continue their consulting services by the following tasks:

- Draft a detailed trainer manual for the executive management training course in line with the general structure described above.
- Conduct one set of trainings for executive management in line with the detailed program and the trainer manual.
- Adapt the program and trainer manual for executive management to the needs of middle management.
- Conduct one set of trainings for nonexecutive management in line with the adapted program and trainer manual.
- Conduct a train-the-trainer course for local trainers.
- Prepare a concept and implementation plan for a continuous rollout of the leadership development program in the DOE.

Effects Observed While Implementing the Pilot Leadership Program

Most of the top leaders of the pilot leadership program have been trained individually on a very high level. They had followed Master and PHD programs in various parts of the world, including all their experiences from the times of freedom fighting against apartheid. This enriching diversity found its limitation for the leaders in the fact that few shared understanding of leadership, strategy, or communication, which would have allowed the leaders to speak with one voice in front of their employees.

As a result, a lot of effort was put into developing a shared leadership understanding and an exchange on strategy and its meaning for the own unit. As a newly formed department, each leader was highly occupied by his own branch efforts, to build up strong competent teams who are able to settle the various challenges and tasks of their respective responsibilities. This has led to a strong focus on facts and figures which had to be fulfilled by every team, but to quite few efforts on how to build up a team to become a strong and efficient unit. Also a certain isolation between the branches and few structured exchange at the interfaces took place. The leadership team did not share a holistic view of the DOE needs and how to address them.

A lot of energy was invested in how to build up strong teams and how to manage them efficiently. Fortunately, the next level leadership always gave feedback to the trainers as of how successful these efforts were implemented in practice.

It was observed that on this top leadership level, feedback was of course not unknown; however, it was not a daily and usual practice toward their own employees, let alone on a peer level. Right in the beginning of the program, peer feedback was practiced and became a highlight of the program, as it showed that feedback can be a nonthreatening chance for peer learning and own, personal development. This session was a breakthrough vis-à-vis their own employees. During the practice phase between the modules, each top leader tried out feedback with some of his own employees. A good combination was found by establishing the peer learning tool: leaders presented their own business situation and got peer consulting, following a strict content and time-wise framework.

The fact that the top leaders underwent this leadership training, at the same time as the next level, has led to joining hands between hierarchical levels, which was perceived as a very new and fruitful experience.

What Was the Real Outcome?

A total of 24 leaders underwent the leadership development program, and according to the review reports which were completed after every module, managers indicated that they learned a lot and that they can now understand why they had so many problems and difficulties in their leadership roles.

One of the comments that stood out was the fact that most of the leaders appreciated the fact that they understood the importance of giving and receiving feedback better. Through role-plays, feedback was given and received from other team members. The feedback given in the last module by those who implemented the concept of giving and receiving feedback was positive.

The understanding based on the feedback received was that those who underwent the program were raring to go and become better managers.

The importance of a strategic and well-prepared communication with their own employees was widely acknowledged.

The leaders benefitted a lot from a planned stakeholder management, which allows them to involve stakeholders at an early stage and manage possible conflict wisely.

Toward the end of the program, all leaders developed a change architecture for their own unit. It meant that they planned their own next steps to be undertaken as leaders with their employees, their own leaders, and their stakeholders.

Lessons Learned

Due to the success of this program, it was decided that the program will be rolled out to all senior managers in the Department of Energy in South Africa.

The program was tailor-made to the leadership needs of the DOE, more practical than theoretical. The used interventions like inputs on leadership, role-playing, using individual's actual work experiences in order to propose or come up with the possible solutions to address the identified gaps, peer learning interventions, outdoor exercises, strategy-building exercises to be communicated to the peers, and team-building exercises (to be executed also with their own team later on) were hands-on.

The LDP entrenched the importance of a well-developed and communicated vision and mission which is understood by managers and equally importantly by the lower levels of employees in the Department of Energy. Secondly the program highlighted the importance of peer review by the top management echelon of the department. The program also emphasized the development of relevant leadership and management core competencies as well as the development and living of DOE values by all.

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Human Resources Strategy and Change: Essentials of Human Resources Transformation

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Contents

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Abstract

HR transformation is a concept initiated in the late 1980s with the goal to change HR from an administrative to a strategic organization with a new HR service delivery model. This model is supposed to lead to a more efficient, effective, and transparent delivery of HR services. It is often associated with the "three-legged stool model" inspired by Dave Ulrich with key components: business partner, shared services, and centers of expertise.

HR transformation is considered a holistic change of the HR function encompassing a full alignment of HR with the business strategy. The purpose and role of HR are reviewed and changed to fully support business, client, and shareholder needs. The change of HR strategy often requires a new HR operating model that is aligned with the corporate operating model as well as a change to the HR organization, creating clarity on accountabilities, structural effectiveness, and process efficiency. This often encompasses an optimized integration across the different existing HR entities. Critical capabilities needed for the new organizational setup and business alignment are determined, followed by a check of the role fit of the current HR staff and the definition of required development measures to ensure a proper implementation. Finally, to achieve a proper steering of the HR transformation process and later HR operations, transparency on HR success is created with appropriate HR KPIs. Partially also the use of technology (IT) to improve HR process efficiency and outsourcing of HR processes are considered as a key building block of HR transformation.

Keywords

HR transformation • Building effective HR • Strategic HR • HR strategy • HR shared services • HR operating model • HR process framework • HR accountability matrix • HR job family • Ulrich model • HR business partner • HR assessment • HR organization design • HR role fit

Introduction and Overview

What Is HR Transformation?

HR transformation is a term not defined in a consistent way by the different stakeholders – mainly from HR organizations, universities, and consultancies. Other terms often used with a similar meaning are "strategic HR," "building HR effectiveness," or "new HR service delivery model." It is a movement and a concept started in the late 1980s with the main goal to change HR from a mostly administrative department to a strategic organization with a new HR service delivery model. This model is supposed to lead to a more efficient, effective, agile, and transparent delivery of HR services. Key elements of an HR transformation project or process are considered to be the following:

- **Strategic HR:** Turn HR to a more strategic, long-term-oriented function with nevertheless conceptual flexibility.
- **Business alignment:** At the core of HR transformation is the alignment with the business strategy and client and shareholder needs. This outside-in approach is key to increasing considerably and on a long term the value that HR contributes to the whole organization or company. Generally, everybody in HR agrees with this, but in reality many transformation projects pay only lip service to this important element. Business alignment also includes more collaboration with business.
- **Change the HR organization:** Develop and implement a different organization structure to better align with the corporate structure and enhance the support of the business and strategy implementation. This includes both a new HR operating model and new HR organization structures. The basic service delivery model behind many HR transformation projects is the "three-legged stool model" inspired by Dave Ulrich with the key components shared services, business partners (embedded HR resources), and centers of expertise that has recently been modified and enhanced.
- **HR integration:** Align the different HR organizational entities regarding strategic targets, structure, accountabilities, and HR standards.
- **HR transparency:** Define HR performance metrics to define clear targets and measure HR success.
- **HR competency buildup:** Define the critical behavioral and technical competencies needed in the new organizational setup and business alignment and develop HR staff accordingly.
- **HR technology:** Use of (mostly IT) technology to improve HR process efficiency and automatization as well as employee self-service. This is an element that is not part of all HR transformation projects as it is only an enabling element.
- **HR shared services/outsourcing:** Bundling and streamlining transactional HR processes in shared service centers are often seen as the key element of an HR transformation. Partially outsourcing of HR processes is also considered as a key building block of HR transformation as specialized external providers of

transactional HR tasks such as payroll and training administration can deliver these services more efficiently, and HR can focus on the more strategic tasks.

Focusing HR transformation just on introducing the so-called Ulrich model or HR shared services design and implementation will not yield the benefits intended and possible with real and holistic HR transformation.

Why Is There a Need to Transform HR?

The business environment has become more and more complex in recent years. Challenges for companies and other entities have grown, business and organizations are constantly changing, and change is even accelerating:

- Globalization: Often leads to changes in the business model, requires a different organizational setup and new competencies, and often leads to changes of the company culture
- Economic crisis: Requires high organizational adaptability, tight cost, and finance management, including management of personnel costs
- Customer changes: New customer segments, smaller customer segments with specific needs, and continuous changes in demand
- Workforce challenges: Demographic changes, tight market for talents, pressures for diversity, and management of multiple generations in one organization
- Competition: New formidable competitors emerge both globally and from other sectors
- Technology: Changes to established business models and need for continuous innovation and new alliances to cope with technology changes
- Regulations: Increases at all levels from local to global
- Shareholders: Rising demands on returns, compliance and transparency, and more active shareholders

With these conditions and trends, human capital has become a key focus of business leaders as they need skilled employees to meet these challenges and consider their workforce as one of the few remaining real competitive advantages they have (especially in mature markets). Human capital is key in driving innovation and keeping global competitors at a distance. Human capital is often the most important or second most important cost element that needs to be managed more like other investments a company makes. Changes in human performance can make the biggest difference as many other competitive advantages have disappeared or have a worse cost-benefit ratio.

This focus gives HR an excellent opportunity to change its positioning and act as a true strategic partner to the business. And HR has in many bigger companies already changed itself in the last decades evolving from an only administrative personnel function in a silo to a more influential department that has integrated with business.

Unfortunately, still many business leaders and line managers complain about HR, even if they generally appreciate HR and see the need for more and professionalized HR services. Criticism regularly voiced includes:

- HR is not really aligned with the business strategy. Often HR does not really understand the business strategy and business needs related to the human capital.
- HR is wasting its resources. It lacks standards and common processes and IT systems. HR projects are poor in planning and execution.
- There is a lack of transparency in HR. HR is not really able to measure even key HR KPIs.
- HR is not able to speak the same language as business. It is not even able to create a compelling business case for its own initiatives that can compare with other functions in business cases.
- HR is trying to become strategic, but is not able to deliver basic HR services at a decent level at consistent quality.
- HR is lagging behind other functions such as finance in their transformation.

To meet these new challenges and requirements and to change its internal positioning, HR must really transform how it works, even if HR feels that it has already gone through a profound change process in the last years. In many companies, this transformation will go to the core:

- What are the vision and purpose of HR?
- What are the service portfolio and levels?
- How is HR organized?
- What is the focus of the HR professionals – more internally or externally on the needs of customers and shareholders regarding human capital?
- What are the competencies required with the changed perspective?

Contrary to the decades before, with the accelerating changes and higher uncertainty in the general business environment, there is often an urgency to transform HR.

Many HR functions have transformed their organization structures in recent years that now look like the so-called Ulrich model. Dave Ulrich, a US business academic, defined its theories about the best delivery of HR services in the 1990s. The discussions about his theories led subsequently to the "three-legged stool model" with the key components being business partner, shared services, and centers of excellence. Unfortunately, many companies have not achieved their goals with the "three-legged stool model." They have invested a lot of money and effort, but simply by copying a best practice organization structure for the HR function, they do not get an HR organization that fits to their individual needs and existing HR environment. A "one size fits all" approach does not work. More and more companies adjust or tailor Ulrich's model to make it fit with their unique business needs.

Fig. 1 Typical HR transformation approach

In the next part of this chapter, the steps are described to become a state-of-the-art HR function aligned with the business strategy, highly effective, efficient and transparent, and at a level playing field with the other key corporate functions:

- HR Assessment: Where Are You?
- HR Vision and Strategy: Where Do You Want to Go?
- HR Operating Model
- HR Organization Design
- HR Process Framework
- HR Accountability Matrix and Role Profiles
- HR Role Fit
- HR Top Team Development
- HR Transformation Is Change
- HR Cost Optimization/HR Shared Services

Depending on the current maturity level and business alignment as well as the size of the organization, such a transformation is a major project of 1–3 years. A typical stepwise HR transformation approach is shown in Fig. 1.

HR Assessment: Where Are You?

Starting point of an HR transformation is an assessment of the as-is situation of HR assessment. This has several benefits whereof two are key:

- **Making HR people understand what business thinks about them:**
  Surveys of HR people and non-HR function line managers/employees show major differences of satisfaction and evaluation of HR services/practices. Often the difference between HR and non-HR is extremely striking. As HR transformation is a change project, it is necessary that the people who need to drive the change get a clear view of how their (internal) clients consider their services and work. Many HR people are not aware of the requirements from business regarding HR services and how they are met – from the perspective of the internal clients. Creating awareness in the HR community of this gap makes it much easier to justify the HR transformation project.
- **Identify focus areas for HR transformation:**
  Not everything that HR currently does is bad. Trying to change all HR practices, processes, structures, people, etc. is not possible. Focus is necessary and this can be provided by assessing current HR and determining areas with specific need for improvement.

  An HR assessment should consist of two core elements:

- A survey of HR and business stakeholders on the satisfaction with and importance of individual HR services
- A detailed analysis of the as-is situation of the HR function including current strategic alignment, organizational clarity and efficiency, HR competency landscape, and HR costs. An HR maturity assessment might be part of this detailed analysis.

HR Vision and Strategy: Where Do You Want to Go?

To align business and HR, reviewing and (re-)defining the HR vision and strategy are necessary as part of the HR transformation. It provides the direction for the whole function in the transformation and thereafter in the operations mode.

There is not one established approach to define the HR strategy. Please refer for details to the related chapter in this book. The approach chosen should comply with the following criteria:

- Consider the enterprise as a whole **and** the requirements of different divisions, geographies, and employee groups.
- Take a long-term view (typically 3–5 years), aligned with corporate strategy development and planning cycles.
- Address both the organization's relationship with the external environment and its capabilities and resources.
- Adjust the HR strategy to the company's needs, not only applying best practice.
- HR strategy can be linked to organizational outcomes and financial/commercial/business performance.
- The HR strategy can be assessed on measurable results delivered.

Fig. 2 Inputs for HR strategy development (Source: Hay Group 2014)

In Fig. 2 the information needed to develop an HR strategy is shown.

Typically in HR transformation, the following components are defined as part of this phase:

- Vision and purpose of HR
- The portfolio of HR services
- Strategic HR key performance indicators and targets

Mission/Purpose and Vision of HR

Key questions that HR needs to answer at the beginning of the HR transformation are:

- What is HR's core purpose and identity: Who are you? What do you do? What value do you provide to those you serve?
- What is the vision of HR in the company: How does HR's purpose looks like when achieved in an outstanding way? What is the image of the future HR wants to create? This vision should describe the future target state of the HR function and what it will provide to its key stakeholders. It should be ambitioned but also realistic. It should be able to give direction for the HR transformation.

The HR purpose and vision need be developed with the top team in HR and discussed with the company's leadership team and important stakeholders to create a mission and vision statement that is agreed among HR and business. HR functions partially develop their mission and vision statement without much business involvement or even avoiding it. This does not help in aligning the questions of HR's identity. Also at some point in the development process, the HR mission and vision should be tested also with selected employees who are affected by HR and also with investors (e.g., supervisory board) that shape the long-term vision and strategy of the enterprise.

The Portfolio of HR Services

A high-level vision alone does not help to drive the HR transformation. The expected HR services, the level of services that business requires, and the related deliverables or outcomes need to be defined – something like the business model or value proposition of HR. Partially instead of services and deliverables, it is also defined as capabilities an enterprise needs in HR.

It might seem that it is clear what the HR portfolio consists of, but this is probably only true for the core services such as recruiting, people development, or compensation management. There are quite some services such as organization development, change management, and knowledge management that are often defined as not being in the scope of the HR function. Additionally, the level of services provided can differ tremendously. Services can be delivered, for example, with a focus only on specific target groups (e.g., leadership development only for executives) and at different levels of quality or intensity.

At this stage, this definition should be still at a high level, but it needs to be concrete enough to determine the boundaries of the HR service portfolio.

Strategic HR Key Performance Indicators and Targets

In order to make the intended business success of HR measurable, strategic HR targets and key performance indicators (KPIs) are defined as part of the HR transformation project. They are normally derived from the few most important business strategic objectives which the CEO and the leadership team set for the organization. In order to retain the focus in HR transformation, not too many targets should be defined, usually three to six. They should be specific and realistic and help guide the HR transformation project. Strategic HR KPIs and targets allow to monitor the progress HR makes and its impact on the enterprise. They provide the clear direction for the whole HR function and link all levels of HR and their activities with the business and HR strategy, as they are later translated into operational objectives.

HR Operating Model

Based on the HR strategy, the HR operating model is developed. An HR operating model defines the key organizational principles and criteria that guide the development of the organization structures. It avoids jumping from strategy development right into the definition of the detailed organization structure before really deliberating the right organizational setup. It is partially also called an organizational strategy, governance model (because it defines the core governance criteria), steering model, or organizational model. An HR operating model concept is depicted in Fig. 3.

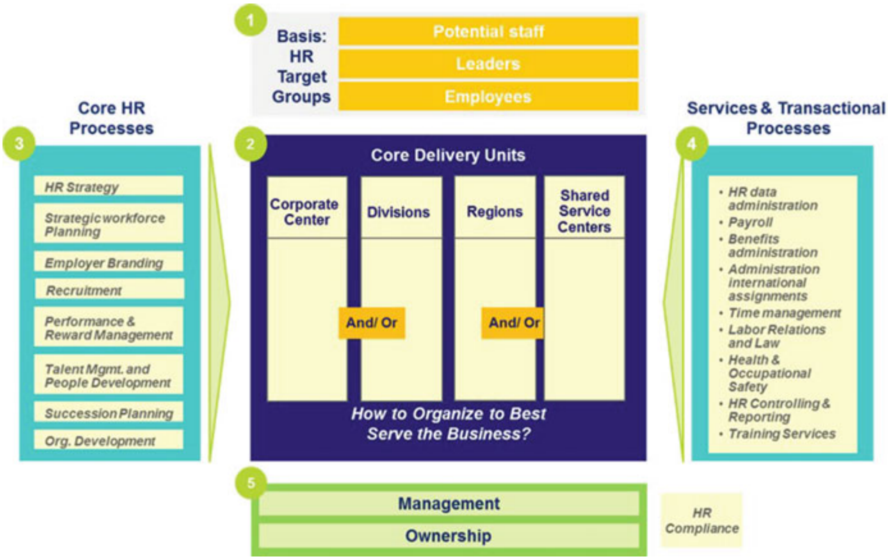

Fig. 3 HR operating model concept (Source: Hay Group 2014)

It determines which core HR processes need to be performed to enable business to implement the corporate strategy successfully. Typically, the following processes are always under consideration:

- HR strategy development
- HR planning and controlling
- Recruiting
- People development
- Training management
- Labor relations management
- Compensation and benefits management
- Payroll management
- HR administration

Partially, processes such as organizational development, HR systems management, employee relations management, performance management, and knowledge management are also included.

The key question that the HR operating model answers is: Who is responsible for conducting these processes? The options are – depending on the company's operating model – the following:

- Corporate center
- Divisions
- Regional or country organizations

- Sites
- Regional/global shared services center

Three key types of HR operating models can be typically distinguished based on where the core responsibilities for the defined core processes are assigned to:

- Centralized
- Decentralized
- Matrix or hybrid

These models are seldom defined fully consistent, so that, for example, all processes are assigned centrally in case of a centralized operating model, but for the majority of the processes.

Often it is advisable to distinguish at the process level between the different workforce target groups, as, for example, executives will be managed by a different unit, often centrally, whereas blue-collar factory workers are managed at site level.

A different view on the HR operating model are the core HR organizational components (or channels) as described by Dave Ulrich et al. in 2009:

- Service centers: Use economies of scale for transactional HR services such as payroll, training administration, or recruiting administration
- Corporate HR: Takes over governance role for HR, company-wide programs (such as company culture), HR structures and processes, as well as accountability for executive population and HR staff
- Embedded HR/HR business partners: Direct HR counterpart of line managers or leadership teams for specific organizational units, often divisions or functions, that lead the respective HR unit and consult and support the line managers mainly in strategic HR and also on selected more operational topics (though not with transactional HR services)
- HR centers of expertise: Act as specific HR area experts (e.g., compensation). Identify specific HR needs, develop best practices and capabilities in the respective HR areas, and support all levels of HR
- Operational execution: Assigned with the task to implement strategic HR plans based on the needs determined by embedded HR and best practices developed by the HR centers of expertise

Both views on the HR operating model do not exclude each other but are complementary.

When defining an HR operating model, key organizational criteria that depend on the respective organization and its targets need to be considered, such as:

- Alignment: Is the new HR operating model aligned with the business or corporate operating model? Or is, for example, business heavily decentralized with very independent divisions and HR supposed to be heavy centralized?

- Efficiency: Does the new operating model improve the efficiency? Does it bundle processes/envisage shared services centers?
- Clarity: Does the new operating model create more organizational clarity or will it lead to more shared accountabilities and a complex matrix structure?

HR Organization Design

Based on the HR operating model, the organization structures with organizational entities, roles, and reporting lines are defined for HR. There is nothing specific about determining the structures for HR as part of an HR transformation compared to other functions or company entities. An important area that is often neglected is to review and redesign the committee and regular meeting structure. This is an area that is partially overlooked and leads to considerable ineffectiveness in HR decision-making.

Though this might be contrary to the general wisdom that an ideal structure based on the needs of the business should be developed, especially for small- and medium-sized companies, the structures should not be defined without considering the current HR staff and how it would fit to the new structure. Developing a structure where there would not be a role fit with many people of the existing HR workforce (even with considerable people development measures) does not really help the business, but leads to a dysfunctional HR organization.

HR Process Framework

Some people call it processes, while others practices, activities, or capability areas. Defining the work of HR in an HR process framework is a key task of HR transformation. An HR process framework subdivides the whole HR work in process groups, processes, and subprocesses. It provides clarity on a high level and a more granular process level without going into details on the operational execution of the processes (process maps or workflows). An excerpt of such an HR process framework is depicted in Fig. 4.

Why is this necessary? Often, companies have defined many operational HR processes such as recruiting or payroll administration and documented the workflow of the related granular activities with a high level of detail. They seldom have a common and documented view of their work. Developing an HR process framework does not make a detailed documentation of HR processes redundant.

Basis for the HR process framework is the high-level HR service portfolio defined in the HR strategy phase. This defines the scope of HR and which HR process groups are included and which are not. In workshops the HR top team and partially senior managers conduct a drill down of the process groups. The target level of detail depends very much on the requirement to assign clear accountabilities to the different organizational entities and key roles (mostly down to n-2 level below CHRO or HR director).

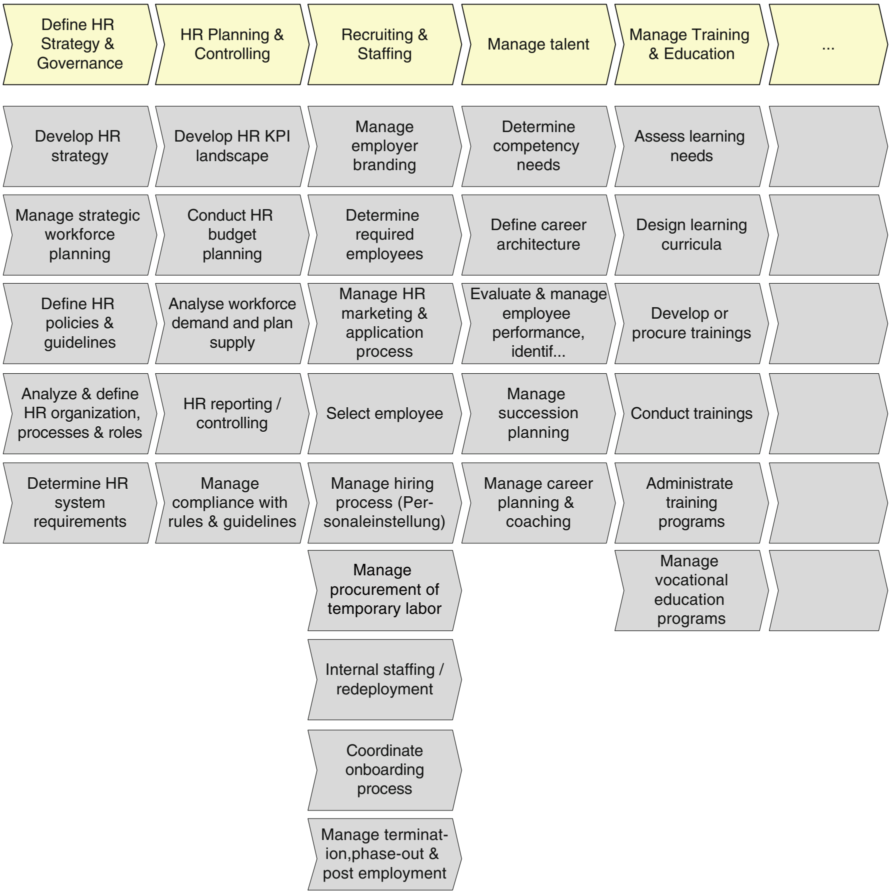

Fig. 4 HR process framework, excerpt (Source: Hay Group 2014)

After determining the accountabilities for the processes defined in the HR process framework, a review of the already existing HR process maps or workflows is necessary. These detailed processes need to be aligned with the HR process framework and the accountability matrix. This step of the HR transformation is usually executed at a lower managerial or expert level in HR, preferably with involvement of selected line managers from the business side (internal clients).

HR Accountability Matrix and Role Profiles

A well-defined HR accountability matrix is key to success for an HR transformation. It actually converts the more strategic, high-level HR operating model into detailed, clear accountabilities for all defined processes of the process framework and the key roles. This is necessary to avoid too much freedom of interpretation regarding the shift of accountabilities in the transformation. As the HR accountability matrix provides the core content for the individual role profiles, it ensures consistent role profiles that are aligned with the HR strategy and operating model, that do not overlap in accountabilities, and that have all accountabilities assigned.

