



Zsófia Ásványi

Strategic Human Resource Management

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Preface

“Strategy does not mean planning what we will do when something happens, but predicting what will happen as a result of what we do.”

*Gary Kasparov**

Similarly to the history of the field of human resource management (HRM), the discipline of strategic human resource management (SHRM) has also evolved in the United States (Marler, 2012). Initially, in the 1980s, the authors there examined how to shape the employment practices and how to raise the skill level of the workforce in the competition with Japanese firms in order to ensure the global competitiveness of US firms. In the case of HRM, it is advisable to use the name SHRM when organizational efficiency is the focus of our attention and research (Boxall & Purcell, 2000; Szóts-Kováts, 2006). Nowadays, the European, Asian and Eastern European branches of this discipline have emerged as a result of international comparative research. In addition to best practices, culture-compatible SHRM approaches have been developed (Brewster, 1999; Cooke, Xiao & Chen, 2021).

The Covid-19 pandemic posed entirely new challenges to business management and within that to HR managers. Without claiming completeness, organizations need answers to strategic questions such as understanding how the work environment – working from the office and working from home (WFH) – affects the employees’ behaviour and actions (Collings et al., 2021). The current crisis has not stalled the development of SHRM; rather, it has accelerated it (Sheedy, 2020). The study of the effects and consequences of digitization, robotization and artificial intelligence has come to the fore. It should not be forgotten that in two to three decades, or even earlier, most of the jobs that exist today will be completely transformed or will disappear (Harari, 2017). The present work also fits into the line outlined above.

The author rightly notes in Chapter 1 of Part 1 of this book that conscious strategy-oriented management of human resources (SHRM) has become a key issue. This statement is further underlined by the current global crisis caused by the Covid-19 pandemic.

* Gary Kasparov (1963) is a World Chess Champion of Armenian–Jewish origin, eight-time team champion, seven-time individual chess Olympiad champion.

The basic aim of the present book is to discuss the influencing factors of HRM and its most important activities and functions starting from the organizational strategy. The author achieves this goal by mentioning and quoting the most important international, and in some cases Hungarian, sources related to the topic.

The author of the SHRM handbook presumes that the reader has already heard about the discipline. When writing about the importance of HRM, the author does not go back to the initiatives of the early 19th century but derives the past and present development opportunities of this discipline from recent and present events.

The structure of the book, which consists of 9 main sections and 33 professional chapters, is in line with the most important topics of the SHRM field. A special merit of the work is that each part starts with a short introduction and lists the most important goals belonging to the given chapter. The sections are closed with additional learning points. The present work can be effectively used not only by university students studying the topic of SHRM but also by various professionals.

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Author's Welcome

The idea of this book came from a desire to provide an explanation of human resource management (HRM) from a strategic perspective. The post-2008 era as well as the Covid-19 shock worldwide redefined how organizations should handle employees in a successful way that supports the organization in gaining a competitive advantage. The link of human resources (HR) to organizational strategy and its value proposition is clearer than ever. I am sure that HR people understand the need of linking strategy and practice, and at the same time they agree with the relative lack of such connectivity in reality. This book aims to diminish the frequent gap between rhetoric and reality when it comes to HR strategy.

Strategic human resource management (SHRM) is both an academic subject and an applied discipline in organizations. I believe in the saying “All managers are HR managers”. Managers at all levels need to have a basic knowledge of work-related rules, concepts and techniques to gain full responsibility towards their direct reporting employees. Keeping this in mind, I designed this book in a way that it can serve as a handbook for university students, for HR professionals and for managers of businesses at the same time.

The content of the book is organized in nine major parts. The first three parts, which cover sixteen chapters, discuss the general framework and organizational setting of SHRM:

- Part 1. Key Issues in Strategic Human Resource Management,
- Part 2. Strategy and Human Resource Management,
- Part 3. The Legal Framework of Human Resource Management.

The following six parts describe and explain organizational HRM functions. As the handbook has a linear structure, I cannot avoid listing all classic HRM functions one after the other in consecutive chapters. However, I strongly encourage the Reader to follow a holistic view and, while reading, to try to synthesise the discussed topics. The second half of the book thus includes the following:

- Part 4. Job Systems,
- Part 5. Resourcing the Organization,
- Part 6. Strategic Training and Development,
- Part 7. Performance Management,

- Part 8. Total Rewards and Compensation,
- Part 9. Industrial Relations.

The book uses an approach by which the Reader can easily adopt the theoretical foundations of SHRM into practice. The structure supports this goal through a variety of methodologies, including the following:

- chapter introductions,
- lists of learning objectives at the beginning of each chapter,
- end-of-chapter summaries with the most important highlights,
- individual and/or group activities,
- lists of key terms,
- end-of-chapter references, and
- further suggested literature.

The goal of this book is not to train all who read it to be HR managers. Most will take this knowledge and work at another job in the organization. Nonetheless, they will be able to understand the duties that HR people accomplish.

The author put all her research, teaching and consultation experience into this book and hopes that the readers will find the book stimulating and useful to read.

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Abbreviations

| | |
|--------|--|
| 4Cs | commitment, competence, congruence and cost-effectiveness |
| AC | assessment centre |
| ADDIE | analysis, design, development, implementation and evaluation |
| ADR | alternative dispute resolution |
| AI | artificial intelligence |
| ATS | applicant tracking system |
| BARS | behaviourally anchored rating scale |
| BOS | behavioural observation scale |
| BPC | breach of psychological contract |
| BPO | business process outsourcing |
| BSC | balanced scorecard |
| BYOD | bring your own device |
| C(B)A | collective (bargaining) agreement |
| CEC | European Confederation of Executives and Managerial Staff |
| CEEP | European Centre of Employers and Enterprises providing Public Services and Services of General Interest |
| CJEU | Court of Justice of the European Union |
| COE | centre of expertise |
| CQ | (cross-)cultural intelligence |
| CV | curriculum vitae |
| EC | European Communities |
| ECHR | European Convention on Human Rights |
| ECtHR | European Court of Human Rights |
| EQ | emotional intelligence |
| ESOP | employee stock ownership plan |
| ETUC | European Trade Union Confederation |
| EU | European Union |
| HIHRM | high involvement HRM practices |
| HR | human resources |
| HRBP | HR business partner |
| HR COE | HR centre of excellence |
| HRD | human resource development |

| | |
|---------|---|
| HRIS | human resource information system |
| HRM | human resource management |
| HR SSC | HR shared service centre |
| IGO | intergovernmental organisation |
| ILO | International Labour Organization |
| IOE | International Organization of Employers |
| IQ | intelligence quotient |
| IT | information technology |
| IWA | International Workers' Associations |
| IWW | Industrial Workers of the World |
| KPI | key performance indicator |
| KSA | knowledge, skill and abilities |
| LIHRM | low involvement HRM practices |
| M&A | merger and acquisition |
| MBO | management by objectives |
| MNEs | multinational enterprises |
| OECD | Organization for Economic Cooperation and Development |
| OSH | occupational safety and health |
| P4P | pay-for-performance |
| PA | performance appraisal |
| PCB | psychological contract breach |
| PESTELE | political, economic, social, technological, environmental, legal, ethical factors |
| PM | performance management |
| RBV | resource-based view |
| RIF | reduction in force |
| SDG | Sustainable Developmental Goals |
| SHRM | 1. strategic human resource management 2. Society of Human Resource Management |
| SMART | specific, measurable, attainable, relevant and time-bound |
| SMARTER | specific, measurable, attainable, relevant, time-bound, exciting and recorded |
| STAR | situation, task, action and result |
| SWOT | strengths, weaknesses, opportunities and threats |
| T&D | training and development |
| TAW | temporary agency work |
| TEU | Treaty on European Union |
| TFEU | Treaty on the Functioning of the European Union |
| UEAPME | European Association of Craft, Small and Medium-Sized Enterprises |
| UN | United Nations |
| VRIO | valuable, rare, inimitable and organized |
| VUCA | volatile, uncertain, complex and ambiguous |
| WFH | working from home |
| WFTU | World Federation of Trade Unions |
| WHO | World Health Organization |

PART 1

Key Issues in Strategic Human Resource Management

By the 21st century, it became evident that *human capital* – employees or people within an organization – are one of the primary means of creating a competitive advantage. Hiring talented and engaged individuals is one of the cornerstones of sustainable business operation. Most organizations of comparable size and scope within the same industry generally have access to the same materials, machines, devices and facilities as any other organization. This being the case, it is challenging to create a competitive advantage based on these assets only. If the organization manages its human resources more successfully than its competitor, if it gets its employees involved in working toward the day-to-day success of the organization and makes them stay with the organization, then it has a much greater chance of being successful, productive and profitable in competition (Lussier & Hendon, 2016).

Human resource management (HRM) has travelled a considerable distance from personnel administration through personnel management to human resource management since the 1970s. Now, in some quarters of businesses, it is strategic human resource management (SHRM). One can track the move from a dominantly administrative function to a classic management function within this journey. However, the degree to which human resources (HR) functions are *strategic* remains debatable, and it may vary across sectors, countries and sizes of companies.

The main goal of Part 1 of this handbook is to explain what human capital, human resource management and strategic human resource management mean. By understanding and acknowledging managers' work, I also wish to justify the saying "All managers are HR managers". To understand the business context of human resource management, we need to see its key definitions, its essential organizational functions, its current challenges, the possible roles HR can have in organizations as well as the core capabilities HR professionals should possess to be good advocates of their profession.

Part 1 of the SHRM handbook has the following learning objectives:

- defining and explaining the meaning of human capital and the unique features of work,
- identifying the possible roles HR might have in organizations,
- discussing why SHRM knowledge is essential for all managers,
- explaining briefly the core organizational HRM functions,
- providing an overview of the challenges HRM is facing today,
- describing the way in which HRM organizations are structured,
- listing the most critical competencies needed by HR professionals.

CHAPTER 1

Human Capital and the Unique Features of Work

Several types of resources affect organizational performance (Valentine et al., 2020, p. 7). These are the following:

- *physical resources*: buildings, land, furniture, machines, computers, vehicles,
- *financial resources*: cash, stocks,
- *intangible/organizational resources*: organizational structure and culture, teamwork, specialized research capabilities, IT systems, design, operating processes,
- *human resources*: individuals' talents, capabilities, experience, knowledge, skills, relationships (see Figure 1.1).

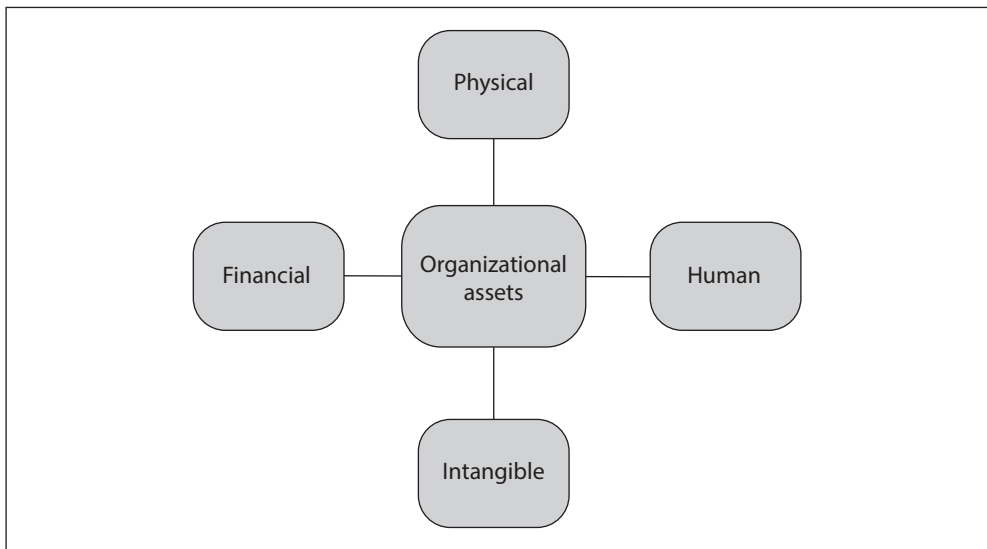


Figure 1.1

Four Types of Organizational Assets

Source: Valentine et al. (2020, p. 8).

All these assets are crucial to varying degrees in different organizations. The human factor is the ‘glue’ that holds all other assets together and guides their use to achieve results. It is also important to note that human capital is not solely the people in the organization: it is what these people contribute to organizational success together.

According to Schultz (1981), a Nobel Prize winner economist,

Human capital is the collective value of capabilities, knowledge, skills, life experiences and motivation of the organizational workforce (source: Schultz, 1981, p. 24).

Schultz argued that economic development depends on applying knowledge, calling this aspect of economics *human capital*. It is also important to highlight that employees or human capital differ from other resources mainly because of their ability to evaluate and question the management’s decisions and actions. Their commitment, loyalty and cooperation have to be won; otherwise, due to demotivation and the breach of psychological contract (BPC, see details later in this chapter) between employer and employee, they might leave the organization. They can be a source of innovation enhancing customer experience, leading to greater customer loyalty (Burjek, 2017). In addition to this, unlike other organizational assets, employees can form ad hoc groups and official forms of interest groups, such as trade unions, with the aim of defending or furthering workers’ economic rights and interests.

Human resources’ contribution to organizational strategy is typically variable and sometimes unpredictable – this is where successful HRM operations can make outstanding achievements.

The nature of the relationship between individuals and employers is an issue of central importance to HRM. The employment relationship describes interlocking perspectives that exist between individuals and their work organization. These are the following:

- *Economic perspective*: The most apparent aspect of the employment relationship is economic. Parties exchange pay for work. When people enter a workplace, they enter into a *pay-effort bargain*, which places obligations and rights on both employers and employees. For most people, employment provides the principal source of income. The relations between workers and their employers offer one of the cornerstones of market economies, with the conflict of interest at its heart. The conflict lies between the owners of capital, who invest in productive activities, and workers, who supply necessary labour. Employers seek to maximize the return on investments, whereas workers seek the highest price available for their labour. As in other contractual relations, however, the parties ultimately share a common interest in achieving production and profits through the combination of capital and labour. The

balance of strengths between the competing interests of capital and labour always constitutes a vital issue in politics, where labour law plays a regulatory role (Collins et al., 2019).

- *Legal perspective:* Of course, the employment relationship also has a *legal perspective*, which is set into force through the employment contract signed by the parties.

The **employment relationship** is established between an individual employee and an employer. This relationship is shaped by the mutual agreement of the parties, by legal regulations and by the outcomes of social partner negotiations (source: Eurofound, 2021).

Regardless of the type and duration of the employment relationship, workers have the right to fair and equal treatment regarding working conditions, access to social protection and training. In modern labour systems, the legal framework of the employment relationship is determined dominantly by national labour codes, collective agreements and employment contracts. These documents are in line with international or European law. (See details on the legal context of HRM in Part 3.)

- *Social perspective:* From a social perspective, work occupies a large proportion of most people's days and provides individuals the main sites where they can build relationships. From a negative approach, the consequence of unemployment is often described as "social exclusion". Poverty prevents individuals from enjoying the benefits of society so those who are unemployed are likely to experience less productive and meaningful life (Collins et al., 2019). Employees are not isolated individuals but members of groups responding to social norms that influence their actions in the workplace. They are members of a unique 'cobweb' also known as organizational culture. Employees, managers, customers view organizational culture as the social environment that exists within the firm and affects how a firm gets work done. For this reason, Boxall & Purcell (2011) calls the relationships and networks among organizational members and groups that create value for the organization *social capital*, an additional asset element to organizational resources.

Organizational culture is the collection of values, expectations and practices that guide and inform the actions of all members in an organization (source: Schein & Schein, 2017).

The norms (standards of behaviour) within organizations determine what is permissible in terms of behaviours and attitudes. Of course, while observing and analysing organizational culture, we should understand that beyond the visible framework of norms (*observable artefacts*, such as clothing, jargon,

- ceremonies), hidden ones also exist (*values*, such as strategy, mission, vision, and *basic underlying assumptions*, such as unconscious, taken-for-granted beliefs). Both visible and hidden norms are in solid interaction with national, regional, sub- or even professional cultures (Schein & Schein, 2017).
- *Psychological perspective*: The fourth component of the employment relationship is psychological.

*The **psychological contract** is a two-way exchange of perceived promises and obligations between employees and their organization (sources: Argyris, 1960 and Rousseau, 1989).*

The term is a metaphor that contains a great variety of unwritten expectations and understandings of the two parties. Legal contract, on the other hand, is identical for both parties and is always written. As the psychological contract is non-written, individuals may have different perceptions of these than employers. If one party perceives that another party has failed to fulfil its obligations or promises, then *psychological contract breach* (PCB) occurs, which might easily lead to diminished job satisfaction, negative citizenship behaviour, decreasing organizational commitment or the actual termination of the employment contract. HRM has a crucial impact on shaping the content of the psychological contract both in a positive way and in a negative way.

CHAPTER 2

Possible Roles of Human Resource Management in Organizations

As human capital has become viewed as more critical to organizational success, many organizations realized that people could provide a competitive advantage. But how does (strategic) human resource management contribute to this advantage?

The terms *human resource* or *human capital* were discussed in the previous section. If we look upon the term *management* as a process, we can generally say that *human resource management* (HRM) as a distinctive term emerged in the 1980s.

In the late 19th century and early 20th century, the HR profession was purely an administrative function in larger companies, dealing with payroll, record-keeping and later on administering the social security data of workers. The first shift happened in the 1960s and 1970s, when *Personnel Departments*, as they were then called, focused on legal implications of work. In the 1980s and 1990s, facing globalization and heavier competition, *Human Resource Departments* became more concerned with costs, planning and implementing business strategies. More recently, HR professionals are actively participating in mergers and acquisitions (M&A), business process outsourcing (BPO) and managing technological advancement at workplaces. In addition, HR is getting more and more involved in developing programs that increase corporate ethics, compliance and social responsibility.

The evolution of HRM shows a shift from administration towards strategic partnership. However, evolution does not mean that previous stages disappear from its profile. On the contrary, if an organization has an HR department, these professionals might typically occupy three different roles. Which role dominates depends on what the management expects from HR and what competencies HR staff members possess. The potential mix of HRM roles in an organization is shown in Figure 1.2.

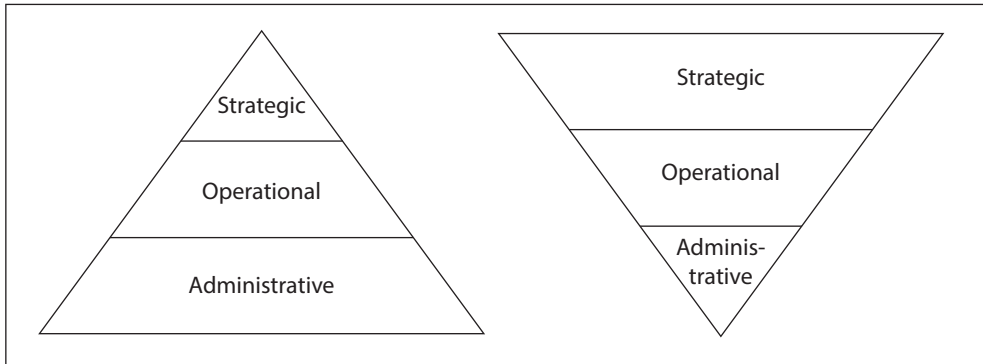


Figure 1.2

Mix of Possible HRM Roles in an Organization

Source: Valentine et al. (2020, p. 14).

- *Administrative role:* HRM focuses on administrative processing and record-keeping, including essential legal paperwork and policy implementation. HR can succeed in this role in the short term (in less than one year) if web-based HR technology and human expertise are both available. If performed accurately, promptly and in a legally appropriate manner, this role may give HRM a good reputation among organizational members. Increasingly, many HR administrative functions (retirement planning, benefits administration, payroll) are being outsourced to vendors.
- *Operational role:* The operational role requires HR professionals to cooperate with line managers. Together they identify HR-related problems as well as implement and manage HR policies such as compensation programmes, staffing for current openings, training and development programmes. In this role, HR is an internal service provider for managers.
- *Strategic role:* The differences between HR's operational and strategic roles are shown in Figure 1.3. Many executives, managers and HR professionals increasingly see the need for HRM to become a more significant strategic contributor to business success. Even non-profit organizations, such as governmental and social service entities, must manage their human capital in a business-oriented manner. The role of HRM as a *strategic business partner* means having a say in the strategic planning process. This means involvement in strategic planning, planning compensation strategies, advising mergers and acquisitions, downsizing or restructuring. When top managers recognize the strategic connection between HR initiatives and organizational results, they are more likely to invest in progressive HR practices. The strategic role of HRM highly varies among industries, countries and company sizes, but it usually covers activities such as the following:

- = conducting workforce planning to anticipate the availability of employees at all job levels to meet strategic plans,
- = working with organizational leaders to change organizational culture,
- = initiate organizational changes that lead to decreased employee turnover ratio,
- = create a flexible workforce pool for rapidly changing business needs,
- = supporting decisions on new site selection.

Figure 1.3
Shift from Operational HRM to Strategic HRM

| Operational HRM | Strategic HRM |
|--|---|
| Focus on employee relations | Partnerships with internal and external customers |
| Reactive, change follower | Proactive, change leader |
| Short-term horizon | Short-, medium-, long-term horizons (as necessary) |
| Bureaucratic control | Flexible and fast adjustment to business needs |
| Collecting HR data | Measuring HR efficiency with metrics |
| Responding to goals and objectives set by executives | Setting strategic goals |
| Complying with laws, policies and procedures | Developing and revising organizational policies |
| Organizing training programs | Identifying organizational training needs and designing trainings accordingly |
| Staffing jobs by recruiting and selecting employees | Planning and contracting both external and internal workforce |
| Administering compensation plans | Developing compensation plans focusing on employee performance and retention |

Source: author, based on Mathis & Jackson (2008, p. 13) and Mello (2015, p. 157).

Human resource management is designing formal systems in an organization to manage human talent for accomplishing organizational goals (source: Valentine et al., 2020, p. 4).

Boxall & Purcell (2003, p. 184) argue that “HRM includes anything and everything that is associated with the management of the employment relationship in the firm”.

Strategic HRM is the appropriate use of HRM practices to gain or keep a **competitive advantage** (source: Valentine et al., 2020, p. 40).

The competitive strategy identifies how to build and strengthen the business's competitive position in the market.

Competitive advantage refers to any factor that allows a company to differentiate its product or service from those of its competitors in order to increase market share (source: Dessler, 2020, p. 111).

Executives usually adopt one to three competitive strategies – cost leadership, differentiation or focus – to achieve a competitive advantage (Porter, 1998). *Cost leadership* means becoming the low-cost leader in the industry (e.g., Walmart). With *differentiation*, the firm seeks to be unique in industry along dimensions that are widely valued by buyers (e.g., Volvo does this with its cars' safety). *Focusers* carve out a market niche (e.g., Novo Nordisk as a leader in diabetes medications).

Although the concept of strategic HRM is widely recognized, for many organizations to reach this and break out of the administrative or operational roles remains more like a utopia. Several reasons might contribute to this phenomenon, such as the following:

- Some HR managers do not think strategically and do not have general management skills or financial, marketing, leadership, IT skills; therefore, they have a segmented understanding of the business. In this way, they are their own most significant limitations for them to become strategic partners.
- It might also be the case that senior managers lack appreciation for the value of HRM and its ability to contribute to the organization from a strategic perspective. In this case, the senior management knows the traditional or operational functions of HR and fails to realize the contributions HR can make as a strategic partner.
- Few functional managers see themselves as HR managers. They are more concerned with the technical aspects of their work than with people management. If this is the case, HR must dominantly execute operative tasks, which is seen as a top priority in the managers' eyes.
- The efficiency of HRM is difficult to measure. Quantifiable benefits are sometimes indirect and prolonged in time so the added value of HR remains unseen. However, HR analytics is a developing area, which may help HR overcome this barrier (based on Mello, 2015).

CHAPTER 3

Scope of Human Resource Management

3.1 HRM for Non-HR Managers

Managers are responsible for accomplishing the organizational strategy, and, in doing so, they manage the work of their employees. In their roles as managers, they do the following:

- plan and organize work,
- determine what type of people should be hired, when and how,
- select the best candidates for job vacancies,
- support new employees in the onboarding process,
- determine which employees to train and what to train them for,
- set working time schedules,
- lead and motivate employees,
- identify and nurture talented employees,
- determine pay ranges, incentives and benefits,
- control labour costs,
- channel and monitor employees' performance by setting various performance standards,
- create and maintain positive departmental morale.

All managers should know about health and safety regulations, equal opportunity and anti-discrimination rules at work, and they should also properly handle grievances and labour disputes.

“All managers are HR managers.” This is not only true for small companies where there are no HR managers or HR departments and the owners handle all HR tasks alone. This is true for all organizations.

It is unrealistic, however, to expect managers from marketing, production, sales, finance or IT to know about the nuances of equal employment regulations, to identify the best recruitment channels and selection tools or to know how to design a fair and competitive compensation system. For these activities, many organizations hire HR experts, who offer their expertise to organizational managers.

3.2 Classic Organizational HRM Functions

Once we understand the terms HRM and SHRM, we need to answer the following questions: What do HRM professionals actually do? How do they support managers in their roles? How do they harmonize individual and organizational goals? How do they channel organizational strategy towards personal employee goals?

For this, HRM designs *formal, written and well-communicated procedures* that are used to manage people in the organization. Usually, both HR and line managers give inputs to these policies and procedures. Parts 4 to 9 of the handbook deal with these functions in detail. Here, these horizontally interlocking functions are explained only briefly as follows:

- *Workforce planning*: This activity includes preparing forecasts for future headcount needs with regard to the organization's economic, financial and legal environments, its mission and objectives as well as its internal strengths and weaknesses, including its structure, culture, technology and size. How well HR does what it has planned is measured by HR analytics.
- *Analysing and evaluating jobs*: *Job analysis* is a systematic way to gather and analyse information about job content and human requirements of jobs. *Job evaluation* is a process during which we define the relative importance and worth of a job within the organization so that employees may be paid accordingly.
- *Staffing*: Staffing aims to provide the sufficient supply of qualified individuals to fill vacant jobs in the organization. Job descriptions are used to attract and recruit applicants for vacancies. *Selection* is the process of choosing individuals who possibly have relevant qualifications to fill jobs. Selection is a matching process between applicants and the positions/organization through measurements. Inward staffing ends with *orientation* or *onboarding* when HR professionals, together with managers and occasionally with mentors, integrate new employees to work. *Outward staffing* means the reduction of headcount by soft, semisoft or hard procedures.
- *Training and development and talent management*: Beginning with onboarding the new employees, *development* includes different types of techniques that support the employees' comfort in their jobs. In addition, managers frequently want employees to be fit for future organizational jobs so *talent management* also strongly correlates with training and development.
- *Performance appraisal*: This HRM system aims to assess how well employees perform their jobs, where their strengths and possible areas of growth are, compared to a set of goals and standards communicated to them.
- *Compensation*: Rewarding employees by base wage, incentives and benefits is a crucial activity in HR. To remain competitive in the labour market, organizations also examine their competitors' practices and develop their own compensation systems according to their financial possibilities.

- *Employee and labour relations*: Both trade unions and works councils have important roles in formulating working conditions. Dealing with these two employee representation bodies is also an HRM responsibility, requiring a specific set of knowledge.
- *HR IT*: HR IT is an umbrella term for software and associated hardware for automating HR functions in organizations. It includes employee payroll, social security administration, talent acquisition, training, analytics, performance management and benefits administration.
- *HR analytics*: HR analytics deals with data related to employee performance and HR practices to improve overall organizational performance. HR analytics, also called *HR metrics* or *HR controlling*, uses metrics (i.e., data, facts and scientific rigour) to show how HR activities and employees contribute to organizational performance. HR analytics is sometimes distinguished from the term *people analytics*. HR analytics measures the added value of HR activities by metrics such as HR to employee ratio, HR expenses to operating expense ratio, average time to fill positions, cost per hire, annual training days and training cost per employee. People analytics measures employee performance by metrics such as annual turnover ratio, average number of sick leaves as well as the ratio of own and external workforce.
- *Health and safety at work*: Occupational health and safety refer to programs and procedures that protect the safety and health of any person (not only employees) engaged in work. The overall goal of this activity is to create a safe working environment and to reduce the risk of work-related accidents and diseases.

3.3 Current Challenges in HRM

Beyond the classic organizational HRM functions, many other factors give new priorities to HR managers. These factors arise either from environmental changes, from external phenomena or from the organization itself. These challenges differ from time to time and from industry to industry. However, they all urge organizations to change and adapt new survival strategies. The following section briefly discusses the various challenges (based on Valentine et al., 2020 and Dessler, 2020):

- *Globalization*: Globalization refers to the companies' cross-border sales activities and ownership or manufacturing procedures. In the past 50 years, governments dropped cross-border taxes and tariffs, formed free trade areas and took other steps to encourage trade flow among countries and companies. By doing this, globalization vastly increased international competition. More globalization meant more competition, and more competition meant more pressure to lower costs and make employees more productive. Although indi-

vidual companies do not respond to all HR challenges the same way, all must face and overcome a common set of difficulties when they have global or international presence. Among others, these complications are the following:

- = difficulties in clearly communicating the corporate strategy towards new sites,
- = clashes between the standardization of HR procedures and local needs (including wages or job requirements),
- = language and cultural barriers among employees and managers in different geographical locations,
- = severe extra costs of operation because of expatriate management (managing foreign assignment employees) in different countries.

International HRM is a distinct discipline within HRM, which deals with cross-border HRM procedures. For more details on international HRM, see the works of Brewster et al. (2016) and Dowling et al. (2016).

- *Competition and cost pressures*: An overriding theme for managers and organizations is to operate cost-effectively. This intention covers all costs types: financial, equipment and labour costs. The need to increase productivity and reduce labour costs may push organizations towards effective or ‘leaner’ operations. Instead of using the term *downsizing*, they often use *rightsizing*, which usually means eliminating the layers of managers, closing facilities together with a mass reduction of headcount, merging with other organizations as well as outsourcing people, tasks or both.
- *Changing workforce*: The employment arena has never been more complex than today. Workforce characteristics are changing due to demographic changes and as a result of the individuals’ new expectations toward work. Some of these challenges are the following:
 - = *Ageing workforce*: In most developed countries, the population is aging, which results in a ‘greying workforce’. Replacing and transferring the experience of older workers is a challenge for employers in all industries. As a result, many employers bring retirees back or try to keep them by offering mentoring or knowledge transfer jobs.
 - = *Intergenerational diversity*: Rich literature examines the Millennials/GenY (born between 1977 and 2002) and GenZ (born between 2000 and 2010) members’ new expectations towards work compared to that of the baby boomers (born between 1950 and 1975). Intergenerational diversity changes work dynamics, which should be handled by HR procedures.
 - = *Gender challenge*: Although balancing work and private life has always been an issue, the increase of working women and dual-career couples have resulted in greater tension for many workers, both males and females. Employers must find ways to respond to work-family concerns to attract and retain employees.

= *Racial and ethnic diversity*: This creates a challenge because of the differences in traditions, religions and languages of the employees concerned. Raising awareness and the cultural sensitivity of all employees is key for ethnically colourful organizations. However, diversity is much more complex than simply dealing with workers of different ethnic groups. Mello's (2015) figure shows this very plastically (Figure 1.4).

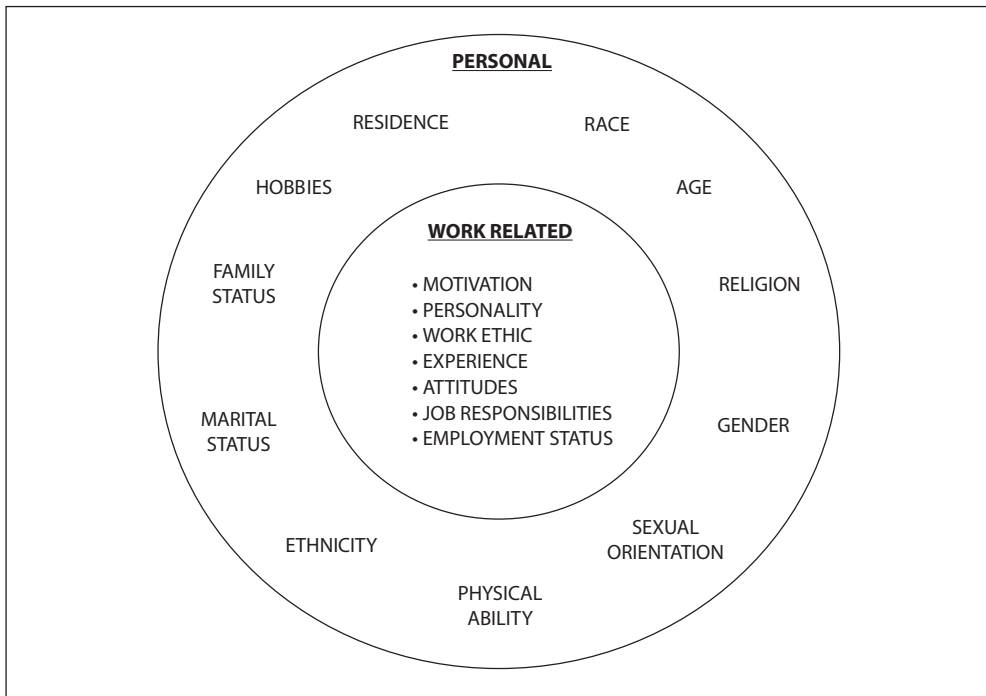


Figure 1.4
Individual Dimensions of Diversity

Source: Mello (2015, p. 54).

= *Workforce availability* and quality concerns: Significant workforce shortages in qualified, experienced workers appear in several industries. This does not necessarily mean that there are too few people; it only means that there are too few people with the required skills. Skills shortages on the labour market may create severe imbalances in labour supply and demand.

= *Participation in the gig economy*: In companies such as Uber or Upwork, most workers are not employees at all. They are freelancers or independent contractors (gig workers) who work when they want and when they are

needed. Gig workers open up the currently existing world of labour law towards a new system of work, the details of which are not fully understood yet. On the one hand, platform workers possess many of the typical features of both self-employment and employment relationship. On the other hand, even if we classify them as employees, it is debatable to label the platform as ‘employer’. At the moment, it is a go-between way of work. For more on the distinction between employment relationship and self-employment, see Chapter 10.

- *Technology trends*: Technology is changing HRM in many ways. Here, only the most essential factors are highlighted, which are the following:
 - = Technology is changing the *nature of jobs*. This is true not only for *tech jobs*, but also for all jobs, no matter if they are white- or blue-collar jobs. Data-driven work and automated procedures are all features of Industry 4.0.
 - = Technology is changing *how HRM is done*. Beyond sophisticated human resource information systems (HRIS), such as SAP HR or PeopleSoft, employers use social media (Twitter, LinkedIn and Facebook) to recruit new hires and to build a reputation as employers. Sites such as Glassdoor or kununu offer insights into interorganizational employment features such as wages, benefits and work climate. Mobile applications are used to check working times, cloud computing provides real-time work, and artificial intelligence (AI) is used to track customer address changes from emails to the company’s data records. Also, *bring your own device* (BYOD) policies are encouraged in many organizations. These are current examples; the list is far from being full.
 - = The use of technology at work also has risks. The *right to privacy* and the *right to disconnect* are not only personal needs, but also protected by law in the European Union and other countries. Employee data is protected, and its violation (for instance, by illegally monitoring the job applicants’ social media profiles or by the supervision of the employees’ work emails, laptops or telephone calls) not only has serious legal consequences but raises ethical considerations as well.
 - = *Covid-19*: The pandemic that emerged in 2020 reshaped our lives and our working patterns all over the world. HR started to focus more on the employers’ health and safety tasks, on atypical work situations such as teleworking and the home office, on supporting the employees’ health integrity, on establishing employee replacement and substitution plans and on redefining performance management techniques (see Pató et al., 2021).

CHAPTER 4

The Human Resource Management Organization

Not all organizations have distinctive HR departments. In small or family-run firms, the owner usually executes HRM issues alone. Despite the obvious differences between small and large organizations, where people work, HRM activities must occur. As indicated in Chapter 3, all managers are HR managers so many people in the organizations actually do HR.

A distinctive HR department has many advantages for organizations. Beyond offering a new (labour-oriented) perspective to strategic planning and implementing processes, HR professionals are also internal service providers for other business managers. Due to time pressures and lack of interest or expertise, HR people offer professional people management support to managers. Following an interdisciplinary approach, they can identify critical organizational challenges (e.g., discover employee exit reasons), facilitate organizational change, lead the firm towards being a learning organization, promote and support diversity (by staffing and sensitizing workforce), or facilitate digitalization (through home office).

Beyond its advantages, critics might also say that HRM departments are the ‘guards of rules’ and therefore are too bureaucratic, detail-oriented and costly. Its members are the typical no-sayers and are sometimes seen as the ones lacking business acumen. The trend of outsourcing HRM activities also fuels this belief (Valentine et al., 2020). Despite such concerns, this book is dedicated to proving that, if managed well, firms can benefit from HR.

4.1 Size of HR

Given that a firm has an HR department, an important question is its *size*. This is a difficult issue. The answer depends on several of the following factors:

- *Number of employees in the organization:* An SHRM Human Capital Benchmarking Study (2015) recommends that businesses with 1–250 employees hire 3 to 4 HR professionals, decreasing the HR-to-employee ratio (HR-to-employee ratio = number of employees / HR staff) as the size of the business increases. Thus for 251–1,000 employees, the ratio would result in 1.22 HR

people. Many HR departments have less staff because they outsource HRM functions. The HR-to-employee ratio may decline when this occurs, but the actual HR expenses may rise due to outsourcing fees. There is actually no real agreement on this ratio so companies need to assess how much value HR can add to the business with other measures.

- *The current growth stage of the company:* If a firm is expanding and hiring aggressively or expanding across multiple geographies, it needs a larger HR headcount and more sophisticated procedures to manage this.
- *Organizational structure:* Companies with a shared HR services model (see later in this chapter) require a reduced number of HR professionals.
- *Availability of HR technology:* HR technology affects HR headcount but not in total. With digitalization, the headcount of HR administration can be reduced, while digitalization has no effect on functions such as coaching or HR counselling.

4.2 Structure of HR

The way an HR department is structured must be in line with how the organization itself is structured. Today, organizations are usually structured as follows:

- vertically
 - = in a functional way,
 - = in a divisional way,
- vertically and horizontally (also called matrix) or
- in a boundaryless way (also called open boundary, including virtual/collaborative organizations).

Figures 1.5.a, 1.5.b and 1.6 show vertical and matrix structures.

Vertical functional structure works best for organizations that remain centralized (i.e., the majority of the decision-making occurs at higher levels of the organization) because there are few shared concerns between functional areas (e.g., marketing, production, purchasing, IT) (SHRM, 2017; Price, 2011).

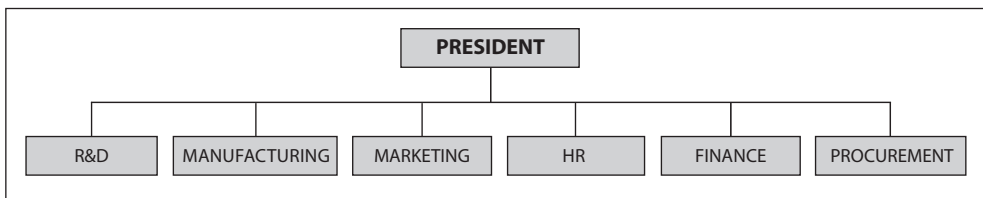


Figure 1.5.a.

Vertical Functional Organizational Chart

Source: SHRM (2017).

Vertical divisional structure is helpful when the product expands in quantity or complexity. However, when competition among divisions becomes significant, this organizational format cannot adapt quickly enough, or, when economies of scale are lacking, the organization may require a more sophisticated structure (SHRM, 2017; Price, 2011).

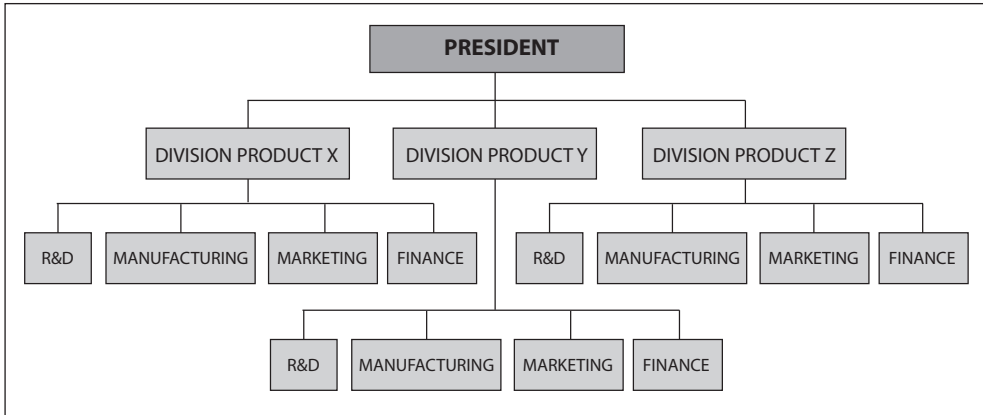


Figure 1.5.b.
Vertical Divisional Organizational Chart

Source: SHRM (2017).

Matrix structures are common in project-driven organizations, such as construction companies. These structures have grown out of project structures in which employees from different functions formed teams until completing a project and then reverted to their own functions (SHRM, 2017; Price, 2011).

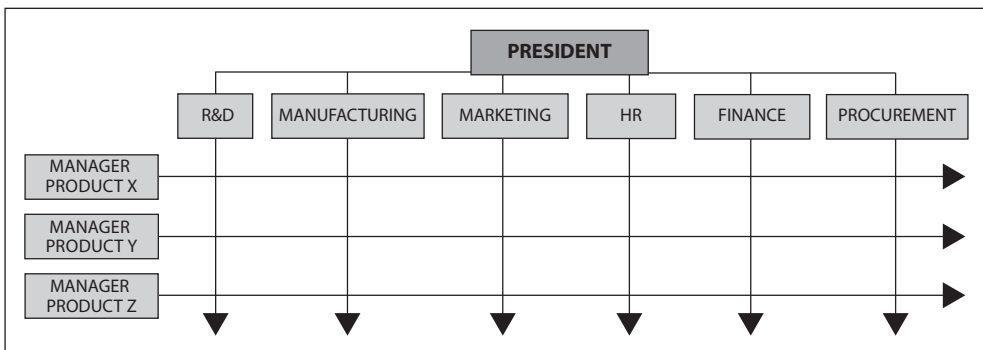


Figure 1.6.
Matrix Organizational Chart

Source: SHRM (2017).

To fit these organizational structures, HR generally follows one of the following patterns (based on Ulrich & Brockbank, 2005; SHRM, 2016a):

- *HR functional organization* (also called *centralized organization*): Usually, single businesses, start-ups or small companies call for HR functional organization, where first HR generalists, and later also HR specialists, appear in the headquarters. A strong corporate HR office exists here that serves as a central decision-making authority supplying universal HR services throughout the organization (Figure 1.7).

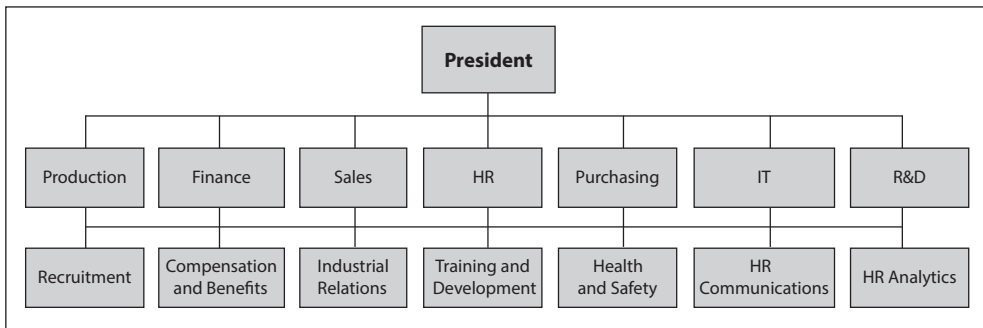


Figure 1.7.

Centralized HR Department

Source: author.

- *Decentralized HR unit* (also called *embedded HR*): Holding companies with divisional organizational structures decentralize HR departments into separate divisions. Each division has a separate business strategy (for details on the types of strategies see Chapter 6). In this way, they require their own HR units to work autonomously, and mostly independently, from other divisions' HR units. The corporate body has a small HR staff, whose task is to coordinate and share information across divisions (see Figure 1.5.b) with HR included under Divisions X/Y and Z.
- *HR shared service centre* (HR SSC): This is a centralized corporate HR body, combined with a relatively independent and operational HR SSC. HR exists on both corporate and business unit levels, though the latter is organized as one business entity called HR shared service centre, delivering HR to all divisions. HR SSCs are mostly used either in vertical divisional or in matrix organizations. They became popular (not only in HR) in the 1990s due to general cost pressures. Typical HR SSC processes are payroll, personal data changes, benefits, company cars, pension, recruitment administration, absence monitoring and relocation (NGA Human Resources, 2013). HR SSCs dominantly focus on operational excellence, and, in reality, they are sometimes subject to outsourcing decisions.

- *Outsourced HR*: Some organizations outsource non-strategic HR functions (such as payroll or benefit administration) to business partners. Beyond saving costs, firms wish to free up staff and labour costs to concentrate on strategic business initiatives and to take advantage of specialized vendor expertise and technology.