Typically, HR-related accountabilities are described according to the so-called RACI system with the following levels: R = responsible, A = accountable, C = consulted, and I = informed. There are other systems related to RACI such as RACI-VS and different accountability systems such as DACI, CAIRO, or RAPID® (by Bain & Company). HR accountabilities are usually defined in workshops by the direct reports to the CHRO or HR director, supported by senior managers and experts. To ensure the business support later in operations, selected senior line managers from business should participate, at least for selected processes with considerable (potential) business involvement.

It is important to constantly review the defined accountabilities regarding their alignment and compliance with the HR operating model. There is often a tendency that stakeholders (need to) agree with the high-level operating model, only to try deviating from it during the definition of detailed accountabilities.

Now, the accountabilities can be easily transferred to the “core accountabilities” or “core activities” section of the role profiles, at least for the key roles.

As it requires too much effort and generates too complex accountability matrices, normally only the roles down to (managerial level) n-2 and some other specific roles are included in the accountability matrix. For the rest of the roles, ideally an HR job family model is defined, if not already available. A job family framework helps HR to map all the existing and new roles to a consistent framework of HR jobs and create transparency on how many (different) jobs exist at HR and how many people and work on these jobs. Many (mostly decentralized) HR departments have no clarity about the number of HR people and which jobs they do. Additionally, an HR job family framework helps to lower the administrative costs of developing and maintaining all the job profiles in HR.

HR Role Fit

The final step is to align structures and available resources. Whether an HR transformation is finally successful depends on the competencies of the HR people, both behavioral and technical competencies.

As already mentioned, especially in small- and medium-sized organizations, it can be recommendable to first look at the available resources before defining new structures and roles as the available pool of employees in HR and also the overall company is limited and cannot be changed with the time frame available for the transformation. In this case the HR transformation might be conducted in two steps with the first one transforming HR only with the available HR workforce and therefore limited changes, but with the vision and in the direction of the final HR organizational setup.

HR Competency Model

Core of an alignment of new roles and people is the definition and assessment of the needed competencies in the new roles. When defining the competencies for HR roles, behavioral and technical competencies need to be distinguished.

For behavioral competencies, often a company-wide competency model is in place. Partially, such a competency model does not really serve the goal of the HR transformation (e.g., because it is too generic) and needs to be either adjusted or enhanced, for example, with an HR competency sub-model. There are different generic HR competency models that claim to be based on the analysis of huge data sets of HR professionals and provide competency standards for HR, partially by describing role types such as strategic architect or change agent. These can be taken and adjusted to the specific HR environment. As an alternative, an HR competency model can be developed from scratch and specific for an HR function based on the analysis done in the previous phases. According to research from Hay Group, top-quartile HR professionals typically:

- Have a strong customer focus and start from the business issue
- Focus on solving core underlying issues as well as responding to tactical challenges
- Think creatively and see the big picture
- Tailor their approach, win their colleagues' trust and influence at multiple levels in the organization
- Are confident in the value that they add to the organization, and see themselves as equals to the business
- Understand how the organization really works – they know who the key players are and how to use this insight
- Put forward an inspiring vision for what they want to achieve
- Are prepared to hold others accountable – even senior colleagues – when necessary
- Have a deep understanding of others, their unspoken needs and concerns
- Have the ability to respond to short-term challenges without being deflected from their longer-term goals

For technical competencies, a comprehensive model or framework is missing in most of the companies. As defining all technical HR competencies in detail does not make sense from a cost-benefit perspective, two options are available:

- Identifying critical HR competencies (critical for the HR transformation and the implementation of the HR and business strategy) and focusing on those for the assessment part
- Defining aggregated technical competencies that encompass several competencies

Determining Role Fit

For many roles the fit of the job holders will not be a major issue. Other roles that are changed heavily during an HR transformation or are totally new create major challenges when existing HR employees are assigned to them. One role that typically causes problems with existing HR people is the HR business partner. For the jobs

- That are new or require changed competencies, behavioral or/and technical, and
- Are (senior) managerial roles or other critical roles an assessment is recommended.

Depending on the company culture, the transformation approach, and target of the role fit check, this can be conducted as either selection or development assessment. Besides identifying the role fit of the candidate, it should help the potential job holders to reflect on their new role in the new HR operating model, provide suggestions on how they can optimize their effectiveness in the new organization, and provide input for a development plan.

HR Top Team Development

As part of the HR transformation process, often the top team for the HR function has a new setup with different roles and accountabilities. It is critical for the transformation success that the top team gets aligned and in high-performance mode very quickly. The top team's behavior determines the behavior of their staff: 70 % of employees' beliefs are based on observations of the top team. All members of the top team need to deliver a coherent message, cascaded through the organization in a systematic way.

Therefore, top team development measures should be started at the very beginning of the change process, preferably after defining/reviewing the HR strategy or operating model. The target of these measures are that the top team members:

- Are excited about being part of a challenging journey with significant company impact
- Are committed to one joint agenda
- Have a common understanding of what is the required behavior in the top team and what is unacceptable behavior
- Focus on generating deliverables together
- Feel like being a real team
- Build on each other's strengths and trust each other

Often the first activity in this journey is the common development of an HR charter that defines the purpose and norms for the HR top team.

HR Transformation Is Change

HR transformation is often a huge change project that requires the same change and project management focus and activities as other organizational change projects. Frequently, it experiences more resistance than other projects due to different leaders and style in HR, difficulties to measure the transformation success, and a general vision of HR held by many top managers that sees HR as a sole service function for business with no need for a more strategic approach or enhanced services. Although many HR people think they are experts in change management, this topic is potentially not addressed in a proper way or underestimated in its importance.

Typically, the following key change topics need to be addressed:

- HR transformation is regarded by business as a change that supports the achievement of business results, increase HR focus and capabilities, and keep HR costs under control.
- Change in HR is supported visibly by the company's board and executives, including the CEO.
- HR director or CHRO leads the transformation actively, being in the front line.
- HR top team demonstrates their individual and collective ownership for the transformation.
- HR transformation touches every employee. They need to understand how HR transformation affects them.
- HR staff understands how the change affects their roles, accountabilities, processes, and career prospects.
- Union/work councils support the change.

The following activities are conducted:

- Stakeholder analysis: A thorough analysis of all relevant stakeholders is highly recommended. Stakeholders encompass both the HR population including the top team, managers, and staff and the internal clients of HR, especially the other board members, divisional heads, other functional heads, and production site heads. Additionally, stakeholders such as supervisory board members and work council members/relevant union representatives should be included. As frequently major differences in interests and attitudes to HR transformation by region, country, or division can be detected, these aspects should also be taken into consideration.
- Develop the change management approach, define the story line (selling the transformation story) and key communication messages. Different types of communication means are usually used including posters of the change journey and town hall meetings.
- Identify and nurture transformation agents at different levels and in different areas of the company. Agents are more intensively informed about the HR

transformation overall, targets, next steps, etc. and play a more active role in driving and communication on the change. They are often selected because they show a more positive attitude to the change. Change agents should be sought in both HR and business and even more important not only at lower managerial levels but also at the top of divisional or regional organizations. Major resistance/hesitance toward the HR transformation is often found at the top levels of business that fear losing control over HR or deteriorating core HR services and rising costs.
- Regular monitoring of (changing) engagement of HR staff/managers and attitude/support of business for HR transformation. This can be done with surveys and interviews. It enables the project team to react quickly to changes and address the needs/concerns of managers and employees. It helps to ensure retention and motivation of key talent (with costs of lost intellectual capital and productivity reduced) and to maintain general productivity (the inevitable "transition dip" is shallower and shorter) and market focus.
- The work on designing structures and roles (with interviews and interactive workshops) and the assessments with feedback meetings give detailed input for the design of the needed change management/communication measures as well as the results of these measures.

HR Cost Optimization/HR Shared Services

The top team members sponsoring an HR transformation often define as target for the project that the HR transformation should not lead to (considerably) higher HR costs than the actual ones. Partially, even lower costs are defined as target, especially if shared services is at the core of the transformation. So the project needs to identify ways on how to lower HR costs or to keep them stable. As typically HR transformation with a more strategic HR leads to higher costs on one hand (e.g., more conceptual work, enhanced HR portfolio/additional HR services, introduction of a business partner role), there is a need to balance this rise with lower costs in some other HR areas, e.g., by bundling activities (e.g., procurement or development of trainings) or setting up shared services.

When dealing with cost optimization in HR, there are several HR internal areas that can be addressed (see also Fig. 5):

- HR portfolio: Redefining the portfolio of services of HR might have as consequence fewer services and therefore lower costs. This should be aligned with the HR strategy.
- HR staff structure and sizing: Adjusting the HR structure (e.g., span of control) and reviewing the HR workforce size (e.g., by benchmarking it with other comparable companies).
- Processes: Streamlining and bundling HR processes where possible. A specific variant are HR shared services.

Fig. 5 Potential HR cost-saving areas, excerpt (Source: Hay Group 2014)

- Systems and tools: Often divisions or regional/country organizations use different systems, tools, or methodologies. Standardization leads not only to higher efficiency and transparency but also to substantial cost savings (though for IT systems sometimes only over a longer period after a bigger investment to move to common systems).
- Focused spending: HR might have a potential to optimize procurement of its services, e.g., by professionalizing vendor selection, bundling of vendors instead of using different vendors for the same services and products globally.

As HR has considerable influence on other people-related costs, trying to lower those costs might be an option to balance the costs of HR transformation. Potential activities include:

- Workforce management: Professionalize workforce planning and contract management and make workforce more flexible
- Finding and keeping the right people: Increase job-person match, make recruitment more efficient and effective, and lower employee churn
- Boost performance of employees: Support improving the organizational climate, creating winning teams, and training leaders to cope with their challenges
- Smart pay: Align employee rewards to job requirements and market benchmarks, use different compositions of pay elements, and professionalize negotiations with unions

HR Shared Services

Partially, HR shared services is considered to be a key element of an HR transformation. Sometimes introducing HR shared services is even seen as equivalent to HR transformation. An HR shared services center should be a competitive supplier of services, adding value through customer focus, cost leadership, and excellence. If implemented professionally and as planned, it helps to make transactional HR services more efficient and to lower the related HR costs. As often HR transformation leads to a buildup of resources in other, for example, more strategic roles, this can support HR in avoiding a significant cost rise due to the project.

The downside is that shared services frightens many HR employees as they fear less interesting/demanding jobs and the possibility of outsourcing once a shared services organization has been built up. This workforce resistance might jeopardize the whole transformation project. Experience shows that 50 % of shared services projects are not implemented due to resistance of different stakeholders, e.g., business units.

For more details on this topic, please read the “HR Shared Services” chapter of this publication.

People Perspective

From a people perspective, the following different stakeholder groups can be differentiated:

- HR people
- Line managers and employees from non-HR entities
- External stakeholders (shareholders, suppliers/partners, unions)

Due to the huge change character of the project, affecting many non-HR people, all usual change management activities need to be conducted (see above).

HR People

HR transformation often leads to partially dramatic changes in the scope of HR jobs, accountabilities, reporting lines, processes, and required competencies. Therefore, HR staff are affected most heavily by the HR transformation, but HR staff are affected very differently depending on their respective role in the organization and the planned change. The most critical changes for HR people are as follows:

- **Power shifts:** Depending on the changes to the HR operating model, either the HR corporate center or the regional/divisional HR lose some power to the other one. In case of a switch to a more hybrid model, the power shift is not as big, but there is a need for continuous coordination and sharing of power. The “power-losing” side sometimes tends to create an alliance with other stakeholders that prefer the previous model, and together, they try to roll back the changes.
- **Specialization:** HR transformation might lead to increased specialization leaving some roles with a much more diminished scope of work. Partially, this creates frustration for some HR employees and especially skilled and versatile ones might be tempted to leave.
- **Business orientation:** As often the key goals for HR transformation are the increased alignment with the business needs combined with an efficiency drive, this requires a quite different understanding and behavior on the HR side. Core of such a business orientation is often the so-called HR business partner. This job is

assigned to the most senior HR people that are regarded as fit to be a good counterpart for senior business people. Unfortunately, it frequently shows that this is not the case and becoming a real partner of the business at senior level is a challenge the HR business partner cannot meet. Special focus needs to be put on the selection and development of holders of this role.
- **Shared services:** If HR transformation encompasses also the introduction of HR shared services, this has a tremendous impact on the general HR staff with a focus on or some involvement in transactional HR services. They might end up in a much more focused role, often in a separate organizational unit, partially even in its own legal entity or with a new owner providing the transactional HR services for the former employer. This results in a core fear related to HR transformation with the need to address it with communication measures early in the project.

Line Managers (Including Executives and Board Members)

Line managers at all levels should profit from a transformed HR in the end. Therefore, there should be a generally positive attitude to HR transformation in the line manager community. But the road to a transformed HR organization is a hard and long one. Therefore, if the basic HR services are delivered currently at a high satisfaction level of the business and line managers lack the experience of a more sophisticated portfolio of HR services, line managers see the transformation foremost as a threat to the current well-running system and might oppose it. For example, losing the direct reporting relationship to a divisional HR head or country HR head is not easily compensated by a new role of an HR business partner.

An in-depth stakeholder analysis is key to defining the right way to convince hesitant line managers from business and create real change agents. Getting critical line managers on board with communication measures, inclusion in concept development groups, and active roles in rollout has been shown to be key to win over business.

All Employees

Besides the line manager, HR is the most important link between a company and its employees. From employer branding to recruiting, talent management, and performance management, to employee-relevant administrative services, HR has many regular interfaces with employees. Therefore, HR transformation can have a considerable impact on all employees. If HR transformation succeeds in making HR more customer-oriented and less bureaucratic, employees will experience the difference and appreciate it. A more professional approach to employer branding and recruiting will create a first good impression of the company for potential employees and enhance the chances to win them over for the company.

If done well, HR transformation will lead to much improved, more professional, and more targeted HR services. These will support keeping the workforce enabled and engaged which has a tremendous effect on the workforce performance and employee attrition rate as many studies show.

In some countries work councils, unions, or comparable employee representative groups play a considerable role in the HR transformation process. They often cannot stop or change the process itself, but they can try to influence it. They are often positive about a higher professionalization of HR and additional services from HR for employees. At the same time they are also representatives of HR staff that might be negatively impacted by some changes such as HR shared services.

External Stakeholders

As the importance of the human capital is continuously rising in the public awareness, HR transformation is often also a topic for the supervisory board or in the communication to the public. Actually, in some instances the initiative for transforming HR comes from the supervisory board by appointing a CHRO or another board member with a clear road map to change HR in order to be able to compete in the market for talented people. A professional HR function and therefore a better management of the human capital are considered more and more an asset for the shareholder (though much less so than the CFO). Google, for example, is putting a strategic emphasis on its "people operations." It is going public with its sophisticated people management practices and shows that a key element of its innovation drive is the innovation of its HR function.

Economic Perspective

Cost of Transformation

If HR is able to conduct the project itself, the costs of transformation can be lowered considerably. Many organizations, especially from small- and medium-sized organizations, often do not have the needed skills and resources to conduct an HR transformation project.

They need to hire external consultants or interim managers that support them in the transformation process. Often consultant fees range from 5-digit US dollar sums for smaller organizations to 7-digit sums for major corporations.

The HR organization itself needs to be heavily engaged in the transformation processes. The HR top team and other senior HR managers need to invest usually 20–30 % of their time for a period of 6–12 months, but often up to 2 years, in the project. In bigger organizations, the core project team of HR with around three employees will spend more than 50 % of their time over the time of the project on HR transformation.

Different HR Cost Structure After Transformation

A transformation of HR leads to a change in the structure of HR costs:

- Tendency that costs for transactional services go down, whereas costs for more conceptual and advisory activities increase.
- The change of the HR operating model will shift costs from the corporate center to the divisions/regions or vice versa.
- Changes in the HR portfolio have immediate effect on the HR costs overall, not only HR personnel costs.
- Moving up the HR maturity level ladder leads to higher HR costs. Benchmarking between companies at different HR maturity levels shows a clear correlation between the HR maturity level and HR costs/HR workforce size. At the same time it increases also HR effectiveness and leads to better business results.
- If HR is enabled as part of the HR transformation to become real internal consultants on all people- and structure-related topics, costs for external support (interim managers, consultants) can be lowered considerably without compromising quality.

Impact on Overall People Costs

If done well, HR transformation leads to a higher effectiveness and efficiency of HR.

According to research conducted in 2008 by The Hackett Group, more than 60 % of shared services operations saved 20 % or more in costs, with one-third reporting savings of greater than 40 %. The majority of this savings come from decreasing the HR workforce. But also saving other HR costs such as bundling procurement or standardizing training offerings across the organization leads to considerable savings, depending, for example, on the size of the organization and how independent the different HR entities currently conduct their business.

Higher effectiveness of HR is partially difficult to measure. But just increasing the attrition rate saves 12–18 months' salary per individual that does not need to be replaced. More effective leadership assessment and trainings have an immediate impact on the top and bottom line as Hay Group research shows.

Risk Perspective

Higher than Estimated Project Costs

HR transformation projects can incur considerable costs, both internally and externally, both during the project and later on a continuous basis as structural, systemic costs reach a different level.

The cost effects of HR transformation are usually underestimated. Often HR is assigned with the task of its transformation with one implicit goal that it should not cost much or at all. Often HR starts a project with this background, partially assigning a more junior HR expert with managing the project. Early in the project, the HR organization realizes that an HR transformation is more than a simple change of the HR structure. Then the project team is increased in size and seniority and external consultants are brought in. Often the project continues to be funded out of the pocket. Scope creep takes place and satisfaction of the project sponsor with the project deteriorates. The key risk is that HR continues this way not making clear to the key decision-makers that such a process will cost money. Often HR is not able and partially not positioned to create a business case that shows the cost-benefits advantage of such a project.

Resistance from Business

Often business feels threatened or neglected by HR – both during the transformation project itself and thereafter. Many, especially medium-sized companies, initiate their HR transformation project from a very decentralized HR organization. Typically local HR reports to local business; central HR is small, weak, and often focused on some conceptual work. With an HR transformation, often the power shifts with business having no full control of "their HR people" any more. For example, about 2/3 of all DAX corporations in Germany have now a balanced HR operating model with more powerful HR HQs that have at least considerable governance role for the divisional and/or regional/local HR units.

There are many well-known HR transformation projects that have been stopped or the transformation has been rolled back because business feels that they are losing control over HR. Often HR transformation projects are initiated or driven by "new" HR directors or CHROs that define their role differently, becoming real partners of the business on an equal footing. They partially clash with their board counterparts from business, division heads, or mighty country manager which see HR being "just" an enabling function with no need to sit at the table with business and being involved in the decision-making.

Tendency to Detach from Business Needs

During HR transformation projects, there are often tendencies to centralize key processes, especially the governance role, to introduce more sophisticated HR concepts and more roles in HR that focus on conceptual work. It also often enables key senior managers in the HR corporate center, after long period of suffering from low influence and power, to define a stronger centralized role that conflicts with the role business would assign to HR.

Both the tendency to centralization and the move to more sophisticated HR concepts often reduce alignment with line management in business about the role of HR. Especially if the line management is very operations driven, appreciation and understanding for these changes in HR might be low:

- Business thinks it needs its local HR head directly reporting to him with no centralized HR unit telling him what to do in HR and how to do it.
- Business thinks highly sophisticated HR concepts are not needed for its workforce.

There is a real risk of a backlash from business that might jeopardize all the progress made.

HR Transformation: Setup of HR Shared Services

Often HR transformation means for many companies setting up an HR shared services function. Actually, quite often the core of HR transformation is the introduction of HR shared services. As shared services are considered by many in HR as a cost-savings measure and the first step to outsource transactional HR, it is associated with a lot of fear. Making shared services the core of HR transformation often narrows the whole project to efficiency gains and costs savings.

New Organizational Setup of HR Does Not Work

As described already in other parts of this article, a major risk is that the new setup for HR does not work at all, only partially or after a longer than estimated time period. There is a tendency for HR transformation projects to take much longer in implementation and realizing the benefits than anticipated. The need to align with many stakeholders, the resistance of key stakeholders that needs to be overcome, lack of manpower to drive such a change project in HR, and partially lack of experience are key reasons for this. Another reason is the shortage of people in HR that fit to the new roles defined. This applies especially to the HR business partner role that is often assigned to experienced HR people with a more administrative focus and missing experience and attitude for a strategic advisory role for business.

Operational Perspective

A key question as part of an HR transformation is: Can HR handle the “traditional” HR accountabilities such as payroll and HR administration and recruiting and at the same time take over new accountabilities that are determined during the transformation process? Or does HR transformation lead to overpromising and underdelivering of the HR function?

Studies show that there is a correlation between a higher HR maturity level and a declining (getting worse) HR staff ratio (the workforce served by one HR FTE). When adding HR processes, introducing new HR concepts to serve business even better, HR capacity requirements regularly rise. If no additional capacities are built up, this leads to an under-delivering of the HR function, often in transactional processes where HR has performed very well in the past. This might lead to the backlash from business that has been already described in other parts of this chapter.

Therefore, an open discussion has to be initiated by HR regarding the scope and level of HR services required by the business and needed to implement the business strategy and to align with overall and company-specific HR challenges. This helps avoiding wrong expectations on the business side.

At the same time, HR transformation needs to be planned with both a capacities buildup and capacities reduction in mind. Whereas adding new services, enhancing the existing services, and partially buildup of a central governance function often lead to an increase of HR resources, HR shared services, clarification of HR accountabilities, and combining of HR functions across divisions in regions and countries can have considerable savings of HR resources as a consequence. It is important to balance the buildup of resources on one side and the cutting of existing resources on the other side. A problem poses the fact that often more transactional jobs are made redundant, whereas the buildup occurs in much more advisory, coordinating, and conceptual roles. So staff not needed any more in one area cannot be simply shifted from this area to the one where more resources are needed.

Dos and Don'ts

HR Taking the Initiative

Considering the changes in society, technology, business, and the legal and economic environment over the last years, it is surprising how little the HR role and organization has been adjusted and developed. Major corporations have seen more changes, but they are often only superficial. HR needs to be bolder and initiate its own transformation. It is important to focus more on the opportunities in HR transformation, not only the risks. Otherwise the strategic role of HR will be taken over more and more by finance or the business itself.

Avoiding a Role of HR Discussion

It is important to define the role of HR. But often HR gets stuck in the discussion of its role and does not make the next steps in HR transformation. HR in most companies has the vision to be more than just the staff administration and payroll processing office of the company, to have a customer/business-oriented role or a governance-oriented role. It is important to determine the role of HR in the organization, but it needs to be done together with the business, and it needs to be done in a pragmatic way to avoid stopping HR transformation already in the role clarification phase. Focus should be on real-life topics which matter to the business and where HR can make a valuable contribution. Defining together with the business the type and level of services the internal clients expect from HR is essential for HR transformation success and defines the role of HR in an indirect way.

Aligning the HR Operating Model with the Company Operating Model

Often the HR operating model has not been reviewed when the business strategy and operating model changed. This leads, for example, to a regionally decentralized HR operating model in a company-wide divisionalized organizational setup. This might be still be recommendable from an efficiency point of view (one HR in the countries/ regions), but a proper business partnership might require changes to the HR operating model.

Addressing HR Transformation with Ad Hoc and Single Measures

HR transformation is a longer process with many steps that needs to be planned and executed thoroughly. A holistic approach as described in this article is required. It should be accompanied by change management and continuous success measurement activities (HR cockpit of change). Hasty activism is counterproductive and will confirm the image of HR as not being capable of handling complex projects.

Forgetting the Lower Levels of Organization

HR transformation requires – as any transformation project – that new structures, processes, roles, accountabilities, and capabilities are rolled out not only at the higher levels of the organization. Often projects change the HR structures and roles at n-1 and n-2 levels, but leave everything below these managerial layers untouched, assuming that change will just happen here as well – which in reality never does. If an HR transformation shall have a real impact, consistent change has to occur at all levels of the organizations, not only at the top.

Effective HR Top Team

Often a key element of an HR transformation is establishing an effective HR top team. Though HR should be mostly aware of the need of an effective top team in other areas, often the HR teams are quite dysfunctional. HR needs an engaged and aligned top team delivering a coherent message, cascaded through the organization in a systematic way. Seventy percent of employees’ beliefs are based on observations of the leadership team.

Focusing Too Much on HR

Many HR departments start their HR transformation without involving the business and the other units. This has no impact and does not lead to a real change of HR's role. Defining the role of HR requires involvement of the whole organization, especially the business that depends on having the right workforce enabled and engaged. In order to get business to accept a different, more strategic role of HR, HR needs to prove its professionalism.

Most HR departments have bright people with sufficient life and professional experience. But HR needs to accumulate even more knowledge about best practices to come up with the right advice and right decisions. It is highly advisable that HR people rotate through different professional roles not only in HR, but also outside HR to broaden HR people's scope and to enable them to evaluate topics from different relevant perspectives, especially the business one. Also, it is highly advisable that HR people work in central and de-central parts of the organization. Based on these acquired experiences, HR's partners in business will develop the trust in the capabilities of HR and "allow" HR to transform toward being a proactive, strategic partner.

Final Comments and Outlook

Interest in a more holistic approach to HR transformation is rising – away from single transformational activities such as HR shared services. There is some disillusionment in companies that have gone through the process of HR transformation, because resistance is high or planned benefits have not been realized. Most companies now have HR business partners, but these business partners only have this title and partially do not act as business partners. Reason for this is that the people have stayed the same and lack the skills to be real business partners. At the same time business is not fully convinced that they need business partners. There is a backlash from business in some companies. In some organizations a rollback can be seen moving from a more sophisticated and strategic HR to an HR role that is a second-rate function and not sitting with business at the same table.

The positioning of HR is still not clear in many companies, and though human capital is considered by CEOs and board members as the key differentiator and competitive advantage, managing human capital is often also considered either less a strategic task or it is assigned to the business, with HR in a sole service/operational role. Currently, a stint at HR is not seen as a career booster, but just the contrary. Therefore, high potentials seem to avoid working in HR, and the availability of needed business skills and experience in the HR workforce is not as needed.