Beyond the above-described organizational settings, today's most prevalent HRM structural model relies on three primary elements, namely, HR centres of expertise (HR COEs), HR business partners (HRBPs) and HR shared service centres (HR SSCs):

- = A *centre of excellence* (COE) consists of specialized HR experts designing appropriate strategic HR strategies, programs, policies and processes. HR COE team members create these processes for functional areas such as benefits, compensation, employee and labour relations or talent excellence, which are all critical areas of HR. They create the vision across these functional areas and establish organizational best practices.
- = *HRBPs* act as *strategic partners* and liaisons between the business managers and COEs. An HR business partner is usually a senior HR employee, who supports and collaborates with one or more of the organization's managers. Job responsibilities typically include advising managers about HR issues, such as strategic headcount planning, analysing talent requirements, recruiting, selecting and onboarding new hires. HR business partners have strong general business knowledge and specific experience within the employer's business sector so they can also implement HR practices efficiently.
- = An *HR SSC* is a business entity responsible mainly for HR administrative or operational tasks. Its services are offered to all business units, divisions and employees of the organization.

In essence, the three HRM entities work together as Figure 1.8 shows (based on Shellenback, 2017).

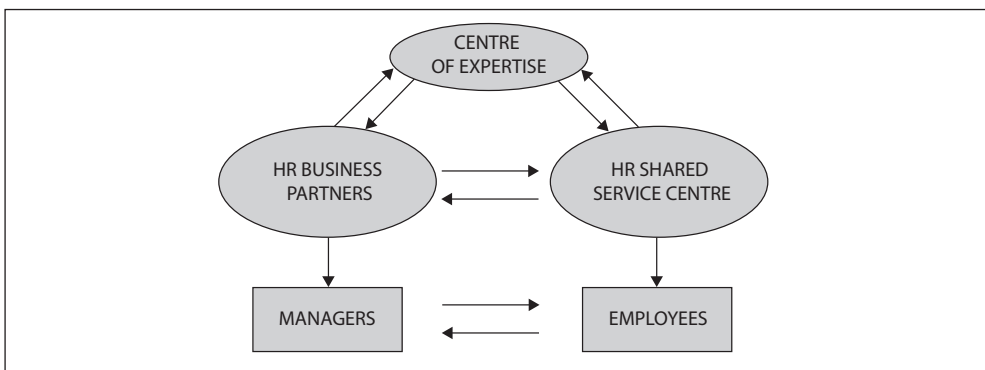


Figure 1.8.

Cooperation of HR COE, HRBPs and HR SSC

Source: author.

CHAPTER 5

Essential Human Resource Management Skills

All managers require a mix of professional, business and people management skills. HR managers are no different.

When asked during a job interview, “Why do you want to be an HR Manager?”, many candidates simply say, “Because I like working with people and I am good at it.” Being sociable is essential (not only for HR managers), but it takes much more than that. HR managers cannot be merely good at job interviews or during employee disputes. They have to be able to formulate HR strategies in line with business strategy and to establish HR plans. To be efficient in these tasks, they need financial, marketing, communication, production-related, legal and analytical skills.

The Society of Human Resource Management (SHRM), a leading professional association for HRM, developed nine competencies arranged in a comprehensive model. The model itemizes the competencies, skills and knowledge that HR managers need around the globe, across all career levels and HR functions. The SHRM Competency Model (see Figure 1.9) is the most rigorous and thoroughly researched HR competency model, which is based on the answers of 32,000+ surveyed participants and 100+ focus groups in over 33 countries.

SHRM research indicates that effectiveness as an HR leader lies on the following knowledge, skills and abilities (KSAs) (SHRM, 2016b):

- *HR technical expertise*: including compensation and benefits, labour relations or talent acquisition knowledge,
- *interpersonal proficiency*: meaning that a critical factor for HR Managers to achieve success is to be able to manage relationships, communicate information and demonstrate global and cultural sensitivity,
- *business-related proficiency*: HR managers need to be able to make and support business-savvy decisions,
- *leadership proficiency*: including ethical evaluation.

Figure 1.9.
The Society of Human Resource Management's HR Competency Model

| Competency | Definition | Key concepts |
|-----------------------------------|--|---|
| HR technical competency | | |
| HR expertise (HR knowledge) | The knowledge of principles, practices and functions of effective human resource management. | Risk management, strategic business management, workplace planning, HR development, HR technology. |
| Interpersonal competencies | | |
| Relationship management | The ability to manage interactions to provide service and to support the organization. | Credibility, community relations, business networking, teamwork, customer service, mutual respect. |
| Communication | The ability to effectively exchange information with stakeholders. | Verbal and written communication, feedback, facilitation, active listening, persuasion, diplomacy. |
| Global and cultural effectiveness | The ability to value and consider the perspectives and backgrounds of all parties. | Adaptability, openness to various perspectives, cultural awareness and respect, diversity perspective, global perspective. |
| Business competencies | | |
| Business acumen | The ability to understand and apply information with which to contribute to the organization's strategic plan. | Strategic agility, business operations and logistics, system thinking, organizational metrics, sales and marketing, economic awareness. |
| Consultation | The ability to provide guidance to organizational stakeholders. | Problem solving, analytic reasoning, coaching, people management, project management. |
| Critical evaluation | The ability to interpret information with which to make business decisions and recommendations. | Decision-making, critical thinking, measurement and assessment, research methodology, inquisitiveness, knowledge management. |

| Competency | Definition | Key concepts |
|---------------------------|--|---|
| Leadership competencies | | |
| Leadership and navigation | The ability to direct and contribute to initiatives and processes within the organization. | Consensus builder, influence, change management, mission-driven, result- and goal-oriented. |
| Ethical practice | The ability to integrate core values, integrity and accountability throughout all organizational and business practices. | Integrity, rapport building, courage, professionalism, trust-building. |

Source: based on SHRM (2016b).

SUMMARY

- Developing an effective strategy to manage an organization’s human assets requires considering employees as investments.
- Human and social resources are essential assets of a firm’s competitive advantage, together with other assets such as physical, financial and intangible assets.
- Human capital is the collective value of capabilities, knowledge, skills, life experiences and motivation of the organizational workforce.
- As people can talk, walk and have feelings, a distinctive set of practices are needed to manage them.
- Human work that lies in the heart of HRM has multiple perspectives, including economic, legal, social and psychological perspectives.
- Depending on the top management’s intentions, the particular business setting and the HR professionals’ skill set, HRM can have administrative, operational or strategic roles in organizational operations. These roles are not exclusive. They operate simultaneously, reinforcing each other.
- Strategic HRM is the appropriate use of HRM practices to gain or keep a competitive advantage.
- HRM functions must be done by someone in all organizations where people work.
- As all managers are responsible for their units, all managers have dual careers. They are managers of a given disciplinary area, and they are HR managers at the same time.
- HRM operates with classic HRM functions (such as staffing, training and development, performance appraisal, compensation, labour relations), all tailored to the organization’s strategic needs.
- Challenges coming from external circumstances (such as technology, demographic issues, globalization and more) together with company-specific challenges (cost pressure) always extend classic HRM functions in new directions.
- The way an HR department is structured must be in line with how the organization itself is structured.
- The cooperation of HR COEs, HRBPs and HR SSCs seems to be today’s effective design for HR.
- All levels of HR staff require interpersonal, business-related, leadership, financial, marketing, communication, production-related, legal, analytical and IT skills beyond hard-core HR knowledge.

SELF-CHECK & INDIVIDUAL AND/OR GROUP ACTIVITIES

1. Consider what elements your current psychological contract contains. List what you offer and what you expect. Do you experience the signs of a psychological contract breach?
2. Which of the following categories do you belong to and why: live to work, work to live or work-life balancer?
3. What HRM roles (administrative, operational or strategic role) do you recognize in your current or most recent organization? Which one is dominant in your understanding?
4. Which of the classic HRM functions listed above are you familiar with? Are there any in Chapter 3 that you have not heard of before?
5. Who do you think expatriates are? If you are unfamiliar with the term, please do a quick research. Which domestic HRM practices do you think need to be modified the most in expatriate management?
6. How do you think HRM can ease intergenerational tension in an organization?
7. Predict the most important trends at work that will shape all firms' future in the next five years.
8. What powers do you think a diverse workforce can provide to companies? How can HR foster workforce diversity?
9. What does *the right to privacy* and *the right to disconnect* mean at work? Introduce two good and two bad examples for each right.
10. Please explain how the HR unit is structured in your current or most recent organization, and connect it to the structures introduced in Chapter 4. If you are a full-time student, please collect this data on the university's HRM unit.
11. How would you extend the HR Competency Model of SHRM?

KEY TERMS USED IN THE CHAPTER

| | |
|---------------------------|--|
| centralized HR department | HR-to-employee ratio |
| classic HRM functions | human capital |
| competitive advantage | human resource management (HRM) |
| decentralized HR unit | international HRM |
| employment relationship | matrix structure |
| HR business partners | organizational culture |
| HR centre of expertise | outsourced HR |
| HR department | psychological contract |
| HRM skills | strategic human resource management (SHRM) |
| HR shared service centre | vertical organizational structure |

GLOSSARY

Human capital is the collective value of capabilities, knowledge, skills, life experiences and motivation of the organizational workforce.

The **employment relationship** is established between an individual employee and an employer. This relationship is shaped by the mutual agreement of the parties, by legal regulations and by the outcomes of social partner negotiations.

Organizational culture is the collection of values, expectations and practices that guide and inform the actions of all members in an organization.

The **psychological contract** is a two-way exchange of perceived promises and obligations between employees and their organization.

Human resource management is designing formal systems in an organization to manage human talent for accomplishing organizational goals.

Strategic HRM is the appropriate use of HRM practices to gain or keep a **competitive advantage**.

Competitive advantage refers to any factor that allows a company to differentiate its product or service from those of its competitors in order to increase market share.

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PART 2

Strategy and Human Resource Management

Organizations cannot achieve a sustainable competitive advantage just by selecting the right products or services and offering them to attractive markets. Although these are vital parts of operation, they are not sufficient in themselves as they are too easy for competitors to reproduce. Organizational features and resources have paramount importance in establishing competitive strength. Differences in organizational features and resources exist from the start. With time and conscious construction, organizations develop very different sets of routines, capabilities and knowledge that competitors find difficult to copy.

Human resources form a part of this complex and unique architecture of the organization that must be managed closely with strategy to create and sustain a competitive advantage. Investing in people not only delivers administrative cost savings but also is one of the best performance-enhancing investments a firm can make. To make this statement come true in practice, we should sharpen our focus on the relationship of HRM and business strategy, and more closely on the HRM procedures and initiatives that maximize the return on investment and achieve positive business results. In other words, the ultimate purpose of strategic HRM is to enhance the advantage of human resources by selecting, motivating, developing and retaining them more effectively than competitors do (Rees & Smith, 2014).

Part 2 of the SHRM handbook has the following learning objectives:

- summarizing the organization's strategic planning process,
- listing and explaining the main types of strategies,
- understanding the framework of building an HR strategy,
- demonstrating and analysing the different ways of linking HR to organizational strategy,
- introducing the major theories supporting SHRM.

CHAPTER 6

Organizational Strategic Planning

Strategy is a plan. Being more detailed, strategy and strategic planning deal with the process of looking at the organization's internal assets and its environment today and in the expected future, determining what the organization wants to do to meet the requirements of the envisioned future. See Figure 2.1.

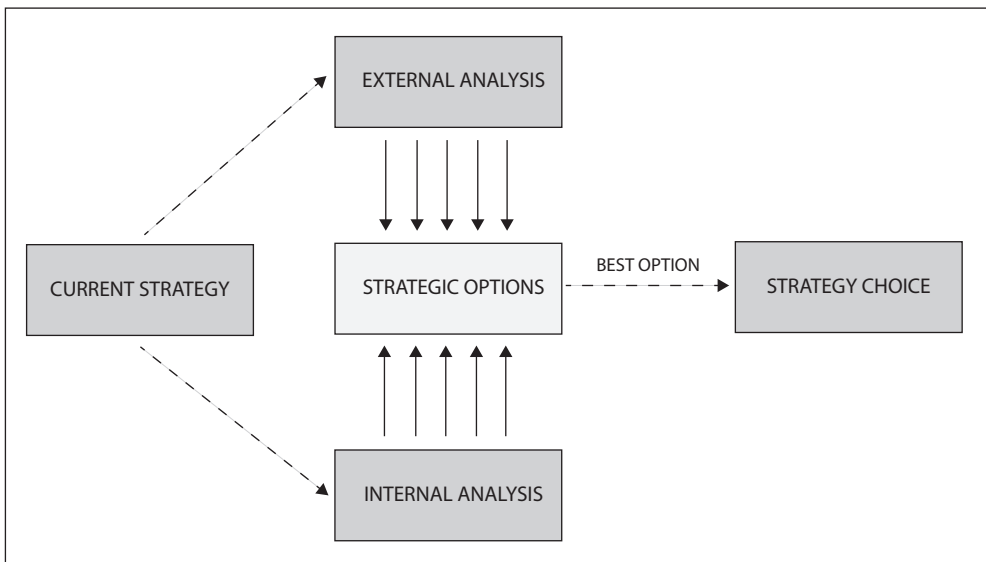


Figure 2.1
Strategic Planning Framework

Source: Lussier & Hendon (2016, p. 43).

Different companies in the same industry may use different strategies to succeed, and firms in various industries located in the same geographical region may use similar techniques to reach high performance. It all depends on the current and the prospected business situations. Efficient strategic management requires companies

to precisely analyse their internal and external conditions, decide their goals and implement the right actions to achieve them, accompanied by ongoing performance monitoring procedures.

Strategic planning is a process of identifying and executing the organization's strategic plan by matching the company's capabilities (strengths and weaknesses) with the demands of its environment (such as competitors, customers, suppliers and labour force) (source: Dessler, 2020, p. 108).

The strategic planning cycle in literature appears in different ways. One of the most comprehensive models to illustrate this process is given by Dessler (2020), as shown in Figure 2.2.

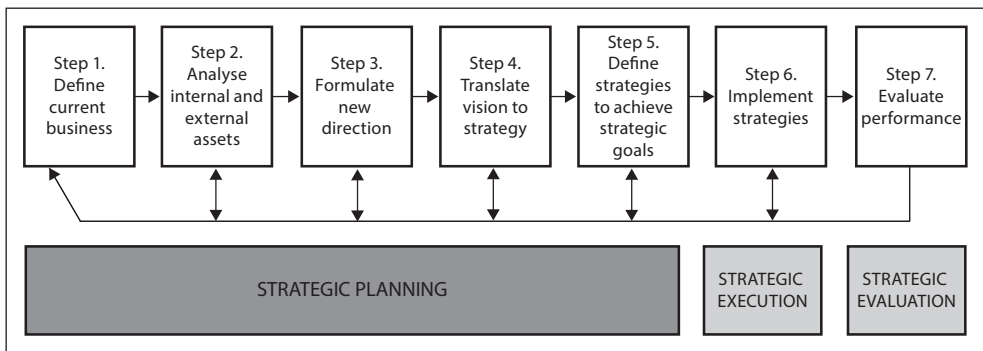


Figure 2.2
Organizational Strategic Planning Process

Source: Dessler (2020, p. 108).

The guiding force behind strategic planning is the *organizational mission*, which is the core reason for the firm's existence. A mission statement describes in broad terms what the firm does, whom it serves and how it serves (mission statement of Tesla: "To accelerate the world's transition to sustainable energy" – source: tesla.com). While mission statements focus on the present, *vision statements* rather focus on tomorrow and on what the organization wants to become (vision statement of Tesla: "To create the most compelling car company of the 21st century by driving the world's transition to electric vehicles" – source: tesla.com). When we put mission and vision together, people inside (and possibly also outside) the organization get a complete picture of the direction the firm wishes to go in. A strong vision statement and a good mission statement are critical parts of the strategic planning process:

Mission + Vision = FOCUS
(source: Lussier & Hendon, 2016, p. 50)

Matching mission and vision statements allow organizational members to focus on going in one specific direction, which finally leads to achieving organizational goals. In addition to mission and vision statements, *organizational core values*, the principles that create the organizational philosophy for organizational decisions, must also be considered (Valentine et al., 2020).

The planning process begins with assessing the current state of business and its environmental forces. For *internal analysis frameworks*, the *Value Chain Analysis* (for details see Porter, 1988) or the *VRIO Model* (for details see Barney, 1995) can be used. According to the VRIO Model, for firms to transform their organizational assets (physical, financial, intangible and human assets) into a sustainable competitive advantage, resources must have four attributes: being valuable, rare, inimitable and organized. External analysis frameworks, such as *Porter's Five Forces* (for more information see Porter, 2008) or *PESTELE analysis*, are widely used methodologies.

SWOT (strengths, weaknesses, opportunities and threats) analysis is also a common starting point as it allows managers to consider both the *internal* (S/W) and the *external* (O/T) conditions that the business is facing. This analysis may also cover external PESTELE factors such as the following:

- *political factors* refer to political stability or how hard governments intervene in economic mechanisms in a certain country,
- *economic factors* include economic growth or employment ratio,
- *social factors* (or sociocultural factors) indicate the demographic trends, health consciousness or age distribution of a certain population,
- *technological factors* direct attention to digitalization, social media or business-related applications,
- *environmental factors* bring pollution concerns or green operations into focus,
- *legal factors* refer to the national and/or international legal regulations that affect business,
- *ethical factors*, the most recent addition to the model, stand for moral challenges such as fair trade, social responsibility or decent work.

Figure 2.3 illustrates the PESTELE method integrated in the SWOT analysis.

When analysing the business environment, business leaders face a chaotic and rapidly changing environment that seriously impacts goal achievement. This environment is often referred to as VUCA, an acronym standing for volatile, uncertain, complex and ambiguous.* This concept is gaining relevance to characterize the business environment. Unpredictable events happening outside the organization can be negative or positive, but both present greater VUCA. The elements of VUCA environment are shown in Figure 2.4.

* The U.S. Army War College originally invented the term to describe political conditions in 1987, when in the mid-1990s, after the collapse of the socialist system, there was suddenly no longer “one enemy” (Giles, 2018).

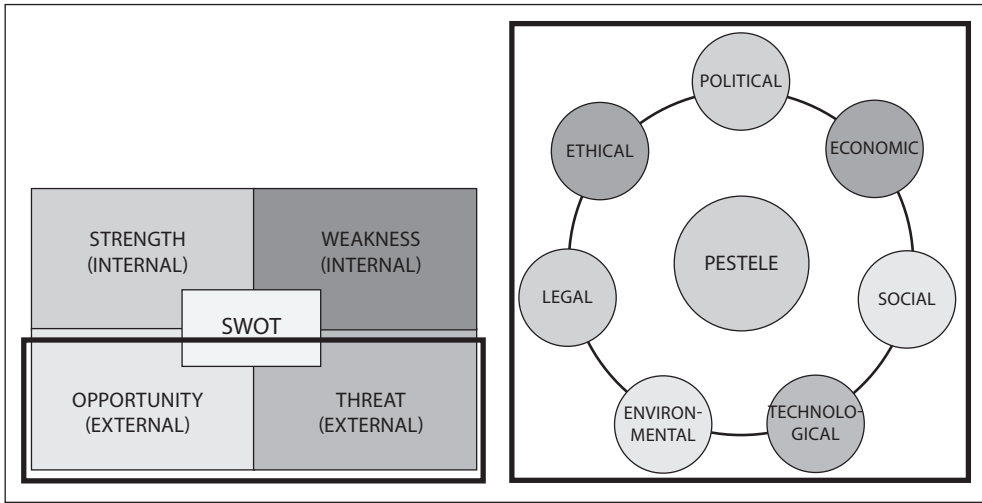


Figure 2.3.
PESTELE Method Integrated in SWOT

Source: author.

| VUCA | | | |
|--|--|---|--|
| <p>Volatile</p> <p>The environment demands to react quickly to ongoing changes that are unpredictable and out of control.</p> | <p>Uncertain</p> <p>The environment requires businesses to take action without certainty.</p> | <p>Complex</p> <p>The environment is dynamic, with many interdependencies.</p> | <p>Ambiguous</p> <p>The environment is unfamiliar, outside expertise.</p> |

Figure 2.4.
Features of VUCA Environment

Source: author, based on VUCA World navigators (<https://www.advuca.com>).

These elements present the context in which organizations view their current and future states. They set boundaries for planning and policy management.

Nowadays, a holistic approach to strategic planning is becoming more widely accepted and used by companies. Beyond focusing merely on producing the most remarkable financial gains for investors, organizations deal with *triple bottom line*.

The triple bottom line approach is seen to enhance sustainability for the organization by paying equal attention to profits, people and the planet. The approach has gained substantial practical implications with the 2030 Agenda for Sustainable Development launched by the United Nations in 2015, which established 17 Sustainable Development Goals (SDGs) to support member states' and organizations' goal attainment (for details see <https://sdgs.un.org/goals>).

After a thorough strategic analysis, the management can move on to strategy formulation by using frameworks such as the *Value Disciplines* (for more information see Treacy & Wiersema, 1997), the *Blue Ocean Strategy*, where firms move from overcrowded industries to uncontested markets (for more information see Kim & Mauborgne, 2015) or *Porter's Generic Strategies* (for more information see Porter, 1985). In the end, the corporate-level strategy aims to gain a competitive advantage by offering actual value for customers while being a unique and hard-to-imitate player.

The successful implementation of the strategy also requires effective and efficient support systems and dedication to the plan at all levels of the organization. As strategies are implemented, they must also be monitored and evaluated.

Controlling is the mechanism of establishing and implementing processes to ensure that the objectives are achieved. Corrective actions or budget modifications must also take place if necessary, based on objective indices (Dessler, 2020).

In practice, managers engage in three types or levels of strategic planning: corporate-level, business-level and functional (or department-level) strategic planning (Dessler, 2020, pp. 110–113).

Corporate strategy identifies the business portfolio (comprising of various business units or divisions) and how these businesses relate to each other. Corporate-level strategy is what most people are familiar with. It is about this question: How do we gain a sustainable competitive advantage over rivals? Unlike business strategy, corporate strategy has long-term orientations. The top management team is responsible for formulating corporate strategy, which reflects the path toward attaining the organization's vision.

Business-level strategy highlights the market opportunities that each of the businesses inside the corporation wants to explore, the steps for performing it and the resources required to put it into practice. Business strategy focuses on a particular unit or division. Porter's Generic Strategies (cost leadership, differentiation or focus) usually appear on this level of strategy.

Functional strategies relate to the different functional areas a strategic business unit has, such as production, IT, finance or human resources. These strategies are formulated by the functional managers along with their teams and are aligned with business strategies. Within these departments, workers often refer to their "mar-

keting strategy”, “human resource strategy” or “R&D strategy”. The strategies at functional levels involve setting up short-term operational objectives, the attainment of which will lead to the realization of business- and corporate-level strategies. See Figure 2.5.

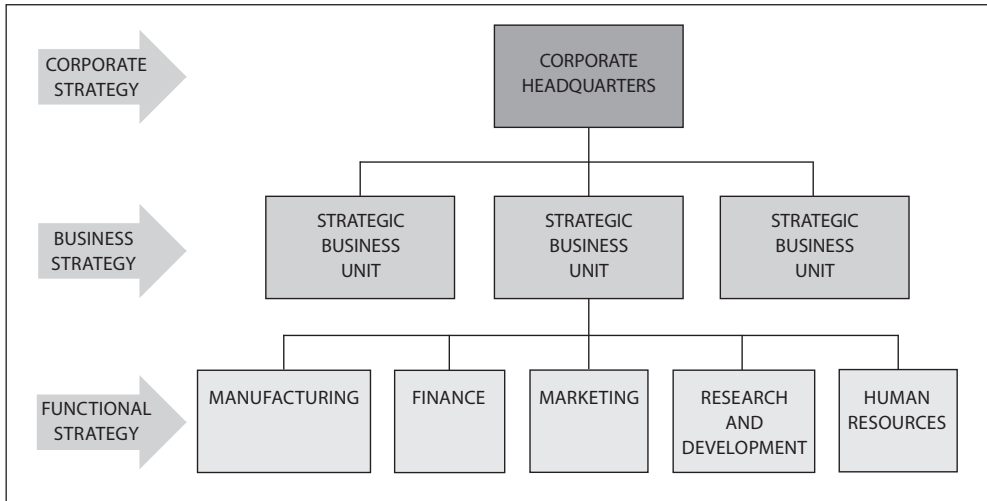


Figure 2.5.

Hierarchy of Strategies in Organizations

Source: author.

CHAPTER 7

Building an HR Strategy

As the core content of this handbook is about strategic HRM and HR strategy, it is essential to see that creating a functional strategy, such as HR strategy, follows the same steps as introduced in Chapter 6. It requires both an extensive analysis of the external environment and the organization (organizational strategy).

The process begins with a clear understanding of trends in the external business environment (shareholders, customers, investors, competitors, authorities, technology) that shape the present and future external realities the firm faces. The best HR practices are *designed to meet the customers' needs*. For instance, customers' participation in staffing may increase the quality of hiring decisions. Asking customers to define competencies of first-line supervisors or front-office employees creates a dialogue about what matters most to customers (Ulrich & Brockbank, 2005, p. 65). Trends in the business environment, together with business strategy, define the organizational capabilities (organizational culture) required to implement a competitive strategy. It is then possible to design an actual HR strategy that will create the required capabilities through its practices (Ulrich & Brockbank, 2005). For the framework, see Figure 2.6.

It might seem to be theoretical “wheel spinning” to start with a business environment analysis (Ulrich & Brockbank, 2005). Why not simply check organizational strategy and derive HR strategy from that? The outside-in perspective enables HR to see the external environment from a labour perspective. External trends (e.g., customers' needs, relationship with the suppliers, who our competitors are, and what powers they have) must be translated to the language of HR. HR then has to define how it can add value to the business processes that reflect these external factors. Although many business strategies are fully developed, in reality they might lack an HR perspective (Ulrich & Brockbank, 2005).

After understanding core elements of business realities and business strategy, organizational capabilities should be clarified. Organizational capabilities cover organizational culture. Fostering the right organizational culture is one of the most important responsibilities of the CEO and other corporate executives. The management needs to establish shared values, beliefs and assumptions so that employees know how to relate to work (Schein & Schein, 2017). Different business settings

require different organizational culture patterns for high performance (some of the most common ones are “fast innovation and executions”, “passionate collaboration” and “high performance”). The cultural attributes of a firm can be multifold. However, the more cultural pillars a firm tries to create, the less likely it succeeds (Ulrich & Brockbank, 2005).

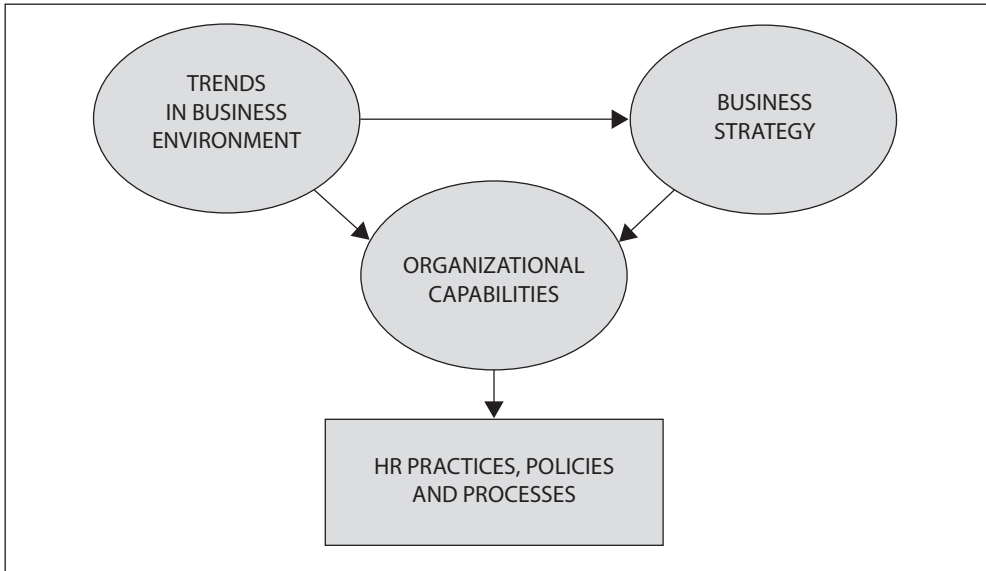


Figure 2.6.

Framework for Creating HR Strategy

Source: Ulrich & Brockbank (2005, p. 151).

With a clear idea of what the firm wants to accomplish and why, HR is ready to create its practices to maximize the company’s likelihood of success. As a result of the accurate examination and analysis of each HR practice (discussed briefly in Chapter 3), they have to be revised, even newly invented or diminished, according to business needs. The reform needs to be executed so that all practices should have a clear link to the desired culture. An example of this is given in Figure 2.7.

As the final steps, HR strategy has to be implemented and evaluated. Experience shows that companies find it difficult to change more than three or four HR practices within a short time period. Without a driving mandate, massive managerial support and resources, it is best to concentrate on top priorities.

| Targeted cultural capability: Fast innovation | |
|--|--|
| <i>Recruitment</i> | To what extent do we hire people based on their abilities for fast innovation? |
| <i>Promotion</i> | To what extent do we promote employees based on their contribution to fast innovation? |
| <i>Transfers/dismissals</i> | To what extent do we move people out of their jobs/organization if they do not exhibit fast innovation? |
| <i>Rewards</i> | To what extent are people rewarded for fast innovation? |
| <i>Measurement</i> | To what extent do we measure fast innovation and give employees feedback on the extent to which they exhibit this? |
| <i>IT system</i> | To what extent is the IT system designed to provide the information people need to be fast at innovation? |
| <i>Organizational structure</i> | To what extent does the structure foster or hinder fast innovation? |
| <i>Physical setting</i> | To what extent does the physical setting of work foster or hinder fast innovation? |

Figure 2.7.

Example of the Revision of HR Practices in Line with Culture

Source: author, based on Ulrich & Brockbank (2005, pp. 171–172).

The evaluation of HR strategy is effective if it is done by HR analytics.

HR analytics is an evidence-based approach that deals with data related to employee performance (people analytics) and HR practices to improve overall organizational performance (source: author, based on Valentine et al., 2020, p. 59).

HR analytics uses metrics, which can be developed using costs, quantity, quality, timelines and other designated goals (such as customer satisfaction). These metrics are developed to track HR efficiency and effectiveness. The essence of effective HR analytics comes from the data collected. The real value of using metrics comes from the interpretation of data that leads to improvements in HR practices and organizational key performance indicators (KPIs).

CHAPTER 8

Linking HR Strategy to Organizational Strategy

Torrington et al. (2008) provide a valid diagrammatic representation of the potential relationships between organizational strategy (i.e., corporate- or business-level strategies) and HR (see Figure 2.8).

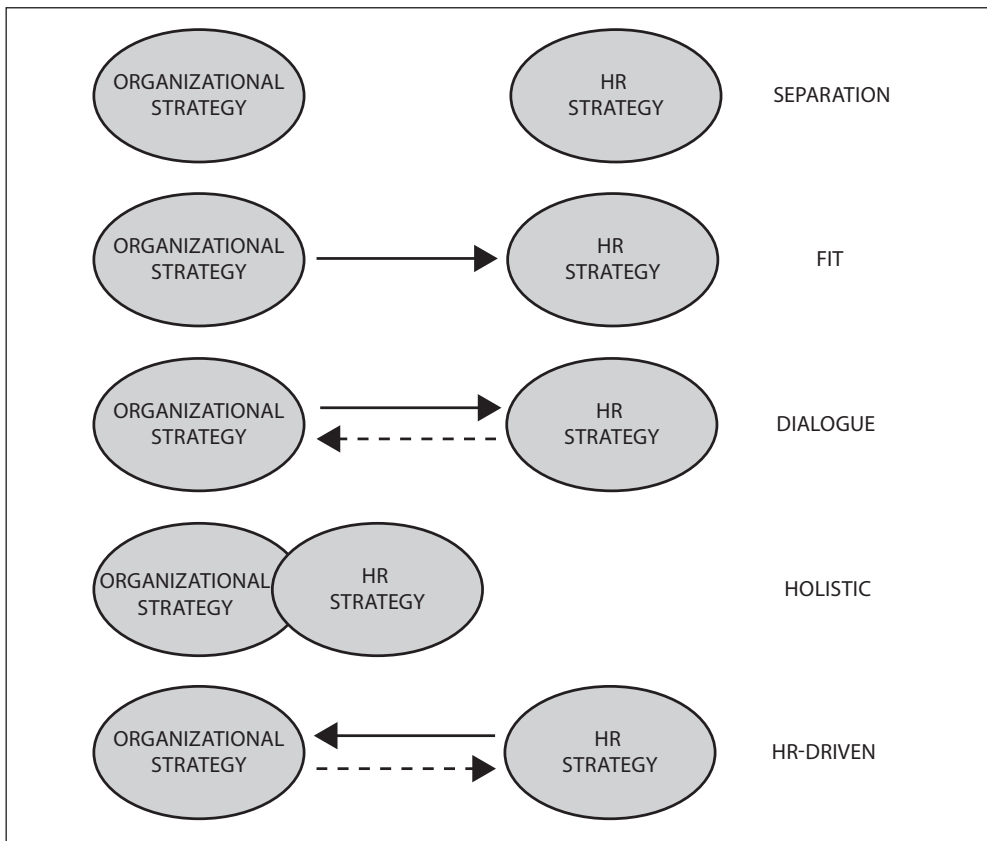


Figure 2.8.

Potential Relationships between HR and Organizational Strategy

Source: Torrington et al. (2008, p. 33).

The first case is *separation*, in which the activities of HR are removed from those of the organizational strategy. In this specific case, no explicit HR strategy exists (or it is independent from organizational settings).

The second case represents the concept of *fit*, a classical top-down model. This situation can also be well-characterized by the *Matching Model* of Fombrun et al. (1984), which emphasizes a “tight fit” or vertical integration of HR strategy and business strategy and the use of a set of HR practices and policies that are integrated with each other and with the goals of the organization (see Figure 2.9). The model was developed by Fombrun and colleagues at the Michigan Business School (so it is also referred to as the *Michigan Model*). Two key assumptions underline the model. Firstly, the most effective way of managing people will vary from one organization to another (as no organizations are the same due to their internal features). Secondly, everyone should work together for common goals. The model is also called the *hard* variant of HRM as it holds a less humanistic view of HR and is a pragmatic approach that views people in the same way as any other organizational assets.

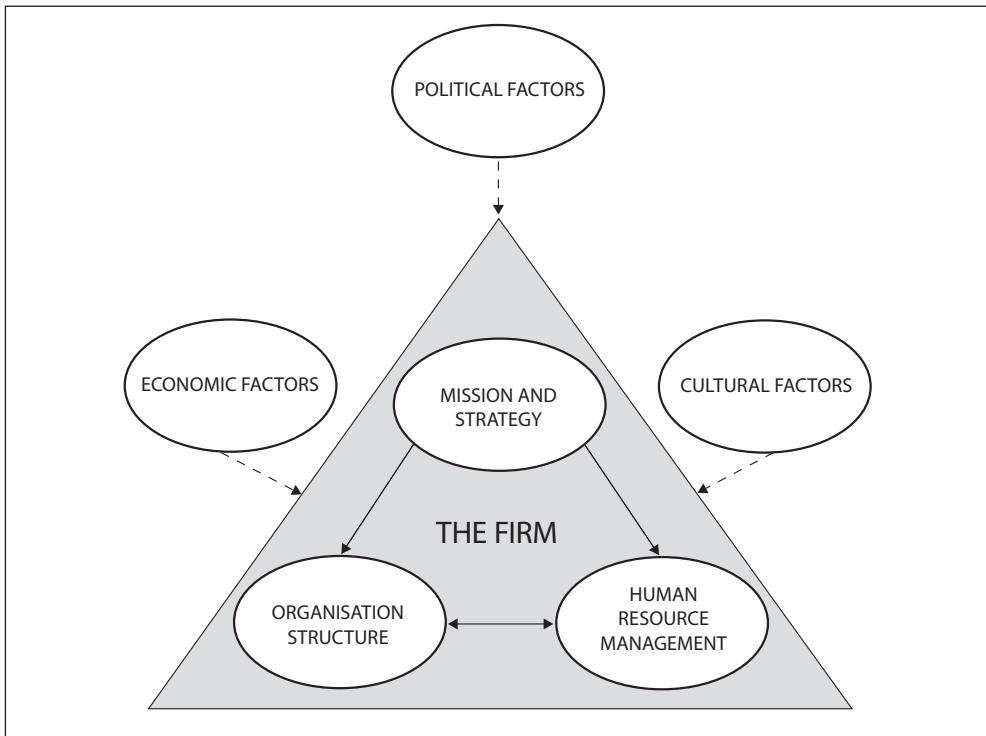


Figure 2.9.

Matching Model of HRM

Source: Fombrun et al. (1984).

The Matching Model is mainly based on Chandler's (1962) argument that an organization's structure is an outcome of its strategy. Fombrun and colleagues expanded this premise to HR. They emphasise a tight fit between organizational strategy, organizational structure and HR. Both organization structure and HR depend on organizational strategy.

The Matching Model of HR has been criticised for several reasons. As the model emphasises a tight fit between organizational strategy and HR strategy, it completely ignores the interest of employees and hence considers HRM as a passive, reactive and implementationist function. The Matching Model also misses the 'human' aspect of human resources. The idea of considering and using human resources like any other resources of organizations seems unpragmatic in the present world. Being an inward-looking model, it also misses a wider societal perspective of business operations (Wood & Kispál-Vitai, 2014).

The third case of Torrington's model (Torrington et al., 2008) is a two-way linkage or *dialogue* between organizational and HR strategies. This is more of a reciprocal situation, where HRM is involved in forming and implementing organizational strategy. The dialogue recognises the need for two-way communication and some debate.

The *holistic* concept views people as a critical resource to achieve a competitive advantage. HR is more than just a downstream of business strategy. HR strategy is not just the means to achieve business strategy (i.e., the ends). It is an end in itself. Torrington et al. (2008) and Boxall (1996) developed the idea of the *resource-based firm* (see Chapter 9) arguing that business strategy can be interpreted as a broader term than just a competitive strategy. It should encompass various functional strategies, including HR strategy. This idea suggests that business strategy is an integration of all functional strategies, connected to each other as the pieces of a jigsaw.

The *HR-driven* model offers a more extreme form that places HR strategy in a prime position. The argument here is that if people are the key to a competitive advantage, we need to build on our people's strengths.

The decision about the most suitable link between organizational strategy and HR strategy is highly dependent on both the top management's mindset on HR and the HR people's skillset in a particular organization.

CHAPTER 9

Developments in Theoretical Strategic Human Resource Management

In academic writings, three theoretical approaches to strategic HRM are outlined. One is founded on the concept that there is one best way (*best practice*) of managing human resources to improve business performance. The second focuses on the link between employment policies and business strategy (*best fit*) claiming that different HR strategies will be suitable for different types of businesses. The third is derived from the *resource-based view* of the firm, which focuses on the quality of the human resources available to the organization and their ability to learn and adapt more quickly than their competitors. Figure 2.10 shows the HRM theories introduced in this chapter.

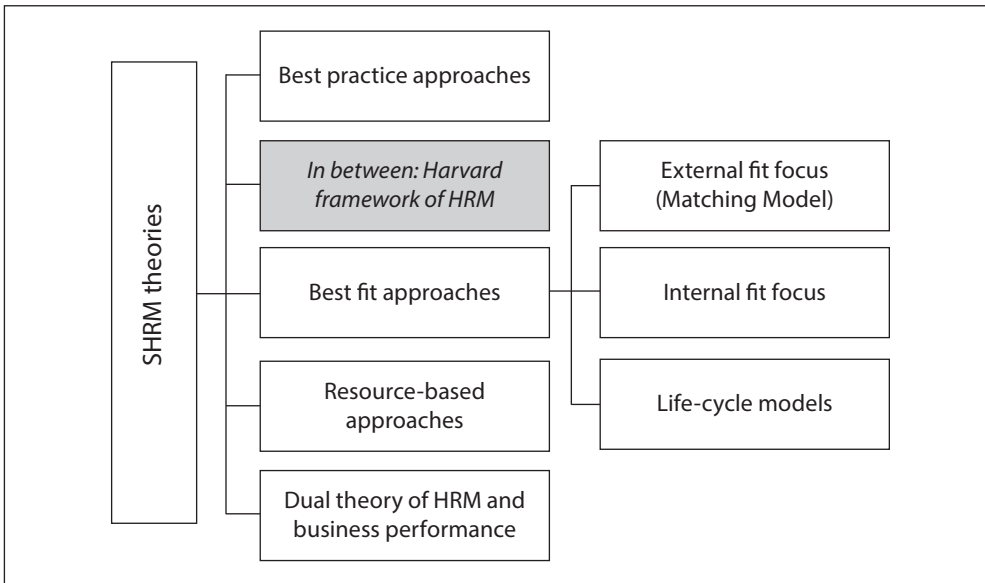


Figure 2.10.

Theoretical Approaches to SHRM Introduced in Chapter 2

Source: author.

9.1. The Best Practice or Universalist Approach to HRM

The *best practice* or *universalist approach* claims that specific bundles of HR activities exist, which universally support companies in reaching a competitive advantage regardless of the organizational size, setting or industry. For example, comprehensive selection, performance-based incentives, substantial investment in training and development or further HR policies enhancing employee engagement are frequently correlated with both productivity and firm performance. Different studies, however, have various configurations on HR best practices. Therefore, agreement among scholars and HR practitioners on the definite list of these items is limited.

9.2. The Best Fit or Contingency Approach to HRM

The *best fit* or *contingency approach* questions the universality assumption of the best-practice perspective. It emphasizes that all is contingent on the particular circumstances of each organization and looks for a close match and fit between HR activities and the organization's internal structures, external environment and its stage of development. The approach is based on two fundamental ways of fit. The first is *external fit* (also called *vertical integration*), where HR strategy fits in with business strategy. This approach is related to Fombrun et al. (1984), who proposed a basic framework for SHRM, as shown in Figure 2.9. External fit also refers to business answers given to factors and influences coming from the external economic, political, sociocultural, technological, labour and legal environments.

An integrative part of this approach is *internal fit* (also called *horizontal integration*), where all HR policies fit together, making a coherent whole. All HR functions mutually reinforce each other and are applied consistently. Figure 2.11 shows how activities within HRM can be designed to support each other horizontally. The strength of this model is that it provides a simple framework to show how selection, appraisal, development and reward can be mutually geared to produce the required type of employee performance (Torrington et al., 2008).

Internal fit should obviously operate in its broadest sense. HR policies should be interlinked with other functional strategies of the organization, such as financial, marketing, IT or production strategies, and establish reinforcing synergies among them.

Life-cycle models of HRM draw attention to the link between HR practices and organizational life cycle. The logic here is that different HRM policies will be effective at different stages of the organization. Flexibility is needed at the beginning of operation, while arriving at the growth stage it needs more stable and documented HRM procedures. In the mature stage, HRM may concentrate on cost control (Rees & Smith, 2014).

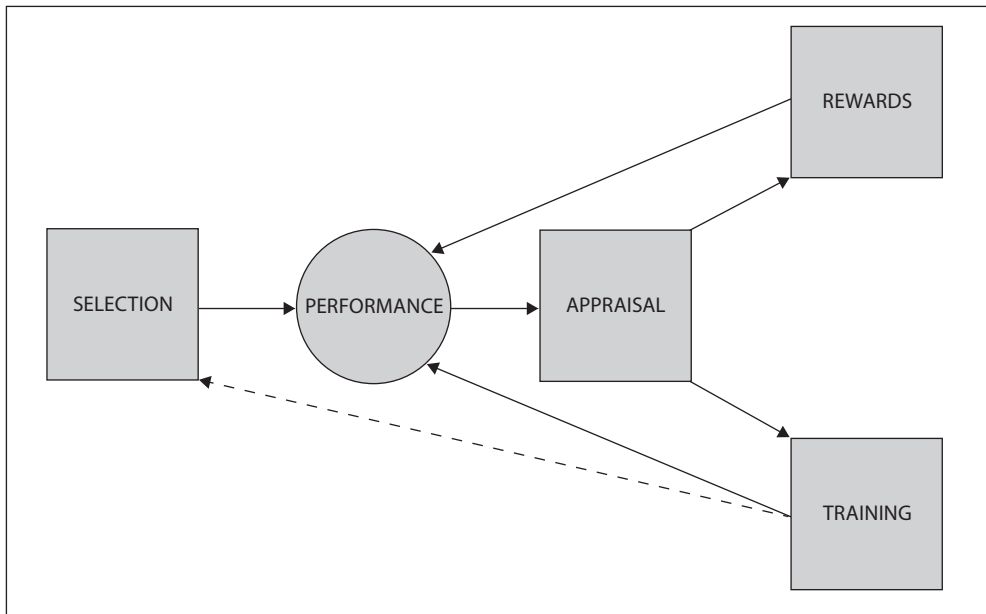


Figure 2.11.

Example of the Internal Fit Within the HRM Cycle

Source: Torrington et al. (2008, p. 61).

Somewhere between the best practice and best fit approaches stands the *Harvard Model of HRM* (Figure 2.12). The model was first articulated by Beer et al. (1984). Compared to the Matching Model, this model is termed *soft HRM* as it stresses the ‘human’ aspect of HRM and is more concerned with the employer-employee relationship. The model highlights the interests of different stakeholders in the organization (such as shareholders, management, employee groups, government, community and unions) and how their interests are connected to the business. It also recognises situational factors (such as the labour market) in HRM policy choices. The actual content of HRM, according to this model, is described in relation to four policy areas: human resource flows, reward systems, employee influence and work systems. These four HR policies need to achieve commitment, competence, congruence and cost-effectiveness (also called the *4Cs*). Therefore, these outcomes aim to develop and sustain mutual trust and improve individual/group performance at the minimum cost to achieve individual well-being, organizational effectiveness and societal well-being. The model has been criticised for not explaining the complex relationship between business strategy and HRM strategy in the long run.

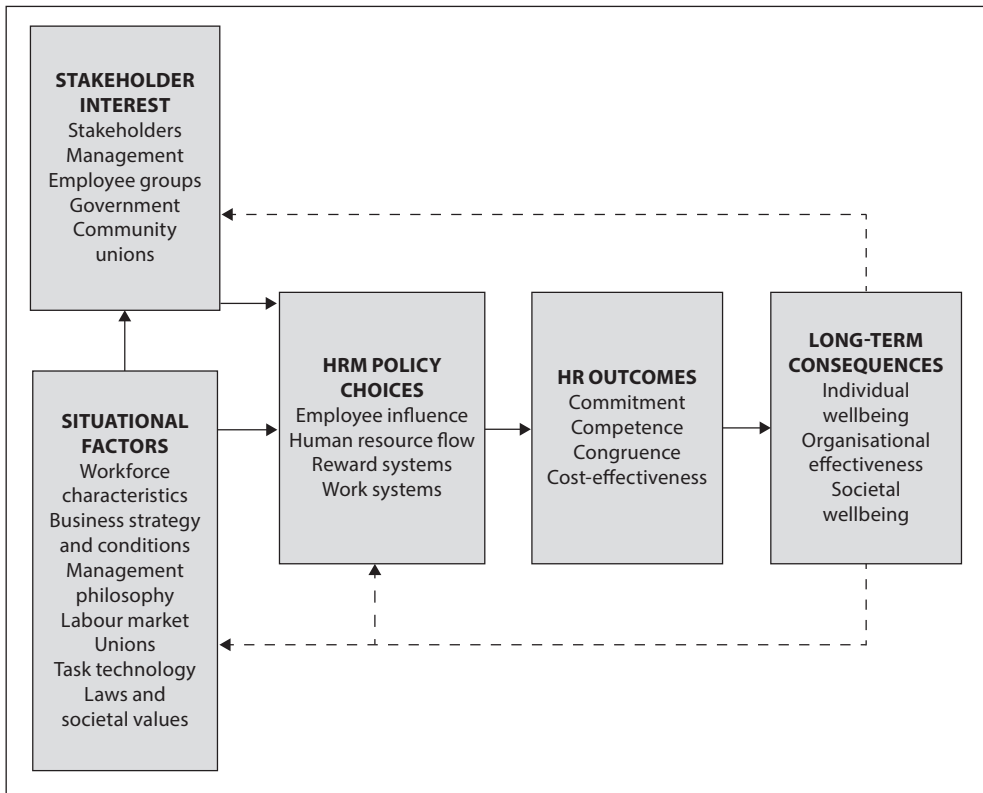


Figure 2.12.
Harvard Framework of HRM

Source: Beer et al. (1984).

The Harvard Model of HRM can be regarded as a predecessor of the resource-based approach as it emphasizes that a competitive advantage can be gained by building and supporting capabilities and commitment inside the firm.

9.3. Resource-Based View of the Firm

The *resource-based view* (RBV) of the firm (Barney, 1995) represents the inside-out aspect of strategy, where competitive advantage comes from the firm itself. The model sees resources (of which human resource is one) as key to superior firm performance. If a resource exhibits VRIO attributes (see Chapter 6), the resource enables the firm to gain and sustain a competitive advantage. The relationships between internal resources, strategy and firm performance are vital in this approach,

where a sustained competitive advantage is promoted through human capital development rather than merely aligning human resources to current strategic goals. Human resources can provide a competitive advantage for the business as long as they are unique and cannot be copied or substituted by competing organizations. The focus is on the behaviour, skills, knowledge, attitudes and competencies of employees. Briggs & Keogh (1999) maintain that business excellence is not just about “best practice” or “leapfrogging the competition”, but also about the intellectual capital and business intelligence to anticipate the future today. The critical point here is not to predict the future but to create it by focusing on organizational transformation, competing for market share, regenerating strategies and competing for opportunity share.

Criticisms of the RBV model say that it ignores external factors and it is difficult (if not impossible) to find a resource that satisfies all of Barney’s (1995) criteria (see Figure 2.13).

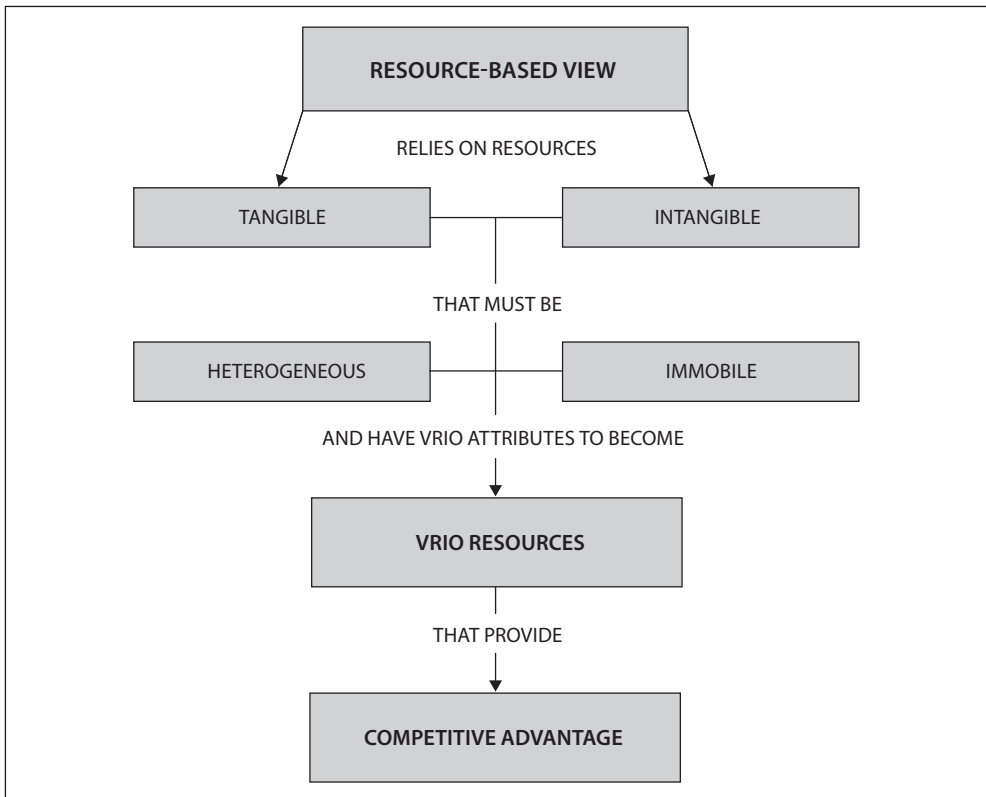


Figure 2.13.

Resource-Based View

Source: based on Barney (1995).

It is attractive to think of these SHRM strategy theories as competing ones. It is also tempting to label them right or wrong. However, theories are abstractions, and, in practice, they never work in their original forms. Each can be interpreted and applied in many ways and may describe content that is seemingly only applicable to a particular firm. It might also be the case that organizational decision-makers are unfamiliar with categorizations, yet theories are present in their operations. Based on assumptions, business acumen and HR experience, these approaches work, even if only implicitly. Understanding these theories helps managers on all levels of operation to challenge their perceptions of HR and realize the current position and role of HR within the organization, opening up a new range of possibilities for the future.

9.4. Dual Theory of HRM and Business Performance

A theory less conceptual and more deeply rooted in operations is David Lewin's dual theory of HRM and business performance (Lewin, 2005). Contemporary HRM research shows that *high involvement HRM practices* (HIHRM) have significant positive effects on business performance measures such as market value, rate of return on capital employed, revenue growth or productivity. These HIHRM practices, however, represent only one way of managing human resources to leverage business performance. Another way to achieve enhanced business performance is managing human resources for cost control. Consequently, specific *low involvement HRM practices* (LIHRM) may fit some organizations and employees better. The two together, HIHRM and LIHRM practices, constitute the dual theory of HRM and business performance.

The theory assumes that each company has two distinct segments of labour force: a *core* segment and a *periphery* segment. For members of each of the segments, see Figure 2.14.

Members of the core segment are addressed by sophisticated HRM (HIHRM) tools such as employment continuity, the use of teams to get work done, business information sharing with employees, a complex total reward system including benefits, training and development programs, career enhancement and talent programs, professional hiring and onboarding procedures, performance measurement techniques. These practices are also called *best practices*. These people are managed as assets who add value to organizational performance. Then there is another set of practices for other people who work for the firm. Periphery workers gain access only to simple and restricted HRM (LIHRM) tools, and this is done on purpose. There is not much employment continuity or variable pay, the selection is less focused, and minimum level training and development and business information sharing is offered to them. This segment of workers is heterogeneous, ranging from own employees (teleworkers or part-timers) to students or employees of

another firm (outsourced employees) so the application of LIHRM tools is nearly impossible (and in some cases, these do not even exist). A common phenomenon among these workers is the overriding reason organizations count on these people: to keep payroll and labour costs down.

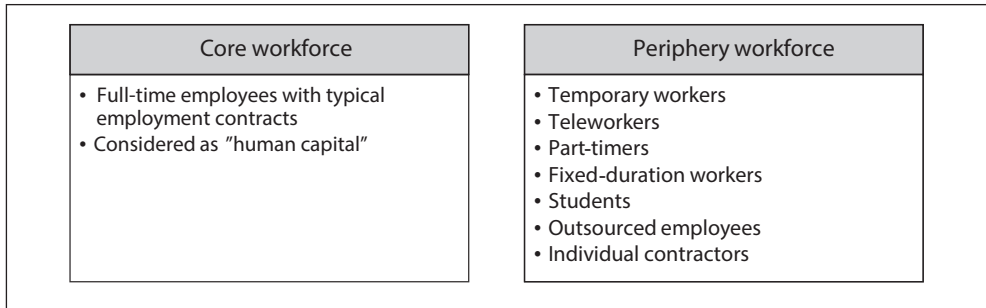


Figure 2.14.

Possible Members of Lewin's Core and Periphery Workforce Segments

Source: author, based on Lewin (2005).

Lewin's research data (collected in the USA during the late 1990s, covering 1,300 business entities) show that businesses use core employees to whom HIHRM practices are applied. Still, LIHRM practices and periphery workers also add value through labour expense control and enhance or leverage return on investment. Lewin's findings also showed that the better performing companies or business units made greater use of peripheral employment than the poorer performing companies and they increased their use of peripheral employment significantly more than the poorer performing companies. These findings, however, do not mean that business entities should simply increase their ratios of peripheral workers. According to Lewin, the optimal ratio of peripheral workers should be 1/3 (in the USA).

One of the most exciting phenomena in this theory is that peripheral work is not just an employer preference. It is also sometimes an employee preference (for teleworkers or part-timers it usually is). If it was only an employer preference, it would meet many oppositions and could not remain sustainable as an HR practice. More and more people prefer to work for outsourcing companies, where they get flexibility and diverse experiences, or do part-time work instead of full-time work or even contract-based work for a fixed time and then move on. Matching the interests of both sides is a key indicator of the model.

The lesson of this theory is that there is more than one way to manage human resources effectively. By balancing the two segments of a firm's possible human resources coupled with the deliberate application of both HIHRM and LIHRM practices, business performance (high profit and added value with a minimum level of costs) can be improved.

SUMMARY

Figure 2.15 illustrates the key findings of Part 2 of the handbook.

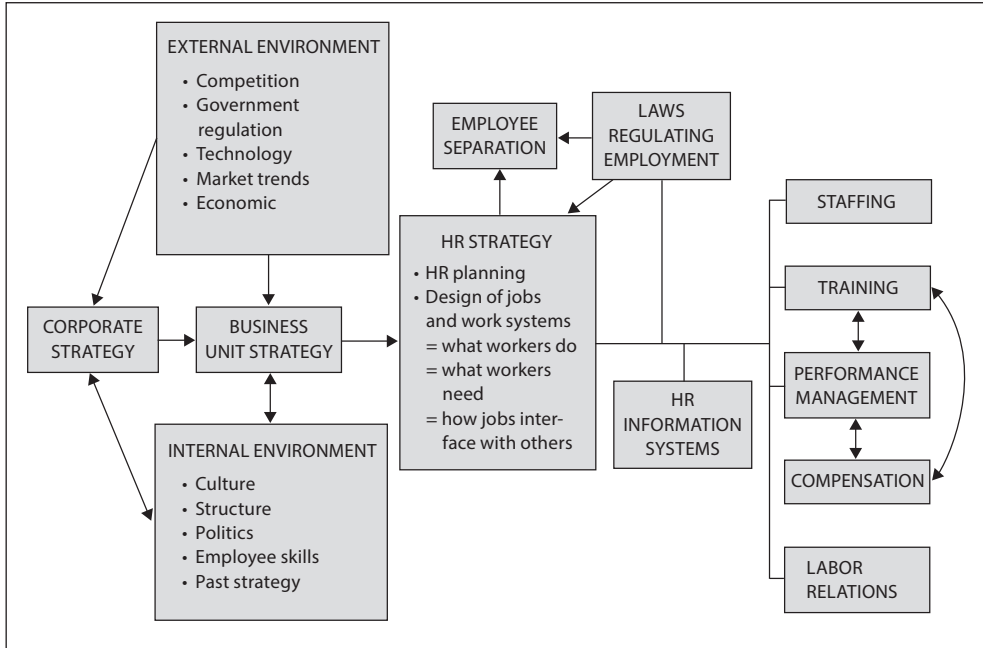


Figure 2.15.

Complex Model of SHRM

Source: author, based on Mello (2015, p. 167).

- An organization's strategy is its proposition to identify how to compete successfully with others.
- Strategic planning is a roadmap for organizations to fulfil their mission and vision.
- A strategic planning process requires the analysis of both the external and internal features of a business.
- Environmental scanning reveals the particular strengths, weaknesses, opportunities and threats that the organisation possesses and faces.
- The VUCA environment urges businesses to use special tools to be able to prosper.
- The triple bottom line of businesses focuses on profits, people and the planet in an integrative way.
- Corporate, business and functional strategies form a transparent hierarchy among organizational strategies.
- Each functional area needs its strategy, including HRM.

- Building an HR strategy is always aligned with external realities (especially customers' needs) and the related business strategy.
- HRM strategy can have various connection points to organizational strategy, including separation, fit, dialogue, holistic and HR-driven solutions.
- The most explicit example of the *fit* relationship between organizational strategy and HR strategy is the Matching Model developed by Fombrun and colleagues (Fombrun et al., 1984).
- Among theoretical approaches of SHRM, the chapter discusses the *best practice*, the *best fit*, the *resource-based approaches* and the *dual theory of HRM and business performance*.
- The best practice (or universalistic) approach claims that a particular set of HR practices leads to high organizational performance, irrespective of the particular business setting.
- The best fit (or contingency) approach focuses on either external or vertical fit (which refers to the fit of HR to organizational strategy and external environment) and/or internal or horizontal fit (which creates interlocking HR practices and/or fit of HR strategy to other functional strategies of the organization). Life-cycle models urge HR to fit into business/product life cycles.
- The *Harvard Model of HRM* introduced by Beer and colleagues (Beer et al., 1984) conceptually stands between the best practice and the best fit approaches.
- *The resource-based view (RBV)* emphasizes the internal powers of firms, including their human capital. These powers enable organizations to shape future business opportunities.
- *The dual theory of HRM and business performance* widens the HR perspective by including so-called low involvement HRM practices (LIHRM) in HR operations, targeting peripheral workers to complement the ones known as core workers.

SELF-CHECK & INDIVIDUAL AND/OR GROUP ACTIVITIES

1. What is the mission statement and the vision statement of your company? If you are a full-time student, do these exist at your university? If yes, do you know them?
2. Check Sustainable Development Goals (SDGs) on the United Nations' official website. Identify the SDGs on which organizations can have a direct effect.
3. Does your organization have explicit corporate-, business- and department-level strategies? What do these say? If you are a full-time student, do these exist at your university? If yes, do you know them?
4. In what ways do you think the best practice model and the best fit model are compatible with each other?
5. How would you describe your organizational culture? Please think of an example where HR supports (or hinders) this particular culture.

6. List and name possible HR contributions to organizational strategy that declare cost reduction.
7. List and name possible HR contributions to organizational strategy that declare increasing customer satisfaction.
8. Name HR practices that you consider best practices. Please also give reasons for your choices.
9. Please use your own words to elaborate on the possible horizontal fit schemes among the following HR practices: recruitment, selection, training and reward.
10. Please list the elements of dual theory of HRM and business performance in your organization. Does this theory work there? If yes, who are the members of the peripheral segment of workers? What is their proportion compared to the core employees?

KEY TERMS USED IN THE CHAPTER

| | |
|---|--|
| best fit / contingency approach to SHRM | Matching Model of HRM / Michigan Model |
| best practice / universalist approach to SHRM | mission statement |
| building an HR strategy | PESTELE analysis |
| business-level strategy | resource-based view of the firm |
| corporate-level strategy | strategic planning |
| department-level / functional strategy | strategic planning cycle |
| dual theory of HRM and business performance | SWOT analysis |
| external fit | triple bottom line |
| Harvard Model of HRM | vision statement |
| HR analytics | VUCA environment |
| internal fit | |

GLOSSARY

Strategic planning is a process of identifying and executing the organization's strategic plan by matching the company's capabilities (strengths and weaknesses) with the demands of its environment (such as competitors, customers, suppliers and labour force).

HR analytics is an evidence-based approach that deals with data related to employee performance (people analytics) and HR practices to improve overall organizational performance.

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PART 3

The Legal Framework of Human Resource Management

The reason why this handbook has a separate part on the legal fundamentals of work is multifaceted. Firstly, it is impossible for HRM people actually to work without this knowledge. Establishing, modifying or ending the employment relationship, rules on working hours and wages, liability or equal treatment are all parts of core HRM responsibilities. Secondly, labour law can have a significant impact on organizations. Violating legal restrictions at work may lead to lawsuits, severe penalties or litigation costs in addition to damaging morale among employees, bad press and negative employer brand, even if the firm is later cleared of the allegations. Thirdly, although labour law is a key strategic area for HRM, it is the topic in which managers are less informed. The laws regulating work are numerous, complex and sometimes ambiguous. If we accept the saying “All managers are HR managers”, then managers need to have basic knowledge of work-related laws to gain full responsibility towards their direct reporting employees. The general aim of this part of the handbook is to provide a guide on the framework of labour law, without introducing explicit and detailed descriptions of particular statutory regulations.

Part 3 of the SHRM handbook has the following learning objectives:

- differentiating between employment relationship and contract-based work,
- explaining the nature, goals, segments of labour law and its connections to other branches of law,
- providing an overview of the internal and external sources of labour law,
- elaborating the most significant achievements of equal treatment at work in the European Union (EU).

CHAPTER 10

Differentiating Between Employment Relationship and Contract-Based Work

From a legal perspective, human work can be executed in two broad ways:

- *Employment relationship or non-independent work* means the utilization of labour (a person's ability to perform work) for someone else or for someone else's benefit. The subjects of the employment relationship are the *employer* and the *employee*. National labour law systems regulate the *employment relationship*. Dependence between contracting parties is a key feature of the employment relationship, where the employer possesses most of the powers (also called employer's prerogative) and dominates the relationship over employees. The employer has the power (among others) to direct, control and monitor employees during work and to discipline them for poor performance.
- *Contract-based or independent work* is done when a product or a service is directly created and delivered to someone else. The contracting parties are equals in terms of rights and duties; only the market itself and traditional *civil law* give legal restraints to negotiation and contractual details. In the case of independent work, the object of the contract is always determined in advance, in the form of a contract (written or non-written). Most common civil law contracts are contracts of mandate and contracts to perform a specific task or work.

Figure 3.1 illustrates the main differences between employment contract and contractual work.

Self-employment or being an individual contractor is now a viable career option for more people than ever before. More companies are seeing the benefits of engaging independent contractors (offering flexibility and on-demand expertise) instead of hiring employees. See also Chapter 3 about gig economy and platform work. However, as independent talent grows, businesses must also adjust the way they manage their workforce. Without legal knowledge, the firm can run the risk of worker misclassification, leading to investigations, penalties and lawsuits.

Organizational HRM deals predominantly with human capital (i.e., workers, employees) and employment relationship. Therefore, we will focus on this form of work in the following chapters.

Figure 3.1.
**Main Differences Between Employment Relationship
 and Contract-Based Work**

| | Employment relationship | Contract-based work |
|-------------------------------------|---|--|
| <i>Applicable law</i> | Labour law | Civil law |
| <i>Relationship between parties</i> | Employee subordinated to employer | Equality between parties, self-employed runs own business |
| <i>Task completion</i> | Continuous labour | The customer determines task and deadline to be performed, the method of task completion is determined by the contractor |
| <i>Nature of task</i> | All tasks within a particular job | Specific tasks, determined in advance |
| <i>Continuity of work</i> | Continuous, regularly reoccurring, during working hours | Ad hoc / on demand work |
| <i>Personal completion of tasks</i> | Always personal | Possibility to involve a substitute or subcontractor |
| <i>Right to give orders</i> | Detailed and continuous orders, provided by the employer | Independent work with limited instructions from the customer |
| <i>Risk-taker</i> | Employer | (Individual) contractor |
| <i>Working time</i> | Minimum and maximum length of working time plus scheduling is regulated in labour law | Not defined |
| <i>Paid holiday</i> | Based on labour law regulations | No paid holiday |
| <i>Place of work</i> | Determined by the employer | Not defined (it can also be the site of the customer/firm) |
| <i>Work equipment</i> | Provided by employer | Contractor's own equipment |
| <i>Employment obligation</i> | Employer must provide work for employee for the duration of the employment relationship | No such obligation (on-demand work) |
| <i>Pay and benefits</i> | Regular pay (hourly, daily, weekly or monthly), sometimes benefits | One-time amount after receiving invoice, no benefits |

Source: author, based on Guidelines (2005).

CHAPTER 11

Nature, Goal and Segments of Labour Law

Labour law as an independent branch of law emerged from civil law about 200 years ago, keeping the traditional principles and values of the latter. The split between the two branches became inevitable because it became impossible to fairly regulate a relationship with strong subordination features (the employment relationship) any longer by a branch of law founded on the principle of equality and free will (civil law). The need to defend and protect employees' rights against employers' powers and stop employee exploitation became more urgent, requiring action from the state. By establishing labour law as a separate branch of law (i.e., by creating labour codes), the ultimate goal was to ease and neutralize the power disparity between employers and employees by setting minimum standards of work that employers must respect. In other words, *labour law standards are created to protect workers against employers' powers*. Establishing national labour law systems around the world was also the result of another fact. In the late 19th century, collective labour law institutions, such as trade unions, stretched the boundaries of traditional civil laws by frequent and damaging strike actions with the aim to restore the imbalance of power at work.

Today, beyond *individual legal relationships* (created between one employer and one employee), labour law systems also regulate *collective relationships* (relationships set between the employer and trade unions and in some countries between the employer and works councils). See Figure 3.2.

Labour law is interconnected with other legal areas such as the following (based on Berke & Bankó, 2020):

- *Civil law*: As indicated above, labour law emerged from civil law, keeping its core values. Even today, the legal basis for employment contracts is laid down in civil codes in most European countries. In contemporary judicial practice, the rules and principles of civil law can only be applied to labour law if they do not contradict labour law principles. Civil law principles that are applicable in labour law (among others) are the following: the principle of good faith, the proportionality of services and remuneration, liability rules and the rules of breach of contract.

- *Civil procedural law*: Procedural rules offer the framework for disputes between parties in front of civil courts. Special and distinctive rules are usually applied to labour disputes in national Codes of Civil Procedure.
- *Social insurance and tax law*: The link among these areas of law and labour law exists because, on the one hand, the employment relationship serves as a basis for social insurance obligation and results in the employee being insured (social insurance law) and, on the other hand, the employment relationship raises tax payment obligations for both employers and employees (tax law).
- *Occupational safety and health (OSH) law*: This branch of law is generally defined as the recognition, evaluation and control of work-related hazards. These hazards can impair the health and well-being of workers, also taking into account the possible impact on the surrounding communities and the general environment. This domain includes the handling of occupational accidents, injuries and diseases.*

Figure 3.3 shows the schematic relationship between civil law, civil procedural law, labour law, OSH law, tax law and social insurance law.

* Recent data from the ILO and the World Health Organization (WHO) indicate that overall occupational accident and disease rates are slowly declining in most industrialized countries but are increasing in developing and industrializing countries (ILO, 2003):

- According to the European Statistics on Accidents at Work (ESAW, 2020), there were 3,332 fatal accidents at work in the EU-27 during 2018, which is an increase of 60 deaths compared with the year before. In 2018, one-fifth of all fatal accidents at work in the EU-27 took place within the construction sector.
- In India and China, the occupational fatalities and accidents rates are similar at, respectively, 10.4 and 10.5 per 100,000 for fatalities and 8,700 and 8,028 for accidents.
- In sub-Saharan Africa, the fatality rate per 100,000 workers is 21 and the accident rate 16,000. This means that each year 54,000 workers die and 42 million work-related accidents occur that cause at least three days' absence from work.
- In Latin America and the Caribbean, about 30,000 fatalities occur each year, and 22.6 million occupational accidents cause at least three days' absence from work.

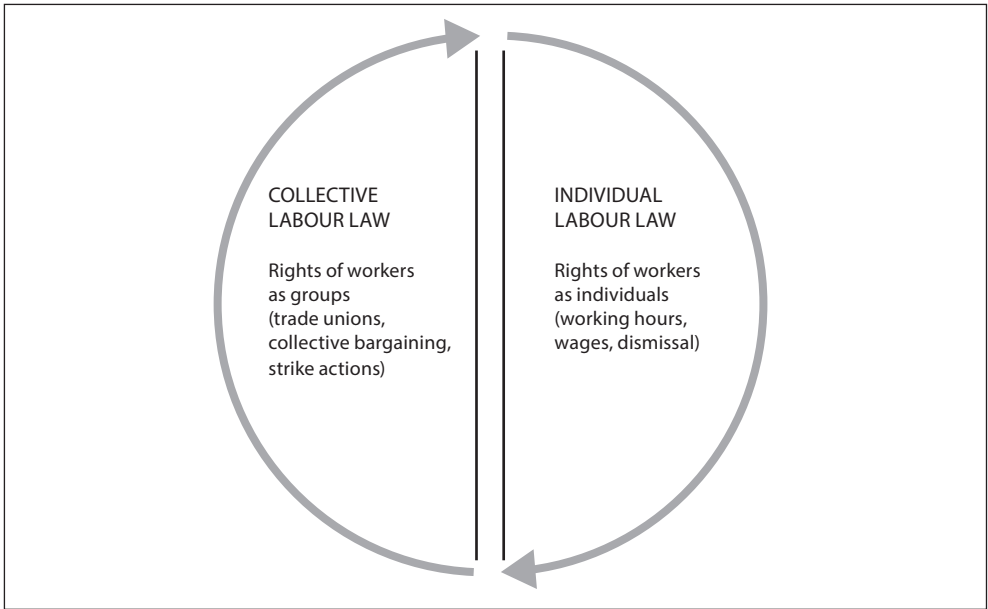


Figure 3.2.
Two Traditional Spheres of Labour Law

Source: author.

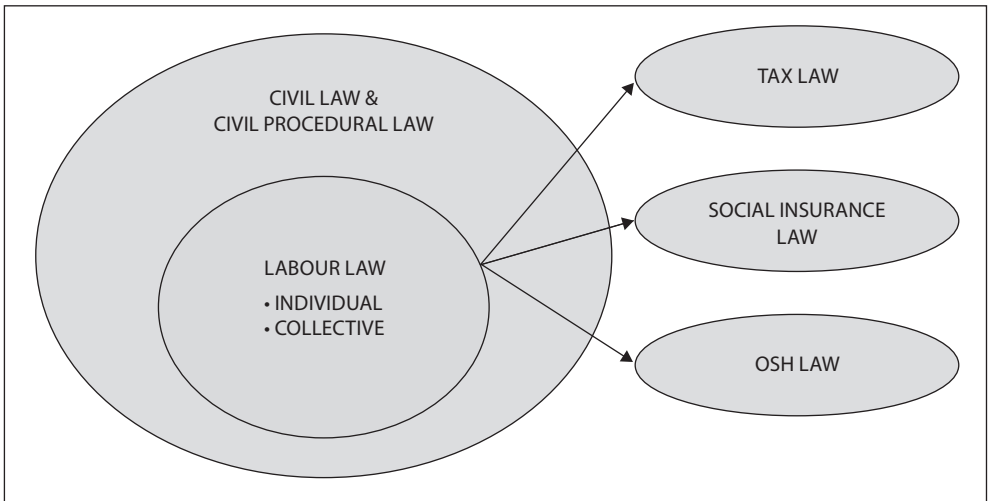


Figure 3.3.
Relationship Among Civil, Civil Procedural, Labour Law and OSH, Tax and Social Insurance Branches of Law

Source: author.

CHAPTER 12

Sources of Labour Law

The most general interpretation of *source of law* is the following:

Source of law is a legal act that contains the rights and obligations of legal subjects (source: Berke & Bankó, 2020, p. 20).

The term *external sources of law* refers to international contracts and outcomes of EU legislations, whereas *internal sources of law* are the results of national legislation.

12.1 External Sources of Labour Law

Using an outside-in perspective, we will start with the introduction of international standards of labour law, as illustrated in Figure 3.4.

The *International Labour Organization* (ILO) has been in place since 1919. It functions as an agency of the United Nations (UN) since 1946. The tripartite body of the ILO represents governments, businesses and labour of 186 member states. Under the ILO Constitution, the conference has the responsibility to approve *conventions* as legal sources. Conventions are obligatory legal acts creating binding obligations on the countries that ratify the convention in question. The very first convention (1919) was about an 8-hour working day (Collins et al., 2019), the latest one in 2019 concerned violence and harassment at work.

Beyond conventions, the ILO recognized four essential principles in its Declaration on Fundamental Principles and Rights at Work in 1998. These are the following (ILO, 1998):

- the freedom of association and the effective recognition of the right to collective bargaining,
- the elimination of forced or compulsory labour,
- the abolition of child labour,
- the elimination of discrimination in respect of employment and occupation.

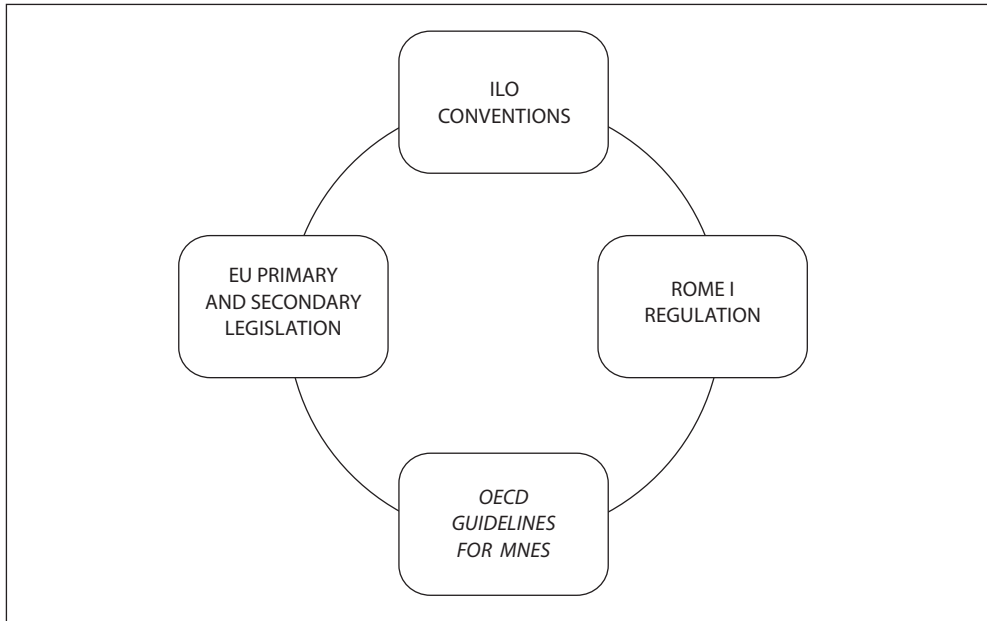


Figure 3.4.

External Sources of Labour Law

Source: author, based on Collins et al. (2019).

The *OECD Guidelines for Multinational Enterprises* (MNEs) were first agreed in 1976, after the public concern that MNEs were becoming too powerful worldwide. The Guidelines cover a wide range of corporate activities and adopt all four of the above-listed core principles of ILO. The Guidelines do not have a legally binding effect on international level, but they are not optional for corporations either. Governments have committed themselves to respect the principles and established complaint mechanisms and supervisory procedures to this end (Collins et al., 2019).

The general framework of the 2008 *Rome I Regulation* (Regulation No 593/2008) of the European Parliament and the Council provides that the parties of an employment contract are free to choose the applicable law within the European Union (“subjectively applicable law”). Suppose the parties do not specify an applicable law. In this case, the employment contract is governed by the law of the country of the habitual place of work or, in the absence of a habitual place of work, by the law of the country of the business engaging the employee (“objectively applicable law”). The regulation applies to all EU member states except Denmark, which has an opt-out from implementing regulations in freedom, security and justice.

In recent years, the EU has increasingly exerted an influence in labour law legislation. Initially, the EU was an intergovernmental organisation (IGO) dealing with energy security and free trade. Its original purpose was the stimulation of

economic development through the free movement of goods, capital, people and services. The name European Union has been officially in use since 1993, when the purely economic union evolved into an organization dealing with policy areas as well, from climate, environment, health and employment issues to external relations and security as well as justice and migration.

The functioning of the EU is based on the rule of law.

*The **rule of law** means that all members of a society as well as governments and members of parliaments are equally subject to the law under the control of independent and impartial courts (source: European Commission, 2020).*

EU legislation consists of primary and secondary legislation. Primary legislation covers founding treaties,* amending treaties,** accession treaties of member states and some other supplementary agreements. EU treaties, as primary legislation elements, form ground rules for all EU actions. EU treaties are binding agreements between EU member states. They declare EU objectives, the rules for EU institutions, decision-making procedures and the relationship between the EU and its member states.

Beyond primary legal sources, numerous *secondary* legal acts harmonise the member states' labour laws, by setting minimum standards of work. Secondary legal acts are the results of EU legislation. Related to employment, the EU dominantly operates with *directives*, a legislative act that sets out a goal all EU countries must achieve. However, it is up to the individual countries to develop their own laws to reach these goals. One example for this is the EU Directive on temporary agency work (Directive 2008/104/EC), which emphasizes the temporary nature of this type of employment. However, it does not explicitly say how long temporary work can be. This latter criterion is left to the legislative decisions of each member state. Beyond directives, the EU may also operate with regulations (e.g., the Rome I Regulation) and *decisions* as compulsory and directly applicable legal acts, plus *recommendations* and *opinions* as non-binding legal acts.

* Founding treaties: the Treaty of Paris (1951) establishing the European Coal and Steel Community, the Treaties of Rome (1957) establishing the European Economic Community and Euratom, the Maastricht Treaty on European Union (1992), the Treaty on European Union (TEU, 2009) and the Treaty on the Functioning of the European Union (TFEU, 2009).

** Amending treaties: the Single European Act (1986), the Treaty of Amsterdam (1997), the Treaty of Nice (2001) and the Treaty of Lisbon (2007).

12.2 Internal Sources of Labour Law

Each country has its distinctive set of legal sources of labour law in the following categories:

- legal provisions (constitution, laws, regulations),
- collective bargaining agreements,
- the free will of parties expressed in employment contracts,
- case law.

12.2.1 Legal Provisions

When we examine the legal provisions of a particular country, a strict architecture is always applicable to all branches of law.

*The **hierarchy of laws** means that a legal source at a lower rank of the hierarchy may not contradict any provisions above that rank (source: author).*

The hierarchy of laws is applicable to each specific branch of law, including labour law. Figure 3.5 shows the internal hierarchy of laws.

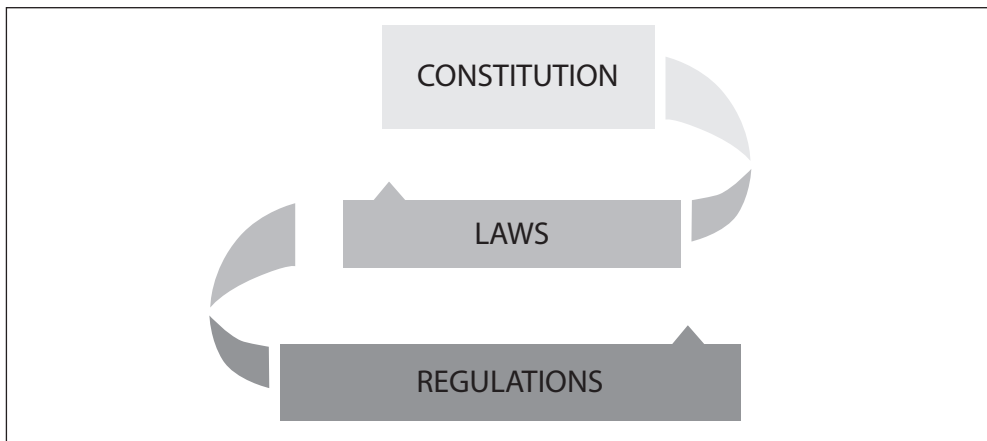


Figure 3.5.
Hierarchy of Laws

Source: author.

- *Constitution:* It establishes the innate characteristics of the country, its governance structure, the rights and responsibilities of its citizens, and, as such, it is the supreme law of a country. All other laws must adhere to the constitution

(Clegg et al., 2016). Constitutions might also declare several rights relevant to labour law, such as the right to work, the right to get paid holiday, the right to conduct business or the right to organize strike.

- *Laws/statutes*: Laws are enacted by the legislature (i.e., Parliament) in a democratic state and govern a wide range of issues. The key labour law document of a country is usually called the *labour code*.
- *Regulations/decrees*: Regulations or decrees provide technical details to carry out the purpose of the laws. As Winston Churchill claimed before the House of Commons on February 3, 1949, “If you have ten thousand regulations, you destroy all respect for the law”.

12.2.2 Collective Bargaining Agreements

Despite not being a legislative tool, collective (bargaining) agreements, or C(B)As, have a paramount role in employment regulation. A collective agreement results from a collective bargaining process between employers and trade unions.

A **trade union** (also called *labour union*) is a legal entity that consists of employees who have a common interest in developing the working conditions of its members (source: author, based on EurWORK & European Observatory of Working Life, 2009).

Collective bargaining is the process of negotiation between the employer(s) and trade union(s).

Collective (bargaining) agreements, or C(B)As, are agreements in writing regarding working conditions and terms of employment that are concluded between the following parties:

- an employer (or a group of employers / employers’ organisations),
- one (or more) representative workers’ organisations (source: ILO, 1951).

Collective agreements might exist on various levels in an economy, such as the following (based on OECD, 2019):

- *Economy-wide/cross-sectoral bargaining* is a negotiation between trade union confederations, central employer associations and sometimes states. It aims to provide a platform for bargaining on the terms of employment, often taking macroeconomic goals into account.
- *Sectoral/industry-level CAs* set minimum standards of work for all employers and employees within one sector. Sectoral bargaining is characteristic of Austria, Germany and Switzerland.

- *Multi-employer CAs* are the results of bargaining procedures between trade union federations and employer associations and are applicable to more employers and to all of their employees in question, not necessarily belonging to the same industry.
- *Single employer/workplace CAs* set work standards for the employees of one particular organization due to collective bargaining. This type is predominant in Canada, Japan, the United States or Hungary.

These levels are not necessarily mutually exclusive – different levels of CAs can exist simultaneously. To avoid confusion in this case, the rule of hierarchy of law is to be applied among different levels of CAs.

Countries characterised by single-employer bargaining tend to have lower CA coverage rates (i.e., employees working under CA regulations) than countries where bargaining is conducted at higher levels and where employer organisations and union federations are strong (such as Germany or Denmark). Strong trade unions, however, are not necessary for high coverage rates. For example, relatively high coverage rates in Belgium, France and Portugal seem partly attributable to the importance of CA extension mechanisms in these countries (based on OECD, 2019).

Collective bargaining and workers' voice have been under increasing pressure over the past decades as trade union density (the proportion of workers who are union members) together with collective bargaining coverage declined. Non-standard forms of work appeared, and the employment relationship became more individualised. Despite these challenges, collective bargaining and workers' voice still have a role in preventing work inequalities (OECD, 2019).

The content of CAs usually consists of the following elements:

- rules on how collective labour regulations should run between the contracting parties (how and when bargaining should take place, and what dispute resolution techniques and procedures they have to use),
- core aspects of the bargain (wages, working hours, termination regulations applicable to all employees who work under the CA).

12.2.3 Free Will of Parties Expressed in Employment Contracts

Bargaining over labour conditions also occurs on *an individual level* between the employer and a prospective or current employee. Employers and employees enter into an employment contract based on the general principle of *freedom of contract*. It is no exaggeration to say that the employment contract holds labour law subjects together and provides its core ingredients (Collins et al., 2019). Various types of employment contracts exist, such as open-ended, fixed-term, temporary, seasonal or even multiple-employer employment contracts. Still, they all tend to be written and usually contain the following elements:

- the parties involved,
- the start (and sometimes the end) of the contract,
- job information,
- compensation and benefits,
- full-time/part-time classification,
- non-compete clauses,
- confidentiality clauses,
- termination rules.

12.2.4 Case law

Case law is derived from the decisions issued by judges in the cases before them in court. International tribunals on European level, the Court of Justice of the European Union (CJEU) and the European Court of Human Rights (ECtHR) next to the Council of Europe play a significant role in developing case law. National tribunals, as soft law issuers, shape and support labour law practice in each member state.

CHAPTER 13

Anti-Discrimination Law in the European Union

Anti-discrimination law aims to allow all individuals an equal and fair chance to access opportunities available in society. This means that individuals or groups of individuals in comparable situations should not be treated less favourably simply because of a particular characteristic, such as their sex, racial or ethnic origin, religion or belief, disability, age or sexual orientation. Anti-discrimination focuses on all aspects of life; here, its labour-related aspects are discussed.

13.1 Legal Framework of Anti-Discrimination Law in the EU

The principles of equality and non-discrimination are deeply rooted within EU law and the EU Treaties. Equal treatment and discrimination are generally recognized as questions of prime importance in contemporary European thinking.

Equal treatment has been on the agenda of the European Economic Community since the beginning of European integration. The first instance of this process was Article 119 of the *Treaty of Rome* (1957). This treaty is regarded as the founding document of the European Economic Community. Article 119 states that “men and women should receive equal pay for equal work”. At the time of its foundation, this was the only regulation concerning equal treatment, and the reasons behind such a regulation were purely economic. After World War II, the reconstruction of a competitive economy was the primary goal. Promoting a common market, the improvement of the living qualities of women in employment was necessary. However, Article 119 leaves much to be desired as the prohibition of discrimination between men and women was only stated in terms of pay. In terms of equal treatment legislation, not a lot of progress was made until the start of the 1970s. Member states generally disregarded Article 119, and it was not recognized in practice.

The turning point was the case of *Gabrielle Defrenne** and the rulings of the Court of Justice of the European Union, which highlighted insufficient legislation in the definition of realizing requirements for equal treatment.

The path was long, but today any discrimination based on any ground, such as sex, race, colour, ethnic or social origin, genetic features, language, religion or belief, political or any other opinion, membership of a national minority, property, birth, disability, age or sexual orientation, is prohibited in EU member states as guaranteed by the following legal documents:

- Article 18 of the *Treaty on the Functioning of the European Union* (TFEU) prohibits any discrimination on the grounds of nationality (the core of European citizenship) so that all nationals and EU citizens could be treated equally within the scope of the Treaties. Article 18 is to be applied in instances where no other specific rights of non-discrimination exist. It also enables the Council to take appropriate action to combat discrimination based on sex, racial or ethnic origin, religion or belief, disability, age or sexual orientation. In this matter, the Council must act unanimously and after obtaining the European Parliament's consent.
- The *Charter of Fundamental Rights of the European Union* (2000) vastly enhanced the scope of equal treatment protection of the EU. Article 1 states that “[a]ny discrimination based on any ground such as sex, race, colour, ethnic or social origin, genetic features, language, religion or belief, political or any other opinion, membership of a national minority, property, birth, disability, age or sexual orientation shall be prohibited”.
- *Directive 2000/43/EC* (also called *Racial Equality Directive*) prohibits discrimination based on racial or ethnic origin in a broad range of fields, including employment, social protection and social advantages, education and goods and services available to the public.

* Gabrielle Defrenne, a stewardess of the Belgian airline Sabena, was forced to retire after 17 years of employment at the age of 40 as dictated by her employment contract. The case has reached three judgments. In the first case, the complaint was that Defrenne earned lower pay than her male colleagues and decreased her retirement pension. The national court ruled that pension is not wage, it is only dictated by the wage, and as such, the prohibition of unjust treatment was not realized. In the case of *Defrenne II* (1976), compensation was demanded based on the negative discrimination made on a gender basis in terms of differences in wages. The Belgian labor court consulted with the Court of Justice of the European Union regarding the application of Article 119. According to the judgment, the article is directly enforced both vertically (between the state and its citizens) and horizontally (between individuals and private businesses), therefore, Belgian courts must apply it. Another point worth noting is that the Court declared Article 119 to encompass not only economic goals, but also social ones. In the third case, the issue was whether equal treatment between genders applies only to wages or it includes employment and working conditions. The Court declared that unjust treatment could not be applied to working conditions.

- *Directive 2000/78/EC* (also called *Employment Equality* or *Framework Directive*) is limited to work but covers the grounds of religion or belief, disability, age or sexual orientation. It establishes a general framework to ensure equal treatment for all in relation to employment and occupation. The directive covers the conditions of access to employment or self-employed activities, including selection criteria, recruitment conditions and promotion, vocational training, working conditions inclusive of dismissals and pay as well as membership of, and involvement in, organizations of workers or professional organizations.
- *Directive 2006/54/EC* (the so-called *Recast Directive*) on equal opportunities and equal treatment of women and men in employment and occupation brought together some older directives. This directive requires the prohibition of direct and indirect sex discrimination, harassment and sexual harassment in pay, (access to) employment and occupational social security schemes. Sex discrimination is also prohibited in access to, and in the supply of, goods and services according to *Directive 2004/113/EC*.
- *Directive Proposal COM(2008)462* is against discrimination based on age, disability, sexual orientation and religion or belief beyond the workplace.