Currently HR transformation seems to be mainly a topic for mature markets. In emerging markets there is still a different understanding of the role of HR combined with a lower maturity level. Depending on the maturity level of the companies, this will probably change in the next years when the organizations in the emerging markets move up the organizational maturity ladder.

HR transformation becomes in recent years also a topic in medium-sized organizations. As demographic change, war for talent, and other topics create awareness of the need for a different HR also at the board or owner level, it becomes clear that these challenges cannot be met with the current setup of HR and the current HR people. Here the main challenge will be how to balance the efficiency drive and pragmatism of medium-sized companies with the need for more governance, strategic orientation, and an enhanced service portfolio in HR.

Cross-References

► Administration and Payroll: Essentials of Shared Services and Outsourcing
► Human Resources Strategy and Change: Introduction and Overview

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Human Resources Strategy and Change: Essentials of Labor Cost Reductions and Crisis Management

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Abstract

The following chapter provides some key insights and different perspectives on labor cost and how HR could proactively influence this substantial component and therewith-important factor of a company's result, and also what to do if there is no other option than reducing labor cost and at the final end causing layoffs of employees.

When many organizations are faced with the need to cut labor costs, the approaches taken are generally very reactive and not really creative or underlying with real proven figures to provide a proper business case. Based on this the decision-making process is also very driven by the one and only synonym: labor cost reduction = layoff of active staff.

Also there is no global catchall solution that can solve the issue of cost cutting, especially when it comes to labor cost but some general perspectives that could be taken into account.

Keywords

Labor cost reduction • Strategic HR business partner • Works council • Stakeholder

Overview

What Is Meant with Labor Cost Reductions?

A set of intense and growing business forces – including globalization, digitization, and evolving customer preferences – is pressuring companies in virtually all industries of the developed markets to reduce costs. In many cases, organizations have already lowered their material and other nonpersonnel expenses and optimized prices. Yet if they are to preserve margins and remain competitive in the long term, they will also need to analyze in depth their personnel costs.

But when starting on thinking of labor cost reductions, HR, as a strategic business partner, should go a little bit more into the definitions to understand and proactively start analyzing what could influence companies' labor cost and also what is exactly meant when talking on reducing labor cost.

The Organization for Economic Co-operation and Development (OECD) is providing a large glossary of statistical terms. Also the terms are not mandatory set globally; there is a strong willingness for cooperation and understanding also with the BRIC states.

> *>>So* ***Labor cost*** *is defined as the total expenditure borne by employers in order to employ workers, a concept which has been adopted in the Community framework and complies broadly with the international definition of the International Conference of Labor Statisticians (Geneva, 1966). The reference period needs to be defined by the employer, usually the accounting period on daily, weekly, monthly or fiscal year basis (OECD)<<.*

Labor costs include the direct costs linked to remuneration for work carried out such as direct remuneration, bonuses, and ex gratia payments not paid at each pay period, payments for days not worked, severance pay, and benefits in kind. They also include indirect costs linked to employees, independently of the remuneration paid by the employer, such as collectively agreed, contractual, and voluntary social security contributions, direct social benefits, vocational training costs, other social expenditure (cultural and medical services, transport costs, etc.), and taxes relating to employment regarded as labor costs, less any subsidies received.

Labor cost could either be fixed, because they are based on a legal or contractual agreement, or variable because of terms and conditions. Some of them can be controlled, but others cannot because of market or other circumstances. Being aware of the costs and monitoring them on a regular basis will help to increase or decrease the company's bottom line. Companies usually focus a lot on purchasing/ cost of materials, but in many cases do not differentiate the labor cost or either monitor them.

The questions which always come to my mind when a company is asked to reduce labor cost are the following: How many of their annual costs are related to personnel? Do you have an idea on your company's ratio of labor cost to overall sales? Do you know the ratio of your major competitors or at least the overall figure of the industry? A lot of HR departments are actually not aware of the ratios and even benchmark whether they are good or bad compared to their competitors.

Definitions (Based on Saratoga Human Capital Effectiveness Report)

Total Labor Cost

Regular Compensation Cost: The total compensation costs incurred during the calendar year for non- contingent employees. This includes base and overtime pay, pay premiums, commissions, cash performance-related bonuses, sign-on and referral bonuses, profit sharing, payments for time not worked, and severance pay. This excludes any stock or employee stock purchase plan (ESPP) payouts and deferred compensation.

Total Benefit Costs: The total employer amount paid during the calendar year for regular employees for legally required payments, retirement and savings plan payments, life insurance and death benefit payments, healthcare benefit payments, and miscellaneous benefits.

*Contingent Labor Cost: The total compensation and benefit costs for contingent employees during the calendar year. This includes base and overtime pay, pay premiums, commissions, performance-related bonuses, sign-on and referral bonuses, profit sharing, payments for time not worked (including vacation, sick, and holiday pay), severance pay, employee health and welfare, legally required payments (*e.g., *Social Security, FICA, FUTA,* etc.*), retirement and savings plan payments, and life insurance premiums.*

Revenue: The total sales and service earnings (pretax) for the calendar year. This number is available on your organization's income statement.

The structure of labor cost is also very much dependent on the industry the company is in, and so there is a huge variability across industries. This will highlight the importance of benchmarking against the right peer group. Organizations should make the labor-costs-as-a-percentage-of-revenue metric part of their executive dashboard and use it to drive conversations about employee productivity.

For the US market, but also on a global base, one of the best sources for HR benchmarks is the Saratoga Institute in Santa Clara, California, founded by Jac Fitz-enz and actually belonging to PWC group.

The Saratoga Institute-Workforce Diagnostic System Report Executive Summary presents financial results alongside employee productivity to reveal organization and operation trends and highlights. Between 2001 and 2003, Saratoga Institute has observed a 13 % increase in the human capital ROI calculated using its Workforce Diagnostic System. The revenue factor, income factor, and human capital ROI, along with other metrics, contribute to the diagnosis that improvements of these measures illustrate, for example, a recovery in the US economy.

If numbers are released, they usually start "walking around" and being interpreted, so please be aware that HR not only has to provide the numbers but also to explain and make recommendations on how to deal with, and if the number is good or bad related to benchmarks or individual, company internal targets.

But with all upfront controlling and monitoring under some circumstances, the need for intense labor cost reduction or at least layoff of employees in some cases could not be avoided. But doing all these in advance, it will be much easier to explain the need and therewith-storyline behind. And the major part in crisis management is communication following a "recurrent theme" to stay reliable to the impacted audience.

What Could Affect Labor Cost

Besides understanding the cost factor itself, it is worth to spend some thoughts on "what affects labor cost in a positive or negative way."

(A) **The level of difficulty to get the right talent.** The higher the supply and demand, also known as the "war for talent," the more intense the company's effort in getting the right talent on board, and the higher the educational degree, usually the higher are the salary structure in that area and therewith also the labor cost.

(B) **The location.** If the company is based in an area where the war for talents is low, you would pay less in other areas. But if there are less skilled employees in the area as needed by the companies, you would even have to pay more to get the right talent.

(C) **The balance of employee structure.** Try to keep the age of your employees at the average between the age you usually recruit juniors/apprentices and the age employees tend to retire. Usually wages tend to increase most in the mid-career years. So the higher the average age of your workforce, the higher your average labor cost.

(D) **The efficiency in (production) processes.** The more efficient your processes might be, the less people you need.

(E) **The complexity pay structure.** If the compensation components are contractually fixed, reducing wages or cost per head would either be exorbitantly expensive or take too long. This might be the result of existing compensation structures within a company, such as a high number of monthly salaries and bonuses that are regulated on an individual or collective basis.

(F) **The overall economic situation.** If the economy of the company you're in is in a good shape, this would usually lead the unions to demand for higher wages or increase of other benefits that will drive the labor cost base as well.

The next step is to understand "where does the problem really come from." Is there a causal relationship because of an overall economic crisis leading to a drop in orders – so solutions to reduce capacity/hours of work are the tools of choice – or are the orders and solutions still the same to reduce cost but keeping capacity at appropriate levels?

You could probably also think on discussing a range of alternative solutions before it really comes to the bitter end. The possible alternative short-/midterm approaches to think about that allow companies to keep the same number of employees but still cut cost are as follows:

- Altering work time components such as overtime, flexible scheduling, day off, and break times or even remaining holidays to reduce the accruals.
- Reducing available capacity by using flexible, temporary workers, limited contracts, hiring freeze, reducing paid working hours, or even implementing flextime wage records to store a certain amount of hours for better times.
- Working short time.
- Eliminating optional benefits or revisiting contract components based on operational agreements that may no longer be appropriate in difficult times.
- Outsourcing of cost-intensive but noncritical tasks.
- Finding and eliminating hidden costs by analyzing the different cost categories related to personnel.
- Offering sabbaticals could be a win-win solution to reduce capacity on a short term.

These measures effectively reduce costs for the company without in any case directly reducing an employee's contracted monthly salary, so it is a less irritating change for employees. But be careful to discuss these options up front if you have unions or works councils to be consulted. And it is important to note that these approaches will only succeed if the company implements them effectively. The fear of hurting the morale of the remaining employees and weakening the organization is understandable, but such concerns can be eased by communicating in a targeted, open, and fair manner. It is equally critical that the reduction should take place quickly and professionally so that employees do not become distracted or lose motivation because of lingering uncertainty. Early in the process, business leaders and HR should approach company's top performers personally to explain the need for change and make sure not to lose their know-how.

And also if you have to reduce the number of your workforce, you could even think of early-retirement offers or specifically designed programs for voluntary leavers which could be a very effective reduction instrument, but it needs to be well designed. Otherwise you will lose your best-skilled people first as they are the ones with the best chances to find new jobs and so probably have less risk to take the money and start somewhere else and leave the company short of know-how and experience.

But even if companies are being proactive and safety conscious, it could happen that reducing workforce by closing production sites or departments might be the only way to survive. So we now take a look on the different perspectives and related core HR topics that need to be taken into account to support the layoff and crisis management in a very professional way.

Economic Perspective

The following core HR topics are essential to manage the economic perspective, considering value drivers and project cost of labor cost reduction.

Accurate HR Business-Case Calculations for the Options Identified

It seems there is a general belief in "cutting cost by cutting people," but going this way to reduce overcapacity, you have always to take the "transaction cost" into account.

On a structural level, companies can utilize more innovative solutions. Employee representatives are constantly aware of economic trends, and executives can make the company's situation more clearly by conducting a structured analysis and evaluation of possible options. So from a cost perspective, it is important not to focus purely on legal boundaries but also to do a proper calculation of the business case and, on the one hand, the impact on the tangibles like financials, and, on the other hand, also try to calculate the intangibles like decreasing employee morale, effecting customer satisfaction, etc.. Companies need a clear analysis of contracts, regulatory constraints, and other factors, but they must also identify and assess options from the employees' point of view. Creative solutions may put the company on a more secure financial footing while not threatening the livelihood of employees, leading to an agreement in which the positives outweigh the negatives for both sides.

Clearly Defined Scope and Baseline

While the definition of a reduction target is relatively easy (e.g., “all budgets have to be cut by 10 %”), the definition of the scope and the baseline can be quite difficult.

What if certain parts of the budget are fixed by law? In some countries, for example, cost for employee representation cannot be reduced. Assume that costs for employee representation are part of HR’s budget. If HR now has to reduce its overall cost by 12 % but cannot reduce cost for employee representation, the effective savings in the remaining other cost of HR have to be higher. Hence, it should be considered to take cost of employee representation out of the scope.

Any definition of a baseline has its disadvantages because if the definition is the original budget plan, which usually has been created some time ago, it can be argued that reality has changed too much to build a good basis for the reduction target. As a consequence, discussions about corrections start which are nothing more than exceptions and hence endanger the achievement of the overall reduction target.

If the definition is based on actual spending, there will also be discussions about necessary correction (e.g., due to unplanned one-time costs) and who was how cost conscious in the past (“now we get penalized for always having been cost conscious”).

Long-Term Thinking

Usually a lot of problems occurring after a drastic labor cost reduction phase are based on short-term thinking and only managing the reduction instead of having in mind that at a minimum they have to take care of proper ideas and processes on how the company could be kept even on the same productivity level with less employees and even more important how to get the same quality or even better quality for their customers than before the layoff of employees. This always needs an even stronger set of leadership competencies than during the good times where it might be simpler to ensure motivation and loyalty of the employees. Usually employees start to think resigning not as a reaction on the layoff process at all but on how the management leads through the whole process. So for HR it is important to support the leadership team of the company and equip them with the necessary skills and competencies either by trainings or coaching and to give a platform for exchange on everything that is happening during the process. For a lot of managers, it might be the first time in their lives that they have to give notice to people from their team, and this is not an easy task.

No Tactic Games

Managers usually tend to worry about decreasing productivity if employees are informed early on their reduction plans. But this is short-term thinking. It has something to do with trust and appreciation, and if employees get the feeling that they are part of a tactical maneuver, this will even decrease productivity more than an open and clear communication based on a good story.

Risk Perspective

The following core HR topics are essential to manage the risk perspective of labor cost reduction, taking legal and compliance risks into account:

Detailed Stakeholder Analysis and Identification of Measures That Benefit All Impacted Groups

Conduct a clear stakeholder analysis on whoever is deeply impacted by the labor cost reduction and derive individual communication packages to the different groups. This would mean the employees themselves, as well as works councils or unions, are either directly affected or not affected but remaining in the organization. Identification of and communication with all key employees and top performers might be one of the major success criteria or even possibilities for failure.

Stakeholder management, as well as the management of resistance, is a natural response of personal disruption. So it is important to know who is affected by the process and to what extent. Also there are several pitfalls in managing resistance; it will be important not to attempt to overuse “logical” arguments about why they should change. Because assuming what is “logical” to you is “logical” to them shouldn’t be the truth in any case. So take the time to talk to people, ask open questions, and try to understand the reasons for their resistance.

Usual Groups of Stakeholders

The definition of stakeholders (either internal or external) in the process is seen as a wider definition of any group of individual who can affect or are affected by the achievement of the company’s objectives. Identifying all stakeholders is crucial and could either be done by brainstorming, mind mapping, etc., and there are various tools in the market to identify the stakeholders and set up a proper stakeholder map including stakeholder management. Possible stakeholders in the process could be the following: employee; shareholders; executive management; managers; human resources; legal department/external lawyer; unions; works council; colleagues; family, spouse, and friends; customers; suppliers; public; and politicians.

Having a strong works council and an active trade union makes it even more necessary to do so we do not have any leeway for negotiation. Strong organized-labor participation within a company is not necessarily a drawback; in fact, it can be quite the opposite. It provides a solid foundation for dialogue between management and employee representatives. Strained relationships and misunderstandings between both parties are frequently responsible for the failure of such processes.

An atmosphere of mistrust can prevent some issues – such as employee reduction and outsourcing – from being openly discussed and addressed.

Strategic and Legal Assessment of the Feasibility of Contract Adjustment Options

Depending on the business the company is in, labor cost could be one of the important factors in a company's result. Especially people-driven industries (offering all parts of services) will face significant effects by clearly monitoring their labor costs and deducting the relevant actions as soon as ever possible.

So if you plan to reduce labor cost, it will be important to do a proper legal assessment of feasibility upfront. To local law or collective agreement, some employees could not be subject to notice because they have reached a certain age or have a clause in their contracts or even belonged to state-owned companies (civil servants) which makes it even difficult to reduce this kind of staff. Some organizations may have so-called permanent employees and contract workers, as well as special employment contracts from the public or semipublic sectors, which contain comprehensive protective mechanisms. This would lead to attempted soft measures first, such as reducing external employees and setting up a voluntary leavers program and should be considered in the strategy.

During the last economic crisis, for example, many companies implemented comprehensive reduction programs that focused on speed and not thoroughness. Executives did not often consider other solutions that may have been more effective – such as adapting collective-bargaining agreements that would match required skill sets with compensation levels – because collective protective rights made such ideas seem unfeasible. But at the final end, a lot of the programs failed or even was not very effective.

Redundancies can be challenging, particularly in more-regulated labor markets such as Europe, where social-criteria rules stipulate the order in which employees should be let go. These criteria put a heavy emphasis on employee tenure, along with issues such as age, marital status, and whether employees have children. Many employees and also manager might think that the criteria lead to layoffs of the "wrong" – that is, younger – employees, resulting in structural issues such as an unbalanced workforce not retaining the right profile of skills and qualifications.

Operational Perspective

The following core HR topics are essential to manage the operational perspective, considering administrative consequences of labor cost reduction:

Make Sure That an Appropriate Amount of People Is Dedicated to the Project

Very often the HR departments suffer from a lack of resources, and if the economic situation of a company is becoming worse, management usually starts with a reduction of positions in the so-called administrative or cross-divisional functions. So it might happen that the HR department has to manage the labor cost reduction with insufficient staff available to deal with all the add-on workload that will happen during such a process. But it is extremely important to manage such a process by reacting on any upcoming questions as soon as ever possible to keep rumors to a minimum.

So it is highly recommended to equip the team as best as possible to ensure precise coordination of reduction planning, data availability and accurateness, negotiations, and transformation within one central team. If HR is not fully equipped to support, it might be worth to invest in external support, either by experienced lawyers or interim managers, to manage this process in a professional manner and adequately enabling a coaching HR business partners in the implementation and change process. It is even more recommended to do so if it is not a complete closing of business.

Make Sure That All Personnel Files Are Properly Kept Up-to-Date So That Needed Information Is Available Shortly

Do not underestimate the workload coming up with such a process. To follow legal requirements, usually a lot of detailed information needs to be provided on a daily basis, even to fulfill the determined social criteria for redundancy. A lot of information might be available if your company has a solid HR IT solution in place, but usually this needs to be verified by having a look and review in each personnel file. So make sure that the filing is always up to date.

People Perspective

Finally do not forget the most important perspective in such a process which would mean to manage the change and cultural environment as important prerequisite for a good-managed process or even a new start, also considering effects on motivation, emotion, and culture.

“What you cannot measure, you cannot manage” is often used by managers even from a pure controlling perspective – but this is not the real truth. Very often the soft factors will make the important difference between the company’s choice as a great place to work, and even if you have to lay off people, make sure that you treat them with respect, taking their individual circumstances into account.

The following core HR topics are essential to manage the cultural and emotional perspective of labor cost reduction:

Communication Is Key

The top management is in key position when it comes to communication of reduction plans. So it is important to prepare a communications plan for the overall project. Open and honest communication is one key success criteria to keep respect and credibility of the management. The upfront development of a clear course and communication plan for employees and employee representatives is therewith highly recommended.

Also a bad news continues to be a bad news; it might be important to start the communication at an early stage. You cannot change the bad news but no communication is not tending to have a better situation at the final end of the process. How such a crisis is managed is even the most important criteria if the company is planning a comeback. Usually at some point of time, there will be a leakage and the bad news starts wafting and even tends to rumors and mistrust.

Consider the Impact on the Individual

Considering the effects on motivation, emotion, and culture is an important success factor if companies have to start programs affecting their workforce. And the most affecting one is a program which brings the environment of an individual into imbalance. This would mean that if there is a fear of losing or even failure, this would affect even more the balance of feelings of an individual as if there are positive messages like new tasks and responsibilities (Fig. 1).

Feelings in Balance

Negative mood in the workforce is usually affecting customer satisfaction as well. This could lead to a downward spiral. As part of a change management process, it is therewith important to actively monitor the employee morale and react short term on the results. For such surveys, new tools, like SurveyMonkey, would allow quick, easy, and confidential online feedback.

Do Not Forget About the Remaining Employees

Survivor sickness is a situation which typically appears with employees remaining when reductions affect the wrong employees by discouraging those who remain. This comes along with feelings of uncertainty, anger, guilt, and distrust. They are simultaneously glad to have a job and guilty that their workmates were displaced. In the meantime, the job pressures on them often increase dramatically as they try to

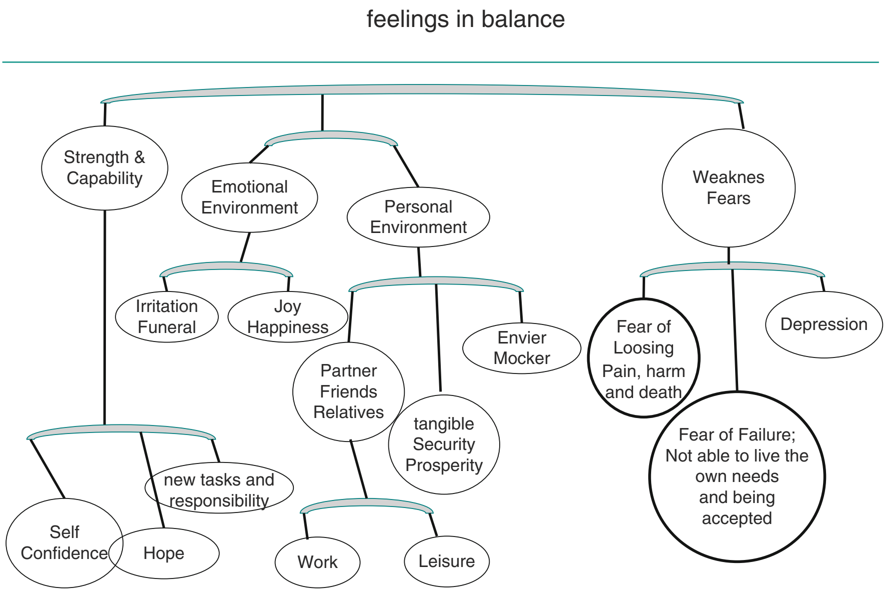

Fig. 1 Feelings in balance

shoulder the tasks of former colleagues. They also wonder, "will I be the next to be cut"? This negative effect could hurt companies in the long run.

Dos and Don'ts

In some countries/companies, the involvement of labor representation (unions, internal employee council) is demanded by law or union agreements. If this is the case, **do** consider involving labor representation as early as possible and negotiate a redundancy program in a professional and transparent manner.

If there is no legal need to **do** so, it should be discussed whether labor representatives should be involved in the discussion. The answer to this question depends on the level of trust between company leadership and labor representation and the acceptance of labor representatives as opinion leaders within the company. By involving labor representatives, the risk of strikes or forms of passive resistance of the workforce against the to-be-decided measures can be reduced.

Do always keeping an eye on your labor cost also in good times.

Do develop HR into a true business partner model that is closely involved in management discussions and strategic planning.

Do not underestimate the influence of labor representatives, works councils, or unions in either supporting or hindering the process.

Do not forget carefully balancing the burden between management and staff. In situations of drastic cost-saving measures, people look at fairness of the burden's distribution. If, in addition to significant reductions of their income or benefits, staff feels that those above do not really join in with cuts in their income, resistance against the measures will increase, and long-term credibility of the company's management will be at risk.

Do not be liberal with exceptions. Exceptions to rules always bear the risk that they erode the rule itself. If you have a general labor cost reduction policy and you make one exception, it is a sure bet that this will stimulate others to also ask for exceptions. In the end, the company runs the risk of not achieving their saving target because many people are busy creating cases for exceptions instead of thinking about ways to save money.

Final Comments and Outlook

Initial pessimism is understandable, but companies can make improvements in their workforce in even the most complex situations. That is why open and honest communication is absolutely essential from the earliest phases of the effort. The management must sit down with employee representatives and chart a clear course. Success demands on an objective assessment of the situation in coordination with relevant committees in both the negotiation and implementation phases. Precise and reasonable simulations of specific cases can ensure that the discussion takes place on an equal footing.

A codetermination process when representatives from the management and the unions agree upon necessary actions together helps to clarify how planned changes will be received by employees and may identify less invasive cost reduction measures as well. With sufficient transparency and clarity, even "sacred cows" may become legitimate options in workforce improvements. Worth noting is that this process can have a positive secondary effect by creating a more pragmatic and trusting relationship among the participating committees and by giving the company a stronger foundation for the future but could even become a negative effect if it is not possible to come to a common solution. It may be also depending on a negative relationship from the past. So trustworthy behaviors and walk-the-talk principle from management and HR are required during the whole process.

This dynamic change in the enterprise environment means that HR departments also face completely new tasks. For example, it is no longer sufficient to support the enterprise strategy with cost-optimized personnel management and to provide qualified employees. The future of personnel management lies in a consistent strategic orientation. In particular, HR departments must analyze and consider what part they can play in reaching enterprise goals and how they can increase the value of the enterprise. By proactively participating in the implementation of the enterprise strategy, an HR department can develop into an important link in the value chain and position itself as a consultant and partner for management and employees.

Personnel cost reduction initiatives are difficult, so it is essential for management and HR to clearly identify and prioritize the challenges and to tailor a structured process that focuses on root causes. The result will be a company that is not only more financially fit but one that more effectively communicates and collaborates, leaving it better equipped to meet the challenges of the future.

Business units and HR typically have different priorities, and it can feel as if representatives from each are speaking different languages. The focus of business leaders is to get the job done. They describe their needs in terms that only vaguely translate into specific personnel requests, and they believe that many HR processes are too complicated and that HR employees are too problem oriented. Conversely, the HR department believes that management will not simply accept an answer of "no" – rather, it wants to live in a world of exceptions. The result is a persistent misunderstanding, which gets exacerbated during complex projects such as a reduction program. However, these perceptions are simplistic, and companies can overcome them.

Many HR departments have already taken on new tasks and greater responsibilities, becoming a true partner to the business by maintaining an approach which HR assumes more of a strategic and management function in the company and expands its knowledge in the areas of realignment, codetermination, and collective labor law while maintaining expertise in the baseline HR functions.

But when leaders together with HR implement a reduction measure correctly, the company should emerge stronger and with a more aligned workforce one that understands the company's situation and objectives and believes management is taking the right steps to reach those objectives. Structure and processes can be more efficient and professional, creating an improved work environment.