Beyond the EU law on equality, it is important to know that the *European Convention on Human Rights*, or ECHR (1953), drafted by the Council of Europe,* also safeguards human rights in Europe and is widely considered as the most influential international treaty for human rights protection. Its Article 14 on discrimination declares that “[t]he enjoyment of the rights and freedoms set forth in this Convention shall be secured without discrimination on any ground such as sex, race, colour, language, religion, political or other opinion, national or social origin, association with a national minority, property, birth or other status.” EU law and ECHR are closely connected as all EU member states have joined the ECHR.

Human rights protection mechanisms are not limited to Europe. In line with regional mechanisms in the Americas, Africa and the Middle East, there is a significant body of international human rights law that has been created by the United Nations. All EU member states are party to the following UN human rights treaties that contain prohibitions on discrimination:

- International Covenant on Civil and Political Rights (1976),
- International Covenant on Economic Social and Cultural Rights (1976),
- International Convention on the Elimination of All Forms of Racial Discrimination (1969),
- Convention on the Elimination of Discrimination Against Women (1969),

* The Council of Europe (a non-EU body) is an intergovernmental organisation that initially came together after World War II to promote, among other things, the rule of law, democracy, human rights and social development.

- Convention Against Torture and Other Cruel, Inhuman or Degrading Treatment or Punishment (1987),
- Convention on the Rights of the Child (1990),
- Convention on the Rights of Persons with Disabilities (2008).

13.2 Articulating Discrimination and Equal Treatment in the EU

The definition of discrimination is as follows.

Discrimination is an approach that introduces unjust treatment towards a person or a group of people because they possess protected characteristics (source: Gyulavári & Könczei, 2000, p. 252, translated by author).

This definition includes three main points. Firstly, this kind of an approach has a negative effect on the individual. Secondly, this effect stems from the enforced differences. Thirdly, the basis of the difference is illogical and not justified. Discrimination is the application of *different standards* to individuals or groups of identical status (in reverse: “treat like cases alike”). Discrimination has the dangerous power to put individuals or groups into hopeless situations by introducing differences based on illogical reasons. In addition, it quickly destabilizes the social position of an individual or a group, thus it ultimately causes marginalization. It is for this reason that academic literature considers social segregation and discrimination to be practically the same.

Discrimination always goes against a protected characteristic of an individual or a group.

Protected characteristics are age, disability, gender reassignment, marriage and civil partnership, pregnancy and maternity, race, religion or belief, sex and sexual orientation (source: Equality and Human Rights Commission, 2014, p. 7).

We can identify five groups of practices that fall under prohibited discrimination. These are the following:

- *Direct discrimination* is any behaviour, action, order, practice or requirement that results in an individual or a group of individuals to receive unfavourable treatment compared to another individual or group of individuals in a comparable situation, based on their protected characteristic. In this case, whether the protected characteristic is real or imagined has no bearing on the situation. This means that direct discrimination occurs when an individual is treated unfavourably or by comparison with how others who are in a similar situation are or would be treated. The reason for this difference is a particular

characteristic they hold which falls under a “protected ground” (European Union Agency for Fundamental Rights, European Court of Human Rights – Council of Europe, 2010, p. 22).

- = *Examples*. An employer excludes a job applicant from the selection process because of the applicant’s ethnic background. An employer does not give a qualified applicant the job because the employer *thinks* the applicant is gay.
- *Indirect discrimination* happens when a seemingly neutral provision, criterion or practice would put a person or group at a particular disadvantage compared with other persons, based on their protected characteristics. Indirect (hidden) discrimination is complicated to justify in practice.
 - = *Example 1*. A job involves traveling to lots of different places to see clients. The employer says that in order to get the job the successful applicant has to be able to drive. This may stop some disabled people from applying if they cannot drive. But there may be other excellent ways of getting from one place to another that disabled people who cannot drive could use. The employer needs to show that a requirement to drive is objectively justified, or they may be discriminating unlawfully against people who cannot drive because of their disability (Equality and Human Rights Commission, 2014).
 - = *Example 2*. The employer decides to exclude those coming from a particular area of the city from employment. When it turns out that on average the proportion of gypsy people in that area is high, the employer’s policy indirectly discriminates against gypsy job applicants.
- *Harassment* is any behaviour that violates human dignity and is related to the concerned individual’s protected characteristic. Its goal or effect is to create a hostile, intimidating or degrading environment for the person/group concerned. The conceptual scope of harassment is far broader than merely situations with sexual content. Directive 2002/73/EC defines sexual harassment as a situation “where any form of unwanted verbal, non-verbal or physical conduct of a sexual nature occurs, with the purpose or effect of violating the dignity of a person, in particular when creating an intimidating, hostile, degrading, humiliating or offensive environment” (Article 2 of 2002/73/EC Directive). Both harassment and sexual harassment can occur as one-time or continuous behaviours.

Harassment as well as sexual harassment can be realized as active or passive behaviours. The employer’s behaviour may be discriminating, for example, if the employer knows about harassment between employees but does not take any action about it (passive form). This approach considerably widens the scope of the employer’s responsibility. Employers are responsible for their own behaviour and the behaviour of all employees under their employment. Eliminating or minimizing this risk should urge employers to establish measures that discourage the realization of situations where harassment may occur.

Such measures may include the creation of an internal code of conduct. This document should include the definition of harassment and sexual harassment, the methods of investigating complaints and the list of possible sanctions. In most cases, creating a code of conduct is the responsibility of HRM.

- *Unlawful segregation* denotes separating an individual or a group from others based on a protected characteristic without an objectively measured, sensible reason. Thus, the concept of unlawful segregation does not automatically presuppose the simultaneous presence of unfavourable treatment in this case. It is important that segregation in itself must be unlawful and should harm basic human dignity. The EU identifies horizontal and vertical segregation types. Horizontal segregation is when the workforce of a specific industry is mostly made up of one particular gender (e.g., women in low-paid industries, such as education). Vertical segregation denotes the situation whereby opportunities for career progression for a particular gender within a company or sector are limited [EurWORK & European Foundation for the Improvement of Living and Working Conditions (Eurofond), 2017].
- Victimization is any behaviour that causes an individual who makes a complaint, starts a legal process or contributes to one (being a witness) be violated in relation to the legal process or complaint s/he made. This kind of behaviour breaks the requirements of equal treatment, even if only the threat of violation is communicated to the individual. Victimization requires an existing discriminative situation to exist. It is, however, entirely irrelevant whether the so-called basic discrimination complaint or process was valid or not. The significance of this legal institution is that many victims of negative discrimination do not step up to validate their rights because they are afraid of retaliatory action from the one responsible for the unlawful conduct. In the world of work, victimization is common so protection against discrimination cannot be complete or effective without this institution.
 - = *Example*. An employer threatens to dismiss an employee because the employer thinks the employee intends to support a colleague's sexual harassment claim. This threat in itself is victimisation, even if the employer does not actually dismiss, or want to dismiss, the employee.

All the behaviours defined above technically mean discrimination when they are realized. This statement, however, is not entirely true since the scope of protected characteristics is boundless. There are situations where equality law applies differently (based on Equality and Human Rights Commission, 2014) such as the following:

- *Objectively justified reason for discrimination*: In order to demonstrate that something is objectively justified, the employer must show that there is a good reason for doing what they are doing and that what they are doing is

proportionate. Suppose an employer can show that a particular protected characteristic is central to a particular job. In this case, they can insist that only someone who has that particular protected characteristic is suitable for the job (genuine occupational requirement).

= *Example*. A women's refuge association may want to say that it should employ only women as counsellors. Its client base is only women who are experiencing domestic violence committed by men. This would probably be a genuine occupational requirement.

– *Obeying another law*: An employer might insist on a protected characteristic – if not, this would mean breaking another law.

= *Example*. A driving school must reject a 19-year-old person who applies for a job as a driving instructor. Even if they are otherwise the best candidate, offering them the job would involve breaking the law because a driving instructor must be at least 21 years old in the particular country.

– *National security*: An employer can consider a person's protected characteristics if there is a need to safeguard national security and the discrimination is proportionate.

– *Religious reasons*: The Employment Equality Directive specifically permits organisations that are based around a religion or belief to impose certain conditions on employees. Article 4(2) of the Directive states that it does not interfere with “the right of churches and other public or private organisations, the ethos of which is based on religion or belief [...] to require individuals working for them to act in good faith and with loyalty to the organisation's ethos”.

Another term that is relevant in discrimination is *positive discrimination*. The concept of positive discrimination is misleading as it is meaningless to talk about unjust treatment as being positive.

Positive discrimination (or affirmative action) is a policy or a programme that provides advantages for certain groups of people who are seen to have traditionally been discriminated against (source: European Commission, 2020).

The applications of positive discrimination must always be specific and conditional. This kind of discrimination can have damaging consequences as it turns the tables by unfairly discriminating against the majority. History cannot be rewritten in this way, and “two wrongs do not make things right” (Mello, 2015, p. 299). An unlawful example of positive discrimination is when an organisation appoints someone from an underrepresented group into a role without considering whether they have the right skills for the post, and other candidates who are better qualified are rejected.

On the other hand, the concept of positive action means the following:

Positive action is a form of voluntary action and an encouragement to create more diverse workplaces (source: Equality and Human Rights Commission, 2014).

With positive action, the organizational selection process is the same for every candidate, and the successful candidate is appointed because of their ability for the post, irrespective of their protected characteristics. Workforce diversity can be promoted by using inclusive terminology and a wider range of recruitment channels or specific recruitment campaigns that lack social stereotypes – all of these are examples for positive actions.

The principle of *equal opportunities* has also emerged next to that of equal treatment. The two principles, however, cannot be used as synonyms. Equal treatment is practically the prohibition of discrimination, which is most widely regulated in the Employment Equality Directive. The policy of equal opportunities, on the other hand, means much more than that.

The **policy of equal opportunities** includes all legal and non-legal tools that serve the purpose of allowing different groups of society to appear equally valid or at least decrease the number of unjust treatments they may experience [source: EurWORK & European Foundation for the Improvement of Living and Working Conditions (Eurofond), 2019].

In summary, we have witnessed the evolution of equal treatment in the EU since the beginning. In reality, however, the desired goal has not been fully achieved. Even the realization of equal opportunities between men and women runs into problems, despite this being the first area of Community-level regulations. This appears primarily in wage differences, promotion ceilings and discriminative job advertisements. The EU has accepted outstanding legislative and institutional rules to enforce equal opportunities and equal treatment in both member states and EU institutions. However, EU directives (as opposed to regulations and decisions) declare only the cornerstones and leave the detailed legislation (implementation) to member states. In this way, while the principles of equal treatment are identical on an EU-level, their operational application may differ in member states.

SUMMARY

- Employment contract and self-employment have clearly distinctive features.
- Labour law, as an independent branch of law, deals with employment relationships.
- Labour law has two interconnected divisions: individual and collective labour law.
- In order for a complex legal approach to work, we need to understand the links between labour law, civil law, civil procedural law, social insurance and tax law and occupational health and safety law.
- The sources of labour law can be external and internal.
- The external sources of labour law are the ILO Conventions, the Rome I Regulation, the OECD Guidelines for MNEs and the EU's primary and secondary legislation.
- The internal sources of labour law are legal provisions, collective bargaining agreements, employment contracts and case law.
- The hierarchy of laws (constitution, laws, regulations) means that a legal source at a lower rank of the hierarchy may not contradict any provisions above that rank.
- Constitutions have several provisions that are also relevant to labour law.
- Laws provide direct rules of work.
- Regulations provide administrative and technical details to carry out the purpose of the laws.
- Collective agreements, as self-regulation tools, are legally binding and enforceable written contracts between employer(s) and trade union(s), which set standards and fix the terms and conditions for individual labour contracts.
- Collective agreements might exist on cross-sectoral, sectoral, multi-employer or workplace levels.
- Collective agreement coverage has been declining worldwide for the past few decades in OECD countries.
- The employment contract holds the subjects of labour law (the employer and the employee) together.
- Case law is derived from the decisions issued by judges in the cases before them in court.
- Discrimination describes a situation where an individual is disadvantaged in some way because of a protected characteristic.
- Protected characteristics are age, disability, gender reassignment, marriage and civil partnership, pregnancy and maternity, race, religion or belief, sex and sexual orientation.
- Anti-discrimination law aims to allow all individuals an equal and fair chance to access opportunities available in society.

- The principles of equality and non-discrimination are deeply anchored in the EU Treaties and in secondary EU law (directives).
- Beyond the EU law on equality, the European Convention on Human Rights (1953), drafted by the Council of Europe, also safeguards human rights in Europe.
- Human rights protection mechanisms are not limited to Europe. The United Nations has developed significant conventions on human rights.
- Discrimination has different forms: direct discrimination, indirect discrimination, harassment (including sexual harassment), unlawful segregation and victimization.
- Legal exceptions from discrimination exist.
- Positive discrimination (or affirmative action) is a policy or a programme that provides advantages for certain groups of people who are seen to have traditionally been discriminated against, in order to create a more egalitarian society.
- Positive action is a form of voluntary action made by an organization and an encouragement to create workplace diversity.
- The policy of equal opportunities includes all legal and non-legal tools that serve the purpose of allowing different groups of society to appear equally valid or at least decrease the number of unjust treatments they may experience.

SELF-CHECK & INDIVIDUAL AND/OR GROUP ACTIVITIES

1. Consider your current or latest job. Please analyse it based on Figure 3.1, and decide whether it is a real employment relationship or more like a self-employment type of work.
2. Which of the listed external sources of labour law do you think are applicable to your country? Are there some more you know about?
3. Please specify your country's internal sources of labour law. What does the hierarchy of laws look like in your country?
4. Please collect as much information as possible online about trade unions in your country. You may focus on the following aspects: the number and size of trade unions, the strongest trade unions, willingness to start strike actions, the most significant strikes in your country and their achievements.
5. Do you currently work under a collective agreement? What specifications of your employment are set in the CA?
6. What are the typical levels of CAs in your country?
7. Please check the trade union density and collective agreement coverage in your country and evaluate it.
8. List and evaluate typical employment contract features in your country.
9. Do some research on the non-discrimination law applicable in your country. Please include both external and internal legal sources. Are there any legal regulations applicable in your country that are listed in Chapter 13?

10. Provide examples of indirect discrimination from work.
11. Imagine that you are the HR manager of an organization. You happen to overhear an employee tell a co-worker that another employee experienced harassing behaviour in the office. How would you handle this situation?
12. Please list the advantages of diverse workplaces. How do you think an organization may gain a competitive advantage from being diverse?
13. Provide organizational examples of positive action that promote workplace diversity. Be as specific as possible.

KEY TERMS USED IN THE CHAPTER

| | |
|---|---|
| affirmative action | hierarchy of laws |
| case law | ILO |
| Charter of Fundamental Rights of the European Union | indirect discrimination |
| collective bargaining | individual labour law |
| collective (bargaining) agreement | labour law |
| collective labour law | law |
| constitution | OECD Guidelines for Multinational Enterprises |
| contract-based work | positive action |
| decree | positive discrimination |
| direct discrimination | Rome I Regulation |
| discrimination | segregation |
| employment contract | sources of law |
| employment relationship | trade union |
| equal opportunities | Treaty on European Union |
| EU directives | Treaty on the Functioning of the European Union |
| European Convention on Human Rights | victimization |
| genuine occupational requirement | |
| harassment | |

GLOSSARY

Source of law is a legal act that contains the rights and obligations of legal subjects.

The **rule of law** means that all members of a society as well as governments and members of parliaments are equally subject to the law under the control of independent and impartial courts.

The **hierarchy of laws** means that a legal source at a lower rank of the hierarchy may not contradict any provisions above that rank.

A **trade union** (also called labour union) is a legal entity that consists of employees who have a common interest in developing the working conditions of its members.

Collective (bargaining) agreements, or C(B)As, are agreements in writing regarding working conditions and terms of employment that are concluded between the following parties:

- an employer (or a group of employers / employers' organisations),
- one (or more) representative workers' organisations.

Discrimination is an approach that introduces unjust treatment towards a person or a group of people because they possess protected characteristics.

Protected characteristics are age, disability, gender reassignment, marriage and civil partnership, pregnancy and maternity, race, religion or belief, sex and sexual orientation.

Positive discrimination (or affirmative action) is a policy or a programme that provides advantages for certain groups of people who are seen to have traditionally been discriminated against.

Positive action is a form of voluntary action and an encouragement to create more diverse workplaces.

The **policy of equal opportunities** includes all legal and non-legal tools that serve the purpose of allowing different groups of society to appear equally valid or at least decrease the number of unjust treatments they may experience.

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4. Convention on the Rights of the Child
5. International Convention on the Elimination of All Forms of Racial Discrimination
6. International Covenant on Civil and Political Rights
7. International Covenant on Economic Social and Cultural Rights

ILO

8. Declaration on Fundamental Principles and Rights at Work (ILO)

OECD (Organization for Economic Cooperation and Development)

9. OECD Guidelines for Multinational Enterprises (OECD Guidelines)

Council of Europe

10. European Convention on Human Rights

EU

11. Charter of Fundamental Rights of the European Union
12. Directive 2000/43/EC
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20. Treaty on the Functioning of the European Union

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PART 4

Job Systems

We know that managers plan job contents and job responsibilities, decide headcount for their units, recruit and select the best candidates for jobs, set training guidelines and development paths, appraise employees' performances and establish pay plans accordingly. This flow of activities makes sense. However, the linear view of HRM is problematic as practice does not necessarily follow this scheme. Every HR function should focus on achieving a specific strategic goal of the organization, such as customer satisfaction, fostering innovation or cost reduction.

As our handbook follows a linear structure, all HRM functions are listed one after the other in the consecutive chapters. However, the Reader is strongly encouraged to follow a holistic view and, while reading, try to synthesise the discussed topics.

Part 4 of the SHRM handbook has the following learning objectives:

- introducing the terms *work*, *job* and *task* and integrating them into organizational workflow analysis,
- explaining the goals, different approaches, processes, methods and sources of job analysis,
- providing an overview of the general practice of job descriptions and job specifications,
- identifying the different approaches and techniques of job design and job redesign,
- summarizing the goals and methods of job evaluation and its link to compensation.

CHAPTER 14

Work and Jobs

Organizations take *inputs* from the environment, and, through *work*, they turn these inputs into products or services.

Work is an effort directed toward accomplishing results (source: Valentine et al., 2020, p. 119).

For the organization and HRM, how work flows through the organization and how the organization makes that work more efficient have paramount importance.

Workflow analysis is the tool used to identify what needs to be done within the organization to produce a product or a service (source: Lussier & Hendon, 2016, p. 123).

Workflow analysis, as shown in Figure 4.1, goes backward.

The first thing we need to analyse is the actual output, the *result of work*. The needs and expectations of customers must be the starting point of operations. Once the organization identifies this explicitly, it may determine the *work and tasks required* to create the result. Finally, based on the work to be performed, we can identify the *inputs* necessary to carry out the work (Lussier & Hendon, 2016). Organizations have the following inputs available (see also Chapter 1 on organizational assets):

- machines and materials (physical resources),
- manpower (human resources),
- money (financial resources).

Whenever we do workflow analysis, first we have to identify which of the inputs and how much of them we are currently using for the workflow. In most cases, workforce analysis is not an HR responsibility, but HR has to assist line managers in the mapping process, especially regarding manpower inputs.

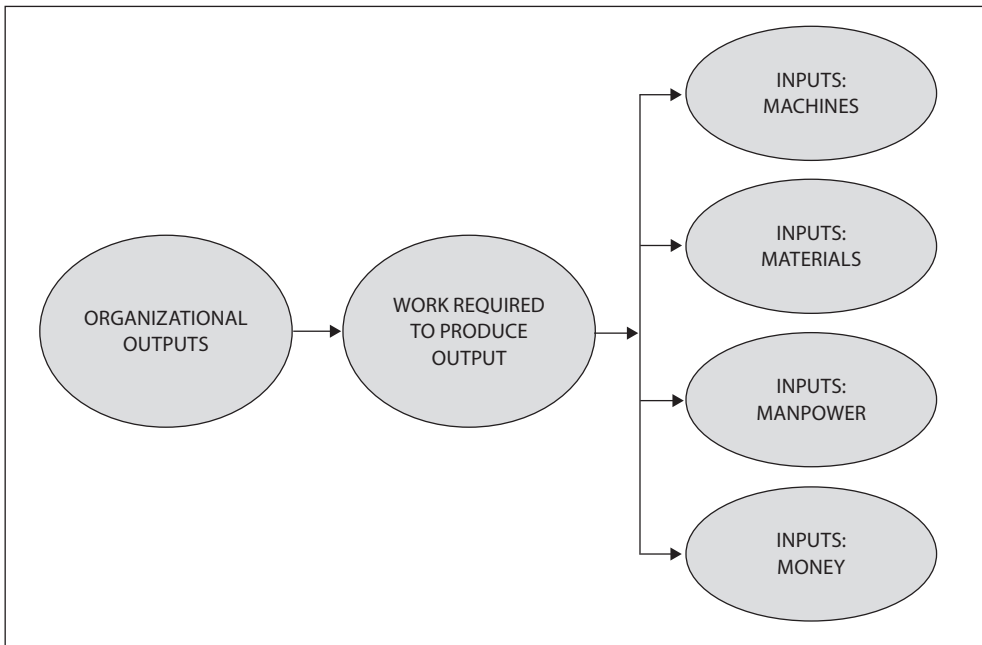


Figure 4.1

Workflow Analysis

Source: Valentine et al. (2020, p. 120).

Progressing with the workflow analysis, we can say that the total amount of work to be done in an organization must be divided into jobs so tasks can be coordinated logically.

Job refers to a group of tasks, duties and responsibilities that constitutes an employee's total work assignment (source: Valentine et al., 2020, p. 119).

Ideally, when all tasks are grouped in jobs and all jobs in an organization are added together, they equal the amount of work the organization needs. It is not more and not less than that. The task, job and work nexus is shown in Figure 4.2.

In the following sections, the focus will be on jobs and HRM functions related to jobs. The typical types of jobs in an organization are illustrated in Figure 4.3.

Jobs increase in number and evolve as the needs of the organization change. If jobs remain static, the organization will fail to adapt to internal and environmental changes. Creating, analysing, updating and evaluating jobs are all considered classic HRM functions.

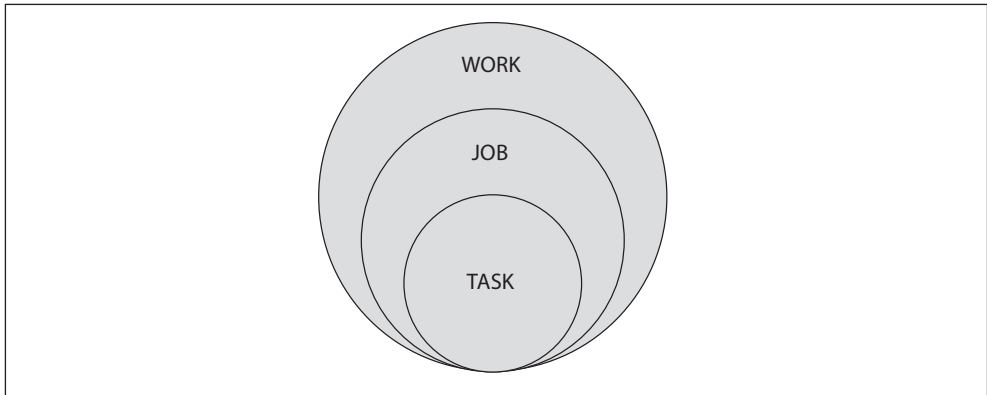


Figure 4.2
Task, Job and Work Relationship

Source: author.

| | | |
|--|--|--|
| According to its place in the job hierarchy | According to number of employees | According to the type of activity |
| <ul style="list-style-type: none"> • Managerial job • Non-managerial job | <ul style="list-style-type: none"> • One job – one employee • One job – more employees | <ul style="list-style-type: none"> • Blue- or white-collar job • Indirect and direct support of core activity job or core activity job |

Figure 4.3
Types of Jobs in an Organization*

Source: author.

* Beyond the traditional blue- and white-collar categorization of jobs (where blue-collar workers wear usually blue uniforms and work in physical occupations, and white-collar workers typically wear white, button-down shirts and work in office settings), today new “collar descriptions” exist as indicators of the colourful and heterogeneous world of work such as the following (Choughari, 2016):

- *gold collar worker* refers to highly skilled or “knowledge workers”, such as doctors, lawyers, researchers,
- *grey collar worker* refers to a non-classified worker, or it is occasionally used to describe elderly individuals who work beyond the age of retirement,
- *green collar workers* work in the environmental or renewable energy sectors,
- *pink collar workers* are employed in a job that is traditionally considered to be women’s work: nurses, secretaries and elementary school teachers,
- *purple collar workers* are skilled workers who are principally white-collar, but perform blue-collar tasks with some regularity, such as engineers and technicians,
- *scarlet collar worker* refers to workers in the sex industry,
- *orange collar worker* is used for prison labourers, named for the orange jumpsuits they wear,
- *red collar worker* refers to government workers,
- *black collar worker* is used for workers in the mining or oil industry,
- *steel collar workers* are robots, particularly in manufacturing, that typically replace blue-collar jobs,
- *brown collar workers* work in the military or the army, navy, marines, air force and space force,
- *no collar workers* are artists.

CHAPTER 15

Job Analysis

The most fundamental building block of HRM is job analysis.

Job analysis is a systematic way to gather and analyse information about the content and human requirements of organizational jobs and the context in which jobs are performed (source: author, based on Valentine et al., 2020, p. 131).

Job analysis is crucial because it supports all HRM functions. It establishes the content and unique features of jobs, which are the smallest units of organizations. A practical and explicit job analysis initially serves other HRM functions in the following ways:

- *staffing*: information about the primary duties, responsibilities, tasks of a vacant job, support headcount planning, recruitment, selection or promotion,
- *performance management*: the essential duties and responsibilities of the job set the performance standards expected from the employee currently occupying the job,
- *job evaluation and compensation*: salary and wages predominantly depend on the degree of responsibility and the level of expected professional skills and experience, which are all defined in a job description,
- *training and development*: specific job duties and responsibilities require specific hard and soft KSAs that lay down training and development traits for managers and employees,
- *OSH*: job factors that may need extra-occupational safety and health regulations (such as working in shifts, working in danger zones or home offices) need to be identified in order to minimize workplace hazards.

These gains of job analysis predominantly support line managers, not the HR. If we accept the saying that “All managers are HR managers”, we understand that each manager must have detailed knowledge about all jobs in their business unit to lead workflow processes. Beyond understanding job responsibilities, they also need to know job requirements to make intelligent hiring, promotion or training decisions. Compensation decisions and performance evaluation based on job descriptions are all managerial responsibilities supported by HRM.

In practice, there are two approaches to job analysis: one focuses on tasks to be performed in jobs, and the other focuses on competencies needed for high job performance. On the one hand, *task-based job analysis* is the most common (and traditional) form of job analysis. It focuses on the components of work to be done. On the other hand, *competency-based job analysis* considers key KSAs and how they should be used whilst performing a job. Here, we focus on technical competencies (professional skills and knowledge) and behavioural competencies (e.g., customer focus, innovation, business acumen) that lead to high performance. Although both methods are in use, we can say that the task-based job analysis can provide a more defensible basis for decisions regarding internal selection, compensation or training. These management actions can lead to employee-initiated lawsuits if employees believe they are unfair. Whether to use a task-based or competency-based job analysis highly depends on the nature of jobs. However, an integrative approach combining both techniques can be efficient in all industries.

15.1 Process of Job Analysis

The *process of job analysis* must be planned and conducted logically. This multi-staged process is usually independent of the specific job analysis method used (see later in this chapter) but may vary according to the number of jobs involved. See Figure 4.4.

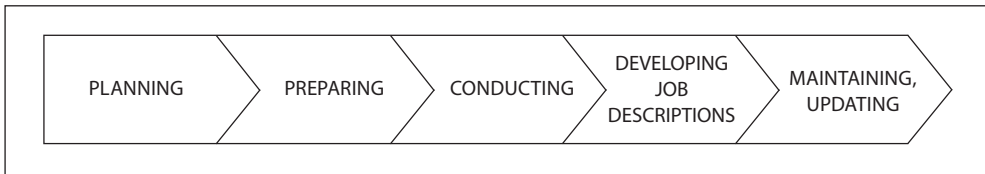


Figure 4.4
Stages of Job Analysis

Source: Valentine et al. (2020, p. 134).

- *Stage 1.* A crucial moment of all activities is planning. The goals we wish to achieve with job analysis must be set out very clearly. This can be updating present job descriptions, optimizing job sizes or even revising compensation programs within the organization. During the planning phase, top management support is needed.
- *Stage 2.* After precise planning, the jobs requiring analysis must be identified (i.e., all jobs in the organization or all jobs in one division or maybe just managerial jobs). At this stage, HR needs to appoint project participants and, for this,

the most appropriate job analysis method or combination of methods. An essential part here is communicating the method with the affected managers and generally all of those involved in the process.

- *Stage 3.* Conducting a job analysis practically means that HR collects all job data with the appointed participants and method(s). Ideally, job-related data will be gathered through multiple channels (at the minimum from employees currently occupying the job and their direct supervisors). In this way, more perspectives can be considered in the analysis. The efficiency of job analysis highly depends on the trust and cooperation of participants. No matter which method we use, to gather relevant, true and honest feedback the trust of the participants must be secured. Once the job data is collected, the information should be sorted by job and organizational unit.
- *Stage 4.* The primary outcomes of job analysis are job descriptions and job specifications (see details later in this chapter). Developing these documents together with managers is a good practice. In this way, we keep consistency both in format and in content.
- *Stage 5.* Once job descriptions and job specifications are finalized and signed by all appropriate individuals, a system should be developed for maintaining and updating them. A good practice for this is to integrate job analysis into other HRM functions. If HR prepares updated job descriptions and job specifications when a job vacancy occurs, it will be ready for recruitment and selection when needed. Similarly, some managers update these documents during performance appraisal interviews (Valentine et al., 2020).

15.2 Methods of Job Analysis

Various *methods* can be used to complete a job analysis. Primarily, we can distinguish between *indirect* and *direct methods*. See Figure 4.5.

For gathering job-related data, HR starts with collecting and *analysing already existing documents that describe any parameter of jobs*. Among others, current or previous job descriptions, time sheets, technical descriptions of machinery, organizational policies, work-related accident records, health and safety regulations belong here.

The *questionnaire method* is a very widely used technique for gathering job data. This survey instrument is developed either by HR or by an independent HR consultant company and is given to employees and superiors to complete. The questionnaire method has a significant advantage: information on a large number of jobs can be collected in a relatively short time, even from geographically distant jobs. However, not all employees and managers can analyse and communicate information about their jobs via questionnaires. Combining questionnaires with interviews may minimize this disadvantage.

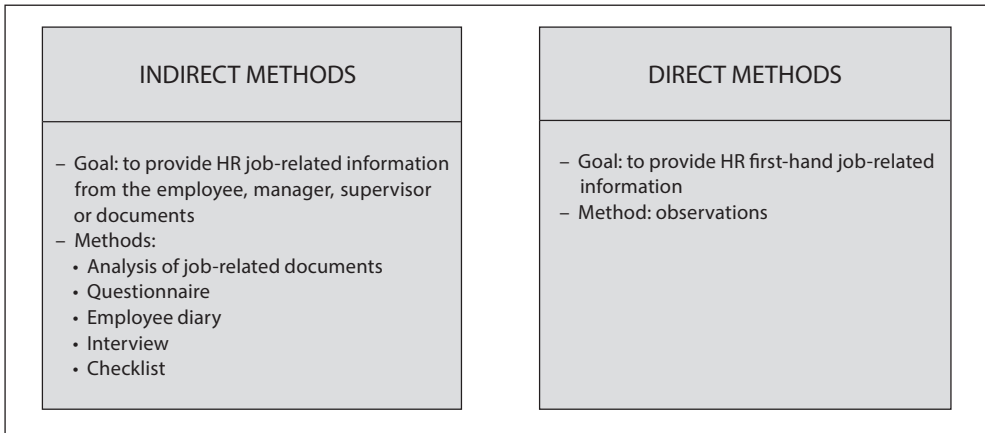


Figure 4.5

Indirect and Direct Methods of Job Analysis*Source:* author.

The *interview method* requires an analyst to visit and talk to the employees who occupy the job to be analysed. Usually, a standardized interview form is used, where the employee is asked first, then the analyst contacts the supervisor for additional information or for the clarification of specific points. The interviewee should understand the purpose of the interview. If not executed properly, job analysis interviews might wrongly be considered by employees as performance appraisal talks or job interviews. The interview is a straightforward way to collect job-related information. However, distortion of data can occur as a problem. Sometimes group interviews are used, which, beyond being time-consuming, offer employees with the same job the opportunity to share and discuss job tasks and responsibilities in an inspiring way.

With the *employee diary method* (also called *record-keeping*), employees observe and register their daily tasks, noting how frequently these occur in the job. Although this approach sometimes generates valuable information, it may not be easy for employees to complete an accurate diary. In addition, using this technique may make some employees feel that not the job, but their performance and abilities are measured in this way.

If we have outdated job descriptions, the *checklist method* is applicable. Here, we create a list of currently known activities, duties and tasks, and we ask employees and supervisors to check whether these list items are still relevant or not. If we allow them to extend the list freely, the result is the complete task and responsibility list of a particular job.

During *observation*, a manager or a job analyst observes an individual performing the daily routine and takes notes. Without interfering, the analyst records what,

why and how the employee does. The use of the observation method is limited because many jobs do not have complete and easily observable duties and job cycles (like white-collar jobs). Also, one-to-one observation is time-consuming and may need to be spread over a longer period of time. Observation is more helpful in analysing simple and repetitive jobs or in conjunction with other methods.

During the job analysis, HR uses multiple methods. In the case of administrative jobs, it can be helpful to conduct questionnaires supported by interviews and limited observation. When analysing blue-collar jobs, interviews supplemented with extensive observation may provide the necessary job data.

15.3 Participants of Job Analysis

Many individuals might have relevant information about a particular job. When collecting job data, it is useful to involve more participants to receive comprehensive results. The selection of appropriate sources (participants) of the process is part of the preparatory stage of job analysis. Figure 4.6 shows the possible *sources of job analysis*.



Figure 4.6

Possible Sources of Organizational Job Analysis

Source: author.

The configuration of specific methods and sources of job analysis depends on the purpose of the job analysis, the number and the type of jobs involved. With the combination of multiple methods and sources, HR can whitewash contradicting or uncertain job information.

15.4 Behavioural Aspects of Job Analysis

It is also important to mention some *behavioural aspects of job analysis*. Job analysis can be demanding and disruptive for both managers and employees. With the information developed by job analysis, HR can identify what is done and what is expected in a job. From a managerial aspect, this may mean that job descriptions limit the managerial powers (cf. Managerial “straitjacket”, Valentine et al., 2020, p. 139). If workload and demand change rapidly, managers wish to be able to move duties freely among direct reporting employees to offer cross-training and, in this way, to reach flexibility and a more dynamic workflow.

A concern that employees might have in relation to the job analysis is that it is used as a detailed investigation of their job. Some may fear that their freedom and creativity will be limited by formalizing job duties. They may also be concerned about possible pay deductions or dismissals. However, by having accurate and well-communicated job descriptions, in the end, job roles and expectations within these roles can be clarified.

CHAPTER 16

Job Description and Job Specification

The outputs of the job analysis are the job description and the job specification. These two are often integrated into one document that summarizes the essential features of jobs.

Job description is a result of job analysis that identifies the purpose, scope, tasks, duties, responsibilities, reporting relationships and working conditions of a particular job (source: author, based on Valentine et al., 2020 and Dessler, 2020).

Job specification is another result of job analysis. This is a detailed list of the knowledge, skills and abilities (KSAs) that an individual needs in order to perform a job satisfactorily (source: author, based on Valentine et al., 2020 and Dessler, 2020).

Usually, there are no legal provisions concerning what to write in a job description or how long this description should be. However, most job descriptions share similar structures and contents worldwide. Consistency in content and unity in layout within one organization are general requirements of job descriptions. These descriptions usually have the following sections:

- *Identification*: Starting with the job identification, we provide the job title, employee's name, department, location, job code, if any, and pay grade. This section helps HR track jobs within the organization.
- *Job summary*: This is a concise statement on the essence of the job.
- *Essential functions and duties*: This is the longest and most detailed part (the *heart*) of the job description. Here, we collect all functions, tasks and responsibilities of the job, and we usually rank them according to their importance. Writing clear job duties is an art. Action verbs and explicit statements are best used in this section.
- *Relationships*: Internal and external relationships and reporting responsibilities (using words such as “report to” and “supervises”) are listed here.

- *Job specification:* This section contains employee qualifications and competencies needed for the job, including education and experience, KSAs or physical requirements. This section serves as a great help if the job is vacant and we recruit an applicant who is the best fit for the job.
- *Approval signatures:* The final section of most job descriptions contains the approval signatures of the appropriate managers, a legal disclaimer and the signature of the employee who currently occupies the job. Job descriptions are not contracts. By signing the document, the employee only acknowledges its content. Writing, modifying or withdrawing job descriptions belong to the employers' powers.

Figure 4.7 summarises the essentials of job analysis.

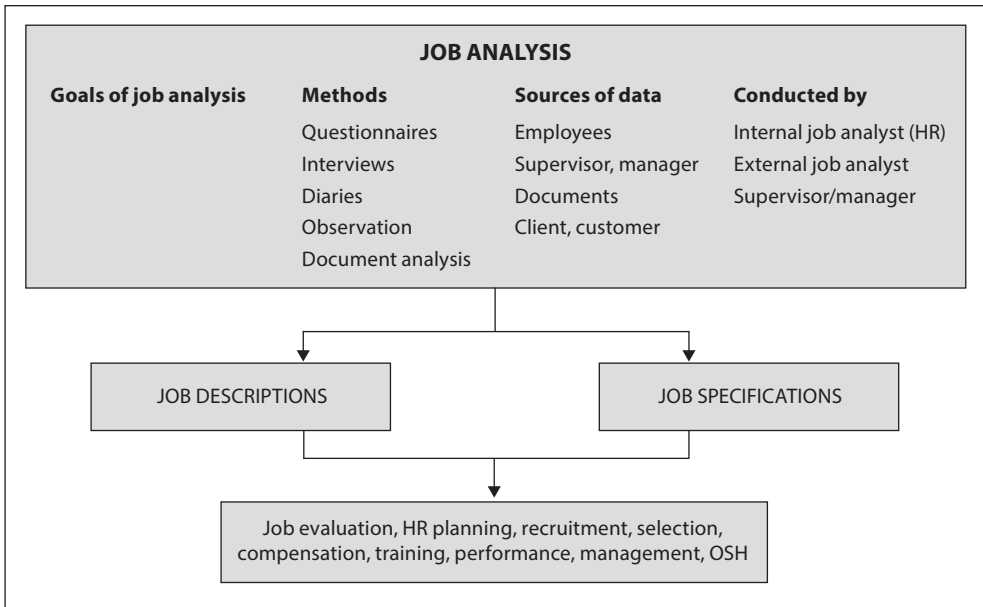


Figure 4.7
Essentials of Job Analysis

Source: author, based on Valentine et al. (2020, p. 131).

The most common problem with job analysis in practice is the lack of clear goals shared by managers. As a result, job analysis is usually considered a purely administrative burden on organizational managers, which leads to inadequate results.

CHAPTER 17

Job Design/Redesign

The tasks to be performed by employees are grouped into jobs. Designing the unique configuration of job content happens during the job analysis process.

Job design identifies tasks that an employee is responsible for in a particular job and relates these to other jobs in the organization (source: author, based on Mondy, 2012, p. 124).

The nature of work, the challenges of organizations and people's expectations towards work have dramatically changed recently. In accordance with such changes, organizations need to design or redesign jobs from time to time.

Job redesign refers to the changing of tasks or of the way tasks are performed in a particular job in order to improve performance (source: author, based on Valentine et al., 2020, Dessler, 2020 and Mondy, 2012).

Job redesign can have various approaches as illustrated in Figure 4.8.

Job simplification (vertical easing) eliminates or reduces complex and difficult tasks from a job to improve employee performance. This seemingly demotivating redesign tool can be efficient in entry-level jobs or for interns.

Job specialization (horizontal easing) means performing fewer but same-scope activities in a job. Job specialization is traditionally considered a demotivating way of work. However, it can also be useful to narrow down an employee's focus to a specific field in order to deepen expertise. Assembly line jobs are typical examples of job specialization. This redesign approach can also appear in academic settings, where individuals choose specific academic paths that will lead them to be specialists within their profession.

Job enlargement (horizontal loading) involves adding new tasks to the current job content, all at the same level of responsibility, which is often not a great motivator for employees. Job enlargement can also be considered as the opposite of job specialization.

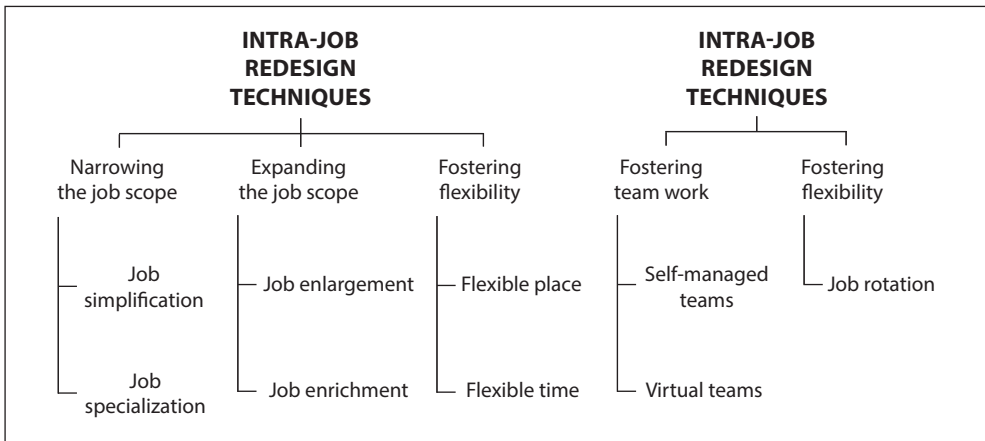


Figure 4.8

Different Approaches to Job Redesign

Source: author.

Job enrichment (vertical loading) expands job content vertically by adding more responsibility, more autonomy or more significant challenges to the employee. By job enrichment, managers ‘empower’ their workers with extra motivational factors to foster personal growth. By providing job depths, job enrichment can be considered as the opposite of job simplification.

The *place flexibility* of a job can be achieved in many ways with the use of technology, dominantly for white-collar workers. Home office, mixed home-site office, shared private office, open space office are all trending approaches to work. While most of these tools are attractive for employees and save costs for organizations, their possible drawbacks, such as the isolation of teleworkers or, on the contrary, the lack of privacy and uninterrupted time in the case of open space offices, may lead to a drop in efficiency.

Time flexibility means work schedules other than the standard schedule (8 hours a day, 5 days a week). Many organizations need 24-hour operation so *shift work* (8-hour shifts throughout a working day) is introduced. *Part-time work* or a *compressed workweek* (a whole week’s work in less than five days with more daily hours) can be favourable for employees because of having longer spans of free time. *Job sharing* (usually) means that two employees occupy the same job and thus they gain more private time. *Core* and *periphery working hours*, primarily used in a ‘sandwiched’ way (periphery hours – core hours – periphery hours within one working day), provide flexibility within one day. Core working hours are determined by the employer, while the employee governs work scheduling during periphery working hours. In the case of *flexible working time*, the full responsibility of worktime scheduling goes to the employees.

The traditional approach to job design or redesign was to focus on jobs as separate entities. Today, the interconnectedness of jobs supporting the workflow is a critical concept in management. *Self-managed teams* consist of individual employees and are assigned a cluster of tasks to accomplish. These groups set up regular internal work and decision procedures without designated managers. Self-managed teams have greater ownership of the tasks they perform and the end product or service they deliver. Performing technical and management functions, these teams can be more productive than employees working within a traditional hierarchical structure (Valentine et al., 2020).

Virtual teams have members who are separated geographically and are connected by technology. Beyond proper technology, other vital factors are also necessary for successful virtual teamwork, such as adequate planning, trained team leaders and, in the case of global teams, cross-cultural intelligence (CQ).

Job rotation programs move employees from one job to another within the organization to broaden their experience. Job rotation programs enhance individual and organizational flexibility by making employees capable of working in different jobs, thus keeping them motivated. This method has been a long-standing practice for senior executives who would need to understand how other functions operate. More recently, job rotation has been offered increasingly to employees at the middle and lower levels to facilitate communication and foster collaboration across the different divisions of the organizations or regions (Mello, 2015).

CHAPTER 18

Job Evaluation

Whether it is best to discuss job evaluation linked to job systems or total rewards and compensation is not fully agreed upon among HRM authors. On the one hand, it makes sense to start elaborating compensation schemes by introducing job evaluation as one of their inputs. Compensation systems are developed based on the organization's compensation philosophy, competitors' compensation levels and the job evaluation (an outcome of the job analysis). On the other hand, it is also helpful to keep topics within job systems together and examine job evaluation as the last activity. No matter which approach we choose, the holistic view of HRM functions is emphasized here. For an integrative approach to job evaluation, see Figure 4.9.