Humanity within the transformation, traceability of the reason for layoff or adjustment, and a clear vision of the future is the painful prerequisite for a new start in a more prosperous future.

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Human Resources Strategy and Change: Essentials of Workforce Planning and Controlling

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Abstract

The reality of organizations becomes more and more complex, especially for organizations that operate in different businesses and parts of the world. Combined with a rapidly changing environment and the rising importance of the human capital, a good understanding of the required and available human resources now and in future years is essential. Workforce planning and controlling is the core process of human resource management that determines in a systematic way the needed workforce today and tomorrow regarding different dimensions, identifies the gaps to the available workforce, and defines measures how to close the gap.

The relevant workforce dimensions are the headcount number, job types, competencies, location, demographics, and people costs. Workforce planning and controlling is driven by the business strategy and aligns strategic planning, human capital planning, and budgeting to meet the organization's strategic and operational goals. It takes place at different levels of aggregation and time horizons, from executional, near-term manpower planning to long-term strategic workforce planning. The process of workforce planning and controlling encompasses the following steps:

- Strategy decode: Determine requirements of the business strategy for the workforce.
- Workforce modeling: Prepare a job family framework and workforce model.
- Workforce data gathering: Provide the workforce supply and demand data including workforce driver quantification.
- Workforce analysis and simulation: Analyze current and forecast future workforce demand and supply. Identify the gaps between workforce demand and supply.
- Develop workforce plans: Develop and implement plans to close the identified workforce gaps.
- Workforce controlling: Monitor, report, and assess the workforce plans' effectiveness and efficiency and adjust, if needed.

Keywords
Critical jobs • HR analytics • HR controlling • HR KPIs • HR planning • HR strategy • Job family • Job model • Resource planning • Scenarios • Simulation • Strategic capabilities • Strategic talent management • Strategic workforce planning • Workforce analytics • Workforce controlling • Workforce demand • Workforce model • Workforce planning • Workforce supply

Introduction and Overview

What Is Workforce Planning and Controlling?

Workforce planning and controlling is the process of HR that ensures in a structured way that an organization always has the right number of people with the right competencies at the right moment at the right location and with the right costs. It analyzes the workforce demand, determines the workforce supply, and generates the insights to enable the relevant stakeholders to match demand with supply, allocate and schedule resources, identify workforce gaps, and develop action plans to fill or reduce the gaps. This way workforce planning and controlling aligns workforce requirements with the organization's business strategy and annual business plans and budgets. It optimizes the current workforce. It generates a strategy for the allocation of people anticipating future workforce needs, identifies and copes with internal and external barriers to reach operational and strategic workforce goals, and prepares for contingencies in a proactive way.

Workforce planning and controlling is not identical with HR planning and controlling, but there is a big overlap between both and often the same entity is accountable in HR for both. HR planning and controlling focuses on the organizational entity HR with all related accountabilities, processes, structures, KPI frameworks, and reports as other functional entities. Workforce planning and controlling is focused on getting the workforce right, not the organizational entity HR. It has a high involvement of non-HR entities and staff and is partially conducted by them.

Workforce planning and controlling has many interfaces and overlaps with other company and HR processes that also address the alignment of workforce supply and demand and the maximizing of the workforce use, for example, strategic and business planning, budgeting and controlling, talent management, succession planning, training, performance management, reward management, recruiting, or knowledge management.

Different Levels

Workforce planning and controlling takes place at different levels, from long-term strategic to near-term executional (see Fig. 1).

Fig. 1 Levels of workforce planning and controlling

Strategic Workforce Planning and Controlling

This process deals with a long-term planning horizon of up to 10 years. It forecasts the workforce at a high level of aggregation, often at job cluster level, never at an individual employee level. Its goal is to develop a workforce plan that takes into consideration all workforce perspectives, allowing changes to fundamental workforce assumptions such as regional workforce allocation or capabilities to avoid workforce gaps. This process builds on a job (family) model and develops a workforce model with workforce drivers to simplify planning complexity and simulates the future workforce demand and supply.

Operational Resource Planning and Controlling

The focus of operational resource planning and controlling is the short-term detailed headcount and workforce budget. The time horizon is up to 2 years, but it is often aligned with the yearly business planning and budgeting process. It balances corporate headcount and financial budget targets with bottom-up line manager needs. Operational resource planning builds on the high-level strategic workforce plans, but it is much more detailed. The goal is to define the precise number of jobs needed in the different locations including the time when they are needed and the related financial budget. The workforce demand is broken down to detailed organizational entities and on the supply side to the individual employee. The output of this process feeds into the recruitment and capability development plans.

Executional Manpower Planning and Controlling

Executional planning and controlling addresses the near-term workforce needs, from daily to monthly, with a maximum time horizon below half a year, often one quarter. It is often a scheduling and resource allocation process with a roster, a shift plan, or a project resource plan as key deliverable (and change, usage control, and release management). Key interfaces are, for example, production planners, less so talent managers, or finance staff, as in the other process levels. Often this process is not assigned to HR but to supervisors or managers in business areas.

Executional planning and controlling matches individual employee schedule preferences, needs, availabilities, and competencies with business operation requirements/plans (e.g., production plans, project schedules), often becoming very precise regarding the exact location (e.g., production line) and going beyond the limitations of the organization's job model with its more high-level job definitions (e.g., IT software developer with focus on inbound logistics). It also takes into account internal policies and external regulations.

The further focus of this chapter will be on the mid- and long-term workforce planning and controlling.

Dimensions of Planning and Controlling

Workforce planning and controlling focuses on different perspectives, depending on the level. Altogether the following dimensions are relevant that are summarized in Fig. 2:

Number of People

The dimension relevant for all types of workforce planning and controlling activities is the number of people. The number of people planned and controlled can be the headcount and/or full-time equivalents (FTE). For strategic purposes FTE are more relevant due to the long-time horizon; for the other purposes, both numbers are used.

It is important to define the scope of the workforce: Are only salaried employees included? What happens with external resources supporting company processes such as freelancers and managed services provided by third parties (the latter often without clear FTE and headcount numbers as deliverable/results oriented)? With more and more outsourcing and networking, the scope of workforce planning and controlling needs to be clearly specified. This depends both on the goals for workforce planning and controlling, as well as the specific business environment, and on the ability to plan and control the relevant numbers which makes managed services often difficult to include (even in case of collocation).

When looking at headcount or FTE numbers, key questions to be answered are:

- Will the workload increase or decrease (requiring more/less staff)?
- Are there major workforce shortages in any critical areas? Does the organization anticipate any?
- Does it make sense to transfer selected business processes or activities fully or partially to external resources?

Costs

A key aspect at all levels of workforce planning and controlling – though somewhat less in focus for executional manpower allocation – is the cost associated with employing the workforce. Workforce costs not only include normal payroll costs

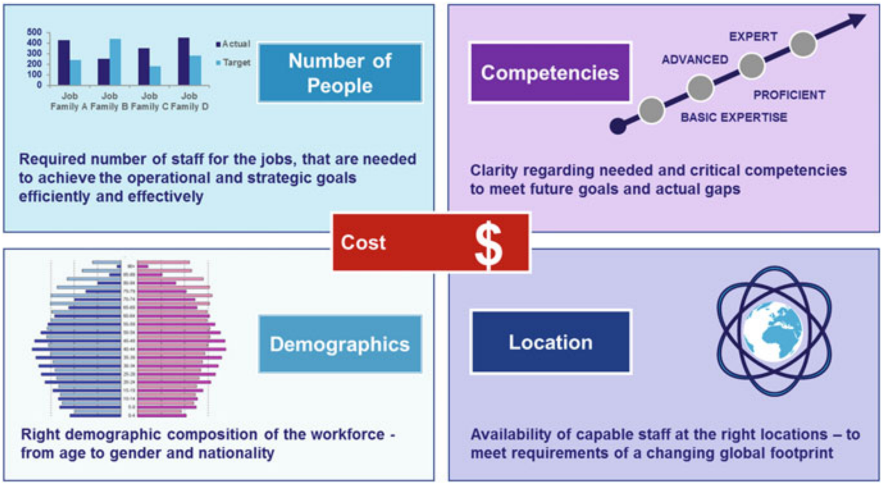

Fig. 2 Dimensions of workforce planning and controlling (Hay Group 2014)

but often additional cost elements that are relevant for workforce-related decisions such as recruiting and onboarding costs or severance payments (in case of needed workforce reductions). As already clarified in the previous paragraph, the make or buy decision (using external resources) is critical for workforce planning and has a major impact on costs.

Questions asked related to workforce costs include:

- What are the forecasted workforce costs given expected pay rises and demanded changes in FTE from business at the different locations and for the different grades? How can it be aligned with the top-down budget targets?
- Will the organization have the right staff cost ratio in the future if the current trend continues?
- Will staff costs rise in line with expected revenues?
- What would be the ideal distribution of staff across different locations from a cost perspective now and in the future?

Competencies/Capabilities

Planning and measuring people competencies is generally considered a key part of talent management/people development. But workforce planning has many interfaces and overlaps with talent management in this topic. When planning the workforce, the "right" people are needed. Often potential gaps between workforce demand and supply exist even though there are the right number of people at the right location – but with the wrong competencies. When speaking of competencies, all types of competencies are meant and are considered relevant for a good role fit, for being able to execute all accountabilities assigned to a job: from behavioral competencies to technical skills and subject matter expertise.

Workforce planning uses competencies in a different way than talent management. Generally, core competency requirements are defined for jobs and job clusters as part of a job family framework (together with the core accountabilities of the job; see detail below). This ensures a common understanding of the competency profile for a job that is subject of the workforce planning exercise. Workforce planning and controlling does not drill down individual people level or to a specific competency.

An exception to the latter is the critical competencies identified during strategy decode. These are the capabilities that support the delivery of a company's or an entity's strategy and business model: Some are quite generic that most organizations need to have (e.g., innovation or customer orientation), whereas others are company, sector, or function specific (e.g., English language skills for a company going global or agile software development expertise for a software house).

Workforce planning and controlling identifies, plans countermeasures, and monitors:

- The **overall, aggregated gaps** in the competency profiles **at job/job cluster level** – now and in the future
- **Critical competencies' gaps for the relevant different jobs** and how the critical competency requirements change over time for the different jobs – aggregated for the relevant job holder population, not individual employees
- **Potential moves between the different jobs** including their prioritization and the resulting impact on workforce supply for other jobs

It interfaces with talent management that supports competency profile definition, measures actual role fit of individual job holders, and determines development measures and potential job moves (together with the relevant business line managers).

When looking at competencies, typical questions to be answered in workforce planning and controlling are:

- Does the company have the right skills to deliver key processes in the future?
- What are the jobs/job clusters where the required competency profiles will significantly change?
- What are critical competencies for the organization? Which jobs need these competencies?
- Where does the company have a gap for the critical competencies – now and in the future? How will the demand and supply for the critical competencies change?
- What are potential feeder jobs for new roles? Where is the lowest "distance" between the competency profiles of a new role and existing jobs?

Location

With globalization choosing the right location for the workforce is crucial for meeting the company goals – as it means being close to the clients, to suppliers, and to labor markets that can provide needed skills and at the right costs. Whereas for strategic workforce planning location means in most cases country or region (forecasting demand and supply at site level in 5–10 years is often too challenging for most organizations), for operational and executional workforce management, the level of detail is site or even production line.

Workforce planning and controlling helps answering:

- Are the people in the different job families in the right places?
- Do strategic shifts (e.g., globalization, regional market changes, local labor availability) require a different distribution of staff across regions or locations?
- Will the organization get the additional resources where it needs them?
- What are the cost of workforce implications of a specific global footprint?

Demographics

A key challenge for many organizations is the right demographic structure of its workforce. Identifying the risks and avoiding an aging workforce where key resources will leave the company within the next years or a workforce where specific age cohorts dominate or are underrepresented, striving for more gender parity and cultural or national diversity in the workforce is one of the key goals defined by many companies.

The following questions can be answered:

- Does the company have a problem with its age structure?
- Are there specific job clusters or sites that are threatened within the next years with an exceptional loss of expertise?
- How will the gender distribution change with a gender policy? How fast will it have an impact?

Other Organizational Attributes

Besides the key dimensions listed above in workforce planning and controlling, often additional, organizational attributes are considered as well. It is important that mid- and long-term workforce planning and controlling get the workforce distribution right according to these attributes as this ensures a proper implementation of a company's operating model. These attributes include:

- Grades (clusters of jobs based on the jobs' evaluations)
- Type of roles (supportive/advisory, operational, etc.)
- Managerial vs. nonmanagerial roles
- Headquarters vs. regional/divisional jobs

Typical questions answered are:

- Is the distribution across the grades in line with organizational and cost requirements?
- Is there an appropriate balance of operations, project, development, and managerial positions?
- Does this reflect the expected distribution according to the operating model?

The Process

The workforce planning and controlling process can take many forms and, as already described, takes place at different levels with different time horizons and scope. It generally follows this sequence:

Strategy Decode

This step is focused on aligning workforce planning with the organization's strategy and business planning process:

- Understand the business (area), the external factors impacting the business now and in the future (including trends such technology or regulatory change, competitor activity), its (strategic) plan and objectives, how it makes money (the business model), and internal assumptions and constraints.
- Decode the organization and analyze the operating model (now and potentially in the future) and its core processes (which are key to success now and in the future).
- Identify the strategic capabilities (e.g., specific production, service, or innovation capabilities) and roles (specific critical jobs such as integration manager or recipe developers) that underpin the business. Strategic capabilities and jobs are essential for the successful delivery of the company's business model.

Workforce Modeling

Workforce modeling is about creating a model to determine the workforce demand and supply and identify the gap between both. The model is needed to simplify the reality of the organization and its environment and the many factors and dynamics that drive workforce demand and supply. The workforce model has a structure element – how to describe the workforce in terms of job families, competencies, etc. – and a set of model variables (dimensions) and drivers. Depending on the workforce planning process level, it might be very simple and operational or very complex with many drivers and dimensions. Additionally, workforce KPIs are defined for analysis and reporting purposes.

Data Gathering

Workforce modeling and controlling is extremely dependent on the availability of good quantitative and qualitative data related to the workforce. Three steps make up this process stage:

- Focus is first on defining and checking the availability of (at least) the most fundamental workforce data and possible driver data. This includes determining the scope of needed data and identifying data sources, people to contact, and potential quality and quantity issues. In some regions determining and solving potential data protection issues is often as important as the identification of the data itself.

- Collecting all data needed to fill the workforce model and assure highest possible quality is often the second challenge as data must be gathered from different sources and systems and need to be made consistent.
- Assessment of gathered data regarding quality (missing values, potentially wrong values, etc.), mostly sample based and with some plausibility tests, is the final step.

Needed is the following type of data:

- Current data (as-is workforce composition with its locations, pay levels etc.)
- Future data (e.g., forecast of changes in market demand, workforce availability)
- Historic data: Needed, for example, to define assumptions (e.g., about future attrition or pay rises)

Examples of needed data are listed in Table 1.

Workforce Analysis and Simulation

In this stage:

- The current workforce is analyzed.
- Workforce scenarios are defined.
- The workforce model is applied conducting workforce simulations to determine how the workforce will evolve over time, workforce gaps and risks are identified, and workforce-related reports are generated.

The focus is on numerical and financial elements (quantitative), but it will also have qualitative elements covering, for example, competencies and ways of working in the future scenarios. Key deliverable of this phase is the report on the actual status of the workforce and on the forecasted workforce demand and supply, the workforce gap analysis, and a set of issues/risks that need to be addressed to close the gap in the next step.

Workforce Plan Development and Implementation

This step involves the discussion and development of workforce plans to close the workforce gaps or address other workforce risks and issues. These plans can be checked for their impact, for example, by adding the respective policies to the workforce model and conduct an additional simulation to analyze the implications. These workforce plans typically include measures in the areas of employer branding, retention, recruiting, onboarding, training, restructuring, changing of make or buy strategy, succession planning, automation etc.

This step includes securing of human and financial resources, clarifying and communicating of accountabilities, and the needed alignment between all involved entities to execute the action plans and achieve the matching of workforce demand and supply. Success evaluation criteria are defined and regular monitoring of outcomes is established.

Table 1 Examples of needed data for workforce planning and controlling

Data category	Data requirements
Existing workforce metrics	Current staff records with FTE, demographic attributes, location, job, costs, organizational entity, etc. Type of contracts (permanent, part time, freelance contract, managed service) Attrition, illness rates, retirement, labor moves, promotion speed Trainees and apprentices Productivity levels
Competencies	Current jobs, job clusters, and job families Core competencies for each of the jobs/job clusters Role fit of current job holders Career paths Emerging or changing competencies required for future work Scarce competencies Market trends of jobs and competencies for specific job families
Number of people	Ratios of staff numbers to work activity levels – for benchmarking Target efficiency levels – staff per work activity (leading to staff numbers) Expected productivity gains Span of control Planned activity levels (e.g., production targets)
Location	Current headcount/FTE by location Current labor supply issues per region Forecasts of labor market changes Demographic changes in target/customer markets Employer branding in the different labor markets Future location strategy – including probable labor moves
Cost	Current salary levels/pay bands by grades Additional total remuneration elements Recruiting, training, and severance costs Target workforce budget Future pay rises and pay bands
Other organizational attributes	Grades Job types Workforce sourcing policy or targets (“make vs. buy”) Future operating model

Monitoring

This step involves the usual monitoring of the workforce plans’ implementation and their actual workforce impact as well as the adjusting of the plans if needed. It should also look into potential changes to assumptions in the workforce model that would lead to different results in workforce demand and supply and changed/new workforce gaps. A regular review and rerun of the workforce analysis and simulation are recommended.

The described steps of the whole process are an ideal, simplified setup with a clear sequence. In practice there are different workforce planning and controlling process levels with different time horizons that have interfaces between each other and to other company processes. The workforce planning and controlling processes at the different levels do not proceed at an even pace, and they have quite a different scope, with executional workforce planning focusing on specific entities/functions/processes, operational workforce planning addressing the whole workforce, and strategic workforce planning dealing with the whole workforce at a very high level and focusing on critical jobs/job clusters with more effort. Generally, organizations need to take care that the process does not become too complicated and is not executed too rigidly which is one of the reasons why it fails quite often. And it needs to involve the required stakeholders from the different parts of the organization.

Workforce Segmentation

Strategic workforce planning and controlling can be conducted from an organizational perspective (organizational entities are the focus) or a job perspective (clusters of jobs are the focus). As many jobs or positions in different organizational units are quite similar, it is highly recommendable to work with a job family framework or model as basis to avoid silo-based planning and controlling. A standardized and structured job (family) model helps to better cope with the challenges of complexity – simply by reducing it and switching from the individual employee to (clusters of) jobs. Once this model has been established, it will have specific benefits not only for different workforce planning and controlling purposes, but supports talent, reward, and organization management (in a consistent way) as well.

A job family model has two dimensions:

- It incorporates the value chain of the organization by creating different job families and sub-job families. It "classifies" jobs according to their organizational environment and influence.
- It reflects the organizational hierarchy with different job levels or types (such as manager, professional or operator).

It allows to map every employee clearly into one job or job cluster of the job model that have similar requirements and core accountabilities.

There are standardized holistic job models already available in the market (e.g., from providers of benchmarking data such as Hay Group) as well as function-specific standards for processes and job roles (e.g., for ITIL for IT or PMI for Project Management) that can serve as a basis for a job model. When creating or enhancing an organization's job model, this should be a common project from HR, business, and other relevant functions.

Segmenting the workforce allows to focus on planning and controlling of the critical jobs for the organization and to avoid planning in detail of all jobs – leading to a major increase in effort without real benefits. To identify critical jobs, the following criteria can be applied:

- **Relevance for strategy:** Jobs underpinning strategic capabilities
- **Relevance for organization:** Key jobs in the hierarchical structure of the organization such as pivotal matrix roles (managing important interfaces between different entities)
- **Relevance for processes:** Jobs in mission-critical processes or process steps
- **Relevance for core business**

Additionally, a filter should be applied to really focus on the jobs that need to be planned with more effort: **Scarcity**. This filter considers the availability of people within or outside of the organization for the relevant jobs and/or the time required to develop the needed competencies to do the job.

Workforce Analytics

A key element of workforce planning and controlling is the reporting and analysis of the current workforce. Based on the data generated and stored in its different IT systems, nearly all organizations report and review a basic set of workforce KPIs. Typical workforce KPIs include age, gender, nationality, location, attrition and absence rates, and cost of training or recruiting per hire. They provide decision-makers with important insights of the development of the workforce, but it is a very limited view showing problems in the past period, not challenges in the future. Typical workforce KPIs include:

- Number of people: Age structure, gender distribution, attrition rate, retirement rate/ages, absence rates, employee engagement levels
- Competencies: Role fit per job or job cluster or critical competency
- Financial: Overall or average workforce costs by job family or organizational entity, profitability, or revenue per FTE
- Location: Breakdown of workforce by location and critical mass by site

Important is the alignment with the HR KPI system or HR dashboard as both partially overlap.

At a second, higher maturity level, a more structured approach and in-depth analysis of the workforce KPIs is conducted. This includes the development of a workforce data architecture and a holistic set of workforce KPIs (partially integrated in a balanced scorecard approach), trend analysis of KPIs over the years, and benchmarking of key workforce KPIs with other companies to assess the organization's performance.

For a third maturity level, the term HR or workforce analytics is frequently used today. Workforce analytics goes beyond normal reporting and analysis. It provides comprehensive workforce performance measurement, giving additional insights by identifying links and correlations, using cause-and-effect relationships between different workforce KPIs and also related to other business KPIs. This helps

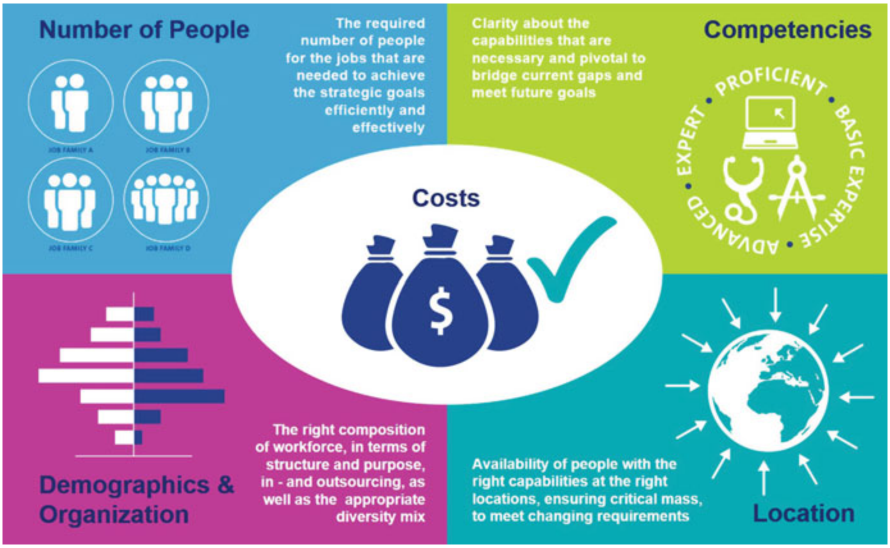

Fig. 3 Example of a high-level workforce model (Created with Dynaplan Smia)

determine the effectiveness of workforce-related measures and steers the available resources to the workforce plans with the greatest impact. It helps HR because it shows the often very figure-driven line managers the link between specific workforce-related actions and business results.

Workforce Modeling and Simulation

Planning and forecasting the workforce several years in advance for a complex organization that is embedded in a complex environment with a lot of links and dynamics is a challenge. Therefore, workforce planning – beyond the executional, resource management level – requires as basis a model that simplifies the reality without neglecting key drivers and system attributes. The core of this model is usually – for mid- and long-term planning – the job (family) model that already takes some complexity out of the workforce model (Fig. 3). A very sophisticated approach of workforce modeling and simulation with supply and demand model is described by Berendes et al. (2012).

Supply Model

The supply model describes the workforce supply starting from the current workforce. It defines the drivers of the workforce supply. These include:

- Voluntary/involuntary leaves
- Retirements
- Changes within the company or the job clusters

- External recruiting
- Illness rates
- Factors that impact the effective working capacity (e.g., vacation, training)
- External resources

Demand Model

The demand model describes the workforce demand based on the results of the strategy decode. It defines the drivers of the workforce demand. Typical drivers are:

- Market/client drivers (e.g., revenue or product output change, expansion to new regions, and establishment of new sites)
- Investments (e.g., major development projects)
- Operational/technology drivers (technology trends, experience curve)
- Internal policy drivers (e.g., rules for span of control)
- External regulatory drivers (e.g., compliance requirements, working hours)

Sometimes a driver hierarchy needs to be defined, e.g., for enabling functions' jobs such as IT or HR that are impacted by the overall workforce growth.

Scenario Definition and Simulation

Forecasting workforce demand, supply, and gaps requires defining scenarios and running simulations. Scenarios are possible future states of the organization and its environment that represent alternative, plausible conditions with different assumptions for the defined drivers (on the demand and supply side). When defining scenarios, three types can be distinguished:

- As-is scenario: Normally the current situation with the as-is attributes for the drivers is kept stable for the future. This scenario is often used as reference for the other ones.
- Environment scenarios: Realistic combination of changes to external drivers (e.g., market demand, technology changes, regulatory changes).
- Option scenarios: Decision and actions taken by the organization to address the external challenges (e.g., recruitment policy).

Defining environment scenarios is normally the starting point, whereas option scenarios are defined when the workforce gaps and challenges have been determined based on the environment scenarios and simulations. The scenario development and simulation process are an iterative process as defining realistic scenarios with the possible key measures to balance workforce demand and supply needs to be performed several times.

An outcome of the scenario development and simulation process is normally 2–3 scenarios (including a base/as-is scenario) with their description of assumptions (regarding the supply and demand drivers), the resulting future workforce demand and supply, possible key measures, and their impact on closing the workforce gap.