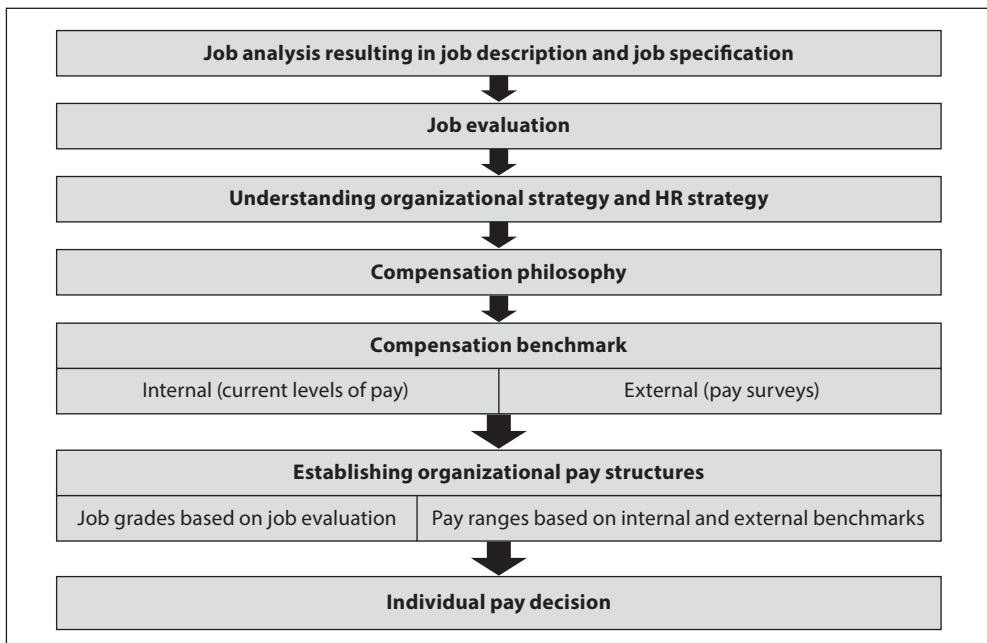


Figure 4.9

Interconnectedness of Job Systems and Compensation Management

Source: author.

Job evaluation is a systematic process designed to determine the relative worth and importance of a job within a particular organization (source: Valentine et al., 2020, p. 389).

The ultimate goal of job evaluation is to create a hierarchy of jobs within an organization. The job hierarchy is based on the relative value of each job.

Job hierarchy means ranking organizational jobs from the lowest (simplest) to the highest (most complex) jobs (source: author).

An efficient job evaluation system itself may develop a transparent organizational architecture identifying horizontal and vertical links in the structure. If the job hierarchy is connected to base compensation (i.e., pay ranges are determined in accordance with job grades), the organization may eliminate pay inequities. Internal pay equity means that employees are compensated fairly within the organization regarding their job responsibilities (and their KSAs and performance). (Pay equity will be discussed later in Part 8.) Figure 4.10 shows the link between job evaluation and other HRM functions.

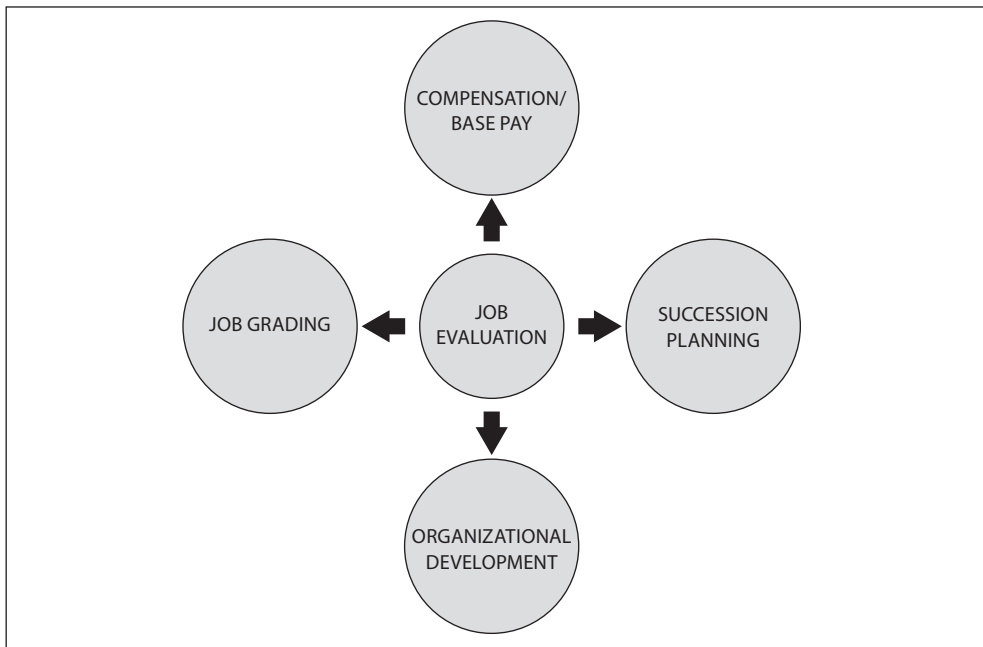


Figure 4.10
Possible Applications of Job Evaluation Results

Source: author.

Managers and employees sometimes misunderstand the essence of job evaluation. Therefore, the following characteristics of this tool need to be emphasized:

- job evaluation techniques are pragmatic rather than scientific,
- job evaluation focuses on the job's worth and not on the worth (and current pay) of the employee occupying the job,
- the validity of the job evaluation process needs to be revised from time to time,
- subjective judgment is always part of the process – no perfect method exists.

Job evaluation has the following major steps (see Figure 4.11).

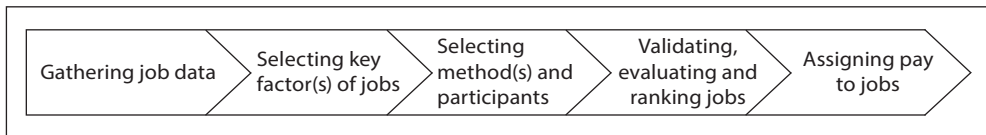


Figure 4.11
Stages of Job Evaluation

Source: author.

- *Stage 1.* To evaluate jobs, we need precise and adequate information regarding the content of all jobs so job analysis must precede job evaluation. If we have complete and accurate job descriptions and job specifications, we have a good base for evaluation.
- *Stage 2.* From the many characteristics of jobs, we have to identify one or more relevant factors to differentiate among them. The most typical factors are responsibility, effort, knowledge, skill and the working conditions of jobs.
- *Stage 3.* After identifying the key job factors that will be evaluated within each job, the best evaluation method(s) and the job evaluation committee must be chosen.
- *Stage 4.* The primary responsibility of the job evaluation committee is to validate the chosen method and evaluate the worth of each organizational job.
- *Stage 5.* The outcome of job evaluation is a hierarchy of jobs within the organization that mirrors the jobs' relative importance compared to each other. Assigning pay to this hierarchy results in the fulfilment of pay equity. In other words, equal pay goes for equal contribution to organizational success.

18.1 Job Evaluation Methods

We can distinguish three *methods for job evaluation* used in practice: the ranking, factor comparison and point factor methods. The first two are *qualitative methods*, and the third one is a *quantitative method*. They have the following characteristics:

- *Ranking method*: With this relatively simple, fast, cheap and subjective method, managers rank jobs from the least to the most valuable ones in the organization, based on an overall factor such as job difficulty, for instance. When doing job ranking, managers utilize job descriptions to serve as bases of comparison without actually using any quantitative factors. This method is appropriate only in small organizations with a limited number of jobs.
- *Factor comparison method*: This is a unique ranking method where jobs are ranked according to several factors, such as responsibility, autonomy, needed skills and the mental or physical effort required for the job. The committee ranks jobs according to their value for each factor.
- *Point factor method*: This quantitative method is the most frequently used one. Similarly to the factor comparison method, the point method develops different job factors to establish a hierarchy of jobs and uses points. The relative value of each job is determined by adding up the points assigned to each factor. The advantage of this method is that it is relatively stable over time once it is developed, and, because of its comprehensiveness, it is more acceptable to the parties. Its disadvantage is its high administrative cost. The *Hay Guide Chart* is a widely used point factor method, which is also available for cross-organizational and international job comparisons. This chart offers ready-made factors (know-how, problem-solving and accountability) and point scales for the committee to use (Korn Ferry, 2017).

Figure 4.12 shows the factors of jobs evaluated in the Hay Guide system.*

* A short explanation of each element is provided below (Korn Ferry, 2017, pp. 5–7):

Know-how: To achieve the accountabilities of a job requires know-how (or inputs), which is the total of every capability or skill, however acquired, needed for fully competent job performance. Its dimensions are the following:

- Practical/technical knowledge: Depth and breadth of technical or specialized knowledge and skills required to achieve the desired results.
- Planning, organizing and integrating (managerial) knowledge: The requirement to undertake managerial functions, such as planning, organizing, staffing, directing and controlling resources. This knowledge is applied in an integrated way to ensure organizational results are achieved.
- Communicating and influencing skills: The active requirement for interpersonal skills needed for successful interactions with individuals and groups inside and outside the organization.

Accountability:

- Freedom to act: The degree of organizational empowerment to take action and the guidance provided to focus on decision-making.
- Nature of impact: The nature of the job's impact and influence on organizational results.
- Magnitude (area of impact): The business measure(s) the job is designed to impact positively (measured on an annual basis, typically in financial terms, to achieve consistency across jobs).

Problem-solving: This refers to the use of know-how to identify, delineate and resolve problems. "We think with what we know", so problem-solving is viewed as the utilization of know-how required to achieve results. It has the following two dimensions:

- Thinking environment (freedom to think): The job's context and the degree to which problems and solutions are organizationally guided and defined through strategy, policy, precedents, procedures and rules.

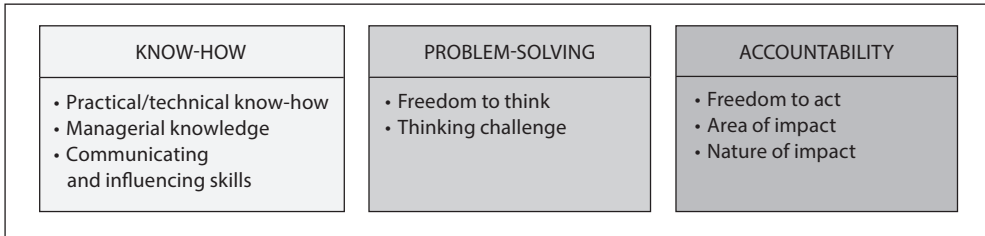


Figure 4.12
Job Factors Evaluated According to the Hay Guide Chart

Source: Korn Ferry (2017).

To completely understand how to link job hierarchy to pay, *job grading* needs to be introduced.

Job grading is the grouping of same-level jobs in order to simplify pay policy (source: Mondy, 2012, p. 255).

It is much easier to price 15 job grades than to price hundreds of different jobs. Figure 4.13 gives an example of job grades linked to base pay ranges.

| JOB GRADE | JOB TITLES | BASE PAY RANGE | | |
|-----------|--|----------------|--------|---------|
| | | MINIMUM | MIDDLE | MAXIMUM |
| 1 | BOOKKEEPER LOAN CLERK DATA ENTRY OPERATOR HR ASSISTANT MARKETING ASSISTANT | €1,500 | €1,750 | €2,000 |

Figure 4.13
Job Grades Linked to Base Pay Ranges

Source: author.

The various techniques of determining base pay ranges will be discussed in more detail in Chapter 31 under total rewards and compensation.

– Thinking challenge: The nature of addressable problems and the degree to which thinking is required to arrive at solutions that add value. Problem-solving measures the requirement to use know-how conceptually, analytically and productively.

SUMMARY

- To understand the nature of jobs, first we need to define the terms *work*, *job* and *task*.
- During workflow analysis, first we need to understand customer needs, then we need to define the work required to create customer satisfaction, and finally we need to identify the inputs necessary to carry out the work.
- Work is an effort directed toward accomplishing organizational results. Humans or machines or both can do work.
- The total amount of work in an organization must be divided into logically grouped tasks called jobs.
- We can categorize jobs according to different aspects (according to number of employees or job content, or whether they are managerial or non-managerial jobs).
- The classic subfunctions of job systems are job analysis, creating job descriptions and job specifications, job design/redesign and job evaluations, which lead us to compensation management.
- Job analysis is a systematic way to gather and analyse information about the content and human requirements of organizational jobs and the context in which jobs are performed.
- Job analysis has inputs to further HRM functions such as staffing, performance management, compensation, training and safety/health.
- We can distinguish between task-based and competency-based job analysis approaches.
- The stages of job analysis need to be carefully planned before implementation.
- During the job analysis, HR may use direct methods (observation) or indirect methods (document analysis, questionnaires, interviews, employee diaries or checklists) or a combination of these methods.
- When collecting job-related data, it is helpful to use multiple sources (documents, employees currently occupying the job, direct supervisors, managers, HR specialists or even customers/clients) to achieve comprehensive results.
- Job description is a result of job analysis that identifies the purpose, scope, tasks, duties, responsibilities, reporting relationships and working conditions of a particular job.
- Job specification is another result of job analysis. This is a detailed list of the knowledge, skills and abilities (KSAs) that an individual needs in order to perform a job satisfactorily.
- There are no legal provisions to job descriptions. However, most job descriptions share similar structures and contents worldwide.
- Job design identifies tasks that an employee is responsible for in a particular job and explains the way in which these relate to other jobs in the organization.

- Job redesign refers to the changing of tasks or of the way tasks are performed in a particular job in order to improve performance.
- Job redesign can have intra-job and inter-job approaches.
- Job evaluation is a systematic process designed to determine the relative worth and importance of a job within a particular organization.
- Job evaluation can be discussed as the last step in the job system function or the first step in compensation management to establish internal pay equity.
- The stages of job evaluation need to be carefully planned before implementation.
- The most well-known job evaluation methods are the ranking method, factor comparison method and point factor method.
- Job grading is the grouping of same-level jobs in order to simplify pay policy.

SELF-CHECK & INDIVIDUAL AND/OR GROUP ACTIVITIES

1. Think of some business cases where job analysis is necessary to update job descriptions.
2. What types of information would you collect about jobs during job analysis?
3. Compare the interview and the questionnaire methods of job analysis. Explain what each method is useful for. List some of the pros and cons of each method.
4. Distinguish a job analysis interview from a job interview. Please specify the differences related to the following factors: the goal, the method used, the outcome.
5. What are the key differences between job descriptions and job advertisements?
6. What do you think it means in practice that job descriptions are not contracts? What does this mean to the employer and the employee?
7. Please compare job enlargement and job enrichment. List real-life examples for each, and outline their consequences.
8. Name some prerequisites of a successful job rotation program.
9. Please explain the advantages that a professional job evaluation may provide for organizations.

KEY TERMS USED IN THE CHAPTER

| | |
|-------------------------------|-------------------------|
| competency-based job analysis | job rotation |
| employee diary | job simplification |
| factor comparison method | job specialization |
| job | job specification |
| job analysis | methods of job analysis |
| job analysis checklist | observation |
| job analysis interview | point factor method |
| job analysis questionnaire | ranking method |
| job description | self-managed teams |
| job design | sources of job analysis |
| job enlargement | task |
| job enrichment | task-based job analysis |
| job evaluation | virtual teams |
| job grade | work |
| job redesign | workflow analysis |

GLOSSARY

Work is the effort directed toward accomplishing results.

Workflow analysis is the tool used to identify what needs to be done within the organization to produce a product or a service.

Job refers to a group of tasks, duties and responsibilities that constitutes an employee's total work assignment.

Job analysis is a systematic way to gather and analyse information about the content and human requirements of organizational jobs and the context in which jobs are performed.

Job description is a result of job analysis that identifies the purpose, scope, tasks, duties, responsibilities, reporting relationships and working conditions of a particular job.

Job specification is another result of job analysis. This is a detailed list of the knowledge, skills and abilities (KSAs) that an individual needs in order to perform a job satisfactorily.

Job design identifies tasks that an employee is responsible for in a particular job and relates these to other jobs in the organization.

Job redesign refers to the changing of tasks or of the way tasks are performed in a particular job in order to improve performance.

Job evaluation is a systematic process designed to determine the relative worth and importance of a job within a particular organization.

Job hierarchy means ranking organizational jobs from the lowest (simplest) to the highest (most complex) jobs.

Job grading is the grouping of same-level jobs in order to simplify pay policy.

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PART 5

Resourcing the Organization

A traditional and critical responsibility of HRM is to provide people or human resources in appropriate quantity and quality for a successful business. This oversimplified statement, however, involves many strategic questions, making its implementation complex. The use of the term *people* in the sentence above is not a coincidence. These people may not only be employees: they can be students, temporary workers, consultants or subcontractors. Employees can be own or outsourced employees, full-time, part-time, seasonal, home office, fixed or non-fixed duration employees [see also Lewin's (2005) dual theory of HRM and business performance in Chapter 9]. Because of the variety of possibilities instead of referring to employees only with the term *staffing*, the term *resourcing* will be used in the handbook as an umbrella expression covering all possible contracts of work.

Resourcing in HRM means the following:

- a systematic identification, attraction and selection of individuals who are of particular value to the organization either immediately or in longer terms (positive resourcing),
- separation programs implementing the successful exit management of organizational workforce (negative resourcing) (source: author, based on Stredwick, 2014, p. 42).

Part 5 covers the sequences (human) resourcing organizations follow, including the following:

- internal and external workforce planning and forecasting,
- recruiting, selecting and onboarding new hires,
- employee retention (indirectly),
- downsizing the organization based on workforce plans.

Part 5 of the SHRM handbook has the following learning objectives:

- providing an overview of organizational workforce planning,
- identifying the possible outcomes of workforce demand and supply comparison,
- examining the strategic questions of recruitment and providing alternatives to them,
- listing and explaining the most effective internal and external recruitment channels,
- showing the ways in which HR should plan and utilize selection tools,
- defining efficient metrics for hiring new employees,
- summarizing the importance and mechanisms of the pre- and onboarding processes,
- understanding the basic features of exit management,
- gaining a sense of the types, reasons and outcomes of employee turnover,
- examining and understanding the ways in which organizations handle workforce surplus.

CHAPTER 19

Strategic Workforce Planning

Strategic workforce planning and forecasting human resource needs and availability are the cornerstones of human resourcing the organization.

Workforce planning is the process of analysing and identifying the internal and external supply (availability) and organizational demand (need) of people over a specific time period to meet strategic objectives (source: author, based on Valentine et al., 2020, p. 449).

Workforce planning must be an integral part of the firm's strategic planning process, as illustrated in Figure 5.1.

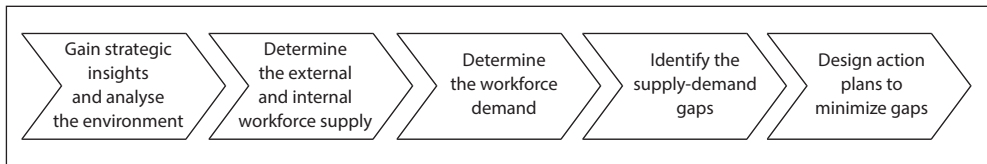


Figure 5.1
Workforce Planning Process Integrated in Business Strategy

Source: author.

By workforce planning, HR designs HR systems that support the organization to meet its strategy (see Chapter 8 on how to link HR to corporate strategy). Strategic workforce planning goes far beyond hiring and firing. Beyond headcount planning, it includes training and development, the horizontal moves of employees, outsourcing, employing temporary help and many more.

Workforce planning in its narrowest sense is a comparison process of workforce supply and demand adjusted to external and internal business settings (see Figure 5.2).

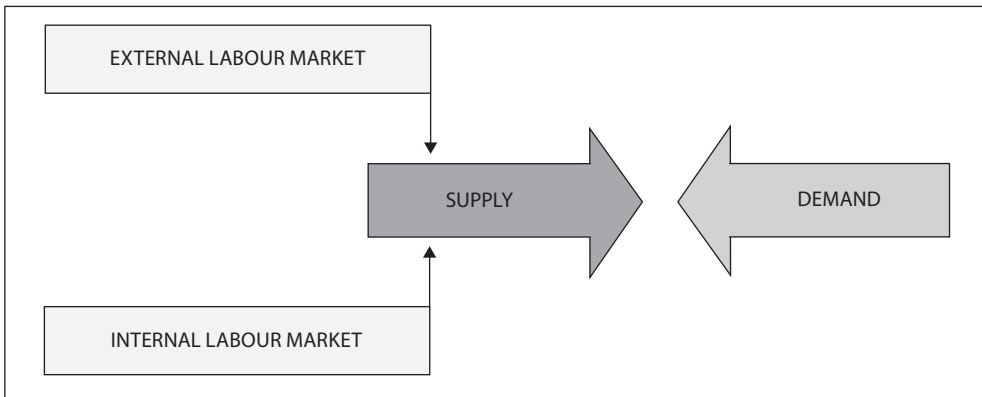


Figure 5.2

Workforce Supply and Demand Comparison

Source: author.

Workforce planning is done over short-range (six months to one year), intermediate-range (one to three years) and long-range (beyond three years) terms.

19.1 Forecasting Workforce Supply

Human resources supply forecasting attempts to predict the availability of internal and external human resources for the organization (source: author).

To forecast the workforce supply (availability), HR should analyse external and internal sources of the labour market.

19.1.1 External Workforce Supply

In order to understand *external workforce availability*, among others, HR assesses the following:

- economic conditions (inflation, economic growth/decline, unemployment ratio),
- legislative and political influences (minimum wages, labour law regulations, taxes, social security systems, retirement regulations, possible strike actions),
- the workforce composition of the labour market (educational level, age, language skills of the external workforce, talent shortage/surplus, the number and qualifications of disabled workers),

- graduation numbers from schools and universities,
- outsourcing possibilities,
- the geographic features of the organization and employee mobility trends (migration into or out of the location),
- the actions of direct competitors (openings, downsizings, mergers and acquisitions).

External workforce availability gives insights into whether the firm faces labour shortage or surplus in the targeted external (local, regional, national or global) labour market in the planning period.

19.1.2 Internal Workforce Supply

Internal workforce availability, however, is mapping the current workforce both in number and in qualifications. The existing labour supply indicates the ‘readiness’ of the organization from an HR perspective to achieve corporate strategy. Internal workforce availability may focus on two interconnected features of the organization: jobs and people. When focusing on *jobs*, the following questions should be answered by HR:

- How many and what jobs exist now?
- How many job levels do we have?
- What is the proportion of managerial and non-managerial jobs?
- What is the proportion of white-collar and blue-collar jobs?
- Which jobs are open permanently, and which ones get vacant frequently?

When focusing on *people*, HR carries out a detailed audit of current employees in quantity and capabilities. The following questions should be answered:

- How many employees, or how much flexible workforce, will be available based on our current knowledge in the planning period?
- What are the projected outflows from the organization (retirements, fix-duration contracts coming to an end, employee-initiated exits, terminations, deaths, promotions)?
- What are the projected inflows to the organization (returning from maternity, sick leave, internal transfers, promotions, demotions, recalls)?
- What further lateral moves do we foresee?
- What individual KSAs do employees or the flexible workforce have?
- What skill mismatches can we currently identify (under- and overqualifications)?

Figure 5.3 shows the simple metrics to forecast the internal workforce supply determined in quantity.

By scanning the internal workforce availability, HR can forecast how many people (employees or flexible workforce) will be available, with what capabilities and in which jobs, in the planning period.

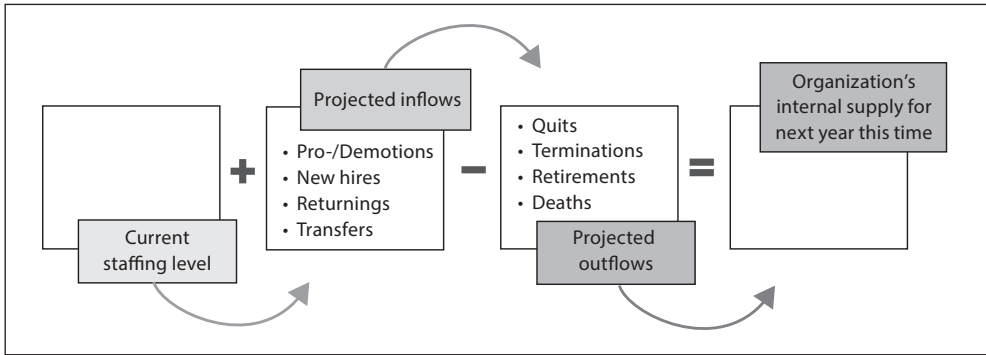


Figure 5.3

Quantitative Forecasting of Internal Workforce Supply

Source: author, based on Valentine et al. (2020, p. 52).

Of course, this forecast should be handled flexibly, and appropriate adjustments and modifications need to be done regularly.

19.1.3 Forecasting Workforce Demand

The *workforce demand* of the organization generally derives from workflow analysis (see Chapter 14). The firm's products and services are forecasted and translated into work and finally into the various inputs that are necessary to perform the work, such as people. Here, the general question to answer is the following: How many people with what skills in which jobs and when do we need in the planning period in order to fulfil our strategic goals?

Human resources demand requires analysing, reviewing and attempting to predict the workforce need of the organization in order to achieve its strategy (source: author).

Several techniques of forecasting the human resources demand are currently in use. Some of the methods are qualitative, while others are quantitative, as Figure 5.4 shows. Despite the availability of numerous sophisticated techniques, forecasting is still a combination of mathematical and judgemental methods.

Workforce demand forecasting can be executed in a bottom-up, a top-down or an iterative way. In the case of *bottom-up forecasting*, each unit, department or branch of the organization estimates its future needs for human resources based on

each branch manager's goals and objectives for the particular team. These estimates are then presented to subsequent layers of management, which sum the totals and submit them to senior management for approval. *Top-down forecasting* involves senior managers allocating a budgeted amount for employee payroll expenditures and dividing the pool at subsequent levels down the hierarchy. Each manager receives a budget from their supervisor and then decides how to allocate these funds down to the next level of managers. Although this technique may be efficient, as the senior management allocates HR costs within a strict organization-wide budget there is no guarantee that it will be responsive to the market's needs (Mello, 2015).

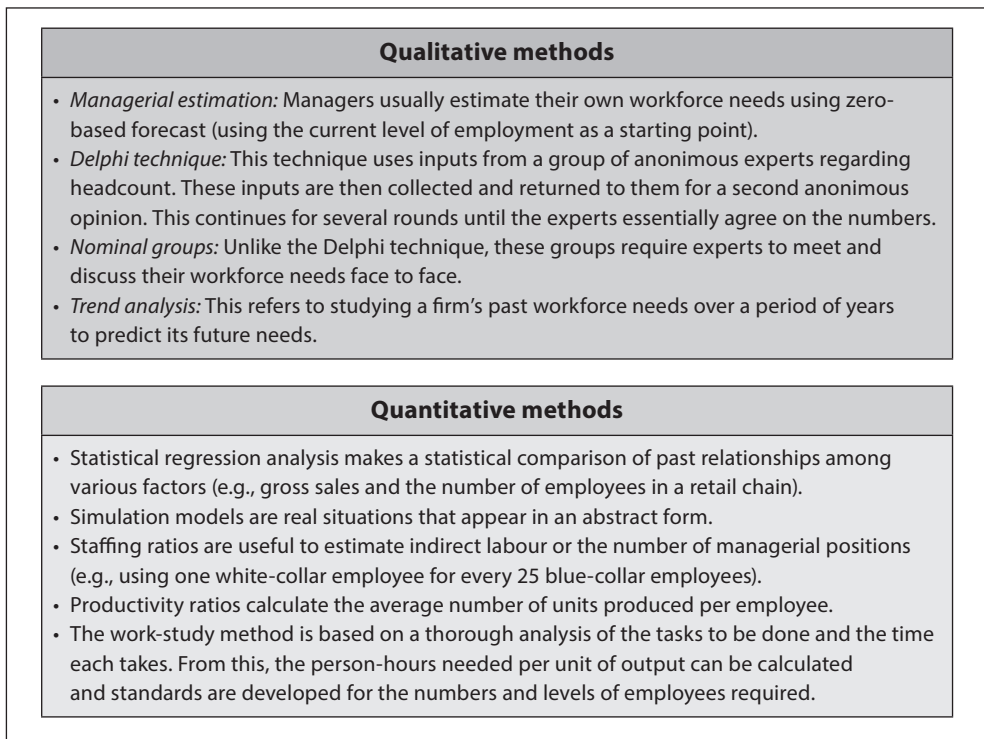


Figure 5.4

Organizational Workforce Demand Forecasting Techniques

Source: author, based on Valentine et al. (2020, pp. 49–51).

19.2 Gap Analysis of Workforce Supply and Demand

As a comparison process, the workforce supply and demand analysis is a gap analysis with three possible outcomes, as illustrated in Figure 5.5.

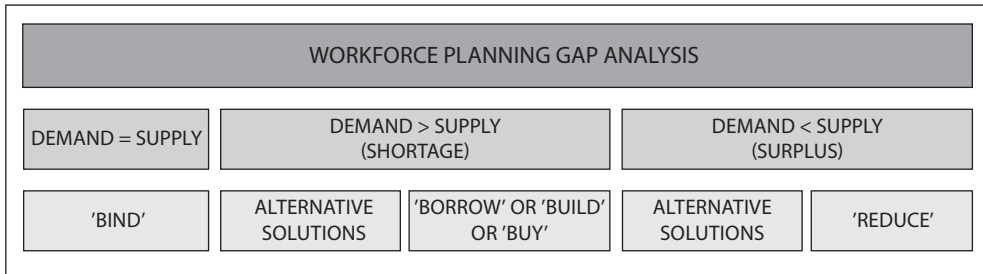


Figure 5.5
Possible Outcomes of Workforce Planning Process

Source: author, based on Howes (2015).

When *workforce demand equals supply*, the available human resources in number and qualification meet the organizational headcount needs. This case, however, does not necessarily mean that no action is required from HR. This balance must be kept by binding or retaining existing talents through improvements in the employee value proposition. HR should introduce and maintain employee engagement schemes that keep existing employees in-house. Holistic employee retention programs, including compensation incentives, training and development opportunities, work-life balance initiatives, may all contribute to a stronger bond and the stability of the psychological contract between the parties (see Chapter 1). Benchmark data show that a 1% decrease in turnover would have high savings for the organization (Howes, 2015). Employee engagement tools, however, are never standardized, but adjusted, to industry and organization specifications.

Workforce shortage seems simple: “Hire more employees”. HR, however, must handle this specific business situation very delicately. First, the organization needs to consider the shortage volume and whether it is expected to be temporary or permanent. This has implications for whether HR should hire at all or use other alternatives such as the following:

- *Overtime*: One obvious solution is making existing employees work more. This strategy can work short-term and with specific legal restrictions regarding the maximum amount of overtime. Employees might appreciate the extra pay due to additional work, but productivity and quality may drop after a while. Because of exhaustion, injuries and absenteeism may also increase.
- *Outsourcing*: Outsourcing the critical (usually non-core) business unit to an external service provider and transferring the workforce shortage to the ven-

dor can be an alternative solution. It will be shown in Chapter 23 that outsourcing can also be a possible tool for handling workforce surplus in the organization.

- Shifting work from humans to machines through *automation*: For example, if the engineers' and technicians' administrative tasks are supported by advanced technology (or taken away entirely), higher output and increased productivity are expected with an equal number headcount.
- *Restructuring production deadlines*: This needs to be done in strong cooperation with production and sales.
- *Redesigning job content* by job enrichment or job enlargement: This might increase productivity without growing the headcount.
- *Training* key employees: This can be done to increase motivation and individual productivity.

If alternative solutions do not satisfy workforce needs, the following HR actions may occur:

- 'Borrow': To handle workforce shortage, especially if the shortage is temporary, firms may borrow or rent people through contracting with agencies, consulting firms or outside vendors. Students, interns, temporary agency work (TAW), seasonal workers or independent contractors can provide flexible workforce capacity (see also ILO, 2016).
- 'Build': To train and to develop, and, as a result, to offer new career paths for current workers may have mutual advantages for both individuals and firms (see the details of internal candidate hire in Chapter 20).
- 'Buy': If the shortage is permanent, purchasing a new workforce from external labour markets requires sophisticated recruitment and selection methods (see the details of external candidate hire in Chapter 20).

The strategic solutions to workforce shortage are illustrated in Figure 5.6.

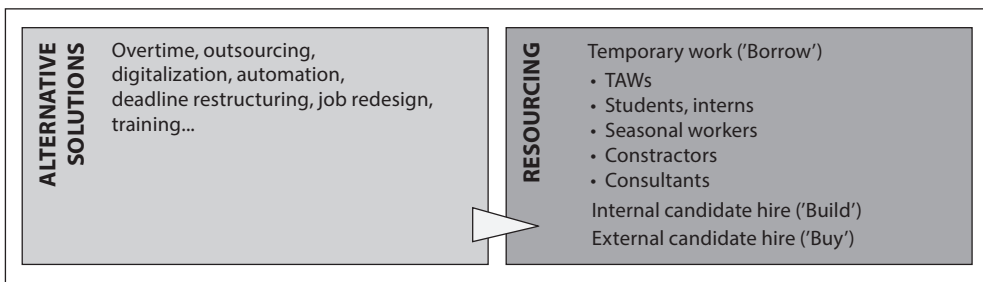


Figure 5.6

Possible HR Tools to Manage Permanent Workforce Shortage

Source: author.

Workforce surplus occurs when workforce availability exceeds requirements. HR can handle surplus in many ways to avoid actual layoffs. Longer-range surpluses can often be managed without layoffs by utilizing alternative solutions such as hiring freezes (i.e., not replacing departing employees), reducing overtime, offering early retirement bonuses or retraining certain employees. Short-run surpluses can be managed through offering voluntary leaves, implementing working time and salary reductions or shifting workers to other jobs, sites or units. Layoffs should usually be conducted only as a last resort, given also their effects on the morale of the remaining employees and organizational cost structure. The different reduction techniques will be discussed in detail in Chapter 23.

CHAPTER 20

Recruitment

This chapter explains *talent acquisition*, the process of finding and hiring high-quality employees to meet the organization's workforce demand. *Recruitment* is the first phase of the resourcing procedure after workforce planning. *Staffing* refers to hiring *own employees* and not covering temporary or external workforce increase. For the whole sequence of activities covering staffing, see Figure 5.7.

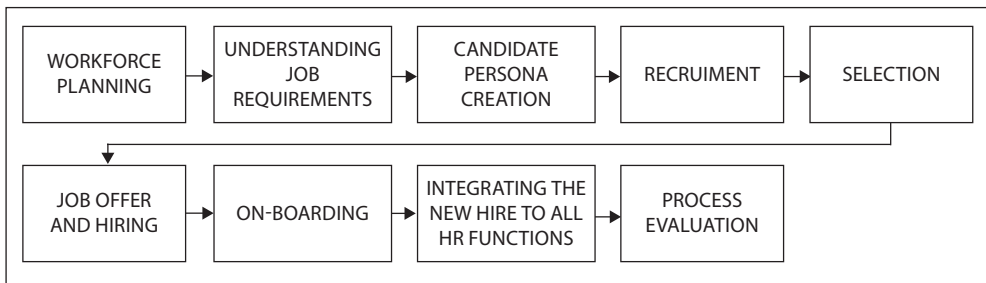


Figure 5.7
Organizational Staffing Process

Source: author.

The efficiency of staffing is highly dependent on general economic, and especially labour market, conditions. In a *buyer's market*, organizations have more power to bargain about individual employment contracts as they have a bigger pool of candidates. If the labour market is tight (*seller's market*), then staffing can be challenging. In this case, extra efforts are needed for firms to improve recruiting effectiveness.

Recruiting is the process of generating a pool of candidates with sufficient qualifications for vacant organizational jobs (source: author).

Recruiting is much more than placing a job advertisement. Recruitment should be viewed as a part of HRM strategy that is firmly bound to organizational strategy. This means that strategic recruitment achieves the following results:

- recognizing resource limits and opportunities (i.e., time and money) related to job openings,
- going beyond filling vacant jobs as strategic recruitment should focus on discovering talent *before* organizational demand is articulated,
- remaining visible in the labour market as a robust positive employer brand even during periods of reduced hiring,
- understanding and utilizing market-leading recruitment methods in line with corporate strategy and corporate culture.

The strategic recruitment questions are summarised in Figure 5.8.

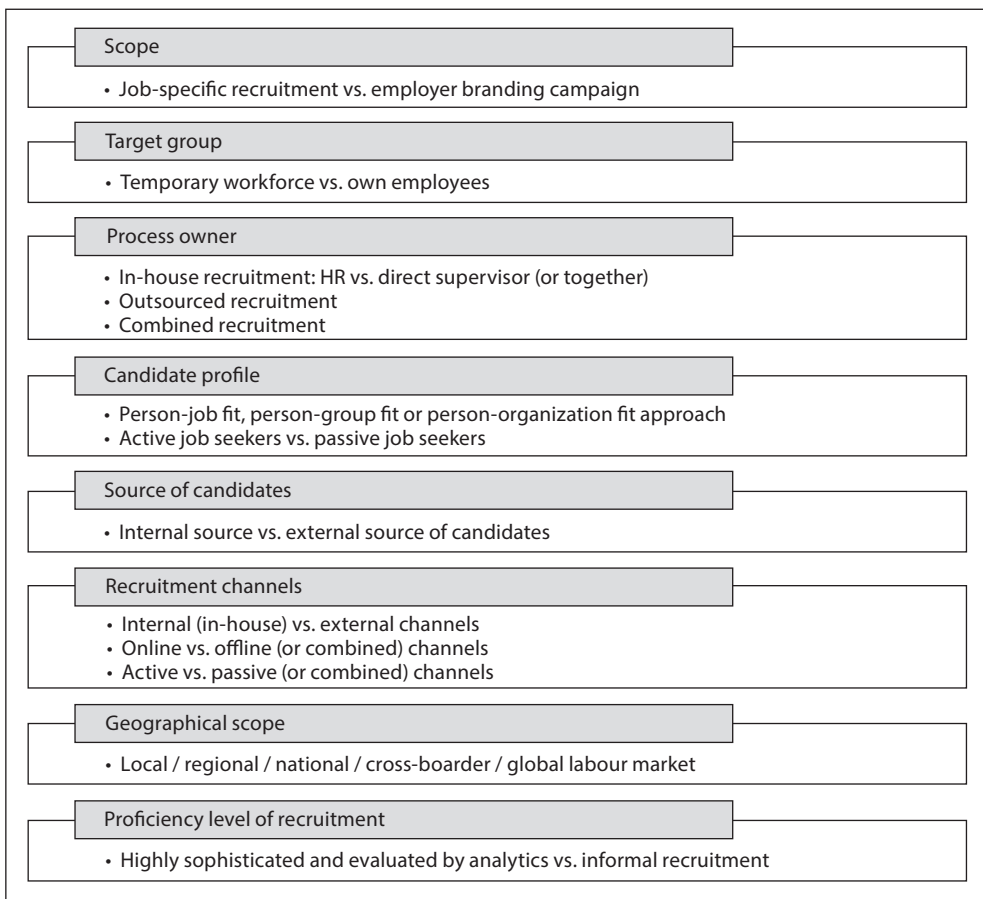


Figure 5.8

Strategic Questions of Recruitment

Source: author.

20.1 Scope of Recruitment

Organizational recruitment may not always aim to fill a job vacancy – it may be broader than that. A general campaign to improve the firm’s image as an employer is occasionally done by visiting job fairs or launching advertisements.

The **employer brand** is a distinctive image of the organization as an employer. Employer branding aims to engage current employees and attract potential future talent (source: author).

Employer branding is an activity using HR, communication, IT and marketing/branding techniques and skills. On the basis of the definition, employer branding focuses on prospecting external candidates and current employees to improve engagement. To build a strong positive employer brand, the firm needs to find its *unique selling proposition*, which positively distinguishes the company from its competitors. This can be an exceptional compensation package, flexible time and place arrangements or family-friendly working schemes. Once the unique selling propositions have been identified, they can be used to inform potential and actual employees in advertisements or in off- or online recruitment messages.

Recruitment activity is, of course, more focused and goal-oriented when a specific job vacancy must be filled. In this case, the recruitment resources are used in the most efficient way to create a suitable candidate pool both in quantity and in quality for the job.

20.2 Target Group of Recruitment

When an organization needs to increase its headcount, the first strategic question is whether to hire *temporary workforce* (‘Borrow’) or *own employees* (‘Build’ or ‘Buy’). To do this, the organization must accurately forecast how long it expects the employee shortage to last. The temporary workforce is hired, contracted and paid on an ‘as needed’ or project basis and is not paid when there is no work for them to do. They provide flexibility and labour cost savings to the firm and job opportunities for those who cannot (unskilled workers) or do not (students, freelancers) want to work in typical employment relationships. The term *temporary workers* is an umbrella term referring to a very heterogeneous group of people. They can be employees (in-house employees transferred from other units, temporary agency workers, outsourced employees, seasonal workers, fixed-term employees), contractors (freelancers, consultants, subcontractors, interim managers) or full-time students (interns, student workers). The industry of *contingent workforce* has developed considerably worldwide. Within this diverse group of people, *tem-*

porary agency workers (TAWs) work under specific conditions. In this tripartite form of work, workers are employed by temporary work agencies and they are hired to perform their tasks at the user companies.

There is no employment relationship between the temporary agency worker and the user company. However, the user company may have legal obligations towards the temporary agency worker (related to working hours, health and safety regulations). The employment contract is always a fixed-duration (i.e., temporary) contract. The user firm pays fees to the agency, and the agency pays the wages to workers. Figure 5.9 illustrates TAW.

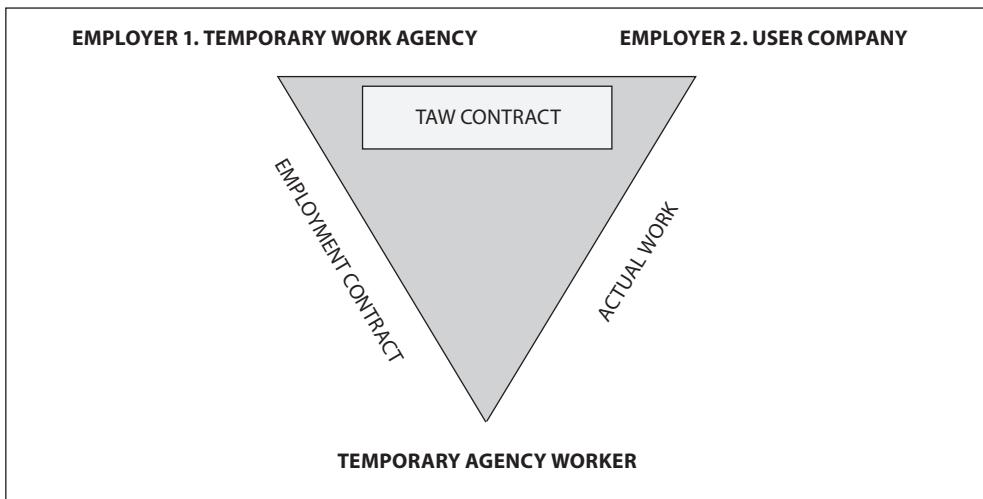


Figure 5.9

Tripartite Scheme of Temporary Agency Work

Source: author.

Own employees are recruited and hired if their KSAs are permanently essential and the organization views them as investments (human resources). They usually work under typical work arrangements (full-time, non-fixed duration contracts, on-site work). However, due to changes in employees' expectations towards work, the volume of atypical work arrangements (home office, part-time job) is increasing.

Both tracks have advantages and disadvantages that need to be clearly understood before the decision is made. Besides the listed benefits of temporary work, it must also be seen that temporary workers may perform less than permanent employees either due to the lack of necessary skills (interns or students) or due to the lack of motivation and engagement to the firm. In addition, cost advantage becomes relative if we consider agency fees and, in some industries, the given premium wages to keep up motivation.

20.3 Process Ownership of Recruitment

Process ownership of recruitment is not always a matter of decision (see Figure 5.10). If there is no HR unit in a firm, the *owner* or the *managers* themselves design and implement recruiting. A tandem of managers and HR is the most favourable scheme for successful recruitment if there is an HR department in-house. Still, in most organizations *HR* handles much of recruiting and regularly consults with managers on job content and specific requirements.

Outsourcing or partially outsourcing recruiting to a vendor firm can be effective if the vacancy is too complex, too specialized or ranked high in the job hierarchy or when internal recruiters lack the necessary skills, networks or time to handle the process. This is the typical era of headhunter firms specialized for targeted candidate search. *Recruiting service providers* offer a wide range of activities from placing job advertisements to the initial screening of potential employees. Some may offer their services globally, while others may focus only on national labour markets or specific regions. Another segmentation criterion of recruiting agencies is whether they operate on a cross-industry level or they are specialized in a particular sector (e.g., health sector, bank sector). Recruiting firms may also have different core profiles: we distinguish advertising agencies, recruitment agencies, executive search firms, job centres and even educational establishments that may be viewed as recruiting partners to firms. Most of them are private institutions, but public services are also available in many countries. When both choice and budget are given to HR to choose between in-house and outsourced recruitment (or the combination of the two), the decision must always be made case by case.

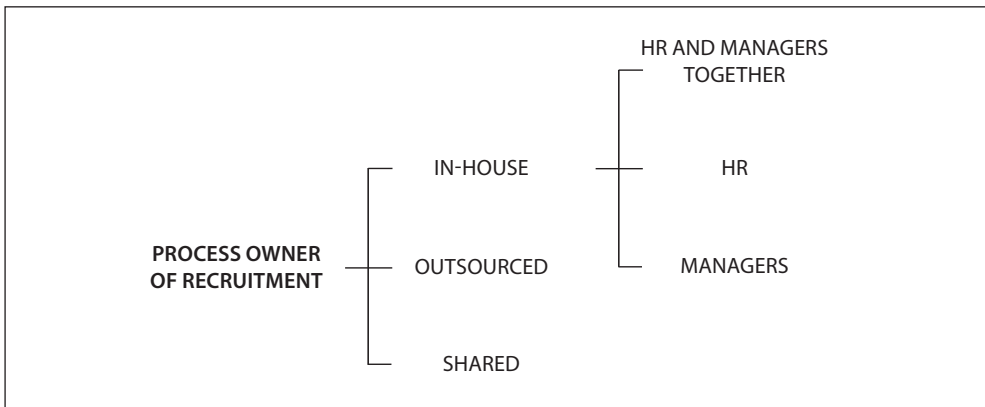


Figure 5.10
Possible Process Owners of Recruitment

Source: author.

20.4 Candidate Profile

The ultimate goal of recruitment and selection is to hire the best candidate for a job opening. Being the 'best' actually requires a matching process of organizational demands and the candidate's capabilities. If the employer is primarily concerned about the congruence between the individual and the firm's culture, values, initiatives or strategies, the process is called *person/organization fit*. It is favourable if the candidate can accommodate to the way in which business is conducted. The *person/group fit* approach looks for candidates matching the work unit dynamics. *Person/job fit*, however, highlights the importance of the job itself, the matching of the KSAs of candidates and job requirements. Before the actual search for candidates starts, HR, together with the supervisor, must decide on which approach to focus on, and in this way they build up the candidate persona (profile).

The efficiency of the recruitment method depends on whether the recruited individual is an active or passive job seeker. *Active job seekers* are committed to finding a job no matter even if they are currently employed. They are easy to identify by recruiters as their CVs are on job boards and they send their applications to job postings. They also activate their networks in the labour market. *Passive job seekers* currently work, they are satisfied with their jobs and organizational roles and they do not wish to change. Still, if the right opportunity comes, they might be open to negotiate. The difference between the two groups of candidates can be traced to their initial level of motivation regarding job applications. Active job seekers can be addressed by passive recruitment channels, whereas passive job seekers can be reached by active recruitment channels.

20.5 Source of Candidates

If an organization decides to hire employees, a critical question is whether to recruit them *internally* or *externally*. The advantages and disadvantages of internal and external recruiting channels are summarized in Figure 5.11. It is not a surprise that the benefits of internal channels are consistent with the disadvantages of external recruiting. Internal recruiting is probably best utilized when the organization pursues a strategy related to stability and is concerned with maintaining its status quo. When time and money are limited, internal recruiting can also be beneficial. External recruiting tends to be more beneficial for growing or changing organizations.

The recruitment source determines the channels (see later in this chapter) used in the process.

| | Advantages | Disadvantages |
|-----------------|---|--|
| Internal | Data history on employees is available | 'Tunnel vision', lack of new ideas |
| | Improving morale and motivation | 'Inbreeding', keeping the status quo |
| | Fast | Managers may block internal moves |
| | Low hiring costs | Infighting for promotions |
| | Short adjustment time | Limited number of applicants |
| | Chain reaction in promotions | Lower person/job fit |
| | Good person/organization fit | Need for intensive (management) development programs |
| External | New perspectives, new industry insights | No first-hand evidence of KSAs |
| | Big pool of applicants | Time-consuming |
| | 'Firm-neutral' attitude | Process can be expensive |
| | | Longer adjustment time |
| | | Destroying internal morale |
| | | Low person/organization fit |

Figure 5.11

Advantages and Disadvantages of Internal and External Recruiting Channels

Source: author.

20.6 Recruitment Channels

Various categories of recruitment channels exist. In the following section, the numerous channels will be grouped by their method of targeting internal or external sources and by their active or passive attitude to job search. The channel(s) that HR uses within the same campaign highly depend(s) on the job, the budget, the time available for hire, the source (internal or external) and the types (active or passive job seeker) of candidates and, of course, the targeted geographical area.

| | Active channels | Passive channels |
|--------------------------------------|---|---|
| Internal source of candidates | Promotion, transfer | Internal job posting (offline or online) |
| | Direct search in HR database among current employees | Word of mouth |
| | Managerial offer of high-potentials | |
| | Career management, succession planning and talent programs | |
| | Job rotation program | |
| External source of candidates | Current employee referral program* | Offline job advertisement (TV, radio, billboards, local papers) Online job advertisement** (job boards, employer website, career website, videos, mother or daughter company's websites) |
| | Networking | Word of mouth |
| | Job fairs (online or offline) | Merger and acquisition |
| | Direct search for candidates (headhunting) | Recruiting agency |
| | Targeted social media campaigns (LinkedIn, Facebook, Twitter) | Student service, TAW agency |
| | Gamification*** | |
| | Entering educational institutions (direct search, internship, thesis writing, trainee programs, competitions, joint research) | |
| | Open days | |
| | Approaching former applicants and 'walk-ins' | |
| | Approaching alumni or retirees | |
| | Connecting with outplacement firms | |
| | Connecting with downsizing companies | |
| | Connecting with public labour authorities | |

* Current employees can recommend candidates who undergo the same selection methods as other candidates. If the employer hires a recommended candidate, the employee receives a reward.

** Writing a good job advertisement is art. Because of relatively high costs, the content should be brief but attractive. The typical elements of a good job advertisement are the following: name and brief details of the organization, job title, duties and tasks, job requirements and competency profile, (sometimes) salary and instructions on how to apply.

*** Gamification is using mentally challenging online games to engage people in solving problems. Gamification is used not only in recruitment but also during onboarding or training and development.

Figure 5.12
**Active and Passive Channels Used for Recruiting
Internal and External Candidates**

Source: author.

20.7 Geographical Area of Recruitment

One common way to segment labour markets is based on geographical location. Organizations must decide whether they wish to recruit for their job openings from local, regional, national, cross-border or global labour markets. Different segments require different recruitment strategies, tools and recruiting skills from HR. If HR recruits remote candidates, it should be prepared to offer empathic and human, and at the same time efficient, virtual screening processes during selection. More importantly, the employer should create a work environment where remotely recruited employees feel well supported (moving and housing assistance, family support).

20.8 Proficiency of Recruitment

The efficiency of recruitment (and hiring) highly depends on the level of sophistication. Professional recruiting has formal and established sequences of action coordinated by recruiting experts. Beyond the aspects discussed above, the following features mark professional strategic recruiting:

- Use of metrics: HR should constantly measure the effectiveness of recruitment, its sources and methods along with the following criteria:
 - = *Quantity of applicants*: It cannot be a goal to have as many applicants as possible during recruitment. The pool has to be just big enough to find the best potential candidate for the job. Therefore, the question should be, “Does recruiting from this source provide enough qualified applicants?”
 - = *Quality of applicants*: In addition to quantity, it is also crucial for the pool to contain a sufficient quality of applicants. The question is, “Do the candidates recruited from this channel meet the job requirements?”
 - = *Time required and used to fill openings* (time to hire).
 - = *Cost of recruitment (or cost-per-hire)*: The primary calculation used to measure cost is to divide annual recruiting expenses by the number of yearly hires.
 - = *Evaluating recruiting satisfaction*: The satisfaction of the following two groups helps assessing the recruitment:
 - Managers, as ‘customers’ of recruitment, can provide feedback on the quality of the candidate pool and on the timeliness of action.
 - Both hired and not hired applicants should feel that recruitment and selection are professional, objective and effective. Applicants might provide input on how they are treated during the process, how frequently they receive feedback about the application stages, their perceptions of the company and the length of the recruiting process.
- *Candidate life cycle management* is a term used for a recruitment strategy that aims to build and sustain positive relationships with job seekers to im-

prove recruiting outcomes and enhance the employer brand. Candidates get first-hand information on how a particular firm treats people – applicants, clients or employees. The cycle starts from the first contact with the applicant and lasts until the acceptance or rejection of the job. Meaningful communication, fast reply, fair and equal treatment are the minimum requirements of a positive candidate experience.

- *Diversity*: Strategic recruitment should also take into consideration equal employment opportunities and diversity considerations. Gender-neutral recruitment (as a positive action, see Chapter 13) or recruiting single parents, workers with disabilities, workers over 50 years of age or with different ethnic backgrounds all contribute to workforce diversity and equal employment chances as some of the cornerstones of sustainable operations.

The strategic recruitment decisions discussed in this chapter are summarised in Figure 5.13, which shows the interconnectedness of perspectives.

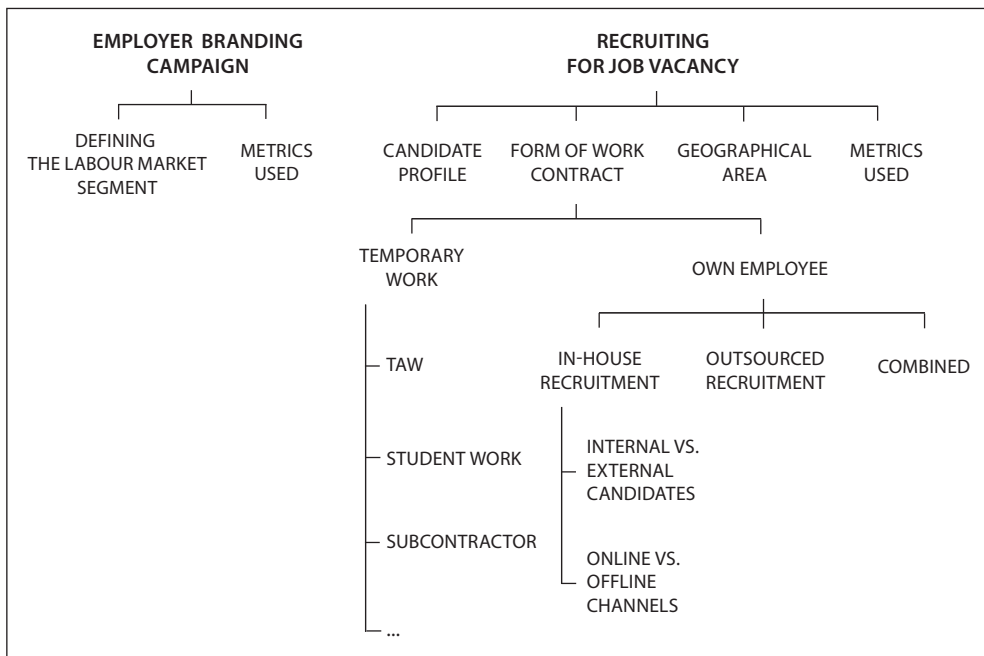


Figure 5.13

Strategic Decisions for Organizational Recruitment

Source: author.

CHAPTER 21

Selection

Once a proper quality and quantity of applicants has been recruited, HR and managers must choose the best candidates for the job using various selection tools. Selection decisions can and do have significant economic and strategic consequences for organizations.

Selection is the process of choosing candidates who possibly have relevant KSAs to fill job vacancies (source: author).

No selection method can perfectly predict which candidates meet the requirements of a job. Detecting a possible mismatch is always easier than predicting a perfect match so HR uses a variety of ‘imperfect’ selection tools to filter out potential bad hires.

Avoiding bad hires have paramount importance as they can have negative consequences on organizations, such as the following:

- *Time and money*: Bad selection decisions result in a mismatch between the candidate and the job or organization, which might become clear even shortly after the hire. In this case if either party initiates the ending of the contract, the whole staffing cycle starts from the beginning, wasting months of hiring energies and resources.
- *Lower productivity*: Bad hires result in lack of concern, bad morale (especially where teamwork is of high importance), low job satisfaction and a drop in overall commitment resulting in low productivity, causing a problem that needs to be solved by the employer. There are, of course, many ways to improve productivity, but none is more potent than making the right hiring decisions.

Before listing and explaining the most common selection tools, it is essential to understand that *selection is a two-way process*. Organizations tend to view selection as a tool in their hands to find the best candidates or people with the highest potential. However, applicants during their job search also select among employers and jobs. Throughout the selection process, applicants choose between organizations by evaluating the developing relationship between themselves and the firm.

This takes place in the correspondence from potential employers, in their experience of the selection methods used by the employer and in the information they gain at the job interview (Torrington et al., 2008).

The prerequisites of a successful selection process from an HR perspective are the following:

- Firstly and most importantly, HR has to understand the *critical success elements of a particular job* (e.g., flexibility, quality work).
- Unless the *selection criteria* (i.e., characteristics) against which the applicant will be measured are made explicit, it is impossible to create a credible process. Therefore, the fundamental question is not which selection tools HR should use, rather it is which KSAs of the applicants should be compared to the job. Person/job, person/group and person/organization matches should be analysed throughout a professional selection cycle (e.g., ability to prioritize, proficiency in a particular field).
- HR should use measurable and visible predictors *to determine whether candidates possess specific selection criteria*. Candidates who have higher levels of these predictors are expected to show higher performance in the job (e.g., five years of work experience, a university degree in a specific field, particular work references).
- *Reliable (error-free in repeat trials) and valid (accurate) measurement techniques* will help HR measure predictors. It is usually a question of budget whether HR can purchase reliable and valid selection tools or not.
- *Trained HR professionals* need to use these techniques and be able to evaluate their results. This is not only true of tests but also of all measurement techniques.

The preconditions of a successful selection process are illustrated in Figure 5.14.

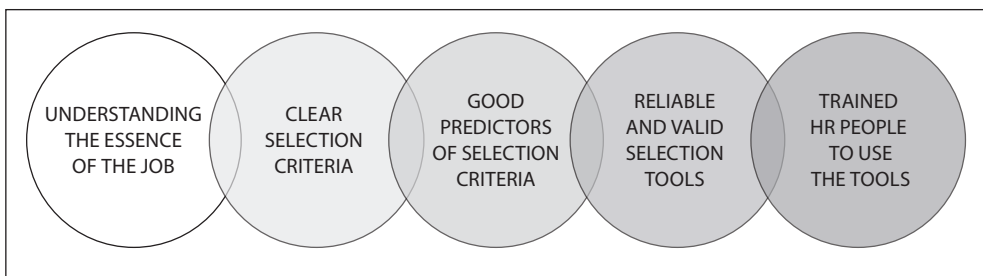


Figure 5.14

Preconditions of Successful Selection Process

Source: author, based on Valentine et al. (2020, pp. 225–230).

Organizations always complete a series of *selection tools* to match the selection criteria with the applicant. It is best to use several tools without generating too much information on the candidate. Selection may take place in a day or in weeks as certain phases of the process may be omitted, changed or repeated depending on the particular job, the employer and the sector. The most frequently used selection tools can be seen in Figure 5.15.

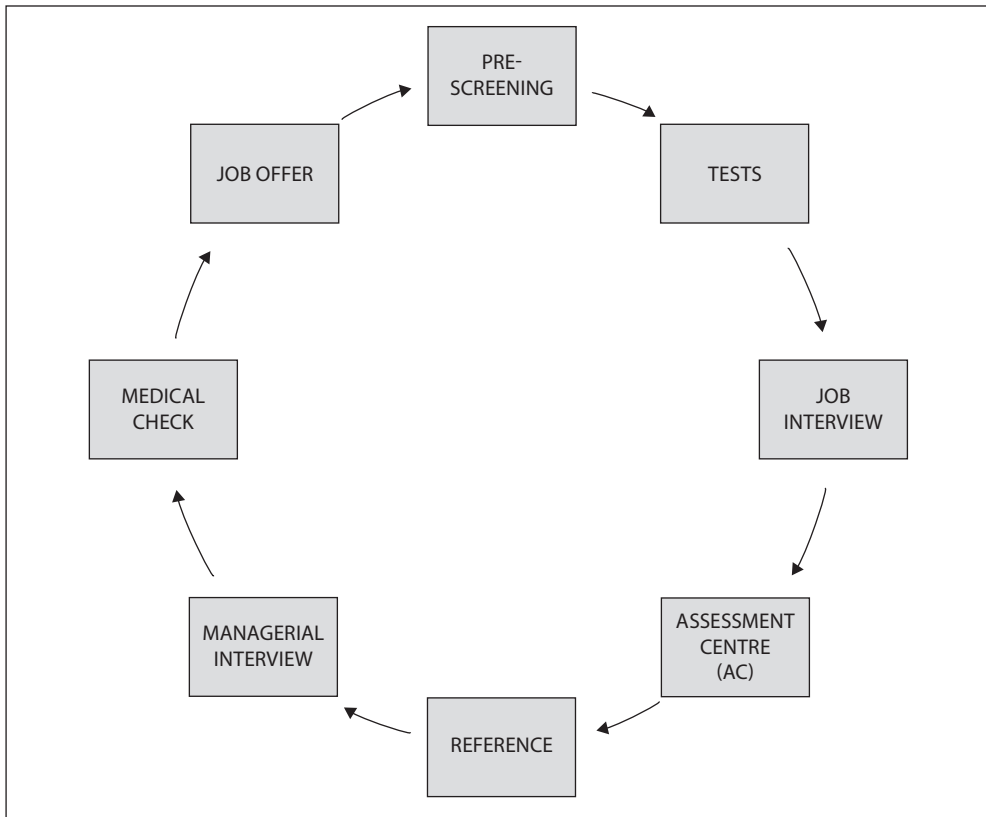


Figure 5.15
Possible Selection Tools

Source: author.

Below, each selection tool is explained in more detail:

- *Pre-screening candidates*: Preliminary screening means a quick background and biodata check to eliminate candidates who do not meet job requirements. Pre-screening is usually supported by applicant tracking systems (ATS) at organizations. This software assists recruiters in collecting, organizing and filtering applicants as well as funding hiring pipelines. Applicants commonly

provide background information via résumés, motivation and reference letters or telephone interviews. A recent trend among some organizations is to check the candidates' social media appearances. No matter which type of résumé the applicants choose, the content should be valid, well structured and aesthetic. In addition, the résumé and motivation letter (if separate) should contain complementary content. Pre-screening might mean that candidates are required to fill out standardized (offline or online) application forms, which make candidate comparison fast and easy for HR. Companies also use internally validated online application processes that include behavioural assessment tools.

- *Testing*: Selection based on competencies and attitudes of candidates has resulted in an increased attention given to tests. Low confidence in pre-screening techniques also encouraged the use of more sophisticated selection methods. Today, organizations use different kinds of online or pen-paper tests to support hiring decisions. The following groups of tests can be identified:
 - = *Ability tests* have right/wrong answers so HR can rank applicants according to test results. Ability tests may focus on the following:
 - the cognitive abilities of candidates, such as memory, verbal reasoning or numerical skills,
 - the physical abilities of candidates, such as keyboard speed, strength or endurance,
 - the psychomotor abilities of candidates, such as hand-eye coordination or miniaturization ability.
 - = *Occupational personality tests* show work-related traits, values, interests, motivation or preferences of applicants. In this case, there are no right/wrong answers as these tests show how people interact with their work environment. Being self-report tests, faking is a primary concern here. To avoid falsified outcomes, these tests usually contain a 'lie' score or fake warning element.
 - = *Intelligence (IQ) tests* measure general intellectual abilities and give applicants a total score (intelligence quotient). These numbers, however, tell little about the work-related abilities of people. They reflect the extent to which a person is above or below an average adult's intelligence score.
 - = *Emotional intelligence (EQ) tests* reflect the applicant's ability to recognize and manage their own and other people's feelings. As organizations use more teamwork and collaborative methods at work, measuring emotional intelligence during selection is of increasing significance.
 - = *Work sample tests* require applicants to perform a task or a set of tasks representative of the job. A daylong work sample testing is called a trial day or a job trial.

Some tests are considered illegal at work, such as polygraph tests (mechanic tests measuring a person's galvanic skin response or heart and breathing

rate), drug tests or blood type tests. Handwriting analysis and complex personality tests are not illegal to use in the selection process, but their use is getting more and more outdated from professional HR practices.

- *Job interview*: Interviewing is the most commonly used technique in the selection process. Interviews are conducted to gather as much work-related information from the candidate as possible to provide information and to reinforce the employer brand. In the selection cycle, two, sometimes more, interviews are done. First, there is an interview at the pre-screening stage to see if the applicant meets the minimum criteria. Later, an in-depth interview is organized where the direct supervisor is also present.

It is important to emphasize that, similarly to tests, job interviews must also meet reliability and validity, that is, the general selection tool requirements. Otherwise (i.e., in an unstructured and spontaneous form), they remain poor predictors of candidate fit.

Structured interviews follow a protocol, sometimes even a list of questions and possible alternative answers. In this way, a structured interview increases reliability and accuracy and makes it easier for the interviewer to compare candidates fairly. During a semi-structured job interview, some unplanned questions may also occur beyond a fixed sequence of questions.

Figure 5.16 shows the possible types of structured job interviews.

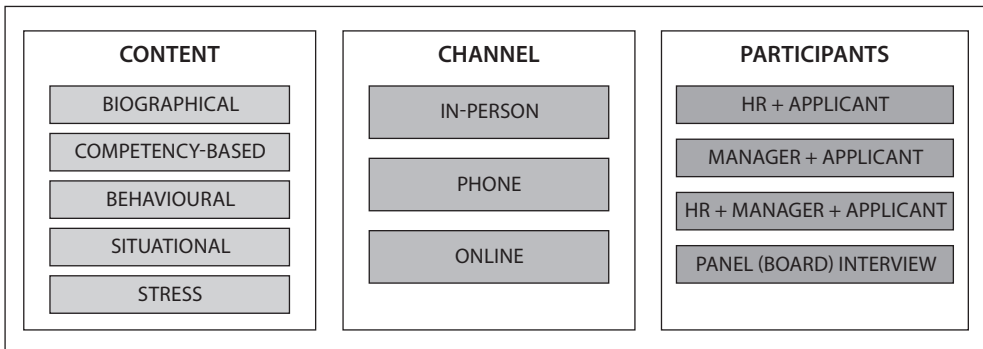


Figure 5.16

Possible Types of Structured Job Interviews

Source: author.

- = *Biographical job interview*: This kind of an interview follows the structure of the résumé, and the interviewer tries to learn the most extensive amount of possible information about the applicant's past experiences, including work experience, educational level, interpersonal and personal skills. Applicants may gain routine in this type of job interview, which reduces its efficiency.

- = *Competency-based job interview*: Those competencies are measured here that lead to success in a particular job. A typical question can be, “How well do you handle stress?” or “How do you manage strict work deadlines?”
- = *Behavioural job interview*: Here, the interviewer uses an experimental type of structured interview. Applicants have to describe how they behaved in situations in the past, which ideally predicts their future actions. Questions like this may occur: “Tell me a situation when you had a conflict with your boss. What was the conflict about? How did you react? What was the outcome of the situation?”

One version of the behavioural job interview is the STAR technique. Here, interviewees are asked about a particular work situation (S) or a task (T) they faced in the past. Then they have to reveal their related actions (A) and the results (R) of their efforts.
- = During a *situational job interview*, the interviewer creates a *hypothetical work situation* and poses questions to see how the applicant might handle this situation.
- = In a *stress interview*, the interviewer puts anxiety and pressure on the applicants to see their levels of stress tolerance. This is a high-risk approach for an employer and is only advised if the job actually puts the employee under considerable pressure during work.
- *Assessment centre (AC)*: Given the weakness of single measures, organizations are increasingly combining techniques. We refer to these as *assessment centres* (the term might be misleading as AC is not a place but a selection event). These events may last 1–3 days, during which applicants undergo various selection techniques: tests, different types of interviews, pair or group work, games, case studies, oral presentation and role plays – all simulating the applied job. A typical task in an AC is the so-called *in-basket exercise*. The candidate is asked to establish priorities among various business papers, emails, texts, telephone messages that would typically land on a manager’s table. During these practical tasks, experts observe candidates’ potentials and evaluate their performance. While assessment centres are often expensive and time-consuming, they are the best predictors for success.
- *Reference check*: In the quest to find the best candidate for the job, recruiters consider additional work-related information, such as previous work records, references on prior work performance, criminal records or education documentation. Generally, employers contact individuals whose names have been provided by the applicant (even though an applicant would not provide a reference who would offer a negative recommendation). A reference check can be made towards the end of the selection cycle with the shortlisted (‘top’) candidates or at the beginning to gain extra inputs for the job interview.

- *Managerial interview*: Managers might not have the time, the energy or the nerve to participate in the selection process from the beginning until the end. In these cases, with shortlist applicants extra managerial interviews need to be conducted. Besides this, all previous selection documentation is given to the manager to make the best hiring decision.
- *Medical examination*: Medical information is used to determine the candidate's physical and mental capabilities that are directly related to the job.
- The final step in the selection process is offering the job to the best applicant. A *job offer* can be made over the phone or in a formalized email or letter sent to the applicant. It is essential that all legally necessary details are to be correct in the offer: job title, primary responsibilities, pay specifications including benefits, start (and in the case of fixed duration contracts also the end) of contract, work location and daily/weekly working hours. If the applicant rejects the offer, the whole selection process starts all over again. If the applicant accepts the offer, the employer formulates the employment contract according to the regulations of national labour codes or the applicable collective agreement.

Changing trends continuously shape the organizational recruitment and selection schemes. The following notable trends, however, are increasingly present in all business segments:

- *Employer branding* is a result and a tool of recruitment and selection at the same time. With carefully selected and sophisticated tools, organizations can improve their image as employers by giving first-hand information to candidates on how the firm treats applicants as their prospective employees. With a good brand, firms can attract a better pool of candidates within a short time.
- *Candidate life cycle management* is an integral part of employer branding. Leading and nurturing applicants throughout the hiring pipeline creates trust and an overall positive experience for applicants, no matter if they are hired or not. Candidate life cycle management has an effect related to customer relations as well. A negative or passive attitude during the hiring process may evoke the feeling in candidates that they are 'good enough' to be customers but not 'good enough' to be employees. Therefore, firms, especially those that market directly to customers, need to ensure that all job applicants, mainly those not hired, are treated with respect throughout the application process (Mello, 2015).
- Soft or personality-related competencies of job applicants get increasingly critical during the screening process. Therefore, the selection tools that scan both the inter- and intrapersonal skills of candidates are numerous. This trend assumes that personality fit is a stronger predictor of employee engagement than professional skills.

CHAPTER 22

Pre-Boarding and Onboarding New Employees

The efficient pre- and onboarding of new employees, especially from the external labour market, is an integral part of resourcing. The goal is to offer new hires a real opportunity to show their performance as predicted during the hiring process. As this is considered to be the last phase of the staffing process and the first instance of training, the process has various names such as orientation, socialization, integration, induction, assimilation, boot camp or onboarding. They all refer to a specific training program where new hires are supported to enhance work attitudes, job proficiency and engagement.

Onboarding is a planned introduction of new employees to their jobs, co-workers and the organization (source: Valentine et al., 2020, p. 269).

Onboarding starts on the first working day. If the organization expects a fast understanding of corporate values, it launches pre-boarding programs.

Pre-boarding is a sequence of introduction activities for new hires from the time of signing the employment contract until the first working day (source: author).

Whether knowingly or not, most companies carry out some form of pre-boarding. This often consists of sending over payroll information or an email confirming when an employee will arrive on the first day. However, pre-boarding can be much more than that.

The importance of pre-boarding and onboarding roots in employer branding and candidate life cycle management. After investing in attracting, negotiating and agreeing on labour conditions with high potential job applicants, losing touch with them until the actual start of work is of high risk. The assumption that since they have accepted the firm's offer they are now in-house is naive. It is not unheard of that the offer is weighed up against others or is used as a bargaining chip with a current employer.

Efficient pre-boarding might include the following activities (based on Giupponi, 2021):

- sending a personalized welcome letter to new employee from the CEO or hiring manager,
- preparing welcome kits that include branded pens, tote bags or other accessories,
- sharing an introductory video on the firm,
- organizing a virtual office tour,
- sending insider tips and on-the-job anecdotes from team members,
- asking feedback about the hiring process,
- completing administrative tasks (email accounts, personal data, payroll data) clearing the way for day one,
- developing a new-hire FAQ to clarify first-day issues (working hours, parking facility, equipment, dress code),
- introducing onboarding schedules with calendar invites,
- providing access to the firm’s intranet or learning platform to get familiar with the most important news, structure or policies.

Many good practices exist for onboarding. The model of the 4Cs (illustrated in Figure 5.17) is one of them, which identifies the following factors to create a successful onboarding program: compliance, clarification, culture and connection.

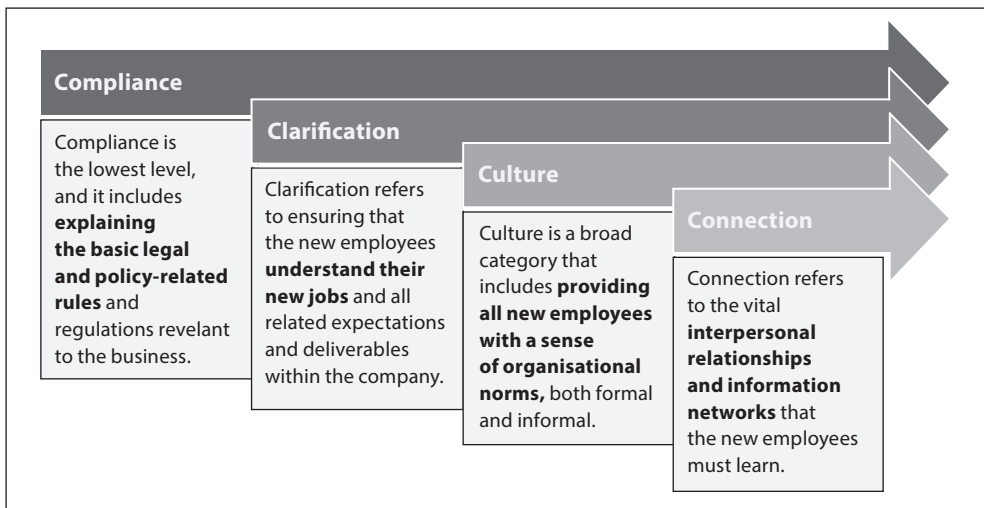


Figure 5.17
4C Model of Onboarding Process

Source: Bauer (2010).

The techniques of onboarding in each of the 4Cs are numerous. The most commonly used ones are the following:

- formal training,
- e-learning,
- roundtable discussions,
- meetings with key employees,
- on-the-job learning supported by line managers and co-workers,
- mentoring and buddy programs (functioning as ‘safe havens’ during the first months of work to ask questions and explore the culture),
- job rotation program,
- field and site visits,
- shadowing senior employees.

Onboarding is everyone’s ‘job’. In larger organizations, onboarding requires strong cooperation between HR and operating managers or direct supervisors. In smaller entities, managers run the orientation themselves. The typical tasks of the HR unit during orientation are placing the employee on the payroll, designing an orientation roadmap with deadlines and responsibilities, explaining benefits and organizational values and evaluating onboarding activities. Managers and direct supervisors are responsible for preparing co-workers for the new employee, providing an overview of the job responsibilities and setting work rules.

To determine the effectiveness of the organizational pre- and onboarding programs, HR needs to use specific metrics. The most common metrics are the turnover rate within probation time initiated by the employee or the employer, the participation rate of new hires in onboarding processes and rating the new employees’ performance at the end of the first employee performance appraisal cycle.

CHAPTER 23

Managing the Workforce Surplus

A possible outcome of workforce planning is when workforce supply is higher than workforce demand. As indicated previously, the techniques for managing workforce surplus vary according to the amount of the surplus and its temporary or permanent nature.

The reasons why organizations decide on workforce reduction during the planning phase can be numerous. They might wish to reduce costs, including labour costs, due to a decline in profits. They might want to rightsize resources relative to market demands or, in the case of mergers and acquisitions, to take advantage of cost synergies. Releasing the least productive employees may also result in workforce reduction. However, termination of the employment contract can be initiated by both parties of the labour relationship.

Exit management refers to both employer- and employee-initiated exits from the employment relationship (source: author).

23.1 Employee Turnover

Employee turnover reduces headcount without actual HR action. It is challenging to forecast its volume, and, in most cases, employee turnover has disruptive effects on the organization.

Employee turnover is when employees leave the organization within a specific time period (source: author).

Turnover is natural in any organization. Low turnover is a goal for most organizations. They wish to keep a nice balance between the new hires' new perspectives and the current employees' common share of organizational values.

Turnover ratio (%) is calculated as follows:

$$\frac{\text{the total number of employees who leave within a specific time period}}{\text{the average number of employees who work within the same time frame}} \times 100$$

The turnover ratio varies by organization and by industry. Particular industries (fast food, supermarket or insurance industries) typically have high ratios, while public and civil-sector organizations operate with low ratios. While most organizations measure turnover ratio as an average for the whole organization, to get a closer look at the potential problems within the firm, it is advisable to analyse annual employee turnover differentiated by the following criteria:

- jobs (white- or blue-collar jobs),
- job level (managerial or non-managerial jobs),
- departments or business units,
- length of service of exiting employees (within probation time, the first year, after two, three or more years),
- the geographical location of exiting employees,
- the demographic characteristics of exiting employees (age, sex, marital status, disability),
- the education and training data of parting employees.

Measuring employee turnover, however, should not merely focus on quantitative data. To make the necessary corrections in business operations, understanding the reasons for employee turnover is just as crucial for organizations to know as the numbers. Employees leave for a variety of reasons, which may be revealed during the exit interviews.

Exit interviews are structured interviews with parting employees to gather information about the reasons for leaving to improve organizational recruiting and employee retention (source: author).

Exit interviews should be implemented in person, over the phone, through chat, email or online. A neutral interviewer, such as HR, is more favourable than the direct supervisor as sometimes the employees' reasons for leaving are the managers' behavioural patterns and leadership practices. Although exit interviews are often part of company policy, exiting employees should take part in them voluntarily.

If employees initiate the process, HR distinguishes between controllable and uncontrollable turnover based on the reasons for the separation as follows:

- *controllable turnover* is related to something happening within the workplace,
- *uncontrollable turnover* means that employees leave for reasons outside the employer's control, and nothing the company could have done would have changed the employee's decision to leave (see Figure 5.18).

| Possible reasons for controllable turnover | Possible reasons for uncontrollable turnover |
|---|---|
| <ul style="list-style-type: none"> • Work climate • Compensation • Co-worker and managerial relations • Stress and physical burdens of work • Working time • Conditions of work equipment • Lack of assimilation | <ul style="list-style-type: none"> • Moving to another city/country • New workplace closer to home • Spouse transferred • Care for children or other family members • Health issues • Career change, running own business |

Figure 5.18
Possible Reasons for Controllable and Uncontrollable Turnover

Source: author.

Turnover categorization can also be functional and dysfunctional:

- *functional turnover* refers to a situation where low-performing or disruptive employees leave the organization,
- *dysfunctional turnover* describes a case where high-performing or key employees leave the firm (Valentine et al., 2020).

To translate these categories into the world of practice, a performance replaceability matrix may help HR to create retention or replacement strategies, see Figure 5.19.

| | | Replaceability | |
|-------------|---------|---|--|
| | | Difficult | Easy |
| Performance | High | <i>High performers – difficult to replace</i> Highly dysfunctional turnover Retain and develop backups | <i>High performers – easy to replace</i> Dysfunctional turnover Retain |
| | Average | <i>Average performers – difficult to replace</i> Dysfunctional turnover Retain, improve performance, develop a backup | <i>Average performers – easy to replace</i> Dysfunctional turnover Retain, improve performance |
| | Low | <i>Poor performers – difficult to replace</i> Short-term: dysfunctional turnover Long-term: functional turnover Improve performance or terminate, develop a backup | <i>Poor performers – easy to replace</i> Functional turnover Improve performance or terminate |

Figure 5.19
Performance Replaceability Strategy Matrix

Source: Mello (2015, p. 576).

As organizations have only limited powers to control employee turnover and its costs, their goal is to minimize it. Possible elements of employee turnover costs are the following:

- separation costs: time of HR staff spent with separation (exit interview, administration), legal fees,
- replacement costs: recruitment, selection, search fees, relocation or moving costs of new hires,
- training and development costs for new internal or external employees,
- temporary solutions costs: overtime, flexible workforce (students, TAWs),
- hidden costs:
 - = decrease of customer service, unexpected other employee turnovers, missed deadlines,
 - = losing the knowledge, skills, abilities and training expenses of separating employees,
 - = possible decrease of morale, motivation and performance of those staying.

Understanding its challenges to the organization, employee turnover might also have certain advantages. If it is considered functional, if separation and hidden costs are low or if those who replace parting employees are of more value than those who leave, turnover can be favourable, especially in times of workforce surplus.

23.2 Downsizing the Organization

There are several approaches used to reduce organizational workforce.

Downsizing is an organizational decision to reduce overall costs (financial costs, physical costs), including labour costs (source: author).

Downsizing is a business decision used as an umbrella term for various cost reduction techniques, including a reduction in force. An alternate name for downsizing is *rightsizing*.

Reduction in force (RIF) occurs when an organization permanently reduces its workforce. It is one technique for downsizing (source: author).

Alternate names for *reduction in force* are *permanent layoff* or *redundancy*.

Dismissal refers to a management decision terminating the employment contract against the employee's will (source: author).

The term *dismissal* differs from RIF in the following ways:

- dismissal approaches RIF from the level of the individual,
- dismissal is a tool (a written document) to achieve RIF,
- dismissal is a legal term,
- while RIF usually includes a group of employees involved in workforce reduction, dismissals may refer to even one employee,
- the grounds for dismissals can be related either to the employee's performance, (lack of) skills, work behaviour or business needs, including restructuring, plant closure or transfer of business ownership.

Alternative names for *dismissal* are *termination*, *firing staff* or *ending the employment contract by the employer*.

Dismissals, especially if driven by organizational needs, mainly focus on those who will lose their jobs. However, *survivors* or remaining employees may also struggle. They manage increased workloads and stress, including *survivors' guilt*. Losing trust in management also inevitably results in less engagement and loyalty. This perspective of downsizing is often overlooked. As the employer chose them to stay, with correct and timely information regarding dismissals, reorganization of work and efficient leadership practices these difficulties can be handled.

However, in workforce surplus organizations have less drastic techniques to implement to defer dismissals until necessary. Figure 5.20 progressively illustrates these from soft through semi-soft to hard techniques.

Below, each technique is explained in more detail:

- *Soft techniques*: By implementing soft downsizing techniques, neither organizational members nor temporary workers will lose their jobs.
 - = *Cutting overtime*: If managers treat overtime as an exception, not the rule, cutting it will not be a critical decision to reduce labour costs. However, changing the 'overtime culture' nourished by both managers and employees can be challenging.
 - = *Paid holiday*: The number of annual paid holidays for each employee is regulated in labour law regulations. Its primary aim is to offer paid free time for workers to regenerate from work both mentally and physically. Originally, it has nothing to do with downsizing. However, many firms offer extra paid holidays for workers to avoid more severe downsizing decisions.
 - = *Temporary layoff/furlough*: Layoffs can be temporary. Temporary layoff or furlough is a form of lengthened mandatory holiday that may occur in slow seasons when, up to certain time, employees do not work and will not get paid (or will receive limited pay only). At the same time, the employment contract remains in force. This is a temporary interruption of work and wage payment, after which the employees are recalled to continue to work. If the business situation does not develop, it turns into a permanent layoff.

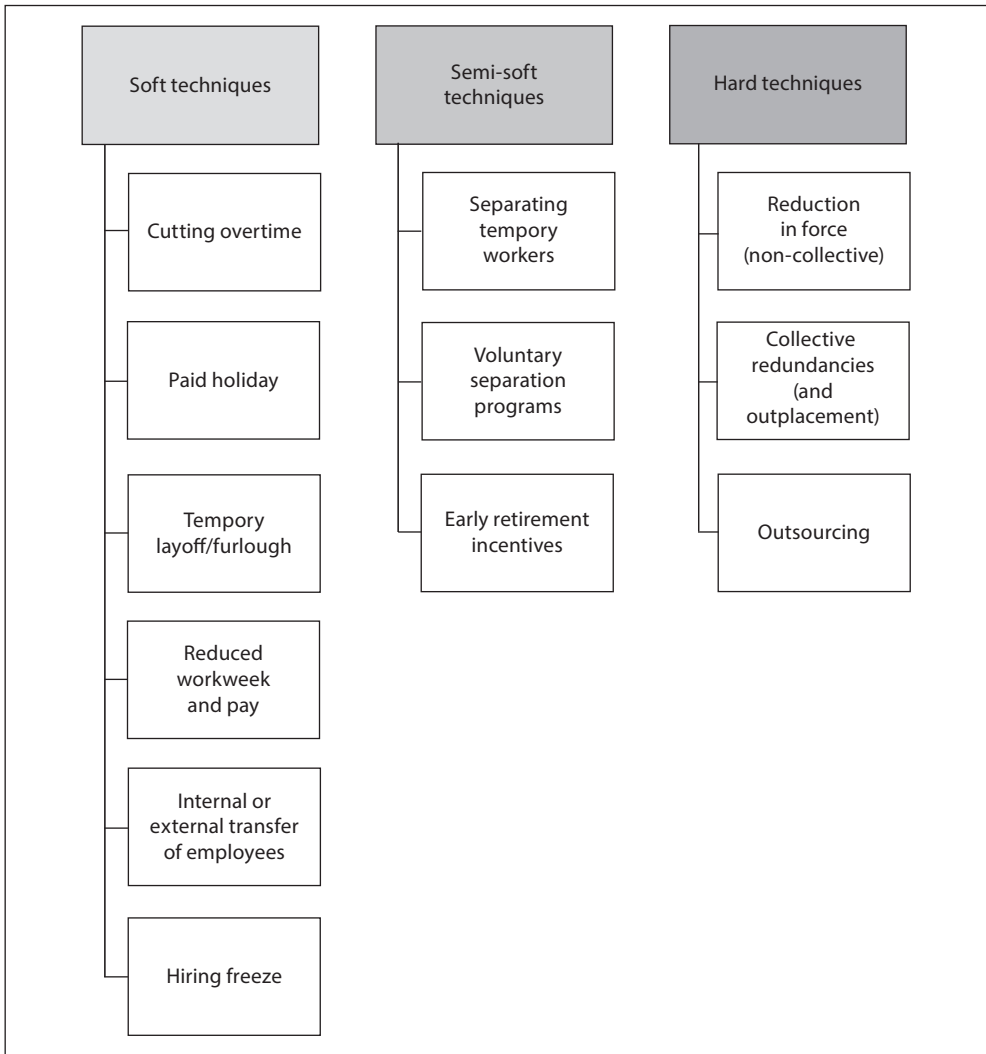


Figure 5.20
Managing Workforce Surplus by Downsizing

Source: author.

= *Reduced workweek and compensation* are different from compressed workweek (which does not involve pay reduction, see Chapter 17). To retain qualified workers and overcome business downturns, managers may temporarily reduce working hours and, parallel to that, wages. This kind of “shared sacrifice” (Valentine et al., 2020, p. 53) might help the survival of the whole firm. The way a firm implements this technique can be di-

verse. They may cut benefits or bonuses without actually reducing working hours. If, however, working hours and base salary are to be reduced, this requires the modification of the employment contract. Any change to the contract must be agreed upon by both employee and employer. When an employee is signing such a contract modification, s/he should consider the following issues: the amount of pay reduction (together with its impacts on rent/mortgage and social security payments), new working hours, the future review date of the contract modification and the external employment choices if not signing the contract modifications.

- = *Transfer of employees*: If workforce surplus appears only in particular business units and in other parts workforce shortage exits, instead of RIF, the firm may transfer employees from the first units to the latter ones. The horizontal moving of employees can be temporary or permanent, and sometimes it can involve promotion, demotion or no change in job status and responsibility. Even if it does not result in job losses, employee transfer must be handled very carefully. If it includes job or pay changes or if it is permanent, labour contract modification becomes necessary. Even if it does not require contract modification (in certain countries this is possible for temporary occasions), management must communicate transfer details to employees in advance.
- = *Hiring freeze*: One soft way of reducing the organizational workforce is not to replace those who leave. Hiring freeze occurs when individuals who quit, retire, have expired labour contracts or go on longer leaves (sick or parental leave, sabbatical) are not replaced. Hiring freeze can occur at company level or can apply only to specific business units or certain jobs. While nobody loses their job during hiring freezes, the same amount of workload remains for current employees. Beyond work overload, the loss of specific knowledge and expertise will also cause particular challenges to the organization.
- *Semi-soft techniques*: When introducing semi-soft downsizing tools, job losses will result from negotiations between employer and employees (called mutual agreement), or those who were initially employed as ‘external’ or temporary workforce will lose their jobs.
 - = *Separating temporary workers*: Organizations use temporary workforce (TAWs, students, individual contractors) to handle business peaks flexibly. During downturns, however, this is the pool of workers that firms separate first. Their work status is more fragile compared to employees’ work status. Yet, some of them have agencies (i.e., student services or temporary work agencies) interested in finding new work opportunities for them as soon as possible.
 - = *Voluntary separation programs*: If employees volunteer to leave, they receive additional severance pay or bonuses. The process always involves

negotiations between employer and employee. From voluntary separation programs, employers expect less damage on the employer brand, avoiding lawsuits and bypassing discriminative dismissal decisions.

- = *Early retirement programs*: This is a particular buyout program for senior employees. The company offers a generous exit package in return for an employee's promise to leave at a specific time. From an organizational viewpoint, early retirement opens up promotional opportunities for younger workers. Still, in reality it is difficult to predict accurately how many older workers will participate in such programs. With senior employees leaving the firm, a great wealth of knowledge and expertise also disappear. To overcome this, some employers rehire retirees on a consulting basis.
- *Hard techniques*: Approaching more radical downsizing decisions, organizations might get to dismissals.
 - = *Reduction in force*: Reduction in force or layoff means the termination of employment contracts of employees by dismissals. Dismissal is the most drastic decision in the employment relationship so employees need legal protection here. National labour codes or collective agreements have specific regulations on dismissals, but generally we can say that during dismissals employers have to comply with the following requirements:
 - they must have a valid reason that can be justified (unjustified dismissal is unlawful),
 - they must prove that in the circumstances they acted reasonably,
 - they must be consistent in dismissing people,
 - they have to be fair (i.e., discrimination is prohibited),
 - they must investigate the situation thoroughly before an actual dismissal occurs (dismissal must be applied as an *ultima ratio* when all alternatives to dismissal have been explored previously).