Workforce Plan Development

The type of actions available for the different levels of workforce planning varies. From a more strategic view, a workforce plan with measures to close any current or future gaps in the relevant workforce or critical jobs may include:

- **Make or buy**: Review percentage of external resources, e.g., increasing amount of external resources with outsourcing and lower personnel cost with near- and offshoring activities.
- **Recruiting**: Develop new recruiting strategies to prepare for increased external hiring, including new/revised processes for selection and assessment to increase success rates. Design of retention programs.
- **Termination**: Design of programs for early retirement or redundancy programs.
- **Structures and roles**: Redesign organization structures and job profiles, e.g., more focused jobs or jobs enhanced with additional accountabilities and competencies to increase flexibility. Define new critical roles with their required competencies and feeder roles that are needed mid- and long term.
- **Remuneration**: Develop new remuneration programs, e.g., to lower staff fluctuation or personnel costs.
- **People development:** Determine people development programs including training, mentoring, coaching, and onboarding to increase the role fit for critical roles or job clusters.
- **Talent management**: Adjust or develop talent management policies including career paths, succession planning, and promotion policies. Adjust resource management relevant processes, such as allocation of resources to projects.
- **Health management**: Set up focused health management programs to increase productivity and engagement and to lower attrition and illness rates.
- **Knowledge management**: Design knowledge management structures and programs to cope with outflow of skilled staff.

A cross-functional team with different backgrounds and areas of specialization from the relevant business area and HR is the recommended option to develop the plan. Core measures are already developed as part of the scenario development and simulation process. A business case should be created for plans with considerable investment to check the cost-benefit ratio of the developed plan and ensure economic viability.

People Perspective

From a people perspective, the following different stakeholder groups can be differentiated:

- HR people
- Business leaders and line managers from non-HR entities
- External stakeholders (shareholders, suppliers/partners, unions)
- Finance and controlling staff
- Corporate strategy/development staff

When conducting workforce planning and controlling, the common understanding needs to be that workforce means people. Planning and controlling of people is different from planning and controlling of (other) company assets. Not taking this into account in every step of the process will lead both to potential resistance from key stakeholders and to a number focused approach that neglects other workforce attributes. This implies also different change management and communication measures when introducing/adjusting workforce planning and controlling.

HR People

As the owners of the employee lifecycle management processes and the lead on human capital management, they should take over a key role in workforce planning and controlling. This does not imply that they should have the lead role as this should be taken by business. But HR should have a governance, enabling and supporting role in workforce planning and controlling. Also HR needs to take a global corporate view of resource management and how it can be optimized across organizational entities and silos.

HR people have different stakes in workforce planning and controlling, depending on their role and the unit they belong to and their background.

HR Business Partners

HR business partners are the codrivers of the workforce planning and controlling process together with business area leaders and their controllers. Unfortunately, many HR business partners confine themselves to a very operational role that fits with the more operational workforce planning and controlling and less so with the strategic one. Therefore, they sometimes feel intimidated by the strategy dialogue and workforce modeling process and try to avoid it, though it is the most critical stage as all subsequent work will be built on that basis. Training and coaching of HR business partners especially in strategic workforce planning and controlling is essential.

HR Controllers

HR controlling is the home of all data gathering, monitoring, analysis, and reporting related to both the organization unit HR and the workforce (which is partially overlapping). HR controllers normally take over the accountability of setting up processes (with finance/controlling and corporate strategy), systems (together with IT), and methodology/frameworks for workforce planning and controlling, though partially the more strategic elements are also assigned to HR strategy departments. Often they also manage the related systems, conduct more complex modeling and forecasting tasks for the business areas, facilitate the workforce planning process, and ensure workforce planning governance. HR controllers normally embrace taking over these accountabilities. Sometimes, depending on the role concept for controllers in the respective organization, the strategy decode and workforce modeling steps pose problems as HR controllers lack the needed strategic capabilities required.

Functional HR Experts

HR experts from reward, talent management, or training are involved in delivering needed data (e.g., salary data, role fit of job holders), in giving input to develop needed frameworks (e.g., job family framework, potential vertical and horizontal career moves), and in defining the measures to close workforce gaps or avoid other unintended, forecasted workforce situations.

These experts partially show a lack of understanding especially for the strategic workforce planning approach that puts a focus on job clusters and not on individual employees. They also have additional, partially conflicting interests, e.g., to create a job family framework that serves different needs, not only for workforce planning.

Business Leaders and Line Manager

Many business leaders see workforce planning and controlling as one of their core processes. As the owners of the business strategy (for their part of the business), they know the workforce drivers and can deduce the workforce capabilities and quantities needed to achieve their strategic targets.

Generally, business leaders appreciate better workforce planning – if it is not too rigid, too complex, and leaves them with sufficient flexibility. Avoiding workforce gaps is critical for achieving the business targets: Not enough resources means that the top line cannot be achieved. Too many resources (overcapacities) will lead to higher personnel costs than adequate and potentially to layoffs with a considerable impact an employee engagement and the company's image.

The focus of workforce controlling from the business is on reporting and managing of headcount. Often, if the HR maturity level is low and/or the needed HR analytics tool not available, business also does not receive any additional information besides headcount from HR for managing its workforce.

Business is generally more focused on operational workforce planning and controlling. Often line managers even take over operational workforce planning tasks themselves and only involve HR if additional support is needed. Strategic workforce planning is frequently considered as nice to have but not as a task of high priority. Therefore, HR ends up with driving and conducting strategic workforce planning. This often leads to a lack of acceptance of the analysis results and measures on the business side.

Finance and Controlling

As the owners of the budgeting and controlling process, workforce planning and controlling is considered by these stakeholders as either being a subprocess of budgeting and controlling (1) or a process that needs tight integration with budgeting and controlling but is generally managed by business and/or HR (2) or a distinct process that receives key input from budgeting and controlling and provides planned and actual headcount numbers and costs back without further process integration, governance, and steering from finance (3). It depends on the overall company operating model and how finance actually interprets and lives its role, which involvement finance seeks in workforce planning and controlling. In case of organizational option, (1) there is a strong tendency to limit workforce planning and controlling to the headcount and people costs dimension. In case of option (3), there is the risk that workforce planning and controlling is managed too independently from other planning and controlling processes with a lack of alignment and therefore results that are partially not adequate and are not (fully) accepted by the key stakeholders.

Corporate Strategy/Development

Corporate strategy/development departments define and steer the strategy development process and monitor the achievement of strategic targets. The workforce of a company – a key element for the company's successful strategy implementation – needs to be an integral part of the strategy development process. Unfortunately, corporate strategy/development often underestimates the workforce impact or neglects the workforce part in strategy development. Determining strategic capabilities of a company, the high-level regional footprint and potential critical workforce gaps and the resulting strategic measures are crucial for a company's strategy implementation, not only for organizations with an overwhelming reliance on the workforce for their value generation. Corporate strategy/development needs to ensure that the overall strategy development process is tightly aligned with strategic workforce planning, not only one way but also with a feedback loop from strategic workforce planning back to the overall strategic planning process.

All Employees

In general, employees have great advantages from a professional and adequate long- and short-term workforce planning. Aligning the workforce demand with the workforce supply of an organization avoids:

- Hiring employees that are not needed (mid- and long term). The organization does not have to lay off employees due to insufficient planning.
- Having not enough employees when needed in the right location with the right skills. Stress and overtime work of employees can be reduced.
- Lack of workforce transparency and planning in organizational silos. The organization can offer employees better career planning and options.

Unfortunately, workforce planning and controlling is also associated with workforce optimization and therefore generates some fear on the employees' side. Partially, employees also feel that it creates too much transparency of the workforce and they are treated in the same way as any other asset of the company.

External Stakeholders

Shareholders/Supervisory Board

Human capital topics rise in importance for companies, and therefore shareholders and the companies' supervisory boards generally ask for and approve an improved planning and controlling also of the workforce. Supervisory board members partially ask the CHRO how workforce planning is conducted and how can the company improve the planning and controlling of the workforce. Creating more stable forecasts, avoiding critical workforce gaps, and supporting a better implementation of the agreed corporate strategy are rising in the priority list on the shareholder side.

Unions/Works Councils

The analysis regarding the target group "all employee" applies also to unions and works councils. Here the effects of better planning are also regarded positive. At the same time, to conduct workforce planning and controlling properly, a huge amount of data needs to be gathered and processed to get the needed insights. This includes also people-related data such as age, gender, and pay. This might cause problems with data protection and antidiscrimination laws. Unions/works councils intervene here on behalf of the employees to protect them. As the information is used as well for workforce optimization issues, this might create conflicts with the representatives of employees' interests.

General Public

The society as a whole and the government appreciate if layoffs are avoided. Workforce planning can support this target. At the same time government entities need reliable forecasts of employment information for the different sites and regions they administrate. Partially governments also grant subsidies to companies based on their employment forecasts at the respective sites and regions. Fulfilling the companies' commitments to generate or safeguard a specific number of jobs is critical for the government's success (and the company to keep the subsidies).

Economic Perspective

Cost of Workforce Planning and Controlling

Implementation Costs

Designing, piloting, and implementing a new workforce planning and controlling approach, structures, processes, roles, and system require a considerable investment. Depending on the company size, six digit sums of internal and external costs for projects to roll out workforce planning and controlling are within the normal range for this type of projects.

System Costs

Conducting workforce planning and controlling in a professional way requires for medium and large companies more sophisticated systems than just spreadsheets. Normally HR analytics systems and/or specialized workforce planning systems are needed to support the approach and processes. Depending on the number of users, the type of operations (hosted on own server, cloud solution as offered by many system providers today), and the complexity of the needed systems (including the interfaces to the ERP system in order to import the workforce status from or export the workforce planning data to the ERP system), costs vary.

Operational Costs

Conducting workforce planning and controlling in a professional manner requires in medium and large organizations for the operational and strategic process level several dedicated but not necessarily full-time resources. The buildup of these resources occurs normally in HR, where specialists with the expertise to handle the more complex tasks of the relevant systems/tools (e.g., workforce modeling) and to facilitate the workforce planning and controlling process support business. Additionally, all relevant stakeholders need to invest considerable time in this process.

Impact on Overall People Costs

Workforce planning and controlling has the potential to lower overall people costs. Key saving potentials are, for example,

- **Layoffs:** Avoid severance payments in case of layoffs due to a higher workforce than needed.

- **Overtime pay:** Avoid higher overtime pay due to a higher workforce demand than needed.
- **External resource costs:** Avoid using external resources with higher costs to fill unplanned workforce gaps.
- **Cost-effective location:** Determine the most cost-effective locations for specific job clusters taking into account current and future pay levels, labor productivity, availability of resources, attrition rates, and hiring costs.
- **Flexibility of workforce:** Identify the need to make the workforce more flexible and enable and allocate employees to the jobs in need for resources.

Ensure Strategy Implementation

Implementing the business strategy requires the right number and skilled people in the right location at the right costs. Having not adequately skilled people or not enough people or people at the wrong location leads to problems in implementing the company's business plan. Workforce planning helps aligning and steering the company's workforce with its strategic goals and measures.

Risk Perspective

Compliance

Depending on the country, organization type, or size, there are different workforce-related reporting and compliance requirements such as the EEO survey in the USA or the Grenelle 2 Act in France that organizations need to fulfill. Getting the workforce-related data right and providing them to the relevant authorities at the right time and in the right format are necessary to avoid penalties or fines.

Besides data required from government agencies, there are other corporate responsibility reporting needs that are not mandatory, but especially for big corporations, there is an implicit pressure to provide some workforce-related information in corporate responsibility reports, e.g., on gender and diversity.

Transparency

Workforce planning and controlling creates transparency – about current and future gaps of workforce demand and supply. This transparency is not only a benefit from a steering perspective but poses a risk as well. There are often stakeholders in companies that try to avoid full transparency about the workforce because:

- They want to continue working in silos and do not want a company-wide workforce management based on job families, not organizational entities.
- They do not want works councils and unions to get a better understanding of the current and future workforce gaps and improve their bargaining position.
- It might show that long-term strategic plans that look good on paper are less convincing if taken the workforce perspective into consideration.

Different Levels of Detail

There is often a tendency to develop a workforce supply model with very accurate, detailed data requiring major effort of data gathering and quality assurance. At the same time the available future-related data for the workforce demand model is often much less detailed and of less reliability and quality. Investing too much effort on the supply side of the model poses a risk of wasting resources as the relevant result – the workforce gaps – is determined by the model with the lowest level of detail and quality.

Data Quality

The core risk for workforce planning and controlling in most organizations is the availability and quality of data. It leads both to additional effort (see next section) and to problems with the quality of the analysis and the results: “Garbage in, garbage out.” Data quality risks apply both to internal data and external data:

- Internal data might be not consistent, as it is gathered and processed in different systems. Partially data such as attrition rate is not available or only partially gathered and processed. A problem seen consistently in many global organizations is not the good availability of workforce data in the home country and core mature markets, but the lack of good data in emerging and smaller regions.
- Examples of external data that is difficult to get are future-related data such as pay rises, attrition rates, or availability of skilled workers in specific countries. They often need to be provided from third parties such as consultancies, research organizations (e.g., OECD), or other public entities.

Huge Effort

Workforce planning and controlling can lead to a huge effort and generally requires the buildup of additional resources. Additional resources might be required in HR, partially IT and controlling, but also in business areas. The amount of additional effort is determined by the scope of workforce planning (e.g., near-/short-/long-term planning), the depth of planning, and the available data and systems.

The required effort rises significantly in case of problems with the availability and the quality of data. Storage of workforce data in different, potentially not consistent HR systems is one of the main reasons for additional effort as data needs to be gathered and partially checked manually. Also setting up workforce planning and controlling as a regular process requires some automation of data input and reporting.

Data Instead of Information

A major risk is that a lot of workforce data is gathered or generated without really having a clear understanding and plan how to use the data from a controlling or steering perspective. The availability of a lot of workforce-related data and the ability to process these with the new IT systems in place are tempting for many departments. It often leads to data or KPI graveyards with useless reports that nobody is interested in or that nobody can use effectively for planning and controlling purposes. One typical area where this happens is capability data. Capability or competency data (both the to-be and the as-is data) per job or job cluster require a major effort to gather or to define and even more so to maintain. But many organizations have difficulties to use this data in their systems because the data is not transformed into meaningful information or it is not integrated into their workforce management processes. The cost-benefit ratio of these activities is often negative.

Resistance

The results of strategic workforce planning are based on a lot of assumptions. This leaves workforce planning, especially strategic workforce planning, open to criticism from different stakeholders. The only way to deal with this criticism is to include critical stakeholders into the planning process and create good transparency about the planning approach, the workforce model, and especially the underlying assumptions that need diligent and complete documentation.

Generally, works councils are supportive of professionalizing workforce planning as they hope that it will make the process more objective and understaffing more transparent. As workforce planning is linked to workforce optimization, in some occasions unions or works councils might be less supportive of workforce planning, if the analysis shows a higher workforce supply than demand, leading to calls for targeted reductions of the workforce.

Especially in some mature countries such as the USA or in Europe, specific demographic data such as age is considered as very sensitive, and gathering this data and using it for workforce analysis and forecasting purposes might meet some resistance from compliance side.

Tendency to Detach from Business Needs

From a business perspective, near- and short-term manpower planning is often regarded as more important than forecasting workforce demand and supply for the next 3–10 years. Therefore, operational workforce KPIs are much more sought after by business. HR has to provide a balance between short-, mid-, and long-term workforce planning and controlling support.

Partially, HR opts for a stand-alone, separate workforce planning approach or does not succeed in integrating or aligning with the key business or corporate strategy and planning processes. Potentially, this leads to a misalignment between overall business planning and HR-related planning.

Many workforce-related KPIs that are defined, gathered, and reported by HR have only a very limited link to the strategy and even to operations. They do not help with strategic alignment. Partially, they do not even have any steering or business relevance but are just data graveyards (see above). Additionally, HR often lacks the ability to measure not quantitative workforce indicators focusing on less relevant quantitative indicators.

Operational Perspective

New Roles and Processes

Workforce planning and controlling should not be only ad hoc activities but need a proper setup with new roles, processes, and structures – an operator model. Cores of an operator model are processes, hierarchical structures, and roles.

Processes

Depending on the scope of workforce planning and controlling, the different levels of workforce planning and controlling processes already listed above should be defined or need alignment:

- Strategic workforce planning and controlling
- Operational resource planning and controlling
- Executional manpower planning and controlling

Typically, for all these processes, similar core activities apply (of course with different time horizon, content, level of detail, etc.):

- Develop and align workforce planning and controlling framework, procedures, tools, and capabilities.
- Define workforce-related KPIs, targets, budgets, and reports.
- Workforce modeling.
- Information gathering including analysis of internal and external environment and future trends.

- Analyze and plan workforce demand and supply.
- Identify workforce gaps and risks.
- Generate workforce reports (internal, external).
- Develop, consolidate, and approve appropriate workforce plans and measures to close workforce gaps.
- Execute workforce plans.
- Monitor progress and performance of organization against workforce plans.

Structures

Workforce planning and controlling has not the "one" home organizational entity that it normally belongs to. HR controlling, HR strategy, HR recruiting, and HR talent management are the units that typically have specific teams, roles, or dedicated core accountabilities assigned. Partially, big corporations even create own workforce planning and controlling departments or center of expertise (CoEs). When establishing workforce planning and controlling in a more structured and professional way and going through different levels of maturity and expanding the scope of the approach, the full-time equivalents needed are rising considerably, and with this increase in resources, also the organizational setup changes.

Roles

The potential involvement of the different roles – especially of HR – in workforce planning and controlling has already been discussed in the "People Perspective" section of this chapter. New roles needed (especially for strategic workforce planning) are:

- Workforce modelers: Specialists creating and adjusting workforce models, assumptions, KPIs, reports, and dealing with data.
- Workforce process facilitators: Specialists supporting the business and HR business partners in managing the workforce planning and controlling process. These experts often have a governance role as well, providing guidance on approach and methodology.
- Key business users: Staff or managers in the respective business units, often from controlling or with controlling background, that conduct workforce planning and controlling in the business units with support and governance from specialized HR, IT, or planning/controlling functions.

Additionally, existing roles need to be enhanced. For example, HR talent management needs to redefine its role with respect to more strategic talent management topics that are often not covered by its traditional roles and processes. Dealing with job clusters, required competencies, and the (average or median) role fit of a cluster's current population is sometimes a challenge for specialists oriented toward developing individuals and their specific and distinct competencies and succession plans. Clarifying accountabilities between strategic workforce planning and controlling and strategic talent management shows in practice quite some potential for conflict.

Workforce planning is complex and allocating people to the respective jobs needs to be done with diligence. Just assigning "operational" HR people to workforce planning and controlling roles will not provide the desired results. For example, HR business partners need to understand the strategic business context and targets of the respective area and have the ability to conduct a strategic dialogue with the business to determine the workforce drivers – short term and long term. This might be considered a normal requirement for every business partner, but many do not meet it.

Integration with Existing Processes

HR will not be able to change the basic planning and controlling processes in an organization. Therefore, an integration of workforce planning and controlling into the existing process framework and flows needs to be achieved. This has to be accomplished at all different process levels, from executional workforce planning to strategic workforce planning. Integration into existing processes should not be restricted to the definition of clear interfaces, but strived for a real integration with iterative processes that, for example, feedback the results of strategic workforce planning to the overall strategic planning process with potential changes to business targets and measures. It not only encompasses definition of interfaces but also integrates into existing accountabilities frameworks, councils, and systems.

Need for New/Other Systems

When conducting workforce planning and controlling, many organizations still rely very much on spreadsheets, self-built small tools, and a lot of manual efforts. This is both a result of existing IT systems' lack of key workforce planning and controlling functionalities or/and a diverse landscape of HR-related systems that require working with spreadsheets to get one common view across all systems. Excessive effort, redundant work, data inconsistencies, and many errors in the analysis are often the result of these deficiencies.

Conducting workforce planning and controlling in a professional way requires, at least for medium and big organizations, a decent system support. There are different types of systems supporting workforce planning and controlling:

- ERP systems which often integrate (some) resource/manpower planning functions
- Business intelligence solutions which provide reporting and analysis functions also for managing the workforce
- Specialized HR systems such as Success Factors or Workday which offer more advanced workforce planning and controlling functions
- Specialized workforce planning systems such as Smia from Dynaplan or Aruspex
- Microsoft Office-based planning and analysis tools from management consultancies

- Systems focused on specific areas such as projects and programs with their specialized project and portfolio resource management such as Planview or CA Clarity

Buildup of a Consistent Workforce-Related Database

Workforce planning and controlling requires foremost workforce data:

- Comprehensive data encompassing all different workforce aspects (e.g., workforce demographics, capabilities, external workforce environment)
- Consistent data across the whole organization
- High-quality workforce data
- Historic, current, and future workforce data (historic data helps with forecasting)

Building up a database (not necessarily technically in one physical database) with all the needed data is required both for planning and for controlling purposes. This does not mean that without a database fulfilling all requirements, workforce planning and controlling is not possible, but the quality of results is lower and the goal needs to be to raise the quality over years with improvements of the database.

Building up this database requires a coordinated approach of HR, IT, and finance/controlling units.

Dos and Don'ts

- **Select the right scope:** Workforce planning and controlling can take place at different levels. It is crucial to clearly determine the levels of workforce planning that a company wants to achieve and is able to conduct. If a company does not have the needed maturity and systems/processes, it should not start implementing it.
- **Avoid too much complexity:** Many companies build in their HR KPI systems or workforce planning models from the start a very high level of complexity to make forecasts as realistic as possible and cover all HR areas. This overwhelms most organizations, both regarding the needed data to feed the model, which is not easily available, and the amount of variables and its interdependencies. It is highly recommended to increase the complexity over time, starting with more high-level models or systems or very focused on one area. Otherwise, stakeholders are overwhelmed and do not see the benefits.
- **Training the strategic dialogue:** The need of alignment of the workforce strategy, model, and KPIs with the company's strategy, the business model, and, if possible, also the operating model has been emphasized in this chapter. This requires a strategic dialogue between the business leadership and the HR business partners, which is often not conducted or not in a way that properly identifies and converts the business drivers underpinning the business model into

strategic capabilities, critical roles, or workforce demand drivers. Training and coaching of both sides in the strategic dialogue process is often needed to make it work. Business leaders often have problems translating and communicating their strategy to HR, and the HR business partners often lack needed strategic dialogue skills and deep business understanding. Both need support in determining the right workforce drivers and quantifying them.

- **Job families as basis:** Organizations partially start workforce modeling, reporting, or forecasting without a clear, structured, and organization-wide consistent segmentation of the workforce – a job family model. They postpone it to a later stage as it requires quite some internal coordination effort. But this often backfires. For example, conducting the mapping of parts of the workforce or adjusting IT systems with the need to redo it later because the proper segmentation is missing is a waste of resources and often leads to a resistance to workforce planning and controlling in general.
- **Define a dependable operator model:** As workforce planning and controlling involves many different key stakeholders and has interfaces with other planning processes, it is of high importance to develop and run an operator model that is processwise integrated and balanced regarding the assignment of accountabilities. This requires integrating the existing strategic and operational planning processes with workforce planning and controlling work. Also the different stakeholders from HR and business to finance and controlling need to be assigned the appropriate roles and needed resources. A highly HR-focused operator model is seldom successful.
- **Identify the critical competencies:** Most companies are struggling when trying to plan and monitor too many competencies on a longer-term basis. Identifying the critical competencies and forecasting and monitoring their demand and supply are important in order to initiate needed measures to secure the availability (by development or acquisition) of the competencies when and in the quantity needed by the company.
- **Involve business:** Even though business often tries to define it this way, workforce planning and controlling should not be an HR-only exercise. It is a cooperative effort of different parties, involving business leaders, strategy departments, finance/controlling, HR, and often IT. Getting regular buy-in from these stakeholders at every stage of the workforce planning and controlling process is crucial for its success.
- **Invest time on data:** Workforce planning and controlling depends completely on good, reliable data. Already when starting activities to define new reports or introducing operational or strategic workforce planning, the availability of data needs to be checked. It is worthwhile investing time to think about the data architecture, ways to collect data, and how to maintain and progressively improve this architecture to better reflect workforce planning and controlling needs. Many organizations waste time and money on collecting unnecessary information or defining reports or workforce models that cannot be filled with needed data.
- **Avoid spreadsheet tools in the long term:** Many organizations consider spreadsheets as the tool to use for workforce planning and controlling because of its

flexibility, ease of customization, low price, and broad user base. But it has a weak error control, is difficult to inspect and explain, may lead to unit inconsistencies, and has a low maintainability. In addition, it offers only poor support for dynamic workforce planning models and simulations. Using spreadsheets might be the right solution for small companies or in the piloting phase. Experience shows that even the most sophisticated spreadsheet-based tools have a limited lifecycle as they cannot cope with the requirements of bigger organizations over time.

Final Comments and Outlook

There are clear differences between regions regarding the status and maturity level of workforce planning and controlling. Organizations in many mature markets are turning their focus more and more on strategic aspects as they have pressing needs in areas such as demographics and diversity. Emerging markets' organizations still struggle with more operational topics of workforce planning and controlling.

It has to be seen whether this time workforce planning is here to stay and would not disappear because – as in the 1970s to 1990s – especially long-term workforce forecasting is considered a futile exercise. There are several trends that might positively influence the future of workforce planning. A leading trend that will heavily impact it is "big data." Another is the changing system landscape with increasingly integrated HR systems (e.g., SAP SuccessFactors) that combine hard and soft data regarding the workforce (e.g., people skills) as well as workforce data with strategic workforce drivers and output measures. The availability of sophisticated workforce reporting, analysis, and simulation tools (e.g., Dynaplan's Smia) will enable companies to work with more complex models, and data as MS Excel might lose its leading positions as the analysis tool of choice also in HR. A third trend is the availability of external data that allows combining internal workforce data with organizational benchmarking, labor or product market data, and social data. Combined with a less rigid forecast and more openness to understand the organization's and workforce's context better, workforce planning and controlling might be here to stay.

Whether HR will be finally one of the drivers of workforce planning and controlling will heavily depend on how HR is able to position itself in the internal power struggle between the functions of an organization. Strategic workforce planning is one of the best means to establish HR on par with other key company functions. To achieve this HR needs to become much more strategic; otherwise finance, controlling, and strategy development will get into the lead.

Cross-References

► Human Resources Strategy and Change: Introduction and Overview

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Human Resources Strategy and Change: Essentials of Mergers, Acquisitions, and Joint Ventures

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Abstract

Acquisitions, mergers, and joint ventures are key, strategic options that organizational leaders may consider in the pursuit of growth or survival. The challenge is that these options have a high rate of failure. HR can increase the likelihood of success by deepening the focus on the people aspect as these options are considered and executed.

These strategic avenues have five phases in common: discovery, due diligence, agreement and announcement, integration, and sustainable performance. During each phase, HR has an opportunity to help organizational leaders understand the risks associated with the people factor and make informed decisions.

This chapter will provide you with an understanding of your role during these phases as well as a summary of dos and don'ts to enable success. We will share a case study with questions to help you think about what you would do as the HR professional.

Keywords

Acquisitions • Mergers • Joint ventures • Discovery • Due diligence • Agreement and announcement • Integration • Sustainable performance

Introduction and Overview

The drive to grow or survive motivates many organizational leaders to consider acquisitions, mergers, or joint ventures. From a strategic perspective, these options can open new avenues, but they are not without considerable risk. Any web search will yield failure rates of 50–90 %. In other words, the majority of mergers, acquisitions, and joint ventures will fail to achieve the desired outcomes. Even though the odds are against success, organizational leaders are not going to stop considering these options – and they shouldn't because these are viable and valuable growth strategies. Business sources, such as Bloomberg, predict increased activity in these areas, particularly across borders due to globalization. However, given the investment of resources and time that options require, and the long-lasting and significant aftereffects of a failed effort, organizational leaders must look for ways to improve the odds in their favor. While there are financial and legal factors to consider, we believe that human resources (HR) professionals have a significant contribution to make by helping organizational leaders focus proactively on the people part of the equation. The HR role in acquisitions, mergers, and joint ventures will be explored in this chapter.

What Is the Role of HR in Increasing the Odds of Successful Acquisitions, Mergers, and Joint Ventures?

As an HR professional, increasing the odds of success starts with having a basic understanding of acquisitions, mergers, and joint ventures and the challenges each represents. There is an abundance of literature on acquisitions, mergers, and joint ventures so the intent in defining the terms here is simply to start with a common understanding for the purposes of this chapter.

Acquisitions

Acquisitions involve one organization acquiring another. In the last several decades, accelerated growth through acquisitions has been a key value driver and one of the key factors in building market capitalization to enhance a company's competitive advantage.

The main drivers for acquisitions relate to growth opportunities such as acquiring new products, expanding into new geographical areas; and/or gaining access to new customers. Other motives include improving profitability and a company's strategic capability and marketplace positioning.

An acquisition is more likely to fail to meet the expected strategic, financial, and operational benefits than a merger or joint venture. The turmoil, confusion, and tension employees of the two entities experience can undo the most careful financial and strategic planning. However, acquisitions can be a win–win when both entities:

- Are invested in the outcome.
- See the upside potential.
- Have clearly defined the nature of the acquisition.
- Experience positive outcomes from the actual integration of the entities.
- Are prepared for the emotional ups and downs.

Given the failure rate, more often than not, this does not happen and people feel that they are losing something – particularly those who are being acquired. This can result in a range of reactions such as grief, anger, anxiety, and/or resistance. A certain degree of this is natural and to be expected. However, over time, if acquired employees do not begin to develop a sense of connection to their new organization and acquiring employees do not recognize the value of those who were acquired, then morale, performance, and retention issues can surface. Researchers have found that these personal, interpersonal, group, and intergroup dynamics following an acquisition can be significant determinants of success or failure.

Unrecognized or unacknowledged cultural incompatibilities should be added to the list of determinants. Cultural differences exist at multiple levels including interpersonal, group, functional, and organizational, with the latter having the potential to be the most divisive. Acquiring companies are often attracted to acquisition targets that will fill a deficient area or enhance their existing capabilities. However, acquirers often nullify these benefits by driving consistency with and assimilation to the dominant organizational culture. While it is necessary to achieve synergy through integration, pressures to conform can be disruptive to the strengths that the acquired company brings to the table. HR can help the entities navigate through the complexities of integrating people and the cultures.

Mergers

Mergers involve entities that are approaching each other as equals. The end result will be a new organization. The challenge will be how to combine the entities in ways that:

- Build on their strengths.
- Compensate for their weaknesses.
- Create a differentiated entity that is new and energizing to employees.

Mergers can be a win–win, especially when employees identify with the new organization, believe in its benefits, and, most importantly, see themselves in its future. This requires clear and consistent communication followed by actions that demonstrate that the merger values the contributions of both the originating entities. Otherwise, employees will begin to believe that the merger is actually an acquisition in disguise and the same downside risks of an acquisition can occur.

The leaders of the original entities have an opportunity to define a new organizational identity and culture. This requires vision, patience, and consistency over time and HR can be a key partner in defining the new entity.

Joint Ventures

Joint ventures allow entities to work together without altering their organizations. Usually, they agree to create a third entity to facilitate the partnership. Joint ventures can be permanent or in existence for a predetermined period of time. They can be a way to test the waters to see if the two entities can work together prior to making a permanent commitment. The partnering entities will have to design an organizational and management structure that will enable the joint venture to be successful. This includes figuring out policies, practices, compensation and performance management systems, paths to promotion, etc. If the joint venture is time limited, then the path for returning employees to their original employers without a negative impact on their careers must be determined as well. Employees from the partnering entities will have to work together to develop an identity for the new venture that is differentiated. They have to overcome the tendency to feel and act as representatives of their original organizations as they shift allegiance to the new entity. These are all areas where HR's expertise is essential.

Increasing the Odds of Success: The HR Role

HR professionals are experts in the people factor and can increase the likelihood of success by ensuring that organizational leaders are focusing on this factor in tandem with legal, financial and other considerations. HR can help leaders see the people factor from an investment rather than a cost perspective as they navigate through the phases that are common to acquisitions, mergers, and joint ventures:

1. Discovery
2. Due diligence
3. Agreement and announcement
4. Integration
5. Sustainable performance

As an HR professional, it is important to understand each phase to help organizational leaders navigate through them and to be able to provide insights that will help these leaders make informed decisions.

Phase 1: Discovery

Discovery starts when the organization begins to consider the possibility of a merger, acquisition, or joint venture. There is a tendency for HR to be perceived as being focused on operations or transactions so the value that you can bring during this phase may not be recognized. Therefore, as an HR professional, first understand your organization's business model and the strategic drivers that are motivating exploration of these options at this time. Armed with this understanding, you will be able to share your insights in a context that adds value.

It also is important to educate yourself. If you have never been involved in a merger, acquisition, or joint venture, then there is a wealth of information available to help you understand the process, key decision points, and the pitfalls. Leverage your network to talk to other HR professionals who have been involved in these types of ventures to benefit from their experiences.

During discovery, the tendency is to start by looking at the organizations that could be potential partners or targets. We suggest that you start introspectively by developing a "profile" of your own organization. Even if this is just a private exercise rather than something that you share openly, it will help as a basis for comparison and identifying potential pitfalls. Here are areas to think about as you develop the profile:

- What is your organization's public persona or reputation? What is it known for?
- What are your organization's core values (explicit and implicit)?
- How would you describe your organization's culture? (Hint: if a close friend was joining your organization as a new employee, what would you tell him or her about what it takes to be successful and the absolute dos and don'ts?)
- How would you describe the preferred management style (e.g., open, collegial, command-and-control)?
- How would you describe the degree of employee engagement and morale? You may have internal data that helps you answer this but you can also search social media to see what employees are saying.
- How effective is your organization at managing diversity? This question can be answered on multiple levels. First, how effective is your organization at attracting, developing, retaining, and leveraging the talents of women and those who are underrepresented in your geographic population? The literature suggests that organizations that are effective at this outperform peers who are less effective in this area.

On another level, how open is your organization to diversity of thought and experience? For example, diverse teams outperform homogeneous teams – but only if the diversity is welcomed and managed effectively. How do people in your organization work together? Does your organization encourage the expression and exploration of different points of view to innovate?

Think about diversity as an organizational competency. Organizations that are adept at recognizing and responding positively to diversity are more likely to adapt or look for opportunities to co-create in working with other entities. Those that find diversity threatening or an element that increases uncertainty may be more likely to try to control, limit, or assimilate diverse elements. This is one of the factors that contributes to the failure of entities being able to work together. The pressures to get diverse elements to conform can outweigh or overpower the unique elements that were attractive in the first place.

- What is your organization's experience with change and change management? What other change initiatives has your organization undertaken, and how effectively were they managed and executed? Understanding how your organization approaches change will help you to anticipate potential problem areas while leveraging best practices.

The intent of developing an organizational profile is to help you think critically about the areas where your organization could experience challenges in working with another entity.

As possible partners emerge, you can develop a similar profile of these entities by using the Internet, annual reports, press, media, and other publically available information. In addition, important information can be gleaned about the senior leadership team from public sources. This research will help you to begin thinking about potential challenges.

Phase 2: Due Diligence

The due diligence phase starts when your organization is ready to formally begin explorations with another entity. After safeguards such as nondisclosure agreements are in place, you can begin to communicate directly to people from the other entity although your access may be restricted to just a few people at the top of the house and HR leaders. The purpose of this phase is to gather information and insights to assess feasibility and draft a path for moving forward. To do so, the potential "partner" companies exchange information and expectations regarding:

- *Hard facts*: This includes a host of information such as the number and location of employees, organizational structure, salary and benefit structure, pension obligations, pending labor law cases with employees, reintegration commitments for employees on foreign assignments, maternity leave, military leave, absenteeism rates, and average years of service. The hard facts provide an indicator of the health of the other company and alert you to potential incompatibilities.
- *Systems and processes*: It is possible that you will need to merge or integrate systems used to capture and manage HR information as well as HR policies and

practices. A thorough understanding in these areas can help you anticipate problems with merging or integrating them.
- *Soft facts*: Oftentimes, the "soft facts" are overlooked or underestimated, but more often than not, they have a major impact on the success or failure of the merger, acquisition, or joint venture. They include but are not limited to culture, leadership styles and competencies, the talent pipeline, employee satisfaction and engagement, and retention risks of key leaders and employees. You may be able to conduct interviews with top or select executives so that you can begin to understand leadership capabilities, strengths, and challenges. These interviews can help the acquiring organization understand the organization's structure and operating model.

If you developed a preliminary profile of the other organization during discovery, you can modify and expand it based on the information and insights you gather during due diligence. This will serve as a basis to compare and contrast this profile with the one you developed for your own organization to identify similarities that can be leveraged and differences that could become challenging if the effort proceeds. These challenges can be incongruent values, culture, people systems and practices, leadership styles, approaches to diversity, tolerance for uncertainty, etc. All of these challenges present significant risks to the success of the effort but you can develop approaches to mitigate these risks if they are identified early.

Whether you are asked to do so or not, it would be useful to prepare a write-up or report that captures your findings from the discovery and due diligence phases and your assessment of the strengths and potential pitfalls. Even if this is just a working document for yourself, it will help as a frame of reference during the subsequent phases of the process, especially as you begin to think about how to integrate the organizations if the effort moves forward. Your write-up should include your insights and risk assessment of:

- Leaders and key employees, particularly those that could be retention risks
- The organizations' culture and values congruency highlighting similarities and differences that could become pitfalls
- HR practices and systems compatibility
- Both organizations' change readiness

With this as a foundation, your write-up should then include a preliminary plan for moving forward and integrating the organizations. It should include actions to mitigate the risks identified above.

If you have not been asked to formally produce and share a report on your due diligence assessment, then you will have to take the initiative. Your insights are a valuable part of increasing the likelihood of success and are an important part of the road map for moving forward if the organizations decide to proceed.

The other organization might also conduct its own due diligence so you could be called upon to provide information to them. Make sure that you understand what you can or cannot disclose.

Phase 3: Agreement and Announcement

Once due diligence has concluded, leaders must decide whether to proceed or not. If they decide to move forward, they must work through the details of what form the relationship will take and the financial arrangements. Information from the HR perspective also can be incorporated into the agreement. For example, the retention of key people and the assignment of roles in the new configuration could be included.

The agreement phase culminates in the public announcement of the arrangement. Consistency of the message at all levels of the organizations and on a continual basis after the initial public announcement is key to helping people internalize the change. HR can help organizational leaders and the communications teams think through the communications strategy. You can help them anticipate employee reactions so that they can design the communications strategy accordingly. You can leverage HR's management development expertise to help develop talking points and guides that managers can use to continually reinforce the message.

Employees will have concerns about the announcement and what it means for them. You can help leaders and the communications team anticipate the questions that employees might ask or might be afraid to ask so that they can address concerns proactively. The insights about your own and the other organization from discovery and due diligence will be useful. For example, if your observations are that one of the organizations has a culture where information is closely held and not shared broadly with employees, then this will have an impact on how to approach sharing information during pre- and post-announcement. In the absence of information, employees will construct their own reality so they may create a narrative that does not help them to accept the change. For example, imagine a company that is experiencing challenges with expanding the market for their product line where little information is shared with employees. Sometimes, this is done with the best of intentions – leaders do not want to cause anxiety among employees, or they may not want to share information when they don't have all the answers. The outcome is that employees do not have an accurate picture of the challenges the organization is facing. For this company, being acquired to gain better access to the marketplace or a joint venture could be necessary for survival. The company could try to paint a very positive picture of the new endeavor, but employees, because they don't have an accurate picture of the dire straits, could see it as a betrayal or abandonment. This is an example of how the culture of the company can have a negative impact when, in actuality, it is a positive move.

The agreement phase formally starts the process of transition from old to new because once the agreement is announced, nothing will ever be the same. Consultants influenced by Gestalt psychology talk about the importance of good endings and beginnings. When people do not have a "good ending" to the old state, their energy gets stuck in their unresolved feelings about the past. They cannot cap the experience and direct their focus toward what is to come. So, as you think about this phase and help your organization navigate through it, go deeper than just the formal announcement. Think about how the transition can be acknowledged symbolically or through ritual. We heard of one organization that held a memorial to acknowledge and celebrate the strengths, contributions, and history of the old organization. While this is an extreme example, it created a space for employees to acknowledge what was and express grief so that space could be made for the new entity that they would be part of going forward.

In addition to letting go of what was, this is the stage where people begin to learn about what's ahead and to form opinions about whether it is something they can identify with or want to be part of. There may be some skepticism about the future so leaders have to begin communicating a compelling vision and path forward. It is important to be real and not paint an overly rosy picture. As with any transition, there are going to be challenges and leaders should acknowledge them along with the commitment and confidence to work through them. For organizations with open, collaborative cultures (or ones who want to create this type of culture), this is an opportunity for a call to action to enlist employee involvement in helping to craft the future.

Phase 4: Integration

Once the integration phase starts, the hard work really begins because everything up to this point is hypothetical. Once the agreement has been announced, the work of actually creating the new arrangement begins. Although new organization structures may be announced right away, it takes months and maybe even years to successfully transition into the new arrangement and to begin to see sustainable benefits and performance.

Issues will arise as the reality of integrating different organizations takes hold. Lack of understanding of and agreement on the vision, values, and the value proposition of the new entity can cause friction. There can be communication breakdowns, power struggles, jockeying for position, "we–they" attitudes, and a lack of trust that result in waning commitment, a decline in productivity, and the loss of key players. Employees new to their managers or the organization may not be integrated into career development processes so their potential goes untapped. Key employees and senior executives may leave resulting in the loss of the intellectual capital and key relationships – internal and external. This can lead to a decline in financial performance, and the organizations can be left without the value they envisioned and paid for.

The integration phase continues activities that were started during due diligence, but now that the effort has been announced, they can be undertaken publically and on a broader scale. The activities include but are not limited to:

- Conducting formal leader assessments to identify leaders who have the potential to take on increased leadership responsibilities and incorporate them into the existing leadership development practices.
- Designing and implementing an onboarding process assigning buddies to all and mentors to senior and middle management to help orient them to the new structure and expectations.

- Planning and conducting leadership alignment meetings to engage leaders in aligning strategies, resources, and business models.
- Engaging employees from both sides in a collective process of mapping values and culture from both organizations to identify the similarities and differences that can help and hinder integration.
- Developing and executing a transition/change management plan that extends for at least 2 years. This gives the organizations sufficient time to shift to the new structure and achieve sustainable performance.
- Continuing to communicate early and often.

Diversity of thought and business models can create additional issues during integration. This is an opportunity to explore those differences in practices to identify and leverage best practices but it requires fluidity and adaptability.

Phase 5: Sustainable Performance

The goal of an acquisition, merger, or joint venture is to achieve a steady state where operations are fully integrated, and sustainable performance can be achieved without the necessity of the extraordinary efforts required during integration. HR continues to play a role during this phase by monitoring indicators that can identify longer-term issues. Useful indicators include but are not limited to:

- Progress toward goals and objectives, change milestones, and metrics
- Employee and customer satisfaction
- Retention and attrition rates (this is essential if there are agreements about how long key leaders must remain)

HR also can facilitate yearly leadership alignment discussions to insure there is a unified understanding and approach to strategy, vision, value proposition, strategic objectives, and critical success factors intended to drive the acquisition. Cross-business alignment sessions to assess cross-unit collaboration around joint objectives and coordinated business model are also imperative.

This discussion of the phases underscores the important role that HR plays over the course of what can be several years as an acquisition, merger, and joint venture are considered, implemented, and integrated until it becomes business as usual.

Evaluations from Four Business Perspectives

People Perspective

At the core, organizations are social systems of people who have thoughts and feelings, who can make good decisions and bad decisions, and who will choose to be engaged or not. Oftentimes, it is the cultural dynamics of the social system and the emotional dynamics of the people that undermine the success of a merger, acquisition, or joint venture through:

- Lack of vision and planning for the entire process and for the course of action required during each phase
- Lack of a transition and change management strategy
- Not anticipating and compensating for potential blind spots
- Unrealistic expectations of the synergies that can be achieved
- Ignoring or not being able to navigate differences (organizational, values, cultural, operational, etc.) effectively
- Not anticipating the emotional impact and employee reactions
- Poor execution

People are at the heart of all of these failures as those who are making the decisions, providing input, executing, or being impacted. HR can help people do all of these things better.

As discussed previously, HR can ensure that leaders are considering the people factor as they make key decisions and implement a course of action. HR professionals also can help leaders in *how* they are processing information and making decisions. Leaders can rush to judgment or become overwhelmed by the complexity and uncertainty. They can place too much credence on information that confirms their point of view while giving less weight to contrary information. They can avoid deep discussion if it could be contentious, and they can get stuck in disagreement and fail to move to consensus. They can rely too heavily on past experiences when new approaches are needed to address novel situations. They can act alone when they should be engaging others, and they can look to others for a clear direction when they should trust themselves. HR professionals can help leaders see these blind spots and work through them – if they are perceived as trusted advisors. This is a different facet of the relationship that an HR professional can have with organizational leaders – the key elements of which are trust, credibility, and the ability to provide feedback in the spirit of learning and increased effectiveness. This type of relationship develops over time, through shared experiences, and with intent on the part of the HR professional.

HR professionals can be relied on for gathering and synthesizing information that will help inform leader's decisions. If not aware HR can be subject to the same types of blind spots as leaders. They can become victims of groupthink and fail to consider other points of view. They can consciously and unconsciously filter information based on what they think the leaders want to hear. If teams are involved, they can fail to leverage the diversity of the team to ensure that they are considering options fully. By playing a facilitative role, even informally, HR professionals can help individuals and teams function more effectively and optimize the quality of the information they provide.

We have talked about the impact that acquisitions, mergers, and joint ventures can have on employees previously and would like to explore this at a deeper level here because of the potential risks related to trust, loyalty, motivation, and momentum. Organizational changes can be disorienting as evidenced by people feeling that they have more questions than answers. A lack of clarity around direction can be disconcerting and feed into concerns such as the following: will I have a job? what will my role be? will I have the necessary skills? who's going to be my manager? and will I like the new situation? They may suspect that the leaders have not been forthcoming and feel as if they are just waiting for the other shoe to drop. Even the most secure can feel that their world is becoming destabilized. All of these unanswered questions and uncertainty can lead to a weakening sense of trust and loyalty.

Also, because most people have had little or no part in the decision making process, they may not feel a sense of ownership, putting employee support at risk at a time when it is needed most. The heightened state of uncertainty can pervade the climate and lead to an environment of self preservation. People can become more vulnerable to recruiters or focus on jockeying for position, which diverts time and energy from achieving the new entity's goals and objectives. In addition, there could be undercurrents that corrode the environment and lead to covert or overt resistance.

Collectively, these feelings and behaviors are de-motivating and can result in an increasing spiral of negative energy and momentum that can be seen in productivity declines, turnover/attrition, and declining morale and engagement. In short, these behaviors are incompatible with what the organization needs at this point. In discussing the phases earlier, we emphasized the importance of monitoring key measures during the integration and sustainable performance phases. Data that allows you to identify early indications of negative energy coupled with an effective change management process and communication plan with executive alignment at the outset can short-circuit many of these issues.

Before concluding this section, we would like to focus on the impact of globalization. Navigating the feelings and behaviors described above becomes even more difficult when entities cross geographical, national, or ethnic boundaries. Culture at this level has a profound impact in people's beliefs, values, and behavior patterns. Cultural differences lead to misunderstandings and miscommunication. Unaddressed, the incompatibility can cause deals to fall apart or contribute to unrealized goals and expectations. HR professionals can help their organizations recognize cultural differences and develop productive ways of recognizing and dealing with the tensions that are sure to arise.

Economic Perspective

There is a wealth of information that will help organizational leaders develop a cost–benefit model for an acquisition, merger, or joint venture. In addition, HR can help organizational leaders project the intangible cost and benefit associated with the people factor. As with any significant change, destabilization of the workforce can result in a decline of performance characterized by losses in productivity, revenue, opportunities, retention and attrition, extensive costs of hiring and replacement, and loss of customers on both sides of the equation derailing financial objectives of the deal. Ideally, these declines will be short lived, and the gains will begin to take hold as integration progresses and will stabilize as sustainable performance is achieved. Oftentimes, organizational leaders fail to anticipate the decline. They assume that intangibles such as in productivity and morale will continue on their pre-acquisition, merger, or joint venture trajectory. HR can help leaders expect and anticipate the decline that can occur when the change is announced and executed as people feel a sense of uncertainty and begin to adjust to the new reality. However, if the decline endures too long, then interventions may be necessary to get the effort back on the right track. HR can help to anticipate, project, and monitor the intangible costs and benefits associated with the people factor and plan additional actions when necessary to ensure that synergies are achieved.

Retention is another area of economic threat where HR can provide leadership and guidance. Retention issues arise with the potential loss of key talent. Expertise and intellectual capital can be lost and key client relationships can suffer with the loss of key people in either organization. In addition, employee morale and productivity can be impacted negatively if well-regarded leaders leave. HR can help to reduce the possibility of retention issues by identifying key personnel during due diligence and working with organizational leaders to develop retention plans. During the integration phase, HR can ensure that these people have a positive, high-touch experience to increase the likelihood that they will want to stay.

Risk Perspective

Risk is inherent in every phase of an acquisition, merger, or joint venture. If actively involved, HR can serve a vital role in mitigating the risk factors associated with the people element. When employees are distracted, competitors can swoop in and try to win away business in this time of uncertainty.

Operations Perspective

Ultimately, the success of the acquisition, merger, or joint ventures is evident in the operations of the resulting entity. Synergies are achieved by minimizing disruptions to productivity, product or service quality, and customer relations while transitioning to operational efficiencies that are sustainable. Decisions made by functional areas in addition to support functions such as HR, legal, and finance impact operations and key value drivers.

Operations integration helps the companies achieve early wins, build momentum, and instill confidence of stakeholders. The new processes may require new skills. Consequently, there are several questions to be explored:

- How compatible are the organizations' operations?
- Where will operations need to be merged, transitioned, or allowed to coexist?
- What training will be needed?

Understanding the operational perspective starts during due diligence as you gather preliminary information. Once the integration phase starts, you can engage employees in a process of mapping the operations and answering these questions. Collaboration is critical because employee involvement can help to avoid or alleviate problems discussed previously in this chapter.

Summary of Dos and Don'ts

Dos

We have presented a number of ideas in discussing the role HR plays in increasing the odds of success for acquisitions, mergers, and joint ventures. The dos can be summarized as follows:

Do get involved early.

In advance of acquisitions, mergers, and joint ventures, there are two key phases where HR should be involved early: discovery and due diligence.

During discovery (before ever setting foot on the ground), HR can research and review information regarding the company culture through the Internet, annual reports, press, media, and any public information available regarding the other company. In addition, important information can be gleaned about the senior leadership team from this public information. This helps you to begin to understand potential strengths and challenges that the combination may present and aids in the formulation of the most effective integration team to support and enable deal success. You can also use this time to develop a profile of your own organization that will be useful as the effort proceeds.