Dismissals generally share the following standard features (based on European Commission, Directorate-General Employment, Social Affairs, and Equal Opportunities, 2006):

- they have formal requirements (in most countries they must be written),
- in case of a legal debate, the burden of proof lies on the employer,
- unless the grounds for dismissal is attributed to the worker, there is a paid notice period,
- they include severance pay (usually based on the length of service with the organization) to ease the financial burden of unemployment.

As indicated before, employer-initiated dismissals may either have *disciplinary* or *business reasons*. As in this handbook downsizing techniques are discussed as deriving from workforce planning, the detailed rules of disciplinary dismissals (i.e., based on the employee's inefficient performance, lack of skills or work behaviour) will not be introduced here.

= *Collective redundancies (and outplacement)*: In the EU, a special rule* applies to firms that wish to terminate the employment contract of a group of employees within a shorter timeframe. Whether or not a dismissal is considered a collective redundancy depends on the overall headcount of the firm and the number of staff to dismiss (see Figure 5.21).

| Overall headcount | Number of workers to dismiss | Time frame |
|--|------------------------------|----------------|
| 20–100 | Minimum 10 | Within 30 days |
| 101–299 | Minimum 10% of workers | |
| 300 or more | Minimum 30 | |
| For one or more reasons not related to the individual worker concerned | | |

Figure 5.21

Definition of Collective Redundancy based on EU Directive 98/59/EC

Source: author, based on EU Directive 98/59/EC.

If a management intention on dismissal falls within this category, the employer must inform and consult (i.e., enter into negotiations) with the employees' representatives before the actual decision is made. Consultations should cover, among other things, the following:

- a means of avoiding collective redundancies,
- reducing the number of workers affected,
- mitigating the consequences.

Before consultations, employers must provide the workers' representatives with written information on the following:

- the reasons for the projected redundancies,
- the number of categories of workers to be made redundant and of workers commonly employed,
- the period over which the projected redundancies are to be effected,
- the selection criteria proposed,
- the method for calculating any extra redundancy payments.

The employer is also required to inform the competent public authority in writing of any projected collective redundancies. These so-called cooperation procedure rules make the organizational decision-making process slower and in close cooperation with employees.

* Council Directive 98/59/EC of 20 July 1998 on the approximation of the laws of the Member States relating to collective redundancies.

Collective redundancy procedures are obligatory for organizations dismissing a group of employees within 30 days.

Outplacement services usually accompany mass redundancies and are voluntary choices of firms.

Outplacement is the effort made by a downsizing company to help employees' transition to new jobs and help them reorient themselves in the labour market (source: author).

The advantages of outplacement services, if implemented in a sophisticated way, are numerous. Their significant gain is that they support exiting employees and show the remaining ones and the broader community goodwill. Dismissal always causes a drop in morale and damage to the employer brand. By outplacement services, the organization can make survivors feel that it will look out for them if future reductions are necessary. In addition to maintaining the morale and motivation of the remaining employees, outplacement programs reduce the risk of litigation by disgruntled former employees. The primary modules of outplacement support provided to dismissed employees are the following (based on PwC, 2020):

- personal advice (CV doctoring, job search upgrade),
- emotional and psychological support if needed (career coaching, individual counselling),
- targeted training and development,
- technical support (on labour law, unemployment allowance).

Outplacement services can be conducted in-house or contracted out to an external vendor.

= *Outsourcing* is not a downsizing decision. In the general business talk, sometimes outsourcing refers to contracting out tasks (i.e., if a firm does not want to or cannot execute specific functions on its own it may buy them from external service providers). Still, the original and classic definition of outsourcing is as follows:

Outsourcing is contracting out a non-core business function to an external supplier that involves transferring people, processes and assets (source: author, based on Deloitte, 2013).

Outsourcing can be undertaken either to an onshore (within one country) or to an offshore (cross-border) location and to one (single-sourced) or more (multi-sourced) outsourcing partners. The primary reasons why organizations outsource particular activities are the following:

- saving money (including labour costs),
- taking advantage of specialized vendor expertise and technology,

- providing flexible capacity to meet changing business needs,
- sharing employment risks with vendor organizations,
- being able to focus on more strategic activities.

A wide range of business activities is commonly outsourced (HR, finance, procurement), for which the term *business process outsourcing* (BPO) is used.

If an outsourcing decision includes a transfer of employees, the following two options are possible (based on Randstad, 2020):

- *Task and people outsourcing* (also called *transfer of undertakings*): This term is used explicitly in the EU, meaning that if a workplace is transferred from one employer to another (to a vendor organization), it is essential to protect employees' rights. In this outsourcing decision, employees switch employers automatically without losing their actual jobs. EU Directive 2001/23/EC emphasizes that the transfer of an undertaking does not in itself constitute valid grounds for dismissals. Rights and obligations under the employment contract or relationship pass from the previous employer to the new one. However, the actual headcount of the original employer is reduced, and the labour costs of employees are transferred to the vendor organization.
- *Task outsourcing*: In the case of offshore outsourcing, it is usually impossible to physically transfer employees from one location to another (except if they will be working in virtual teams). This outsourcing decision is a task outsourcing to a new country or geographical location, which leads to a reduction in force in the original location. Depending on the number of employees affected, it can be a non-collective dismissal, a collective dismissal (using EU terms) or any dismissal supported by outplacement services to keep up the positive employer brand.

SUMMARY

Workforce planning:

- Resourcing human capital for the organization is one of the critical tasks of HRM.
- Resourcing covers both the inward and outward flows of employees based on workforce planning.
- Workforce planning is an integral part of strategic planning. In its narrowest sense, it refers to comparing organizational workforce supply and demand within a defined time frame (usually one year).
- When forecasting workforce supply, HR considers both the external supply and the internal supply of potential employees.
- External workforce supply (availability) gives insights into whether the firm faces labour shortage or surplus in the targeted external (local, regional, national or global) labour market in the planning period.
- By scanning internal workforce availability, HR can forecast how many people (employees or flexible workforce) will be available, with what capabilities and in which jobs, in the planning period.
- The general question to workforce demand forecast is the following: How many people with what skills in which jobs and when do we need in the planning period in order to fulfil our strategic goals?
- Workforce supply and demand analysis is a gap analysis with three possible outcomes: demand equals supply, demand exceeds supply (workforce shortage) and supply exceeds demand (workforce surplus).
- When workforce demand equals supply, the available human resources in number and qualification meet the organizational headcount needs. In this case, employee retention is the central goal of HR.
- Handling workforce shortage depends on its volume and its short- or long-term nature. Alternative solutions such as overtime, outsourcing, digitalization, automation, deadline restructuring, job redesign or training should manage short-term and temporary workforce shortages.
- Possible solutions for long-term and permanent workforce shortage are hiring temporary or external workers, selecting the best candidates from current employees or hiring candidates from the external labour market.
- Workforce surplus occurs when workforce availability exceeds requirements. Again, the nature of surplus (its volume and its temporary or permanent status) defines the necessary actions: layoffs or alternative decisions (such as hiring freezes, reducing overtime).

Recruitment:

- Recruiting is the process of generating a pool of candidates with sufficient qualifications for vacant organizational jobs.
- Recruitment should be viewed as a part of HRM strategy that is firmly bound to organizational strategy.
- Recruitment has various strategic questions along which the activity should be carefully planned and implemented. These are the following:
 - = *the scope of recruitment*: job-specific recruitment vs. employer branding campaign,
 - = *the target group of recruitment* (the type of future work contract): temporary workers vs. own employees,
 - = *the process owner of recruitment*: in-house, outsourced or combined recruitment,
 - = *the candidate profile*: person-job, person-group or person-organization fit, active or passive job seekers,
 - = *the source of candidates*: internal vs. external source of candidates,
 - = *recruitment channels*: internal vs. external channels, online vs. offline channels, active vs. passive (or combined) channels,
 - = *the geographical scope* of recruitment,
 - = *proficiency* in recruitment.
- The employer brand is a distinctive image of the organization as an employer. Employer branding aims to engage current employees and attract potential talent.

Selection:

- Once a sufficient pool of applicants has been recruited, HR and managers must choose the best candidates for the job using various selection tools.
- HR must offer and use the best combination of selection tools appropriate for the job to avoid bad hiring decisions.
- While organizations tend to view selection as a tool to find the best or high potential candidates, applicants do precisely the same during their job search. In this way, the selection is always a two-way process.
- The prerequisites of a professional selection process are the following:
 - = understanding the essence of the job vacancy,
 - = defining clear selection criteria,
 - = defining good predictors of selection criteria,
 - = buying, developing and using reliable and valid selection tools,
 - = having trained HR people to use these tools efficiently.
- The most frequently used selection tools are the following:
 - = *pre-screening* the candidates' application documents (résumé), background check supported by applicant tracking systems (ATS) tools,
 - = *tests* including ability, occupational personality, IQ, EQ or work sample testing of candidates,

- = the *job interview*, an essential part of the selection process, has various types that are available to predict person-job, person-group or person-organization fit,
- = the *assessment centre* (AC) simulates the job vacancy by offering candidates more selection tools, including role-plays, situational games, pair work or case studies,
- = the *reference check* may provide additional work-related information from the candidate,
- = *managerial* interview,
- = *medical check*.
- The final step in the selection process is the job offer. If the applicant accepts the offer, the employment contract needs to be signed.
- Employer branding and candidate life cycle management are integral parts of an effective recruitment process.

Pre-boarding and onboarding:

- The efficient pre- and onboarding of new employees, especially from the external labour market, is an integral part of resourcing.
- Both functions refer to the planned introduction of new employees to their jobs, co-workers and the organization.
- Pre-boarding starts at the time of signing the employment contract and lasts until the first working day.
- Onboarding usually starts on day one at work but does not necessarily last until the end of probation time.
- Both functions can be viewed as the last phases of resourcing and the first instances of organizational training and development.
- Both functions require strong cooperation between HR and operating managers or direct supervisors.

Managing the workforce surplus:

- Exit management as an HR function refers to both employer- and employee-initiated exits from the employment relationship.
- Employee turnover, when employees leave the organization within a specific time period, is natural in all organizations.
- The turnover ratio is calculated by dividing the total number of employees who leave within one year by the average annual number of total employees in this year and multiplying this number by 100.
- Beyond quantitatively measuring the turnover ratio, exit interviews are used as qualitative techniques to try to discover the reasons for leaving and to improve future organizational recruitment and employee retention.

- Due to its high costs and particularly damaging qualities of dysfunctional and controllable turnover, organizations try to minimize or avoid it. However, it can also be favourable, especially in times of workforce surplus.
- Downsizing (rightsizing) is an organizational decision to reduce overall costs (financial costs, physical costs), including labour costs.
- Reduction in force (layoff, redundancy) occurs when an organization permanently reduces its workforce. It is one technique for downsizing.
- Dismissal (termination, firing staff, ending the employment contract by the employer) refers to a management decision terminating the employment contract against the employees' will. It is also a tool to achieve RIF.
- In the case of workforce surplus, organizations have various (soft, semi-soft, hard) techniques to implement or defer dismissals as long as necessary. These techniques are the following:
 - = soft techniques:
 - cutting overtime,
 - paid holiday,
 - temporary layoff/furlough,
 - reduced workweek and pay,
 - internal or external transfer of employees,
 - hiring freeze,
 - = semi-soft techniques:
 - separating temporary workers,
 - voluntary separation programs,
 - early retirement incentives,
 - = hard techniques:
 - reduction in force (non-collective),
 - collective redundancies (and outplacement),
 - outsourcing.

SELF-CHECK & INDIVIDUAL AND/OR GROUP ACTIVITIES

1. What HR actions would you use if the workforce planning would result in supply-demand equality? How would you plan to implement employee retention programs in an organization?
2. What are the alternatives of recruitment and selection in case of an internal workforce shortage?
3. Please explain the difference between an employer branding campaign and a targeted recruitment action.
4. Show the advantages and pitfalls of online and offline recruitment channels through a concrete company/job example.
5. How do you think recruitment and selection may affect the employer brand in both positive and negative ways?

6. Please collect the pros and cons of using an assessment centre in the selection process.
7. Would you differentiate (if yes, how) between blue- and white-collar pre-boarding techniques of new hires?
8. Collect some information on the efficiency of a buddy program built in an on-boarding process.
9. The general assumption is that employers cannot make quitting employees stay if the employee turnover reasons are uncontrollable. Please try to prove this assumption wrong.
10. Please make a clear distinction between the terms *outplacement* and *outsourcing*.

KEY TERMS USED IN THE CHAPTER

| | |
|---------------------------------|---------------------------------|
| assessment centre | outplacement |
| candidate life cycle management | outsourcing |
| collective redundancy | pre-boarding |
| dismissal | recruitment |
| downsizing | reduction in force (RIF) |
| early retirement | reference check |
| employee turnover | resourcing the organization |
| employer branding | selection |
| exit interview | temporary agency work (TAW) |
| exit management | test |
| external candidate | turnover ratio |
| furlough | voluntary separation |
| headhunting | workforce demand |
| hiring freeze | workforce planning |
| internal candidate | workforce planning gap analysis |
| job interview | workforce shortage |
| job offer | workforce supply |
| medical check | workforce surplus |
| onboarding | |

GLOSSARY

Resourcing in HRM means the following:

- a systematic identification, attraction and selection of individuals who are of particular value to the organization either immediately or in longer terms (positive resourcing),
- separation programs implementing the successful exit management of organizational workforce (negative resourcing).

Workforce planning is the process of analysing and identifying the internal and external supply (availability) and organizational demand (need) of people over a specific time period to meet strategic objectives.

Human resources supply forecasting attempts to predict the availability of internal and external human resources for the organization.

Human resources demand requires analysing, reviewing and attempting to predict the workforce need of the organization in order to achieve its strategy.

Recruiting is the process of generating a pool of candidates with sufficient qualifications for vacant organizational jobs.

The **employer brand** is a distinctive image of the organization as an employer. Employer branding aims to engage current employees and attract potential future talent.

Selection is the process of choosing candidates who *possibly* have relevant KSAs to fill job vacancies.

Onboarding is a planned introduction of new employees to their jobs, co-workers and the organization.

Pre-boarding is a sequence of introduction activities for new hires from the time of signing the employment contract until the first working day.

Exit management refers to both employer- and employee-initiated exits from the employment relationship.

Employee turnover is when employees leave the organization within a specific time period.

Exit interviews are structured interviews with parting employees to gather information about the reasons for leaving to improve organizational recruiting and employee retention.

Downsizing is an organizational decision to reduce overall costs (financial costs, physical costs), including labour costs.

Reduction in force (RIF) occurs when an organization permanently reduces its workforce. It is one technique for downsizing.

Dismissal refers to a management decision terminating the employment contract against the employee's will.

Outplacement is the effort made by a downsizing company to help the employees' transition to new jobs and help them reorient themselves in the labour market.

Outsourcing is contracting out a non-core business function to an external supplier that involves transferring people, processes and assets.

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PART 6

Strategic Training and Development

Organizations must keep up with their competitors and their changing global and local environment. For this, they need to rely on their capable and committed employees who must perform well in their jobs. Unfortunately, some employees have obsolete skills or skill gaps, and therefore they stagnate in performance. In other cases, new business traits evoke development necessity. In recent years, ideas and practices related to training and development (T&D) have moved beyond a narrow conception of training. Many organizations attempt to take a holistic view that embraces the idea of learning on both individual and organizational levels.

Part 6 of the SHRM handbook has the following learning objectives:

- understanding the ways in which organizations create training and development strategy,
- learning about the distinctive features of training and development,
- explaining the 70/20/10 Model of organizational learning and development,
- providing an overview of the advantages and disadvantages of corporate training and development systems,
- elaborating on the ADDIE Model of organizational training and development step by step.

CHAPTER 24

Key Features of Strategic Training and Development

Organizations face increasingly complex markets. To gain and keep a competitive advantage, they operate with a business strategy (Chapter 6) to counteract opposing market forces and guide the ‘ship’ towards positive organizational outcomes.

24.1 Defining Training and Development Strategy

A successful implementation of strategy involves employees. Together with resourcing strategy, T&D ensures that the organization has the necessary employee skills to carry out the actions defined as goals in the business strategy. Linking training and development (strategy) to business objectives serves this specific goal. Figure 6.1 illustrates the ways in which organizational training and development strategy is developed.

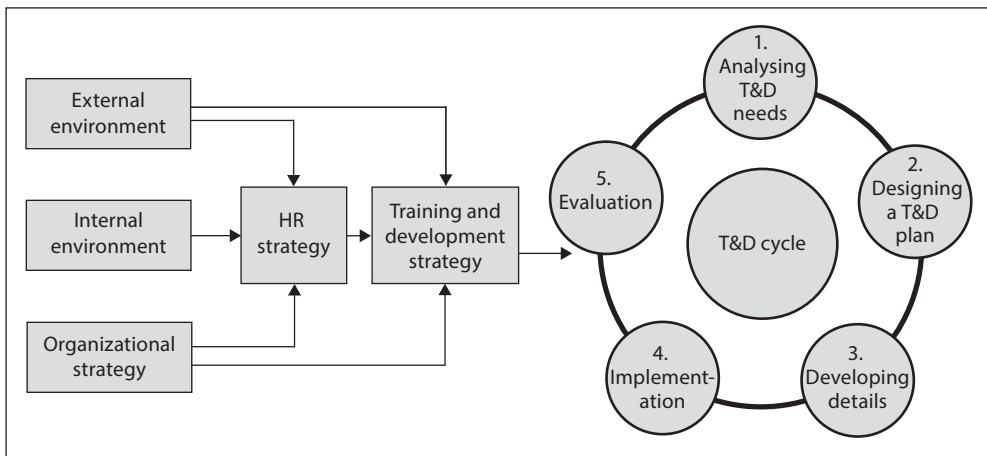


Figure 6.1

Training and Development Strategy Framework

Source: author, based on Berkley & Kaplan (2020).

Training and development strategy (T&D strategy) is the plan by which an organization ensures that its employees have the knowledge, skills and abilities to meet the organization's objectives. In doing so, T&D strategy has to consider the internal organizational environment including HR infrastructure, the organizational strategy and the external environment (source: Berkley & Kaplan, 2020, p. 20).

Regarding the critical inputs to T&D strategy, the following features should be analysed (based on Berkley & Kaplan, 2020, pp. 18–30):

- *Internal environment:*
 - = *Task analysis:* Understanding essential tasks and responsibilities of employees and identifying what KSAs are needed to perform these tasks. Up-to-date job descriptions and job specifications serve this goal.
 - = *People analysis:* Analysing motivations, educational levels and demographic features of employees to see if they are both able and willing to perform job tasks. To understand employees' *can do* and *want to do* status, HR and managers should use performance appraisal systems, employee satisfaction surveys or exit interview outcomes.
 - = *Social environment analysis:* Understanding organizational culture, leadership style, fundamental values, ethics and general company climate, to which T&D should be adjusted.
 - = *Policy environment analysis:* Evaluating firm structure, policies and procedures and the maturity of HR, including the presence or absence of job systems (job descriptions), staffing, performance management and compensation systems, to which T&D is strongly bound.
- *Existence and content of organizational strategy,* including senior and line management support. Without overall management support to T&D strategy, HR initiatives will fail. The best way to gain this support is to have managers experience the flagship training and development programs themselves.
- *External environment analysis:* The external environment provides the context in which the organization functions. Factors such as economic (growth, stabilization, downturn), legal and sociocultural issues as well as the impact of technology are all directly related to T&D initiatives and the ways in which they can be implemented in a particular firm.

In reality, most organizations view training and development as a short-term operative HR function rather than a long-term strategic function. In this way, they execute only the training and development cycle (see the right side of Figure 6.1), without adding value to organizational strategy.

24.2 Distinguishing Features of Training and Development

While professional jargon sometimes uses the terms interchangeably, training and development differ in terms of content and objectives. Figure 6.2 illustrates the differences.

| | Training | Development |
|--------------------------------|--|---|
| Time | Short-term (one-time) | Long-term (continuous) |
| Purpose | Definite purpose | General purpose |
| Goal | Performance improvement in current job | Overall personality and behaviour development for increasing potential for future assignments |
| Single scope / multiple scopes | Single scope | Multiple scopes: blending technical, human, conceptual skills |
| Motivation | Extrinsic (employer-initiated) | Intrinsic (strong self-development) |
| Voluntary/ imposed | Usually imposed | Usually voluntary |
| Piece/whole | Tool for development (piece) | 'Big picture' (whole) |
| Orientation | Adjusted to the job | Adjusted to the individual |
| Group/individual | Dominantly in group setting | Highly individual |
| Target group | Usually non-managers | Usually managers or key employees |

Figure 6.2

Differences Between Training and Development

Source: author.

Based on the distinctive features of the two terms, we define training and development as follows:

Training is a systematic, organized and planned programme designed to improve employees' performance-related efficiency linked to a given task or job (source: author, based on Abiodun, 1999).

Development refers to all organizational and individual efforts to enhance the individual's abilities, knowledge and attitude in preparation for future responsibilities (source: author).

Note that training results in development as a learning process. In this way, both initiatives lead to the employee's personal growth.

The way in which an organization views training and development tells us about its strategic maturity. Figure 6.3 shows the continuum of the training and development strategic maturity of a firm.

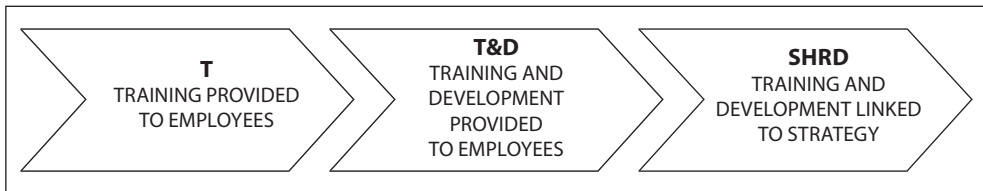


Figure 6.3

Continuum of T&D Strategic Maturity

Source: author, based on Millmore et al. (2007, p. 356).

The *70/20/10 Model* for organizational learning and development is a commonly used formula to distinguish between training and development. Lombardo & Eichinger (1996) pointed out that 70% of employee learning and development is likely to come from on-the-job experience, 20% from feedback from others and 10% from courses and explicit training. Figure 6.4 shows each element in more detail.

The model implies that organizations that spend large amounts of money on training and coursework do not necessarily serve reasonable organizational goals as this can be counterproductive and waste resources. If 10% of all T&D costs are invested in formal training, 90% is available for existing development practices. If structured, supported and acknowledged by employers, methods of both on-the-job development and feedback from others add to the desired development result.

Training is, however, a core element of employee learning processes in many organizations. Training may focus on *hard skills* (facts, techniques, methods) or *soft skills* (behavioural) development of employees. Beyond this classification, a common grouping of training includes some further characteristics, which can be seen in Figure 6.5.

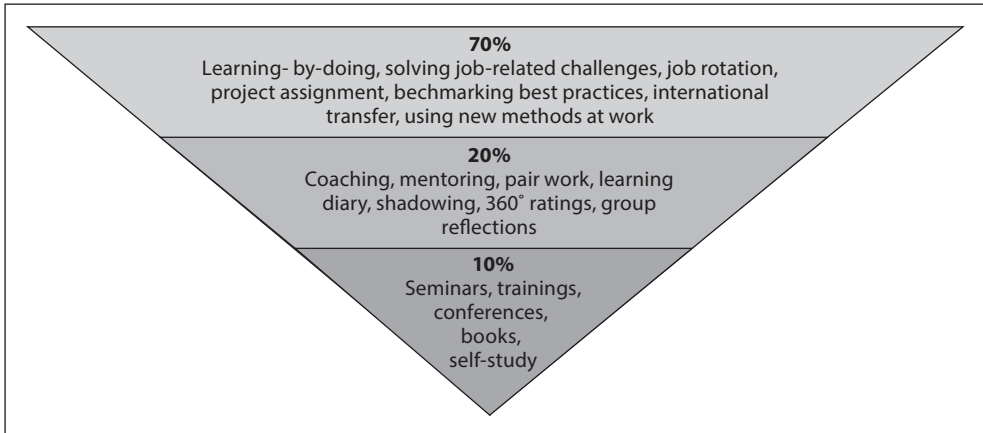


Figure 6.4
70/20/10 Model of Learning and Development

Source: author.

| | | |
|--|---|---|
| Legally required OSH, driving skills, industry-specific requirements | Legally not required Soft-skill training, organizational behaviour training, language training | |
| Basic skills Literacy, basic mathematics, formal writing | Advanced skills Conflict resolution, foreign language skills, emotional intelligence, cultural awareness | |
| Job-related Professional training, equipment operations, quality requirements, product details, OSH | Organization-specific Wage/benefit/working hour rules, organizational ethics, data protection, information security, IT and telecom systems | Special focus Outplacement training, such as résumé repairing, career counselling, job application techniques |
| Soft skills Interpersonal skills, team building, problem analysis, critical thinking, conflict resolution, leadership skills | Hard skills Professional training, quality management, language training | |

Figure 6.5
Training Categories According to Content

Source: author, based on Valentine et al. (2020, p. 268).

24.3 Pros and Cons of Organizational Training and Development

The reasons why organizations invest in employee training and development are numerous and include the following:

- *Compensating for poor hiring decisions*: Selection and hiring decisions do not always provide organizations with new employees who are skilful enough to meet the demands of their jobs. In the case of a hiring compromise, training is needed.
- *Assimilation*: Onboarding new employees into the organization (Chapter 22) always involves some form of training.
- *Changes in job requirements*: Experienced employees must sometimes be re-trained because of changes in their job content (digitalization, change of language of work).
- *Environmental changes*: Changes in the market, technology or law might also induce workplace training.
- *Increasing organizational competitiveness*: The management is aware that effective and well-implemented training programmes can increase productivity, decrease absenteeism, reduce turnover and improve employee satisfaction.
- *Better corporate image*: Implementing training programs in the workplace helps employees feel as if the company is invested in them and they are valued.
- *Improving interpersonal relationships*: Training may solve vertical and horizontal interpersonal problems and foster group cohesion.
- *OSH*: Providing safe and healthy workplaces requires various forms of training.
- *Solving compensation tensions*: Offering training instead of a pay increase might sometimes solve compensation tension between workers.
- *Trends*: Some organizations adopt a particular training technique simply because it is considered to be ‘trendy’ and competitors do the same.

The employers’ reluctance to invest in training and development programs, however, can be attributed to various factors, such as the following:

- *Training and development is time-consuming*: An employee’s time at work is worth a lot. Managers often fear that plans go unmet if workers participate in training during working hours.
- *Training and development is expensive*: People are paid without their productivity ever reaching beyond the direct cost of a particular training. In addition, when training takes place during working hours, employees are paid without working.
- *Weak link between training and performance*: The link between training/development and actual employee performance is sometimes weak; metrics

may not directly justify the effects of training and development. In other cases, the link exists, the training is effective, but firms do not appropriately measure training effectiveness.

- *Training alone cannot solve all employee or organizational problems:* Without accurate employee performance appraisal methods (Part 7), compensation schemes (Part 8), employee engagement programs and professional leadership practices, training in itself cannot be effective. It should be an integral part of business and HR strategy, interconnected with other HR functions. Training and development cannot exist in a vacuum.
- *There is no external pressure on organizations to train employees:* Except for some industries (health or public education), employers have minimal legal obligations to train workers. Whether to spend on this HR function or not depends on organizational strategy and management philosophy.
- *Individual disinterest:* Employees are often asked to participate in training after ending their shifts. This extra time is hard to manage with family and may lead to demotivation. In addition, employers sometimes assume that employees resist new initiatives and do not want to leave their comfort zones by participating in training. To overcome this, training and development programs must always be adjusted to the specific conditions and needs of the targeted participants.
- *Fear from poaching:* One reason firms reduce training is because they fear that after investing in the worker, s/he might just leave to a competitor for a better compensation (since not having a training budget, it can afford to offer higher pay).

Balancing between the advantages and disadvantages of organizational training and development, firms should see that the key factors that outweigh T&D drawbacks are overall growth and a well-trained and motivated workforce joined by a good employer brand.

CHAPTER 25

Training and Development Cycle

Each organization needs to have a systematic training process. Using such a model reduces the likelihood of uncoordinated and haphazard training initiatives. The systematic training cycle, also known as the ADDIE Model, has various phases (see Figure 6.6).

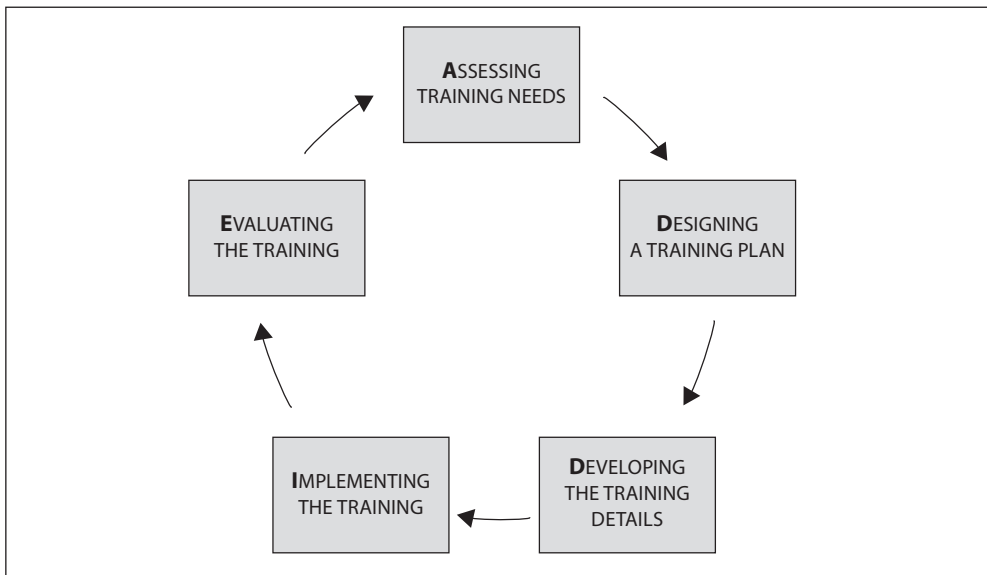


Figure 6.6

Systematic Training Cycle (ADDIE Model)

Source: Valentine et al. (2020, p. 271).

Below, each phase is explained in more detail:

- *Assessing training needs*: In the first phase of the planning process, HR and line managers need to collect and evaluate all organizational training and development needs. Figure 6.7 illustrates the possible sources of information for training needs.

| Strategic needs | Current employees' training needs | New employees' needs |
|--|---|--|
| <ul style="list-style-type: none"> • Customer feedback • Quality/waste ratio • Digitalization of work • Market changes • Legal changes • Organizational culture changes • Exit interview results • Maximizing OSH • Minimizing accident records | <ul style="list-style-type: none"> • Meeting job (description) requirements • Developing performance standards • Developing employee engagement • Employee survey results • Career management needs, succession plans • Personal needs of employees • Outplacement training needs of parting employees | <ul style="list-style-type: none"> • On-boarding • Mentoring • Buddy program • Internship training |

Figure 6.7

Possible Sources of Information Used in Training Needs Assessment

Source: author, based on Dessler (2020, pp. 278–280).

Once the needs are identified, the objectives for each training are to be established. The goals are based on the gaps between current and expected levels of employee skills. Good learning objectives are clear, and the result of each learning objective after each training event can be measured.

- *Designing a training plan:* Armed with the results of the training needs analysis, HR designs a training plan and budget. Organizational training plans usually cover one year, but they may also have longer-range perspectives (one to three years). HR has to get the plan and budget approved by the management and gather feedback about the learners' readiness, motivation and self-efficacy. The human resource development (HRD) plan will serve as a base for implementation. Therefore, it must contain all the necessary information related to each training, such as the following:
 - = *primary data of training:* the name of the training, its goal, place, type (individual or group training), length/duration, whether to have an internal or an external service provider for the training and the type of infrastructure needed,
 - = *primary data of participating employees:* names, organizational units and number of employees participating in the training,
 - = *costs of training:* total costs, cost elements, cost/participant, cost/hour,
 - = *further details:* the person responsible for training, contact details.

If both internal and external service providers are available for training, it is a matter of decision which one to choose. Figure 6.8 shows the advantages and disadvantages of internal and external training.

| Internal trainings | External trainings |
|--|---|
| <p>– Pros:</p> <ul style="list-style-type: none"> • Cost-effective • Sensitive data remains inside • Training adjusted to business setting • Fixed capacities (in working hours) <p>– Cons:</p> <ul style="list-style-type: none"> • May not have resources to develop professional training materials • Lack of cross-industry perspectives | <p>– Pros:</p> <ul style="list-style-type: none"> • New impulses, cross-industry insights • Possibility to interact with outsiders • Widely used training materials, references • Flexible capacities • Not influenced by internal power relationships, neutral <p>– Cons:</p> <ul style="list-style-type: none"> • More expensive • Might not be fully adjusted to organizational needs |

Figure 6.8
Features of Internal and External Trainings

Source: author.

- *Developing the training details:* Once the training plan is finalized and approved, HR, together with internal or external trainers, designs each training program in line with the set objectives. Training program design covers training method specifications, content, topics, assessment criteria, handouts and learning materials and all the necessary details for participating employees before the actual implementation. Training methods are numerous and mostly depend on training content. They can be as follows:
 - = instructor-led vs. self-guided trainings,
 - = online, hybrid or in-class trainings,
 - = outdoor vs. indoor trainings,
 - = individual vs. team trainings,
 - = school-based vs. non-school trainings,
 - = lectures vs. interactive trainings (workshop, role-play, management games, interactive videos, teleconferencing, simulations).
- *Implementing the training activities:* Training organization is an HR function. All personal requirements (including the employees involved in training) and tangible assets need to be highly organized and well timed, within the

appropriate location. However, even the best planned training program will fail if the management cannot convince the participants of its merits. Participants must believe that the program provides good value and helps them achieve personal and professional goals (Mondy, 2012). Training implementation typically covers the following activities:

- = contracting and keeping in touch with training institutions,
 - = concluding study contracts with participating employees,
 - = monitoring training plans,
 - = providing the personal and physical infrastructure for training,
 - = administrative tasks (reporting to management on the status of training, registering and filing contracts / study contracts, tracking payments, registering attendance sheets, collecting participants' feedback).
- *Evaluating the training process*: Because training is time-consuming and expensive, it is necessary to measure its effectiveness. The most widely used technique for training evaluation is the *Kirkpatrick Model* (Kirkpatrick, 1959). For decades, the model remained a popular and widely used evaluation method because of its simplicity and relevancy across industries and organizations. However, in 2016 an update was published called *The New World Kirkpatrick Model*, as illustrated in Figure 6.9.

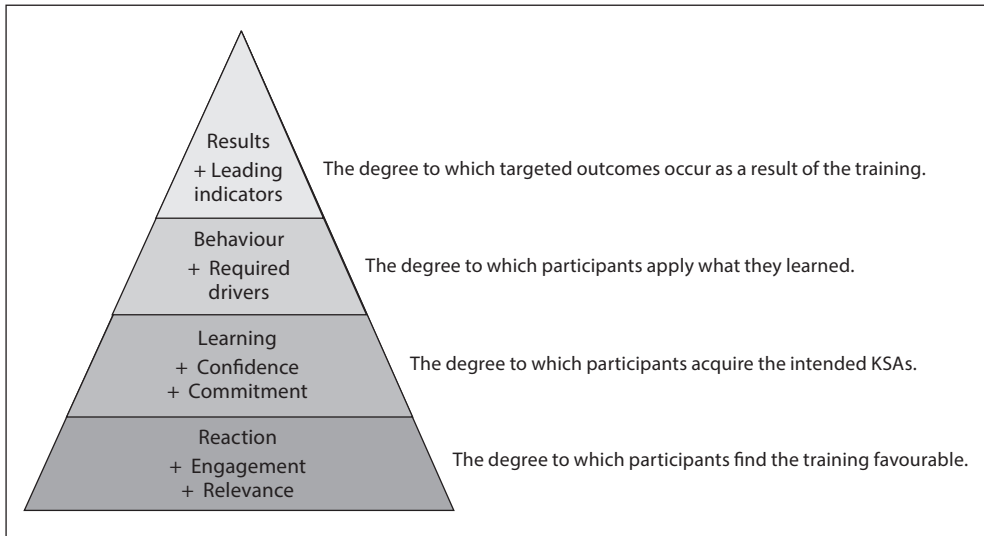


Figure 6.9

The Kirkpatrick Evaluation Model with The New World Additions

Source: The New World Kirkpatrick Model, <https://www.kirkpatrickpartners.com/Our-Philosophy/The-New-World-Kirkpatrick-Model>

The New World Additions in the model refer to the following:

= *Reaction*: Beyond customer satisfaction, two more indicators appear, namely:

- *engagement of participants*: the degree to which participants are actively involved in and contributing to the learning experience,
- *relevance*: the degree to which training participants find the training relevant to their jobs.

Questionnaires generally measure the reactions of participants immediately after the training.

= *Learning*: Beyond the acquired knowledge, skills and abilities, two more indicators appear in the model, namely:

- *the confidence of participants*: “I think I can do what I have learned on the job”,
- *the commitment of participants*: “When I go back to work, I intend to do what I have learned”.

Learning outcomes can be measured by oral or written tests, simulations or work sample tests after training.

= *Behaviour*: On this level, employees (former training participants) are not left alone in implementing learned skills into work. HR and management processes and systems are required to reinforce, encourage and reward developed behaviour patterns. Measuring behaviour changes related to the trainings is difficult. Kirkpatrick also calls this “the missing link”. However, it is possible to track behaviour changes through performance appraisals (Part 7) done by supervisors, peers, clients or subordinates.

= *Results*: The targeted outcomes of the training must be met. To assess this, HR should create *leading indicators* or short-term observations and measurements confirming that critical behaviours are on track to achieve the desired results (Kirkpatrick & Kirkpatrick, 2016). Measuring results depends on the training objectives, which may be a decrease in the number of work-related accidents or employee turnover, quality development, an increase in client satisfaction or improved work morale.

Training results can be assessed with a *cost-benefit analysis*, which compares the costs and benefits associated with the training. An example of a cost-benefit analysis of training is demonstrated in Figure 6.10.

The *design* by which trainings can be evaluated are the following (Valentine et al., 2020):

- = *post-measure design*: comparing results to standards,
- = *pre-/post-measure design*: evaluation generally compares the post-training results to the pre-training objectives of managers, trainers and employees; in this way, it becomes visible whether the training made any difference in performance.

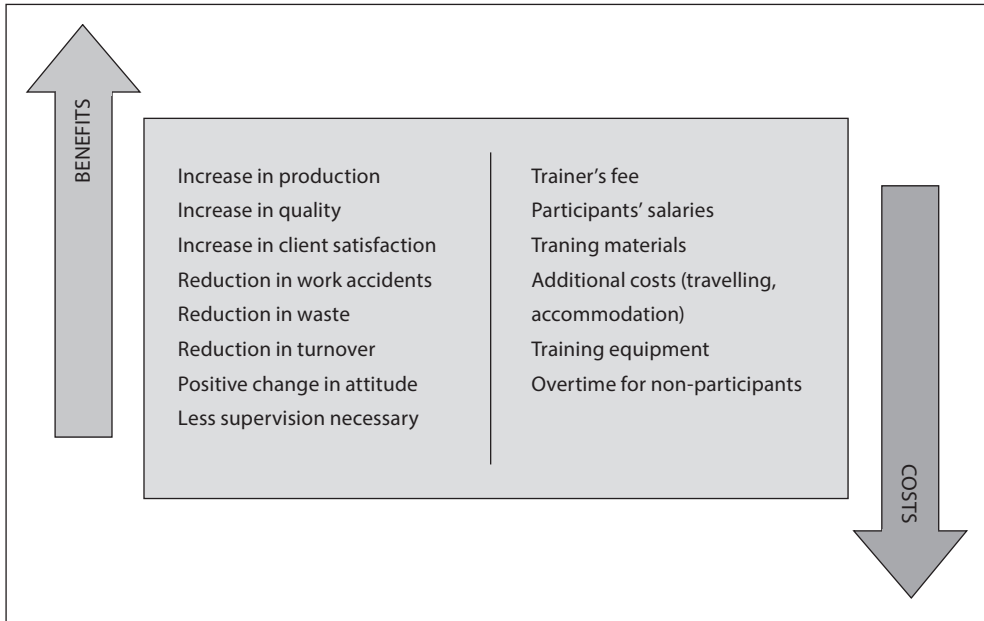


Figure 6.10

Possible Cost-Benefit Analysis of Training

Source: author, based on Valentine et al. (2020, p. 289).

SUMMARY

- Training and development strategy and resourcing strategy together ensure that the organization has the necessary employee skills to carry out the actions defined as goals in business strategy.
- When creating a training and development strategy, organizations consider external environmental forces and internal organizational features, including the maturity of HRM functions and corporate strategy.
- In reality, most organizations view training and development as a short-term operative HR function rather than a long-term strategic function.
- While professional jargon sometimes uses the terms interchangeably, training and development differ in terms of content and objectives. On the one hand, training is a short-term planned programme designed to improve employee performance related to a given task or job. On the other hand, development refers to all organizational and individual efforts to enhance the individual's abilities, knowledge and attitude in preparation for future responsibilities.
- The 70/20/10 Model emphasizes that 70% of employee learning and development is likely to come from on-the-job experience, 20% from feedback from others and 10% from courses and explicit training.
- Balancing between the advantages and disadvantages of organizational training and development, firms should see that the key factors that outweigh T&D drawbacks are overall growth and a well-trained and motivated workforce joined by a good employer brand.
- The systematic training cycle, also known as the ADDIE Model, has the following phases:
 - = assessing training needs,
 - = designing a training plan,
 - = developing the training details,
 - = implementing the training,
 - = evaluating the training.
- In the first phase of the planning process, HR and line managers need to collect and evaluate all organizational training and development needs. The possible sources of information for training needs may come from the organization itself or from earlier or newly hired employees.
- Armed with the results of training needs analysis, HR designs a training plan and budget, which serve as a base for implementation.
- Once the training plan is finalized and approved, HR, together with internal or external trainers, designs each training program in line with the set objectives. Training program design covers training method specifications, content, topics, assessment criteria, handouts and learning materials and all the necessary details for participating employees before the actual implementation.

- Training implementation is an administrative function of HR that provides the entire necessary infrastructure for successful training events.
- Training evaluation has paramount importance, though little focus is put on it in practice. With sophisticated evaluation techniques (the Kirkpatrick Model or a cost-benefit analysis), HR can show the added value of the training or can modify (or even eliminate) it from practice if it shows low efficiency.

SELF-CHECK & INDIVIDUAL AND/OR GROUP ACTIVITIES

1. Identify the factors influencing and shaping training and development strategy. Give an example of organizational culture affecting training and development strategy content.
2. Supposing organizational strategy aims to foster client satisfaction, give examples of the ways in which training and development strategy can support this goal.
3. Using your own words, please make an argument as an HR manager to the CEO why the advantages of training and development outweigh the disadvantages in the organization.
4. Explain and illustrate with examples the differences between training and development.
5. Based on your own work experience, recall some examples of each category of the 70/20/10 Model that you used or participated in.
6. What sections and content elements would you create for the annual training plan and budget of your organization? Create a template in MS Excel to illustrate your answer.
7. What do you think the most trending training is currently in your industry? Please conduct a quick online research on the topic.
8. Please list the distinctive features of training, coaching and mentoring. In your answer, focus on the following aspects of the three development tools: individual/group development, internal/external service providers, goals, costs and timeframe.
9. Please create an online survey for training participants to measure their reaction to the training based on the Kirkpatrick Model.
10. How would you measure the Kirkpatrick Model's behaviour level of former training participants in real life? Name at least three methods.

KEY TERMS USED IN THE CHAPTER

| | |
|--|-----------------------------------|
| 70/20/10 Model for organizational learning | post-measurement of training |
| ADDIE Model | pre-/post-measurement of training |
| cost-benefit analysis of training | training |
| development | training and development cycle |
| Kirkpatrick Evaluation Model | training and development strategy |

GLOSSARY

Training and development strategy (T&D strategy) is the plan by which an organization ensures that its employees have the knowledge, skills and abilities to meet the organization's objectives. In doing so, T&D strategy has to consider the internal organizational environment including HR infrastructure, the organizational strategy and the external environment.

Training is a systematic, organized and planned programme designed to improve employees' performance-related efficiency linked to a given task or job.

Development refers to all organizational and individual efforts to enhance the individual's abilities, knowledge and attitude for future responsibilities.

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PART 7

Performance Management

Every organization is judged by its performance. They can perform well or poorly due to external forces such as economic instability, intense competition, restrictive legal environment, extreme weather patterns or other environmental disasters. The most significant impact on organizational performance, however, is the quality of its labour force. A highly skilled, loyal and motivated workforce has much better chances to overcome external challenges than poorly motivated and untrained workers, who are not likely to use the advantages of favourable market opportunities either. Organizational performance is the total of individual employees' performances. This implies that one of the most important goals of HRM is to provide a tool for corporate managers to channel and raise the performance of their employees (Stredwick, 2014).

Part 7 of the SHRM handbook has the following learning objectives:

- understanding the operational and cultural functions of performance management systems,
- differentiating between the terms *performance management* and *performance appraisal*,
- realizing the strategic relevance of performance management in an organization,
- providing an overview of the possible strategic choices of performance management systems,
- explaining the differences between evaluation-focused and developmental-focused performance management systems,
- explaining the differences between output-based and input-based performance management systems,
- identifying the ways in which 'good' performance goals linked to organizational strategy are created,

- describing the different timeframes and possible participants of performance appraisal systems,
- introducing and categorizing the basic methods of performance appraisal,
- highlighting the possible training topics for managers before implementing formal performance management,
- identifying some typical rater errors,
- providing a critical overview of traditional performance management systems.