During due diligence, it's critical that HR get involved as well. At this point, feasibility and potential for future success are evaluated. To do so, the potential partner companies exchange information and expectations regarding:

- **Hard facts** (e.g., salary levels and costs of benefits, pension obligations, pending labor law cases with employees, reintegration commitments for employees on foreign assignments/on maternity leave/on military leave, absenteeism rates, and average years of service): The hard facts provide an indicator of the health of the other company and alert you to potential problems.
- **Systems and processes** (e.g., HR information systems, policies, and practices): It is possible that you will need to merge or integrate systems used to capture HR information so it is useful to begin to identify the challenges that may present.
- **Soft facts** (e.g., culture, leadership competencies and potential derailment factors, leadership style, talent pipeline, and employee satisfaction): Oftentimes, the soft facts are overlooked or underestimated, but more often than not, they have a major impact on the success or failure of the merger, acquisition, or joint venture (see the next "Do").

Do spend more time than you and others think is needed on the soft aspects.

Soft aspects can become hard aspects when they impact the bottom line. Evidence has shown over the years that when soft aspects start to impact the bottom line, they become hard aspects. If they are overlooked, performance lags behind and retention issues begin to surface. In addition, culture clashes can completely derail deal success.

The more complex organizations are, the more important it is to have clarity around all hard and soft aspects in order for leadership to steer the combined organizations in the right direction.

Successful integration and realizing the full potential of the deal is always a challenge, but there are a few guidelines that can enable success:

1. Ensure that HR is an integral part of all work streams with finance, operations, sales, etc.
2. Formulate the most effective integration team by including members from both sides of the deal.
3. Conduct interviews of top executives to begin to understand cultural aspects, strengths and potential derailment factors, potential retention challenges, and opportunities.
4. Clarify the value proposition of the combined companies as early as possible; identify risks and challenges and actions to be taken that will realize success of the deal.
5. Begin to formulate the communication plan (who to communicate to, how, when, optimum frequency) so you are ready to execute as soon as the signing is complete and deal becomes public knowledge.
6. Establish a change management plan.
7. Craft compensation plan.
8. Clarify expectations of leaders – roles, responsibilities, and accountabilities.
9. Develop leadership and management development plans.
10. Create buddy system for the new organization to link employees from both sides.
11. Facilitate alignment meetings for senior leadership.
12. To create sustainability, continually take the pulse of the organization by conducting ongoing employee surveys, including new talent in succession plans, and conducting periodic roundtables and town halls.

Take note that in acquisitions, mergers, and joint ventures, major challenges exist because many things are new for all involved. In phases when there is lack of transparency and uncertainty, it takes discretionary effort (e.g., stepping in for others, doing things which are not part of the job description, clarifying things, explaining things to others, and simply working harder) of all involved to drive the new company to success. If everybody just does what he/she is being told, the odds of failure are high.

Too many open questions regarding the hard facts such as legal issues, financial questions, changes in payroll setup, etc., already capture a lot of capacity on top of the usual day-to-day HR challenges. As a result, HR leaders themselves hardly find the time to deal with the soft aspects. In order to cover both hard and soft aspects, you have to reevaluate priorities to determine where it would be advisable to shift priorities or reach out for external support in such situations.

Don'ts

Don't proclaim your HR strategy, policies, and processes as being the only way forward.

Even though you have good reasons for the way you do HR, the partner side also has good reason for their way.

Early on, you should get in contact with HR of the partner company and try to understand their HR strategy, policies, and processes. Particularly in global companies, your HR strategy might not be appropriate in other countries or cultures.

It may be advisable to maintain different HR philosophies in parallel for some time and then to gradually merge those. Obviously, this can mean higher cost compared to a fully integrated solution, but the return on investment far outweighs the cost.

Don't give in to the pull to assimilate the other.

Resist this pull because it will result in marginalizing employees from the other company. Look for strengths of both sides and leverage those strengths to integrate for the benefit of the combination.

Don't tell the acquiree that it will be business as usual – that is like waving a red flag in front of a bull. It never will be business as usual again.

Case Study

Here is a case study to give you an opportunity to apply ideas presented in this chapter. The purpose of the practice case is to give you an opportunity to think through some of the issues associated with acquisitions, mergers, and joint ventures and what you can bring to the situation as an HR professional. There are no perfect answers.

Part One

You are the VP of HR for a family-owned Korean drill bit manufacturer with 6,000 employees. You have been with the company for 6 months after a 15 year career of HR roles with increasing levels of responsibility. This is your first VP role and you report to the company president. Your predecessor was his daughter who left the company for reasons that have never been fully explained. Since joining the company, you have a standing meeting with Mr. Soo, the president, every 2 weeks. These meetings tend to be very formal and he drives the agenda. He lets you know what he wants to focus on in advance so that you can come prepared with data and recommendations. So far he has focused on executive compensation in comparison to the market, work–life balance, and recruiting. Of late he has also expressed a desire to understand gender diversity. You have not yet brought a topic of your own to these meetings. During the discussions, Mr. Soo listens carefully and asks very incisive questions. He does not make a decision on the spot but will usually come back to you during the next meeting with a course of action. You have found that he does take your recommendations into account and has said that your opinion helped him to make his decision. You also sit in on the senior leader meetings that are also bi-weekly. Mr. Soo's style in these meetings is similar. He sets the agenda in advance, asks for input from the senior leaders, and then announces his decisions during the next meeting. You have not been invited to share input on any of the discussions thus far.

Mr. Soo is the 5th generation of the family to lead the company that just celebrated its 75th birthday. The company has grown significantly over its history at a constant rate of double-digit growth until the last 2–3 years where it has slowed to 5 %. Its strongest market is Asia where it has 60 % market share followed by Latin America with 40 %. The market share in other parts of the world ranges from 0 % to 5 %.

With the slowing growth and minimal market share in growing markets, there is general recognition that the company may need to change its strategy. In talking to the other senior leaders privately, you have found that there are varying opinions among the senior leaders about what to do:

- The CFO is advocating for doing nothing. He has been with the company for 30 years and believes this is just another storm to be weathered. If they stick to doing what they do best then the company will be fine. The company has a track record of adopting this strategy during hard times and has been very successful.
- The CMO is Mr. Soo's grandnephew who joined the company 10 years ago. His father was the president before Mr. Soo. He is advocating for a new approach. He argues that the company's purpose is not to make the best drill bits but to help customers make holes. In his view the company should make a radical shift and move into laser technology. He has gone so far as to identify a small US company that is innovating in this area that would be a good target for acquisition.
- The head of manufacturing is Mr. Soo's son and the heir apparent. He believes that something needs to be done but in a moderate fashion. He has identified another drill bit manufacturer that could be a good candidate for a joint venture. The company has strong market share in the Middle East, Africa, and Europe.
- The VP of Sales was a professional hire from Canada. He has been with the company for 7 years and is credited with modernizing the company's approach to sales and cultivating customer relationships. One of his previous employers, a Canadian drill bit manufacturer, has sought his opinions on whether the company leadership would be open to considering a merger.

There has not been an open discussion among the leaders on these options and the path forward. You have not been involved in an acquisition, merger, or joint venture, but you believe that you can help the senior leaders navigate through the process of considering the strategic options.

- How would you educate yourself on the options?
- Given that you are relatively new to the organization, just getting to know the senior leaders, and still developing your relationship with Mr. Soo, how well-positioned are you with the senior leaders to be perceived as a valuable contributor to the strategic process? What can you do to better position yourself?
- What aspects of the company and its culture could be challenging if the company decides to pursue an acquisition, merger, or joint venture? Which option do you think would be most likely to succeed at this point?

Part Two: 6 Months Later

Mr. Soo's nephew – with his father's influence – has been very persuasive. Mr. Soo has decided to explore the possibility of acquiring the laser technology firm. In his one-on-one meetings with you, he has expressed a desire to make an investment in the company's future and with some sadness acknowledged that just focusing on manufacturing drill bits might keep the company going but will not position it to thrive and take leaps. Over the past 6 months, you have deepened your relationship with Mr. Soo and he has come to value your input. Your one-on-ones are much more interactive where you now have healthy discussion and debate. You have been able to position yourself as a strategic partner with insights on the people factor of the business.

The American company is open to the possibility of acquisition. They need an infusion of capital to bring their first commercial product to market. It appears that this will be a game-changing technology if it can be introduced within the next 2 years. There are other firms developing similar technology who could go to market in the next 3–4 years.

Mr. Soo has asked you to join the team that is going to conduct due diligence. The team will be led by Mr. Soo's son. You asked Mr. Soo why he was not sending his grandnephew who originated the idea. Mr. Soo replied that he needs an objective opinion which his son will provide since he will be looking for every reason to say NO because it was not his idea. Mr. Soo hoped that the possibility would be so compelling that it would overcome his son's reservations and turn him into a champion of the effort. Also, Mr. Soo feels that if this is to become the future of the company, then his son must be integrally involved as the future leader. In addition to the parts of the due diligence that you want to look into as the HR leader, Mr. Soo has asked you to observe how his son conducts himself during the due diligence and to provide coaching if needed. However, he does not want you to tell his son that you have been given this directive.

- What do you want to cover during the HR part of the due diligence? Who do you want to talk to? What do you want to see?
- What recommendations will you make to Mr. Soo regarding his grandnephew? What might be the risks of not including him to the full extent in the process for the future or the company?
- How will you position yourself with Mr. Soo's son? Will you tell him that you are there to observe and coach or not?

Part Three: 1 Year After Due Diligence

The acquisition of the laser technology company has been finalized and will be announced in 2 months. Mr. Soo has asked you to develop a draft integration plan that he will take to the senior leaders for discussion and buy-in. He wants to finalize the plan within the next month so that it is ready to go once the announcement is made.

- What are the key components that you would include in the integration plan?
- What are your timeframe and key milestones that could be incorporated?
- What leadership challenges do you anticipate? How would you advise Mr. Soo to incorporate the leadership team from the acquiree?
- What cross-cultural issues might occur and what can you do to mitigate against them?

Final Comments and Outlook

Acquisitions, mergers, and/or joint ventures come with a high risk of failure. There are, however, factors that can increase the likelihood of success:

- Seamless and effective integration of two entities in order to achieve the original aspirations of the deal.
- Ensuring that the benefits to the customers and their businesses are transparent to them early on in the process.
- Retention of key talent long enough to transfer knowledge and meet revenue targets.
- Accelerating integration of acquired executives, enhancing their ability to drive innovation and business results.
- Implementation of the execution plan.
- Willingness to create a new culture. Not all senior teams are willing to embrace the new culture.

HR professionals have much to contribute to increasing the odds of success because of the knowledge of human systems that they can bring to bear in encouraging these success factors. This starts with having a seat at the table and being perceived as a valued business partner. There is a tendency to see HR as the people police who get in managers' way rather than a strategic partner who can add an invaluable perspective to the process. To ensure the success of a deal from the people and cultural perspective, it is essential to have HR involved starting with discovery and continuing through to sustainable performance and growth.

Note The majority of this chapter is predicated on our personal experience, but there are a few key readings that have informed our thinking and where we think you can derive significant benefits

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Abstract

This chapter presents three real German–Chinese M & A cases. It is based on personal experiences of the authors, and publicly available data. The authors make four general recommendations which have not or only partly been followed in the presented M & As:

1. Define and follow a structured road map for a post-acquisition integration.
2. Use HR as a strategic partner for the integration process.
3. Use internal or external culture consultants to manage the process.
4. Ensure the commitment of the top management.

M & As are difficult to implement even within the same culture. In German–Chinese M & As, the post-merger integration is compounded by cross-cultural differences. Cases 2 and 3 show that managers without the necessary cross-cultural skills and competencies will have false perceptions and take wrong decisions.

Case 1 proves the importance of a clear business and PMI strategy which should be prepared before the signing of the merger contract. Special attention should be given to the cultural and management fit of the two companies. Mutual trust and patience are required, as legal procedures may take more time than expected. Cases 2 and 3 deal with the key role of M & A sponsors and discuss the required qualities of the persons in charge of the PMI process. Case 2 points out specific issues of Chinese acquisitions.

Keywords

M & A • Acquisition • Merger • China • Chinese • Trumpf • Culture • Culture due diligence • Cultural/cross-cultural • Integration

Introduction

Mergers and acquisitions seem to offer an easy way for enterprises to grow and expand market share. They are faster to execute than greenfield investments and often promise a quick entry into a hitherto closed market or market segment. As attractive as M & As are, though, the list of failures or only partially successful mergers is long.

Regardless of the national background, a majority struggle with realizing the anticipated benefits and synergies and stay below the original expectations. A poignant US–German example is the short-lived merger between Daimler and

Chrysler, a marriage "made in heaven," as it was called by then Daimler CEO Jürgen Schrempp, which turned into a "marriage of horror" and was tragically divorced after 9 years, with Daimler footing the bill of 40 billion US$.

In German–Chinese business relations, the number of M & As has significantly increased over the last 20 years. German companies are highly attractive for Chinese buyers because of their know-how and high technological standard. The acquisition of Chinese companies offers German enterprises the opportunity for fast-track growth in the thriving Chinese market. But as in other regions, there are successes and failures regardless of who is the acquirer and the acquired. Bridging the cross-cultural divide is an additional challenge.

In this chapter, three M & A cases with different structures, outcomes, and lessons to be learned will be presented. Case 1 deals with the acquisition of a Chinese company by a German buyer. The story is told up to the point where the merger is completed. In case 2, the buyer is Chinese and the target is German. The acquisition process and the following events are described as seen by a Chinese manager. In case 3, German managers struggle with the integration of an acquired Chinese company. A German manager and a consultant tell their views. Cases 2 and 3 are anonymized as the authors were personally involved.

Case 1: A Happy Wedding After a Long Courtship

The first case is a success story, which received wide media coverage in Germany and China. On October 16, 2013, Trumpf Group announced the acquisition of a majority stake of 72 % in Jiangsu Jinfangyuan CNC Machine Company Ltd., a machine-building company with a well-known brand name in China. A few days later, 400 guests gathered in Yangzhou where Jinfangyuan is headquartered to attend the festive signing ceremony. Details of the deal, including the price, were not disclosed, but according to Trumpf it was the biggest in the company's history.

What Was the Rationale of the Acquisition and Why Was It Successfully Completed?

Trumpf, a Ditzingen-based company founded in 1923, is considered to be one of the global leaders for machine tools, lasers, and electronics for industrial applications. Last year, the company stated revenues of 2.5 billion €, 75 % of which were earned abroad. It has a high interest in China, which has developed into the biggest machine-building market worldwide. In 2000, Trumpf set up a Chinese subsidiary with production sites in Shanghai and Taicang that, in 2013, generated revenues of 180 million €.

But the company that boasts of its innovative strength and cutting-edge technology only found Chinese customers for its high-end machinery. The market for small- to medium-priced products was beyond its reach. Trumpf's cheapest punching machine is tagged at 250,000 €, whereas local competitors offer comparable products for only one third of this price.

In order to gain a foothold in the very dynamic middle market segment, Trumpf made a crucial decision: It opted against offering cheaper products under its own brand name. Instead, it decided to follow a dual-brand strategy and looked for an appropriate local producer.

Trumpf identified ten possible partners, but only five of them were interested and ready to start negotiations. From the first meeting, Jiangsu Jinfangyuan (JFY) located in Yangzhou was the favorite target. Mathias Kammüller, manager in charge of Trumpf's machine tool department, explained in ChinaContact 07/2014: "There is a good cultural and product-wise fit. Both companies follow similar principles and place a high value on quality, technology, continuous improvement, and employee orientation. With its long-term perspective, JFY is quite similar to a family enterprise."

In fact, JFY prides itself of a unique enterprise culture. According to its entry in Baidu, a Chinese equivalent of Wikipedia, the company's business model resembles a "dumbbell," a popular metaphor in Chinese management literature. Special attention is given to research and development as well as to sales in contrast to former times when a strong emphasis on production quantity was the norm. This appeals and fits to Trumpf, a family owned company, where 15 % of the staff work in research and development. From its beginnings as a privatized enterprise in 1997, JFY tried to use modern management methods and systems introduced from abroad and invested heavily in the technical knowledge and "moral quality" of its employees.

In 2010, when both companies established contact, JFY recorded revenues of more than 80 million €. Its growth had continually outstripped the average growth of the machine-building industry. The company was regarded as the leading supplier of medium-priced punching and bending machines in the Chinese market and had the reputation of being a benchmarking company. 90 % of its sales were generated in China, where the distribution network covers the whole country.

Soon after negotiations had started, it became clear that both sides wanted to reach an agreement. The mood was upbeat, given that the local authorities in Yangzhou as well as the administration of Jiangsu province declared their support. The lawyers of both parties assumed that an agreement could be reached within 6 months. Then, without a clear reason, the negotiations stalled and turned into a "long-distance run that tested the smartness of both sides," to use the phrasing of the official Yangzhou Evening News. In February 2012, the contracts were ready for signature, but nothing happened. Although even federal chancellor Angela Merkel tried to advance the deal during her China visit in August 2012, the required official permits were not forthcoming. In the meantime, the Chinese machine-building market saw a sharp contraction: In 2012, the revenues of JFY decreased by one quarter, and the growth of Trumpf China, which had reached 100 % in the past years, dropped to 10 %.

The Trumpf negotiators were at a loss: They believed their JFY counterparts who asserted their commitment to a partnership and expected the go-ahead within 1 month. But 1 month passed and then another one. Apparently, central authorities had intervened and prevented the deal from going through. The perseverance and determination of both sides were only rewarded more than 1 year later, in 2013. In the end, it took more than 3 years from the first contact to the closure of the deal.

It can only be surmised that this may have to do with the nation-wide reputation of JFY: It is designated as a "national high-tech and technological renovation model company" and a key implementation enterprise of the national torch program, a state-funded program to promote innovation in strategically important sectors, e.g., in mechanical engineering. According to the Yangzhou Daily, the complete sale of the company to Trumpf, which was an option at the beginning of the negotiations, would have been widely received as "shocking news."

Eventually, Trumpf acquired 72 % of the JFY shares, which at the time were owned by 21 shareholders. Today, the remaining 28 % are still held by 15 former shareowners, all of them JFY managers. This result suits Trumpf's strategy, as it conforms with the dual-brand approach: The company and brand name of JFY remain, and the management team is kept in place. Only finance and IT are streamlined with Trumpf, and the other business units are kept apart. Interestingly, when the deal was officially announced, the representatives of JFY refused to speak of an acquisition of their company, but called it the "founding of a joint venture."

Crucial Factors for Reaching the Deal

What were the reasons for the positive outcome of the drawn-out negotiation process?

A Clear Strategy

From the outset, Trumpf's reasons for its investment in JFY were perfectly clear. The company looked for a reliable point of entry into the Chinese medium-priced market. In turn, it offered technical expertise and support of export activities out of China. Certainly, Trumpf's dual-brand strategy was a clear asset. It was openly and unambiguously communicated to prospective partners and not only reasonable in strict business terms: It offered important political advantages, as it accommodated the national pride of the targeted Chinese companies and the concerned authorities. It set the framework for cautious and flexible maneuvering in an economic sector that Chinese economic politicians consider to be of strategic importance. Moreover, the agreed solution, which to a large extent leaves JFY intact as an independent unit, shows the appreciation for the achievements of JFY and its management team.

This strategy is not without conflict potential, though. It implies that, in China, Trumpf China and JFY will coexist without competing with each other. Trumpf will sell its premium products under its own brand name via its 100 % Chinese subsidiary, whereas the JFY brand will be used for products of lower performance, quality, and price. Obviously, the JFY managers, who were sorely aware of the technological gap between their products and the Trumpf machinery, hope that the "joint venture" with Trumpf will lead to substantial technological upgrades for their products. Likewise, the local and provincial associations expect that the anticipated technological progress at JFY will have a positive impact on the cluster of machine-building companies that have developed in Yangzhou in recent years. But Trumpf will only supply JFY with advanced product components. The transfer of know-how will be limited and exclude Trumpf's high-end technology.

The Cultural and Management Fit

When the Trumpf representatives came to know JFY, they were impressed with its management and leadership style. They perceived JFY as an engineering-driven company, where the managers did not show off their rank and status. They wore the same company uniform like everybody else, and, since they were the main shareholders, they were used to democratic decision procedures. The cultural gap between the two companies was no hindrance to efficient communication.

Trust and Patience

Both sides succeeded in building a solid basis of mutual trust, which was heavily tested during the 2-year holdup in the acquisition process due to the interference of central authorities. Apparently, it was even unknown to the Chinese side, when or on which conditions the green light would be given, which is plausible in the Chinese context: The communicative behavior of the overseeing authorities very often is opaque and not calculable, particularly, if political issues are at stake.

This delay could have easily brought down the whole project. But Trumpf remained clearly committed to its partner choice and remained equally convinced of JFY's commitment. Of course, to overcome such a setback was only possible with the long-term strategic approach that Trumpf had adopted from the beginning.

Conclusion

In former times, when German companies acquired Chinese businesses, they often applied a "one-brand strategy" so as not to confuse customers with different brands. Over the years this has changed. But for a "two-brand strategy" to succeed, there are several specific factors – in addition to general indicators – that have to be taken into account:

The targeted company has to be carefully chosen: The reach of the brand and the corporate culture and its business model have to be checked. The interests of both companies have to be balanced, and a bond of trust has to be developed between the managers of both sides. Their commitment to the acquisition has to be lasting and unequivocal.

Case 2: Acquisition Completed, Mission Accomplished?

This case deals with the acquisition of a German SME (small- and medium-sized enterprise) by a Chinese SOE (state-owned enterprise). After the acquisition had gone through, the integration of the German company met with substantial problems, which often occur in cross-border deals of Chinese enterprises. As the authors know the relevant actors, this case is written as a story seen from the perspective of the Chinese manager assigned to the SME. In accordance with the obligation of confidentiality, all names have been changed. The Chinese SOE is called BAP (big and powerful) and the German SME TABL (technically advanced but lame). The story describes the integration process after the acquisition of 30 % of the SME's shares and is open-ended.

Michael Li was exhausted. He stayed in the conference room while the others left and pondered over what had just happened. He had convened his German management colleagues in order to discuss the change project that was so important to him, but their response had been lukewarm. He had not found a way yet to shake their passivity and skepticism. There were moments when he struggled to restrain himself and refrain from flinging offensive remarks at them. There was a testiness to his behavior that was new for him, and he struggled to control it. He understood that not only his management abilities were challenged but also his personal qualities.

The business situation was difficult enough. The market faced a slowdown, and the whole industry including TABL's biggest competitors was hardly able to secure large-scale orders. To make things worse, a WeChat message had just come in from John Tang, telling him that he would retire in 2 years. John who had been with BAP for 40 years was on his way out of the company, and Michael was about to lose his most influential supporter in the Beijing headquarters.

He recalled their dinner in the Hunanese Restaurant 2 years ago. John had congratulated him on the opportunity that stood before him and strongly advised him to seize it. This was the moment when he decided to accept the assignment to Germany.

Michael Li Is Sent to Germany

Michael had never worked abroad. But as an outstanding young manager with a number of successes to his name, he had been personally picked by his CEO to assume the position of the TABL COO in Frankfurt, after BAP had acquired 30 % of the German SME. The CEO, a longtime patron of Michael and the driving force behind the TABL acquisition, introduced him to the TABL top managers and they instantly hit it off. The Scandinavian CEO who had been at the top of TABL for 3 years and the CFO, an old hand who had joined the company 30 years ago, both recognized that after becoming part of a Chinese state enterprise, a lot of changes were imminent. They had agreed to toe the line and to act in concert with Michael and the Beijing headquarters.

But Michael soon realized that his job was no walk in the park. He had expected the German staff to be direct and straightforward, but even his team behaved very cautiously toward him. Many obviously regarded him as a "Beijing spy." As he communicated in English and did not speak or understand German, a lot of important information eluded him. But what irked him most was the evident reluctance of the TABL staff to accept structural changes.

Michael was surprised by their sluggishness, which bordered on apathy. He had conceived of TABL with its worldwide 500 employees as a flexible, nimble speedboat compared to BAP with its over 10,000 employees that he had experienced as a big bulky steamer. This was one of the reasons why he had decided to take on the TABL job. But now TABL appeared as maneuverable as a giant oil tanker.

The TABL staff was not open for changes, which they deemed risky and unnecessary: In terms of technology, the company had been the market leader for decades and felt comfortable to rest on its laurels. The engineers, who dominated the company, did not understand that they could no longer dictate to the customers which products they had to buy. They ignored new developments in the market where competitors from outside of Europe were on the rise and customer needs had changed. Only the top managers were aware that they had to address critical issues, like shortening delivery times and reduce over-engineering, in order to be fit for the future.

Although Michael made a bleak assessment of the company, BAP decided to increase its TABL stake to 80 %. The German shareholders were ready to sell, but there were thorny legal issues, and more than 1 year passed before the German authorities accepted the deal. However, the BAP headquarter remained committed to its decision and did not back off.

A Change in the Beijing Headquarter Occurs

There were big celebrations in Beijing and Frankfurt. But 1 month later, the BAP CEO was posted to another state-owned enterprise and left the company. Michael and TABL lost an important mentor and sponsor. In the following months the situation worsened, as no successor was appointed. In the Beijing headquarter, different factions fought for influence, and although a long to-do list had to be tackled following the TABL acquisition, nobody was prepared to take charge. TABL was in limbo.

Only half a year later, a new CEO was in place, but neither Michael nor John Tang was able to develop close working relationships with him. Obviously, he was not interested in the projects of his predecessor. As John Tang reported, many of his colleagues spoke out against the German investment and instead tried to promote their own projects.

Michael shuttled between Frankfurt and Beijing in order to keep TABL afloat. Urgent strategic decisions had to be taken: Should TABL be fully or only half integrated into BAP? How should customers be addressed and serviced, separately or together? How should markets be split and should both companies compete *against each other in third markets,* e.g., *in Africa, or not? Adding to the silence from the headquarters, TABL suffered business setbacks: A new Chinese competitor expanded aggressively in Germany, on TABL's home turf. Two customers were lost, because deliveries had been too slow and costlier than agreed.*

A New Project Turns into a Stumbling Block

Michael decided to start a promising project in the Middle East where Beijing and Frankfurt had to closely cooperate. It would prove to customers that German quality could be combined with Chinese rapidity and reasonable prices. The skeptics in Beijing would realize the potential of the TABL acquisition, and the German staff would experience the excellent cooperation with Chinese colleagues.

But it was not long after the project had started that the Chinese project leader and his construction team complained bitterly about the arrogance of the German engineers: Instead of working at the construction site, they remained in their air-conditioned hotel rooms and issued orders which were simply absurd. The Germans for their part criticized the stubbornness of the Chinese and the unreliability of the construction team. The interpreter told Michael that both parties were hardly able to talk to each other. Michael was fed up: Instead of seeing the beginning of a success story, a disaster was in the offing!

A Consultant Is Hired

Before the situation got out of hand, Michael and his top management colleagues decided to ask an external consultant for help. His first task was to bring together the Chinese and German colleagues in the Middle East. Luckily, this was realized very quickly. Then, change projects were defined with the objective of improving communication and management processes and strengthening the customer orientation of the engineers. Cross-cultural workshops were provided to optimize interfaces, and the Frankfurt managers succeeded in having the consultant received at the BAP headquarter. They hoped that, with his credentials as a neutral observer, he could discuss strategic options with the BAP managers and make them aware of the risks that were caused by further delaying strategic decisions.

Michael was relieved. Finally, he saw a light at the end of the tunnel. But the glimmer of hope soon faded. There was a meeting of the consultant with BAP managers and the CEO, but no follow-up. During the following days, Michael was unable to reach the CEO. The BAP headquarter had agreed to work with the consultant, but apparently, this had been only due to the arrangements of John Tang and did not mean that the other managers including the CEO were committed to open a new chapter in their dealings with TABL.

Another problem turned up when the last TABL employee survey produced unexpected results. The survey showed that the engineers were lulled in a false sense of security, which was contradicted by the reality of the markets. Their attitude *toward the BAP headquarter was critical, and they were frustrated with the lack of strategic guidance. But they showed no awareness of their own obligations. There was no evidence that they would strengthen their own involvement in change processes.*

After another workshop with the external consultant, Michael realized that he had played his part in how the employees had reacted. When he had arrived in Frankfurt, he was annoyed by the "culture of nagging" that pervaded the whole company. He had issued a gag order to all managers: "No complaints, we are the best" was the motto, and it had worked! After 2 years, only the top managers were aware of the critical situation of the company. Now, how to proceed from here?

General Insights

The preceding case provides general lessons for post-acquisition processes and indicates specific issues of acquisitions by Chinese companies. The following lists eight general insights which focus on the role of managers and external consultants:

1. A successful post-acquisition integration needs the clear commitment of the top managers. Without it, the integration process will fail and the acquired company will become a burden for the buying company and vice versa.
2. If important acquisition sponsors in the buying and the acquired company disappear, the integration process is in critical danger. Their successors have their own agenda and are reluctant to follow through on their predecessors' projects.
3. Factional infighting can undermine acquisitions even if they are based on the best of business data.
4. If the business environment changes, e.g., because of new competitors or market fluctuations, the strategic approach has to be reworked.
5. An internal integration manager should be appointed for the integration of production, marketing, and sales. The basic selection criteria are multilinguality, familiarity with both cultures, global communication and social skills, and experience in change and integration projects. The buyer should check the possibility to develop the required skills in terms of time and personnel, if they are not available.
6. Culture consultants, be they internal or external experts, should manage the cultural post-acquisition integration. They should coordinate the integration process, the definition of company values, and the corresponding behavioral norms as well as the development of in-house competencies. They have to be commissioned by the acquiring company, not the acquired.
7. The acquired company can implement internal changes, but cannot force the buyer to change.
8. It is self-evident that this goes also for an external consultant who works for the acquired company. He/she can only brief his clients how to make their point to the headquarter management.

Specific Issues with Chinese Acquisitions

The BAP–TABL case also covers issues which often arise in cross-border acquisitions by Chinese enterprises. Interestingly, according to the Harvard Business Review, 15 % of them have failed in the past – more than acquisitions by other BRIC countries (8 %) or Western MNCs (5 %). Here the focus is on the aspects related to management skills:

1. Chinese companies appear to be weak in business strategy, especially when operating outside of China, where they cannot rely on support and preferential treatment by government authorities. Their flexibility to adapt to frequently changing circumstances, which is an important ability in China, may also lead to inconsistent decisions, which are hard to swallow for German companies.
2. A business strategy includes a definition of the target markets and the different approaches to each market. This is even more important if a company is acquired which has the potential to act as a competitor.
3. Due to the limited international experiences of Chinese managers, cross-cultural skills are also limited. In this case, this became evident when Michael Li tackled the German "nagging culture" and ordered the managers to deliver only positive messages. He did not understand that critical comments and discussions are part of German business culture and, taken into context, do not deter people from performing well. Even worse, he did not notice that the imposed positive messages were taken by the Germans at face value.

Case 3: A Friendly Divorce

But not only Chinese companies make mistakes when acquiring a German company. In the following case, a takeover by a German packaging company ends in a divorce. Again, as in the previous case, the companies and persons have been given fictitious names. The German buyer is called PP (perfect packaging) and the Chinese company GP (glorious packaging). PP follows a dual-brand strategy, but its implementation fails.

The Acquisition Decision Is Made

How did GP become part of PP? 3 1/2 years ago, the GP owner Li Guangrong approached Lukas Maier, head of global development at PP, and offered to sell his company. PP, one of the global packaging players with a global turnover of 2 billion US$ and 15,000 employees all over the world, already had a production site near Shanghai. Its products targeted the high-end market and were delivered to other multinationals (MNC) in China.

The timing of Li's move was excellent. For 1 month, the PP board had been discussing how to expand within China and grasp a big piece of the Chinese mass market. Due to their production process, lowering costs was not possible. Now, with Li's offer being up for discussion, Maier had the great chance to present himself to the board by offering a perfect solution: keeping PP's subsidiary for the premium market and using GP's brand for lower market segments. With the acquisition of GP, PP could offer much better prices to emerging markets in Africa and Latin America and safeguard its position as a worldwide market leader.

The board members were immediately convinced and transferred the responsibility for the project to Maier. For a first in-house reality check, he planned to visit GP at its headquarter in Yueyang with a small team of four engineers. While they would check the production process and quality procedures, he would discuss the commercial details with Li and his son.

GP's Business

Li's business had started back in 1987, when being a private entrepreneur in China was still a political risk. Mr. Li and his wife set out from square one, producing simple packaging. Step by step they expanded and, in 2005, they were among the ten best players in the Chinese packaging market. By delivering consistent quality and a reliable after sales service, GP had gained about 80 national and global customers in China.

Turning 65, Li decided that he and his wife should start enjoying life. Most of the management responsibilities were already handed over to their son, Xiao Li ("Li junior"), who had learned the business from scratch. His strength was sales. He just loved it and regularly visited his customers to support them in an uncomplicated and straightforward manner even developing new products or services on the spot. He spent little time in the GP headquarter, but was kept well informed about the company's affairs by his secretary. Whenever a problem occurred, he intervened immediately and authorized the appropriate person to solve the issue. His employees described Xiao Li as a strong sales person, a workaholic, and a strict leader. Indeed, his expectations were high. Every employee had to spend more than 50 % of his/her time with customers and not at their office desk. Anyone who did not reach this target had to expect a salary reduction of up to 40 %. Whoever spent most time successfully with customers got a sizable share of the total turnover. This management style was unfamiliar to Maier, but the whole GP workforce was committed to Xiao Li.

The Li parents were very much aware that their company of 100+ employees, even if successfully established in China, was too small and had to go global to stay competitive within their home market. But without international experiences and skills, even venturing into Asian neighboring countries seemed to be too big a challenge for them. At a conference, a business contact told Li that his company had been bought by a German partner a year ago and was very content with the cooperation, especially with regard to new markets. That motivated Li to approach Maier with his offer.

A Positive Beginning

All the former meetings of Lukas Maier and Li Guangrong had taken place in Shanghai. Now Lukas Maier was in Yueyang for the very first time. The facilities were much more basic than he had imagined, and the restrooms were a no-go area. The plant's construction was quite simple, but the production process was well organized. Some little improvements would be needed, but were possible within the allocated budget. The whole Li family supported the sale of the company: They openly shared all necessary details with the engineers and honestly discussed several production issues with them. As they had access to additional land, the production facilities could be enlarged without restrictions. The Li Family was also very well connected with the local government, which would ease the bureaucratic paper work. With this information, Lukas Maier flew home for the board discussions.

His presentation was well received by the board, and he got the okay for the next steps. A due diligence crew flew over to Yueyang, and, based on their findings, the contract was drafted. GP and PP agreed to only slightly upgrade the production of GP in order not to compete with PP's Shanghai subsidiary. PP would bear these costs to ensure GP's low prices. It was decided that all strategic decisions with regard to the newly founded PP subsidiary GPP would be taken by Lukas Maier and Xiao Li. Xiao Li would be the general manager (GM) and freely decide on all daily management issues of the company. The inauguration party took place half a year after Li Guangrong's proposal had been made and was celebrated at Yueyang.

The first year's results were fantastic! The turnover and growth rate exceeded all expectations on the German side. Lukas Maier felt that he was no longer necessary for the operative management of GPP and without notifying Xiao Li transferred all his tasks to his direct reports Gunter Schmidt and Bruno Anders. He would only participate at the yearly strategic meetings shortly before Chinese New Year. But then, things started to go wrong. The following events are told by Lukas Maier.

Unexpected Problems Arise

In July I received a call from Li Guangrong, who asked me to travel to Yueyang immediately. Luckily I had just organized a trip to our Shanghai subsidiary, but the schedule was so tight that I could only spend one night at Yueyang. Jenny, our liaison in Shanghai, went with me. She is a great person to work with, as she is open and straight with us Westerners and still able to deal with the Chinese in their own way. On the way to Yueyang, she informed me that the family Li was really upset about several issues, which they would like to discuss with me.

We arrived in the late afternoon and were invited to a beautiful restaurant with an amazing view over the Nanhu Lake. Despite the lovely environment, Li Guangrong started to give me a tongue-lashing with the first beer and toast. He was utterly disappointed that nobody paid respect to his hardworking son, who worked his butt off to make GPP a success. He and his wife would rarely see him as he was traveling so much. The spectacular numbers would prove his hard work! But instead of *recognition, gratitude, or praise, Xiao Li would receive even more pressure and more orders from some unknown persons. And last but not least, his son had told him that it was impossible to get hold of me. I had plunged from sight like a hippo.*

I felt hit by Li's harsh tone and defended myself. I explained that I had pulled out of the operative business because of Xiao Li's hard work and stunning success. I expressed my great appreciation of his work, but also suggested that he take things easier and delegate more sales tasks to his staff. His staff would have an opportunity to develop, and he could be more present at Yueyang and handle issues with Germany as all our international GMs did. As I was busy setting up two new plants abroad, I had given my authority to Gunter Schmidt and Bruno Anders. They possessed my full trust and would pass on decisions from the PP HQ to Xiao Li. Last but not least, I thanked Li Guangrong for his openness. I acknowledged their view, but also hoped that they could accept mine.

After some back and forth, Xiao Li and myself agreed to have a phone conference every 3 months, where the most urgent issues would be tackled and decided. When returning to Shanghai early the next morning, both Jenny and myself felt that the matter was settled. But as soon as I returned to my office in Germany, Gunter and Bruno reported that Xiao Li had broken several written agreements. They were not able to reach him by phone. When I got hold of Xiao Li, he reacted defiantly. The Germans would always take too long to come to a decision. His customers had not possessed the patience to wait endlessly, and therefore he had reacted rapidly.

From that moment on, I either faced complaints from the German side or from Xiao Li. Not every 3 months, but every week I was now involved in mediating and solving little issues I really had no time or patience for. Why did Xiao Li turn that way? Why did he act like a child and not take any advice and definitely no orders from Schmidt and Anders? Finally I approached HR to hire a China expert to support us.

A New Approach

We had several meetings with the consultant and also involved Jenny, to get a Chinese perspective. I was fully aware that our own German view was limited. The consultant's analysis made clear that I had to travel to Yueyang again even though this was not in my interest at all and difficult to arrange. My withdrawal seemed to be at the bottom of all the problems. Additionally the China expert recommended that I take charge of all business issues at least for another year. Not wanting to risk the two new projects, I agreed to facilitate a business meeting every month and travel to China every quarter. Her final advice was to employ Jenny more intensively as a go-between, take her advice seriously, and reduce pressure when she told me.

This time I traveled to Yueyang for one whole day. Jenny, our Shanghai lawyer, and the Shanghai GM accompanied me. At first, Xiao Li acted very cooperatively, and I hoped that all our issues could be solved. The day was packed with discussions. For lunch, we just had a pizza in the meeting room. Then, at 1 pm, Xiao Li left *the room without a word. Nobody took it serious, but when he disappeared again and did not return until an hour later, we were deeply annoyed. When we asked him why he had left, he muttered that he had to handle urgent customer requirements.*

We wanted Xiao Li to answer why he had broken some of the written agreements, and he just left again. In my position, nobody had ever dared to treat me that way! I had tried to be patient so far, but enough was enough! When Xiao Li joined us again after an extended pause, I declared that his behavior was unacceptable. The next time he would leave, we would all leave, too, and he would have to bear the consequences. Until 6 pm we had no further disruption but Xiao Li turned silent. We went back to Shanghai without dinner.

After that, thing's got really bad. The figures were as amazing as before, but Xiao Li did not take any orders from Germany, not even from me. He acted like GPP was still his own company. I received a lot of pressure from our board, because nobody understood why Xiao Li did not act like a normal GM of one of our subsidiaries.

I had to involve the China expert again. The discussions with her showed that PP had three options:

1. *Go on with the integration process. This would need the consultant's mediation at GPP. Without a deep conflict analysis, there was no certainty that this plan would work out.*
2. *Treat GPP as an independent unit and let Xiao Li take all decisions. The GPP business would only be coordinated with PP at a yearly strategic meeting with the PP board.*
3. *Take the exit and dissolve the M & A.*

We agreed to fly to China together, accompanied by Gunter Schmidt and Bruno Anders in the hope of establishing sound direct work relations between them and the Lis. The consultant would first meet with family Li, then give me her feedback, and a dinner involving everybody would follow.

An Outside Perspective

The following events are presented from the perspective of the consultant.

When I came to know Lukas Maier, I was surprised how much he knew about the Chinese culture, including the business culture, where, as he said, personal relations and care were much more important than in Germany. He told me that he liked the Li family very much and always made an effort to have some extra time for Xiao Li. Now, for the first time, I saw him interact with his Chinese partners.

When we arrived at our hotel, Li Guangrong and Xiao Li waited for us in the lobby. Maier shortly shook their hands, checked in at the reception desk, and, without further ado, disappeared to his room. There was no small talk, no joy, and personal warmth.

Together with Li father and son, I went to the lobby café. They immediately jumped to the many open issues. It turned out that they were still very much *interested in keeping GPP alive as Xiao Li would only be paid an appealing bonus after 3 years with the option of staying or leaving then. Now was half time.*

On the other side, both of them felt utterly disappointed by the way the Germans dealt with them. Until now there had been no appreciation for all the hard work of Xiao Li. Xiao Li also refused to take instructions from people below him like Gunter Schmidt and Bruno Anders. They had been impertinent, talking to him like to a subordinate. This was just inacceptable! The only person he accepted as a partner was Lukas. But he was so busy and did not care about Yueyang. That's why Xiao Li just did what he thought right for the China business, even if this did not conform with the written agreements with PP.

The discussion also showed that he felt threatened by the Shanghai subsidiary of PP. They had started to interfere in strategic topics, which were of no business to them. The longer the two Lis talked, the more they became upset. Finally they acknowledged that the negative points outweighed the positive ones and considered the cancelation of the merger a possible option.

In the following feedback session with Lukas Maier, I told him that there was a big lack of culture know-how on both sides, i.e., also on his side despite his cognitive knowledge of China. Both parties had their own view on cooperation, power, and decision-making and did not trust each other, which led to unilateral decisions without consulting the other party. Lukas Maier agreed to take this into consideration.

In the evening both parties met again at a beautiful restaurant chosen by Jenny with Lukas Maier as the host being responsible for the seating. We sat at a giant round table with the biggest possible distance between the Germans and the Chinese.

The dinner started without formality; there was no speech of Maier honoring Xiao Li and his father. Neither were there toasts to the Lis during the dinner. Lukas Maier, Gunter Schmidt, and Bruno Anders engaged in a lively conversation in German. The Lis were silent most of the time and quit immediately after the dinner pretending to be tired. The Germans did not even try to hold them back and went for a drink at the lobby bar.

Jenny and I gave them a tough review. They had to pay respect to Xiao Li's performance and put an effort into nurturing their personal relationship. Otherwise, the Chinese would walk away and dissolve the M & A. The Germans appreciated the feedback and agreed to act differently.

The Decisive Day

The next morning, I met family Li before the start of the meeting. The dinner had been another blow to them, and they had little hope for the future cooperation with PP. But then, Lukas Maier did a remarkable opening speech. He mentioned all the successes of Xiao Li and how much these were appreciated by the PP board. He looked back at the history of cooperation and stated that PP would do anything to stay on that success road. The faces of both Lis started to shine; the ice was broken.

Until the afternoon, the atmosphere stayed warm and cooperative, but it turned sour when Gunter Schmidt requested Xiao Li to be more of a German kind of GM taking the orders from HQ. It took some efforts to manage the tension, but finally we got to the point where the responsibilities and the decision-making processes were clarified. To the joy of Xiao Li, his independence was confirmed.

The evening dinner was hosted by Xiao Li who asked me to arrange the seating. I placed the Germans and Chinese in a mixed order and put Xiao Li beside Gunter Schmidt. They clashed easily and I offered them to be their translator. I brought up some easy and personal topics and initiated the conversation, but after a while Gunter Schmidt only talked to his fellow Germans as he had done the day before. The face of Xiao Li turned tired and disappointed, and at the end of the evening, he and his father just gave me a weary nod.

The Divorce Is on the Table

Returning to the same bar after dinner, I gave the Germans another tough feedback. But this time, they would not accept it. They talked themselves into a rage about all the mistakes Xiao Li had ever made. I started to worry about the next day. At midnight, not being able to sleep, I sent an email to Lukas Maier telling him that the evening had ruined all the efforts of the day. He immediately answered that he would work on Gunter Schmidt and Bruno Anders to act in a different way.

In the early morning, I received a phone call from Xiao Li. He wanted to unwind the merger. I immediately informed Lukas Maier, who still wanted GPP to survive.

But in the meeting, Lukas Maier went off at Xiao Li: "I am totally annoyed that we come back to the same issues again and again. Your request that only you and me decide on all strategic issues is no topic for me. We just do not come to terms. Let's talk about a divorce." To Jenny's and my big surprise, once this statement was made, both parties relaxed and started to discuss all financial and legal issues in a frank and fair manner.

What was the final outcome? The end of the merger was no surprise but the friendliness of the divorce was quite spectacular. With the support of moderators like Jenny and the consultant, the legal separation was the beginning of a better cooperation between the two parties. The Li family even offered the land, which was originally reserved for the growth of GPP to PP to support their expansion in China. PP responded by giving Xiao Li his final bonus. Both parties said: "We never know when we need each other again." Today, both companies still cooperate closely, and the personal relationship between the PP and GP managers is much better.

The Reasons for the Divorce

Three months later, a review meeting of Lukas Maier and the consultant led to the following conclusions:

PP severely underestimated the difference of cultures. Their Chinese experience was based on the cooperation with their Shanghai subsidiary, where the Chinese managers acted in an open and international way. But when PP tried to integrate GP, the PP representatives had to cope with a very different business culture.

A big investment for the integration in terms of time and manpower was necessary, but it never happened. Critical issues were not addressed before the merger. When GPP was founded, the roles and responsibilities of the main actors were not clarified. The mutual expectations were neither openly discussed nor harmonized; everybody lived in their own world. PP just expected Xiao Li to turn into one of their general managers, who took orders from HQ. PP also underestimated his entrepreneurial pride and failed to grasp his understanding of power and hierarchy.

A successful integration needs the right people to manage it, and a different personal approach of the German managers might have saved GPP. But the personality of Lukas Maier, the key person of the merger, was part of the difficulties. He did not need attention or care or praise. He would even feel patronized by such a behavior and might react aggressively. As a fact-oriented person, he ignored the needs of people like Xiao Li who find motivation in regular encouragement and recognition.

Final Remarks on Case 3

This story can be analyzed from three angles:

1. **Cultural aspects**
   It is easy to acknowledge the importance of cross-cultural competences, but they are hard to acquire. Many people overestimate themselves, like the PP managers who were convinced they could successfully work with Chinese partners, since they knew a lot about China. But this was only true for dealing with the internationalized Shanghai staff. The acquisition of cross-cultural skills needs time. Therefore, it pays off for companies with plans to grow in China to invest early on into the buildup of real Chinese know-how or to employ people with that competence for a post-acquisition integration.

   If, as in this case, the cultures and values of companies differ heavily, a "clash of cultures" can easily occur. It is vital to define the mutual core values and, on this basis, establish behavioral norms, especially with regard to management and leadership. In the German business culture with its fact orientation and functional hierarchies, experts or specialists may take decisions even if they are of lower rank. Senior persons still have to follow their instructions. This is contrary to the Chinese culture where not only family enterprises are lead in an authoritarian and patriarchal way. It is also important to define the focus of the commercial activities: Is it on products and work processes (engineer culture) or on customers and their wishes (merchant culture).
2. **Personality aspects**
   When a "matter person" focusing on figures, data, and facts meets a "people person" who relies on interpersonal relationships, misunderstandings are

preprogrammed. The expectations and behavior patterns of both parties are not compatible. A coach for both might be the only chance to make them cooperate successfully.

Never underestimate individual financial interests. In this case, Xiao Li was willing to endure a lot of hardship to save his final bonus. Walking away from the merger only became an option, when he felt out of control and too heavily disrespected by the Germans.

PP also ran a high risk without knowing it: Xiao Li would have left GPP immediately after receiving the bonus, possibly with some of his staff, without caring about a successor. PP would have been completely surprised by such a move.

3. **Structural topics**

   Size matters! When a big corporation buys an SME, the latter often feels overrun by the impact of size and the arrogance of power. It is key for success to agree on decision processes before the signing of the merger. How much decision authority remains with the bought company? Is this acceptable for its managers and staff? How to avoid the impression that the company has lost out?

   Official and unofficial decision structures should be made transparent in order to enable both parties to get a deeper understanding of the other company's culture. Are decisions taken in an authoritarian or consultative way? What does the market require regarding the speed of decisions? What are the advantages of the different leadership styles? How much opposition has to be anticipated after the decision has been taken? What does this mean for the production and the handling of customers?

   Honesty and transparency are a prerequisite of success! Part of it is the definition of an exit strategy at the beginning, which helps both parties to grasp their bottom lines. In the above case, the divorce even improved the cooperation. If a separation is taken into consideration at the beginning, it is more likely that it will be a friendly one with a structured exit.

Conclusion: What Can Be Learned from the Three Cases

The presented cases, particularly cases 2 and 3, mirror a global phenomenon. Many companies conduct due diligence regarding the hard facts while often ignoring the soft factors. But all business research and this chapter prove that the latter are responsible for most of the failures.

There are many mergers that continue in spite of underwhelming results. The targeted synergies cannot be reached, and the acquired and the buyer become a burden to each other. If this is not to happen, what should a company do?

A Structured Road Map for a Post-acquisition Integration

Most of the post-acquisition integration managers find it hard to cope with the hard and soft facts at the same time, keeping markets satisfied as well as the staff. Often, the momentum of change is lost. If the post-acquisition integration process starts late, everybody will have settled into business as usual. The occurring problems will be perceived, but the temptation will be greater to kick the can down the road.

The post-acquisition integration process should be prepared before the signing of the merger contract. A clear integration strategy has to be defined early with the relevant stakeholders. Its implementation needs a structured road map, which includes milestones, roles, and responsibilities.

HR as Strategic Partner

In the three cases, HR played no visible role. But for a PMI to succeed, HR should play a significant role, as it can answer the following questions:

– Who needs to be involved in what role and position?
– Who is managing the change?
– What are the profiles and job descriptions of the post-acquisition integration team and the integration manager?
– What are the PMI key competencies?
– Do we know enough about China, its market conditions and its culture?
– Are there enough in-house competencies to do a culture due diligence?
– Who defines the company values and all the related new behaviors?
– Can we implement the post-acquisition integration of both companies from the kickoff to the team workshops and the coaching of managers, interfaces, and staff?
– Do we need external consultants? How do we find them?
– Which assessment tools and in-house trainings are useful?

Once an integration strategy is defined, the right messages can be sent to the organization. The sooner the workforce is informed about the impact of the M & A, the less will rumors interfere with the integration process. Information is required about the effects on the different workplaces and the remuneration and incentive programs as well as the new communication channels.

Support from Culture Consultants

It looks costly at the beginning, but employing external or internal culture consultants pays off rapidly. They focus on the soft factors and enable the managers to fully concentrate on business issues. Their role includes:

- Conducting a culture due diligence which identifies the biggest cultural risks
- Defining appropriate measures at an early stage
- Designing the integration road map
- Facilitating the kickoff event
- Coaching of the post-acquisition integration management team and the interfaces
- Establishing a sustainable culture learning loop

Commitment of the Top Management

The top management of both parties has to remain fully and visibly committed to the project, especially in difficult times, e.g., when key actors leave the scene after the acquisition is completed like in cases 2 and 3.

Communication between the top managers has to be honest and transparent. This may even lead to good results, if the merger ceases to exist, as in case 3.

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