CHAPTER 26

Understanding Performance Management and Performance Appraisal

Employee performance management systems can increase organizational performance and add to overall business strategy only if they are designed and used well. But how can this HR system shape organizational performance? According to Stredwick (2014), performance management systems have two leading purposes in organizations: *operational* and *cultural purposes*. With performance management, supervisors can lead and *control* employees in a formal and standardized way. Managers are driven to set performance standards for employees and use metrics to evaluate their levels of achievement. Well- and weakly-performing employees can be distinguished by the system. In this way, performance management serves as a tool for *improving employee work effectiveness*. If supervisors communicate performance standards properly, they *link organizational strategy to required employee performance*.

With its *cultural role*, performance management aims to lead and *influence employees' behaviour*. Setting and communicating clear performance goals in themselves can increase employee *drive and motivation*. If communication is open and trustful, performance management can also serve as a perfect tool to create a *positive organizational culture* and foster employee engagement. Performance management provides a defensible framework of reward allocation, training and development or succession planning if adequately connected to these HRM tools. It contributes to the overall *fairness* of the workplace. This latter argument also includes the case when underperforming employees need to be given negative feedback. Disciplinary actions based on performance will be regarded as unfair unless employers set clear standards for employees to achieve. Figure 7.1 illustrates the general purposes of a performance management system.

Throughout this book, the terms *performance management* and *performance appraisal* are used and distinguished systematically.

Performance appraisal (PA) is the process of evaluating how well employees performed their jobs in the past compared to a set of previously set standards and communicating this information to the employees periodically (source: author, based on Valentine et al., 2020, p. 341).

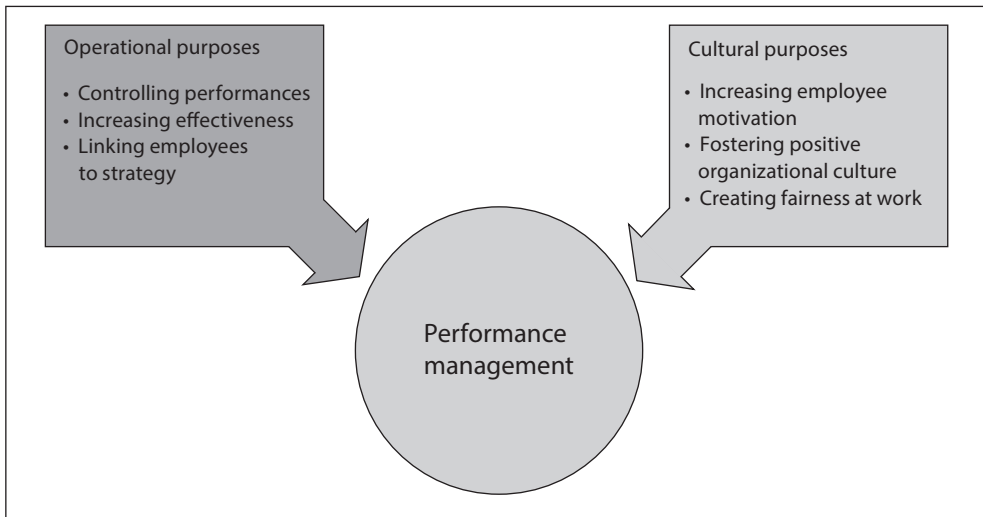


Figure 7.1

Purposes of Organizational Performance Management

Source: author, based on Stredwick (2014, pp. 179–181).

Performance appraisal always involves at least three steps: firstly, supervisors setting and communicating work standards (i.e., performance goals) to employees, secondly, continuously monitoring employees' actual performance relative to these standards, and thirdly, providing feedback to employees to eliminate performance gaps and keep performance patterns high. Performance appraisal mainly involves hierarchical, downward communication from supervisors to subordinate employees, often putting employees in a defensive position.

Some organizations nowadays keep a distance from the term *appraisal* as they consider it judgemental and somewhat hostile. Instead of its traditional synonyms (employee rating, employee evaluation), more firms use terms like *performance fact file*, *employee contribution*, *performance review*, or *performance agenda*.

Performance management (PM) is a complex future-oriented management system with a holistic approach that incorporates performance appraisal, but it is extended with the following features or activities:

- linking employee performance goals to business objectives (strategic relevance),
- ongoing monitoring of employee performance with proper feedback and two-way communication between supervisor and employee,
- performance-related management decisions based on the outcome of the appraisal talk (source: author).

PM is a broader category than PA, the latter being a vital component of the first. Figure 7.2 shows the theoretical framework of strategic performance management.

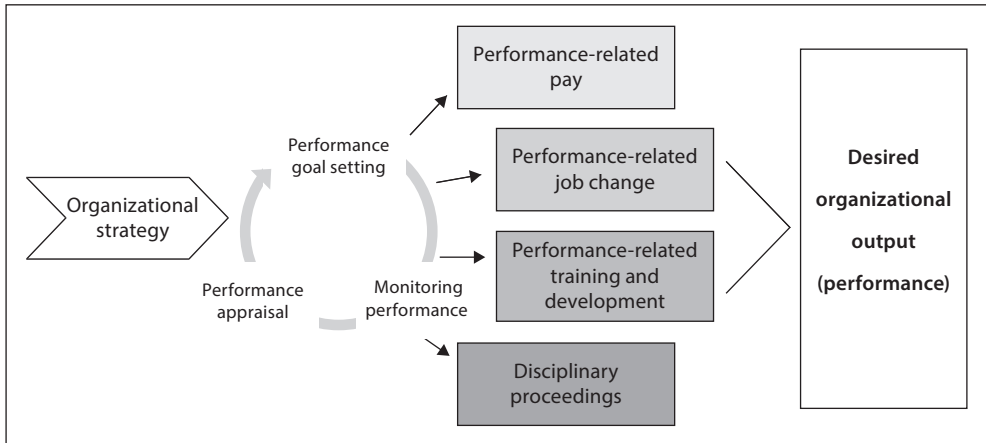


Figure 7.2

Organizational Framework of Strategic Performance Management

Source: author, based on Armstrong (2001).

The strategic relevance of performance management systems aligns individual performance objectives with organizational strategy and thus creates consistency between employees' efforts and organizational output.

CHAPTER 27

Strategic Choices of Performance Management

Implementing and using an effective performance appraisal and performance management system requires real teamwork between HR and organizational members. Even if it is recognized as a tool created and managed by HR, the genuine contributors to its success are managers. HR designs a framework that is fuelled by its ‘users’ (i.e., managers). Managers need to understand that the performance management of their employees is not an HR-initiated administrative task, but it is their number one responsibility, for which HR offers a tool. Beyond management support, another prerequisite of an efficient performance management system is to align with organizational strategy structure and culture.

Before an organization establishes a performance management system, it needs to consider the strategic decisions illustrated in Figure 7.3.

27.1 Form of Appraisals

Performance appraisals may occur in organizations in two forms. They can be *informal*, meaning that supervisors randomly provide performance feedback to subordinates as and when necessary. The day-to-day working relationship offers plenty of such opportunities, including general and occasion-related discussions on the job. In these working relationships, managers communicate the evaluation through conversation on the job randomly and spontaneously.

However, *formal (systematic) appraisals* occur when the communication on employee performance is channelled into scheduled meetings and have formal criteria over what, how and when to cover during the performance assessment. They happen on a planned regular basis, for which both supervisors and direct reporting employees previously prepare.

In practice, formal and informal feedback talks are both crucial, and none can fully replace the other. The best way to provide proper and efficient performance feedback to employees is a formal system supplemented by ongoing informal assessment, eliminating the chance of surprising the employee during the formal performance review.

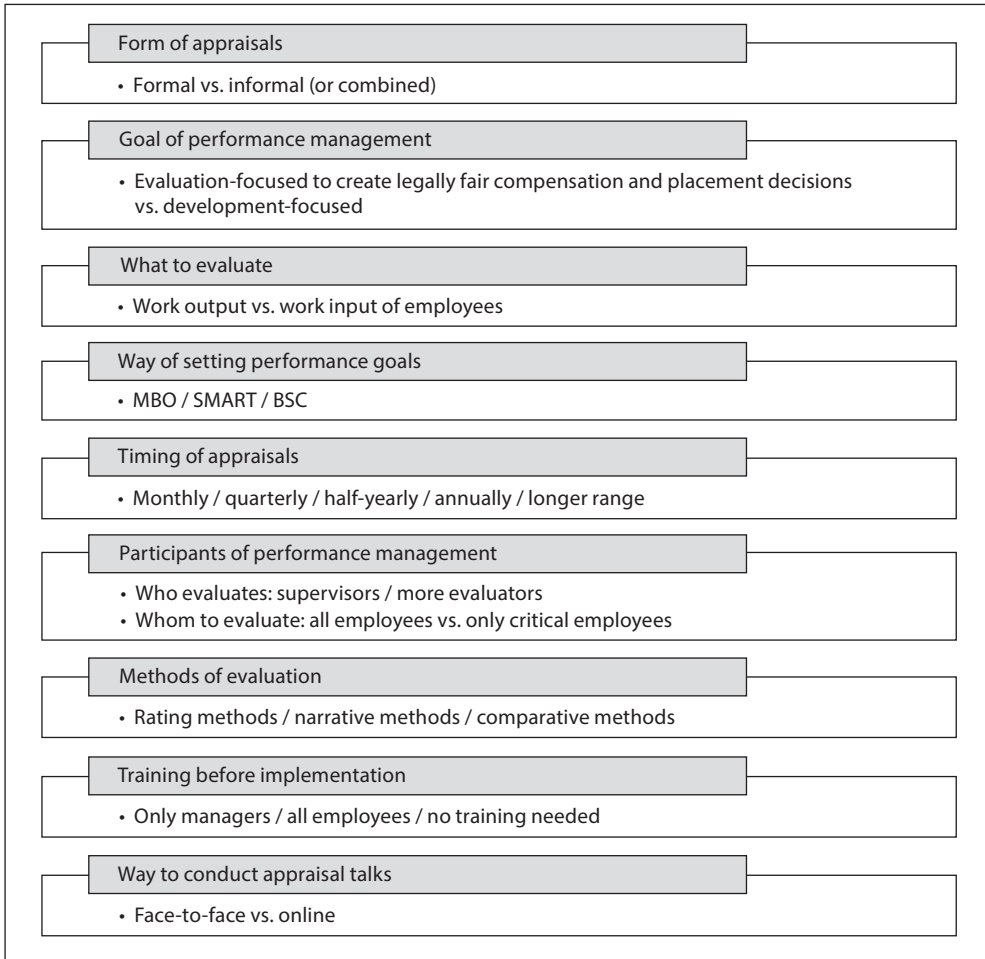


Figure 7.3

Strategic Choices of Performance Management*Source:* author.

27.2 Goal of Performance Management

The organization needs to make a decision regarding the future content of its performance management system based on what its ultimate goal is. Performance management can serve multiple purposes, and it is essential to define what outcome we expect from it to create its best design.

A prominent and generally used goal of a performance management system is to offer evidence-based information for management decisions on performance bo-

nuses, salary adjustments, promotions, retention or termination of work contracts. This *evaluation-focused* system of performance management relies on employees' past performance to determine their future working conditions. Connecting performance management to compensation and placement decisions of employees is regular practice. Performance-based compensation reinforces the idea that employees are paid according to their merits and efforts rather than their length of service (which is also called seniority). Managers and HR can achieve legally fair/equal pay and placement decisions with efficient performance appraisal systems. This idea assumes that well-documented performance deficiencies can best support claims of unfair or discriminating dismissal, placement and pay decisions.

Another possible purpose of performance management systems is to facilitate employee development. By a *developmental-focused* performance management system, managers detect past deficiencies in performance levels and skills and determine specific trainings and developments to overcome these performance gaps in the future. In this way, performance feedback gives inputs to training and development plans (see Chapter 25). A two-way relationship exists between PM and training and development: the desired outcomes of training and development must also be incorporated into the performance management system to measure training effectiveness. Performance management systems with a developmental focus are more future-oriented than evaluation-focused systems. They require an organizational culture that relies on open communication, transparency and the ability to offer constructive criticism.

Whether evaluation or development is the goal of our PA system, HR must pay attention to the fact that the two different methods require different ways of evaluation, different communication techniques, and they send different messages to employees, too. If we combine the two, managers may feel that they are judges and coaches at the same time.

27.3 What to Evaluate

An important question that needs to be considered before actually designing the performance management system is the focus of evaluation. *Output-based information* assesses the work results of employees. Also called *result-based* or *hard evaluation*, this kind of PM focuses on objective, quantifiable work indices. To be effective, this version of PM requires HR and managers to develop work standards before the actual assessment. Work standards can be deadlines, indices on profitability, cost reduction, work efficiency or quality. These work results show *what* employees do during their work routine, which is meaningful to the organization due to their correlation to strategy.

Although output-based performance management seems to be fair and easy to communicate, it also has some drawbacks. Firstly, not all jobs can be fully described by objective indices. Creative jobs or jobs dealing with future trends will not show immediate results. Secondly, in some cases the individual does not have an exclusive influence on reaching the index. For instance, reducing employee turnover ratio is often a target of HR. However, it also has ‘uncontrollable’ reasons, such as employees moving to other countries (see Chapter 23 for more information on turnover), which takes the complete control of turnover out of the hands of HR. Thirdly, some negative phenomena may appear (e.g., lack of cooperation, wasteful resource utilization). Focusing merely on outcomes may lead to ignoring the ways in which results are obtained. For instance, an employee might achieve the targeted goals in an unproductive way by increasing costs, alienating co-workers or damaging customer relations.

Input-based information assessment focuses on specific employee behaviours and competencies that lead to the highest possible performance within the particular job. In this type of performance assessment, which is also called *competency-based* or *soft assessment*, managers measure *how* employees work instead of *what* they do. The precondition of this kind of a system is a well-developed and organized competency matrix that identifies required competencies in each job.

It is highly debatable if employee competencies (soft competencies) can objectively be measured or not. While HR actively uses competency and behaviour measurement techniques during selection (see Chapter 21), supervisors mostly rely on their perceptions during performance appraisals. Because of the amount of subjectivity included in competency-based performance appraisals, individuals are more comfortable with the evaluation of their performance based on *what they do* rather than on *who they are* or *how they work*.

Again, companies tend to use blended techniques, understanding the gains and drawbacks of both approaches. They often include evaluation and development foci in performance management, with different weights in the overall assessment.

27.4 Setting Performance Goals

Setting reasonable goals in the performance management cycle has vital importance. Positive goal articulation in itself may contribute to employee engagement and higher performance.

Management by objectives (MBO) is a technique of performance management during which performance goals are identified together with the employee, and a continuous discussion on performance takes place between the parties. The necessary steps of MBO are the following:

- Understanding organizational and department-level strategy.
- Job review and agreement: The supervisor and the employee agree upon the critical success factors of the job that serve department and organizational strategies.
- Development of performance standards: Parties define the indices or standards that measure success factors.
- Agreeing on an individual performance plan: After defining standards, they establish attainable objectives, milestones and available rewards.
- Ongoing performance discussions, during which parties can also adjust objectives to changing situations.

MBO is also called an *objectives-based* performance appraisal system. To achieve the best result, objectives themselves have critical importance. *SMART goals* must meet the following criteria (Meyer, 2006):

- *Specific*: Goals should always be evident, well defined and never open to dispute. (What will the goal accomplish?)
- *Measurable*: The goal must have a criterion for measuring its progress. (How can we measure if the goal is met or not?)
- *Attainable (achievable)*: Goals should be realistic and achievable, meaning they should stretch abilities but should still be possible to achieve. (Is it possible to reach the goal? Do we have the right KSAs and resources to accomplish the goal?)
- *Relevant (realistic)*: The goal should align with the job, company and industry specifications. (What is the benefit of accomplishing the result?)
- *Time-bound*: It must also be clear at what time the goal should be achieved. (What is the completion date?)

An example of a SMART objective is the following: “Decrease fallout rate by 20% over the next twelve months.” This goal targets fallout rate decrease (specific) by 20% (measurable). It is within the employee’s role (attainable), and, depending on business and market conditions, it is realistic. The 12-month limit means it is also time-bound.

SMART may become SMARTER if we extend the list of criteria by:

- *Exciting*: Goals should be positive, energizing to raise motivation to achieve them.
- *Recorded*: Goals should be adequately administered.

If we understand that the essence of strategic performance management is to link organizational strategy to individual performance, organizations need a tool that translates this into the world of practice. *Balanced ScoreCard (BSC)* is a holistic strategic planning system, not a performance management system. However, being performance-based, it connects strategy and operation. In the 1990s, Kaplan and Norton developed BSC (Kaplan & Norton, 1996). Coming from the thesis that “what you measure is what you get”, their scorecard model using both financial and non-financial data aligns strategy to work activities. Instead of a single meas-

ure (financial measure), organizations should use a composite scorecard, which consists of different relevant standards (this is why it is called *balanced*).* Figure 7.4 illustrates the four perspectives of the BSC.

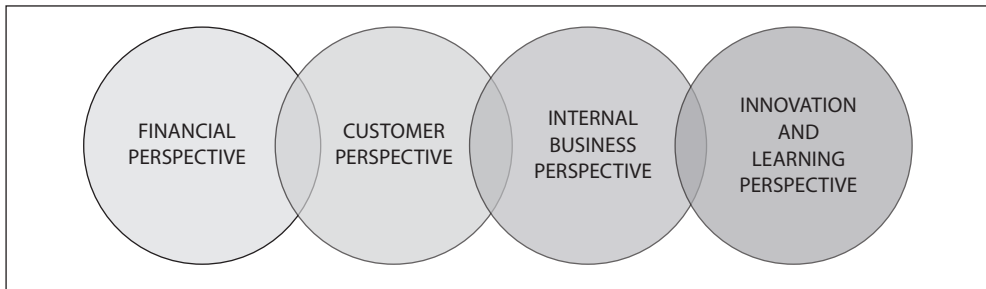


Figure 7.4
Four Perspectives of Balanced ScoreCard

Source: Kaplan & Norton (1992).

Financial perspective focuses on profit, revenue and cost savings. Customer perspective usually includes improvement in customer service and satisfaction. Internal business perspective deals with processes supporting financial and customer goals. Innovation and learning perspective is related to intangible drivers of performance such as skill development, data protection or employee engagement. The holistic view of BSC forces senior managers to consider all the critical operational measures in strategy and make it visible if an improvement in one area has been achieved at the expense of another.

So far, the company has clarified, simplified and operationalized its vision and created a strategy. To put the BSC to work, companies articulate objectives to each perspective and then translate these into specific goals, link them to indicators and, finally, to initiatives. In a top-down way, organizational BSC is broken down to each division, team and, ultimately, individual, cascading throughout the entire organization until each individual contributes to the goals of their managers. In other words, goal setting in performance appraisal systems means translating BSC step by step to individual performance goals.

* Kaplan & Norton's (1992) article in the Harvard Business Review uses the following metaphor: "Think of the balanced scorecard as the dials and indicators in an airplane cockpit. For the complex task of navigating and flying an airplane, pilots need detailed information about many aspects of the flight. They need information on fuel, airspeed, altitude, bearing, destination and other indicators that summarize the current and predicted environment. Reliance on one instrument can be fatal. Similarly, the complexity of managing an organization today requires that managers be able to view performance in several areas simultaneously" (Kaplan & Norton, 1992).

27.5 Timing of Appraisals

Most companies design the performance appraisal system so that supervisors assess direct-reporting employees' performances once every year. Many organizations, however, see the drawbacks of such a delay in feedback so they incorporate two or more feedback talks into their schemes. Employees also commonly receive an appraisal at the end of their probation time, usually 60 or 90 days after hiring, after which they are integrated into the regular performance management cycle of the firm. Figure 7.5 illustrates a typical annual performance appraisal cycle.

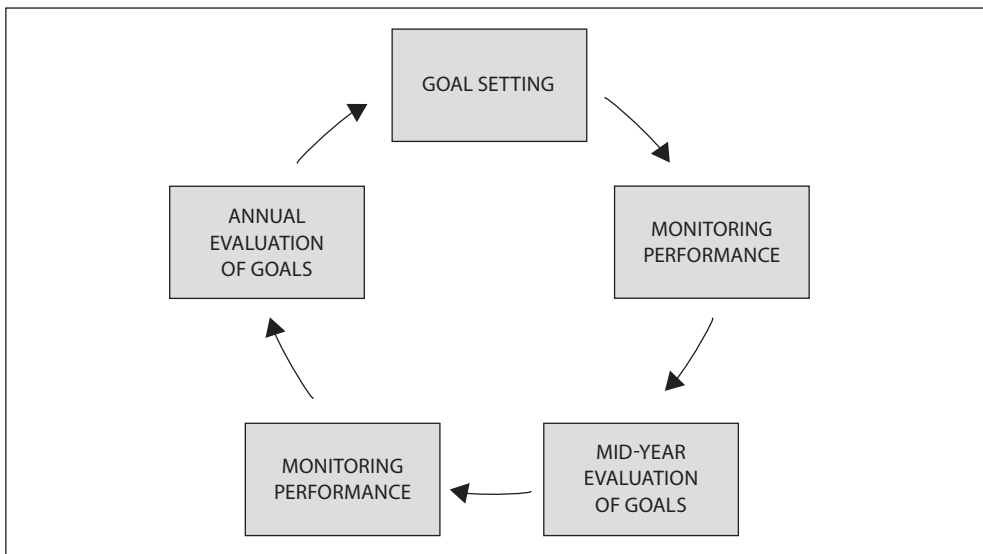


Figure 7.5
Annual Performance Appraisal Cycle

Source: author.

More and more organizations try various initiatives to shorten the time intervals between feedback talks. However, the burden put on managers by performance management should also be seen. The key is not to increase performance talks in number but to make them efficient.

27.6 Participants of Performance Management

Two aspects of this strategic choice need to be considered: firstly, *who evaluates*, and, secondly, *who is evaluated*. Appraisal by the immediate supervisor is still at the heart of most performance assessment systems. This is understandable as the

supervisor is best positioned to allocate work, monitor and control direct-reporting employees. However, direct supervisors might not see all aspects of performance. In addition, relying on a single opinion might include mistakes or bias.

For these reasons, some organizations have been moving away from traditional means of performance feedback towards multisource appraisals. These techniques include peers', subordinates' or customers' evaluations, the employee's self-evaluation and the manager's evaluation in the rating process. Figure 7.6 shows the schematic model of a multisource (or 360-degree) appraisal.

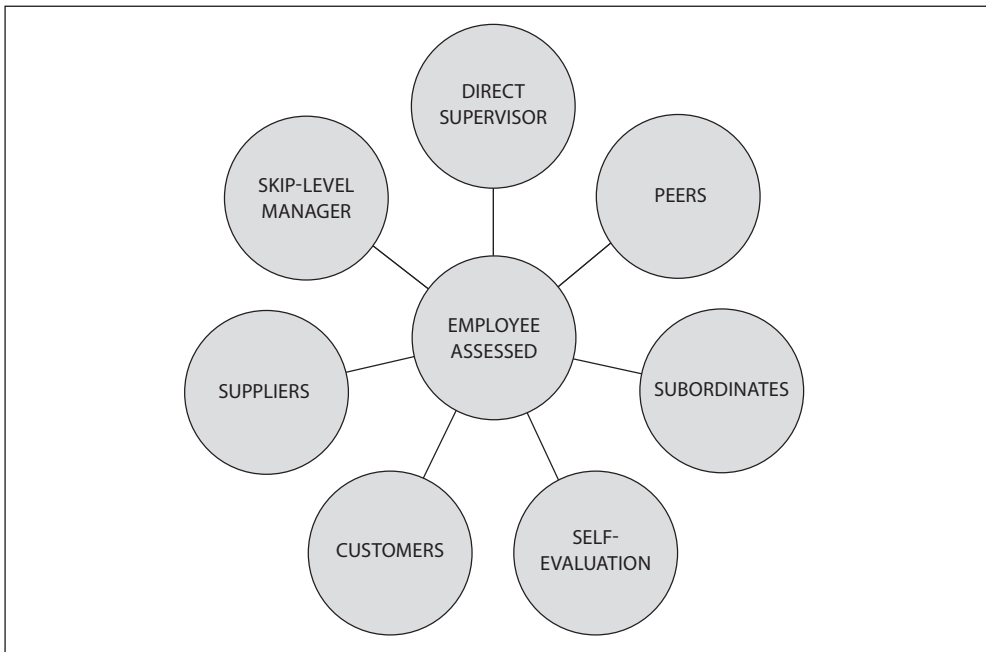


Figure 7.6
Multisource (or 360-Degree) Appraisal

Source: author.

The **multisource (or 360-degree) appraisal system** analyses the individual's performance from all possible sides: from the viewpoint of the direct supervisor, skip-level manager, subordinates, co-workers, customers, suppliers (if applicable) and their self-evaluation (source: author).

Although it is time-consuming and expensive, a multisource appraisal still delivers feedback related to the employee from all possible (even external) dimensions. It captures the employee's different roles and provides the richest possible

input for the person being appraised. Based on a 360-degree feedback, new and holistic training and development programs can be offered to the employee, specifically tailored to their personal needs. The way HR gathers performance information on the employee differs for each participant. While face-to-face discussion is the most efficient way to gather feedback from the direct supervisor, peers, team members, external partners and subordinates should provide feedback anonymously. To avoid falsified ratings coming from fear of reprisals or infights, these ratings should not only be anonymous, but the outcome should be used for developmental rather than administrative (compensation or placement) decisions.

Some organizations that use multisource appraisals feel that this method is not complete as individual performance improvement cannot be detected in this way. Hence, they use it twice and call it a 720-degree performance appraisal.

*The **720-degree performance appraisal system** includes two 360-degree appraisals: the first appraisal measures the employee's current level of performance (pre-measurement), and the second appraisal measures the performance after a certain period (post-measurement). The comparative analysis of pre- and post-measurement results provides the individual and management sufficient information on performance changes (source: author).*

Participants of a multisource appraisal system can also be feedback providers alone, not as part of a complex assessment scheme. The employees' rating of managers, team/peer ratings or customer/supplier ratings may occur in themselves, depending on the industry and the job itself.

Self-rating always has a crucial role in employee motivation and should always be part of the assessment scheme, no matter how many participants provide performance feedback. It allows employees to be part of a critical decision related to their employment and career. In addition, employees might offer insights and examples of work that no other feedback provider can see. As a self-development tool, self-rating forces employees to think about their strengths and weaknesses and set goals for improvement. Even though employee self-evaluation may not give the same results as managerial evaluation, it may raise exciting aspects of one's performance. Self-rating is frequently used to complement managerial appraisals. The use of this technique alone, however, is rare.

The question of *who is evaluated* in a firm is usually easy to answer. The best performance appraisal systems cover all employees. Beyond being fair and offering the feeling of belonging to the same company, the contribution to strategic goals is expected from everyone. Covering all employees with a performance management system does not necessarily mean HR uses a single evaluation method across the whole organization. Managers might have different PM systems than non-managers, and white-collar employees might have different schemes than blue-collar workers, depending on the unique features of these jobs.

27.7 Evaluation Methods

Several methods can be used to appraise employee performance. The most commonly used ones are the following:

- *Rating methods*: These are the most straightforward methods for appraising performance. Managers have to mark an employee's level of performance on a specific form divided into categories.
- = *Graphic rating scales*: How well employees meet requirements is expressed either numerically (1–5) or verbally (outstanding – exceeds expectations – meets expectations – below standards – unsatisfactory). See Figure 7.7.

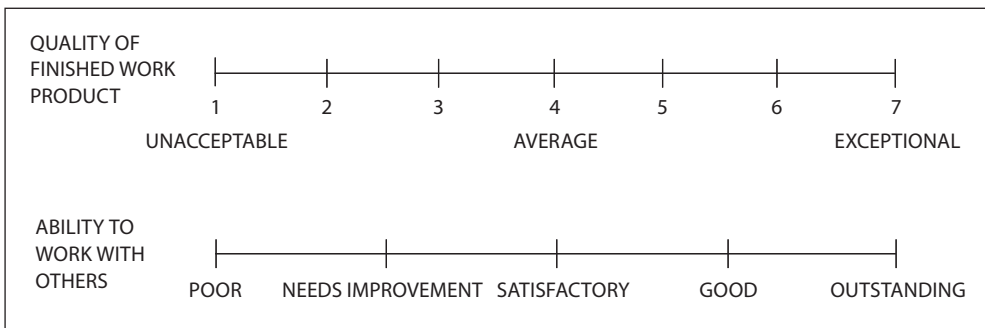


Figure 7.7

Examples of Graphic Rating Scales

Source: Mello (2015, p. 448).

These scales can work well if they accurately define the performance dimensions of a job. However, if they fit poorly, it is challenging to use them in a meaningful way.

- = *Behavioural rating scales*: To overcome the pitfalls of graphic rating scales, managers might use scales where, instead of ranking the employees' capabilities, they rate their behaviour patterns.
 - *Behaviourally anchored rating scales* (BARS): Short statements are used to describe desirable and undesirable behaviours (anchors). Then each anchor gets a number that represents how good or bad the behaviour is. During the assessment, managers group employees into anchors. The BARS method is easy to use, but creating and maintaining the proper anchors for each job requires significant efforts. For an example, see Figure 7.8.

| Behavioural patterns for teamwork dimension | Rating | |
|---|--------|----------------|
| Consistently seeks to help others Tolerant and supportive to colleagues Contributes ideas and takes full part in group meetings | 4 | Outstanding |
| Listens to colleagues Willing to change own plans to fit in Keeps colleagues in the picture about own activities | 3 | Satisfactory |
| Mixes willingly enough Is not aware of what colleagues are doing Inclined to alter arrangements to suit self | 2 | |
| Always criticizes others Lets everyone else do more popular jobs Never goes out of the way to help or cooperate | 1 | Unsatisfactory |

Figure 7.8

Example of BARS (Behaviourally Anchored Rating Scales) Method

Source: Stredwick (2014, pp. 195–196).

- *Behavioural observation scale (BOS)*: This method is similar to the BARS method. However, the BOS appraisal rates employees on the frequency of the critical incidents that occur over a given period. For an example, see Figure 7.9.

| Behavioural patterns for teamwork dimension | | | | | | |
|--|---|---|---|---|---|---------------------|
| Consistently seeks to help others | | | | | | |
| <i>Almost always</i> | 1 | 2 | 3 | 4 | 5 | <i>Almost never</i> |
| Willing to change own plans to fit in | | | | | | |
| <i>Almost always</i> | 1 | 2 | 3 | 4 | 5 | <i>Almost never</i> |
| Volunteers for fair shares of unpopular work | | | | | | |
| <i>Almost always</i> | 1 | 2 | 3 | 4 | 5 | <i>Almost never</i> |

Figure 7.9

Example of BOS (Behavioural Observation Scale) Method

Source: Stredwick (2014, p. 196).

- *Narrative methods:* In some firms, supervisors use written narratives for performance assessment. These descriptions can be informative, but preparing them is time-consuming, and their quality highly depends on the supervisor’s writing skills and willingness to write essays.
 - = *Critical incident:* In the critical incident method, the evaluator records both the highly positive and negative actions performed by an employee during the rating period. When a critical (particularly effective or ineffective) incident occurs, the manager writes it down. This method is time-consuming, but, if used as a supplementary tool for rating scales, it can be helpful during the feedback talk to build up an argument.
 - = *Essay:* The supervisor writes a short essay on each employee’s performance at the end of the appraisal cycle. Some organizations use free-form reports, while others provide guidelines or leading questions for more structured essays.
- *Comparative methods:* While rating scales compare employee performance to a fixed standard, using comparative methods means that managers compare employee performance levels. In this way, they can *rank* employees from the highest to the lowest level in performance.
 - = *Ranking:* A straightforward method in which supervisors rank employees occupying the same job based on their overall performance. Beyond its simplicity, a drawback of the ranking method is that the size of the differences between individuals is not well defined.
 - = *Paired comparison:* This method makes ranking more precise. The supervisor compares employees to one another based on specific criteria (quality of work, quantity of work). The result is a final order of rank among employees. See Figure 7.10.

| Quality of work | | | | |
|-----------------|------------|------------|------------|------------|
| As compared to: | Employee A | Employee B | Employee C | Employee D |
| Employee A | / | + | + | + |
| Employee B | - | / | + | + |
| Employee C | - | - | / | + |
| Employee D | - | - | - | / |

Note: + means ‘better than’ and – means ‘worse than’.

In the example, the rank of employees based on quality of work is Employee A – Employee B – Employee C – Employee D.

Figure 7.10
Paired Comparison of Employees Based on Quality of Work

Source: author.

= *Forced ranking or forced distribution*: Forced ranking/distribution is a performance appraisal technique in which ratings of employee performances are clustered along a bell-shaped curve. Each supervisor needs to rank 20% of direct reporting employees in the top rank (high performers), 70% in the middle (average performers) and 10% in the bottom who need serious development (poor performers). See Figure 7.11.

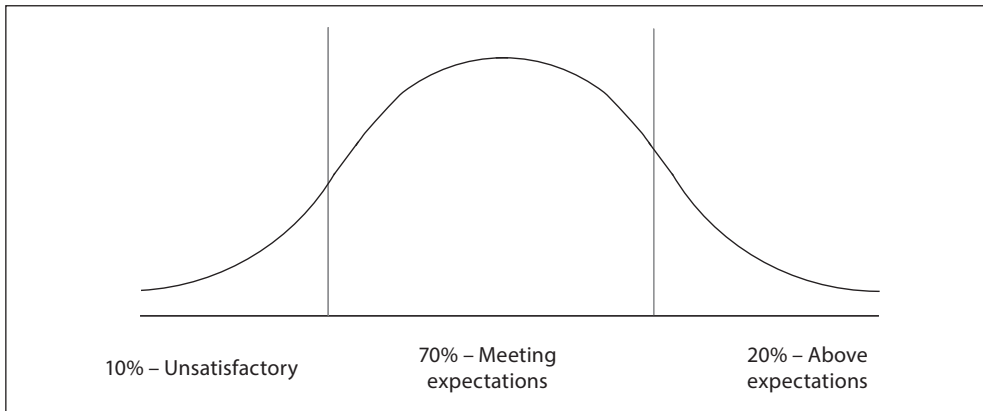


Figure 7.11
Forced Distribution Method

Source: author.

Figure 7.12 illustrates the summary of the different types of performance appraisal methods used in organizations.

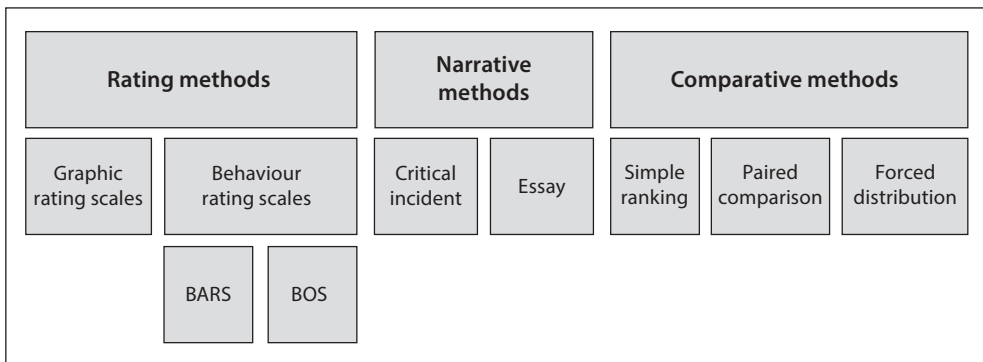


Figure 7.12
Methods Used During Performance Appraisal

Source: author.

In conclusion, with regards to the methods used during performance appraisals, we can say that no single method fits all organizations. It makes sense to use a combination of methods. For example, one suitable combination can be if supervisors include graphic rating scales to measure primary job criteria, write essays on developmental needs and do the overall ranking of employees in the department.

27.8 Training before Implementation

A performance management system's strategic relevance primarily depends on the participants' (especially the supervisors') attitudes towards it. Understanding its process and the ways in which it is related to overall organizational outputs can be greatly supported by training before implementation. Without training, managers and supervisors mostly view performance appraisal and performance management as administrative tasks serving HR needs.

Some of the topics covered by this kind of training can be the following:

- What are the process, timeline and documentation needs of the system?
- How can employees' goals be identified in order to link them to organizational objectives?
- How can employee performance be assessed constructively?
- How can common rating errors (see later in this chapter) be avoided?
- How can positive and negative feedback be communicated to employees?
- What are the possible outcomes of performance appraisal talks in the given organization?
- How can compensation issues be negotiated?
- How can feedback from employees and supervisors be received without being defensive?
- How can development plans be created together with employees in line with organizational strategy?

If there have been no antecedents of a formal performance management system in an organization, it is also worth considering that some form of training needs to be provided to all employees, not only to managers.

27.9 Ways to Conduct Appraisal Talks

The appraisal discussion is an opportunity and a challenge at the same time for both participants. It has a vital role in shaping the interpersonal relationship between the supervisor and the direct reporting employee. Knowing this, all disturbing factors should be excluded from the system that create or keep up misunderstandings between the parties, which may lead to further performance problems.

Whether the appraisal talk is organized online or offline, the conversation (two-way communication) must be clear and straightforward on both sides. To avoid having a ‘Judgement Day’ for the employee, supervisors must be aware of the common mistakes of appraisers, such as the following:

- not being fully prepared for the feedback talk,
- giving ‘lectures’ to the employee (talking too much) or sprinting through the metrics (talking too little),
- comparing employees to each other (win or lose perspective),
- being emotional or too personal, either positively or negatively,
- not acknowledging the employee as a partner during the conversation,
- applying rater errors, such as the following (based on Valentine et al., 2020, pp. 362–364):
 - = *Recency or primacy effect* (time-related issue): The rater gives greater weight either to a recent event or to the event that occurred first during the performance period.
 - = *Central tendency, leniency or strictness* (rating patterns of supervisors): Central tendency means that the rater prefers giving average scores to avoid conflicts. In the case of leniency, all employees fall into the best categories, while strictness error means that all employees are ranked in low performing categories.
 - = *Rater bias*: The rater’s prejudice towards the employee distorts the rating. If bias is related to one or more protected employee characteristics, it may be articulated as discrimination in a legal sense (see Chapter 13).
 - = *Halo and horn effects*: Halo effect occurs when the rater scores someone high based on one high-performance element, whereas horn effect is when the overall rating is low due to one low-performance element.
 - = *Similar-to-me / different-from-me errors*: The similar-to-me effect is a cognitive bias that explains an individual’s tendency to prefer people that look and think like them. Another name for this effect is affinity bias. While this error might seem harmless in principle, it can lead to unjust consequences when applied to performance management. The different-from-me effect works vice versa.

CHAPTER 28

Criticism of Traditional Performance Management Systems

A sound performance management system can lead to higher employee motivation and increased organizational performance. However, we may pose the question, “What does a *good* performance management system look like in practice?” Some criteria that we can agree upon are listed below:

- being in line with organizational structure and culture,
- enhancing corporate strategy fulfilment,
- being a beneficial employee developmental tool,
- serving as a good ground for individual payment, placement and development decisions,
- being fair and legally correct,
- being well documented.

However, the question is not fully answered by the above features. Traditional performance management systems receive an increasing amount of criticism including the following remarks:

- By using annual appraisal cycles, goal setting is done only once a year. In addition, performance information is collected by line managers at the end of the year, which is retrospective and delayed.
- The focus of evaluation is on the past performance of employees.
- Subjectivity is always included in the assessment.
- Formal feedback talks are too ritualistic.
- Honest dialogues between supervisors and employees are missing as performance appraisals are used to influence or drive compensation and placement decisions.
- The evaluation process is time- and resource-consuming.
- Comparing employees’ performances to each other (see comparative methods in Chapter 27) erodes the attempts to create a collaborative culture.
- *Pay-for-performance* (P4P) does not always deliver improved performance as it is usually a *zero-sum game* regarding the bonus budget (i.e., an advantage or a bonus that is won by one is lost by the other).
- Employees perceive these systems to be more punitive than productive as the inherent nature of traditional performance appraisal is to look for the negative.

Having understood these drawbacks, some companies started to redesign, revolutionize or even eliminate their traditional performance management systems in the 2010s. Accenture (Schaaf, 2019), Netflix (McCord, 2014), Deloitte (Buckingham & Goodall, 2015) or Adobe (Morris, 2016) are just some names of global pioneers who reinvented performance management. But what are the other alternatives? Beyond the apparent industry- and organization-specific features, the common trends are the following. Most innovative performance management systems eliminate formal goal-setting talks and performance reviews. Instead, they make conversations about employee performance become an organic part of managers' work. As an ongoing dialogue on performance requires extra efforts from managers and employees, they keep performance conversations simple, honest and straightforward. To increase the efficiency level, performance indicators are data-driven and tracked by various digital platforms and thus provide real-time information for both managers and employees. In addition, instead of classic evaluation, performance management focuses more on coaching and the long-term development of employees.

SUMMARY

- Employee performance management systems can increase organizational performance and add to overall business strategy only if they are designed and used well.
- Effective performance management systems have both operational and cultural roles in organizations.
- Performance appraisal (PA) is the process of evaluating how well employees performed their jobs in the past compared to a set of previously set standards and communicating this information to the employees periodically.
- Performance management (PM) is a complex future-oriented management system with a holistic approach that incorporates performance appraisal, but it is extended with the following features or activities: linking employee performance goals to business objectives (strategic relevance), ongoing monitoring of employee performance with proper feedback and two-way communication between supervisor and employee as well as performance-related management decisions based on the outcome of the appraisal talk.
- Strategic performance management systems align individual performance objectives with organizational strategy and thus create consistency between employees' efforts and organizational output.
- Before an organization establishes a performance management system, it needs to consider some strategic decisions such as the following:
 - = *the form of appraisals*: having a formal vs. informal performance management system (or a combined system),
 - = *the goal of performance management*: being evaluation-focused to create legally fair compensation and placement decisions vs. being development-focused,
 - = *what to evaluate*: work output vs. work input of employees (what they do vs. how they do it),
 - = *the way of setting performance goals*: MBO / SMART / BSC,
 - = *the timing of appraisals*: monthly / quarterly / half-yearly / annually / longer range,
 - = *the participants of performance management*: who evaluates (supervisors / more evaluators as in multisource/360-degree appraisals) and whom to evaluate (all employees vs. only the critical employees),
 - = *the methods of evaluation*: rating methods / narrative methods / comparative methods,
 - = *training before implementation*: only managers / all employees / no training needed,
 - = *the way to conduct appraisal talks*: face-to-face vs. online sessions, minimizing rater errors in both cases.

- In the 2010s, many organizations and HR experts heavily criticized traditional performance management systems. Having understood their fundamental deficiencies, a great number of companies decided to redesign these systems to focus more on ongoing, simple and honest performance talks between supervisors and employees supported by digital datasets on performance.

SELF-CHECK & INDIVIDUAL AND/OR GROUP ACTIVITIES

1. Identify the primary purposes of a performance management system in an organization.
2. How would you differentiate between performance appraisal and performance management? Please be as specific with your answer as possible.
3. How would you highlight the strategic relevance of a performance management system? Try to give a business example.
4. Please indicate the difference between evaluation-based and development-based performance management systems. What difficulties arise from the combination of the two approaches?
5. List the advantages and disadvantages of both output-based and input-based performance management systems. Which one would you prefer as a supervisor, and which one would you favour as an appraised employee?
6. Create one SMART goal in the HR Balanced ScoreCard.
7. Explain with your own words how the Balanced ScoreCard and performance management should be connected. Give an example of a performance goal that is derived from BSC, and please explain the link.
8. What are the possible drawbacks of a 360-degree appraisal? How would you try to overcome these? Which employees would be subject to 360-degree assessments in an organization?
9. Recall a rater error you experienced in the past. What would you recommend managers to avoid in their practices?
10. What do you think the most fundamental criticism of traditional performance management systems is? Why?
11. Work in groups and design a performance management system for one of the following employees/jobs: university lecturer, flight attendant, shoemaker, business coach. Gather the necessary data through online research.

KEY TERMS USED IN THE CHAPTER

| | |
|--|---------------------------------------|
| 720-degree performance appraisal | management by objectives (MBO) |
| Balanced ScoreCard (BSC) | multisource (or 360-degree) appraisal |
| behaviourally anchored rating scale (BARS) | output-based performance management |
| behavioural observation scale (BOS) | paired comparison |
| central tendency | performance appraisal |
| critical incident method | performance management |
| development-focused performance management | primacy effect |
| different-from-me error | rater bias |
| essay method | rater error |
| evaluation-focused performance management | recency effect |
| forced distribution | similar-to-me error |
| graphic rating scales | simple ranking |
| halo effect | SMART(ER) goals |
| horn effect | strategic performance management |
| input-based performance management | strictness error |
| leniency | |

GLOSSARY

Performance appraisal (PA) is the process of evaluating how well employees performed their jobs in the past compared to a set of previously set standards and communicating this information to the employees periodically.

Performance management (PM) is a complex future-oriented management system with a holistic approach that incorporates performance appraisal, but it is extended with the following features or activities:

- linking employee performance goals to business objectives (strategic relevance),
- ongoing monitoring of employee performance with proper feedback and two-way communication between supervisor and employee,
- performance-related management decisions based on the outcome of the appraisal talk.

The **multisource (or 360-degree) appraisal system** analyses the individual's performance from all possible sides: from the viewpoint of the direct supervisor, skip-level manager, subordinates, co-workers, customers, suppliers (if applicable) and their self-evaluation.

The **720-degree performance appraisal system** includes two 360-degree appraisals: the first appraisal measures the employee's current level of performance (pre-measurement), and the second appraisal measures the performance after a certain period (post-measurement). The comparative analysis of pre- and post-measurement results provides the individual and management sufficient information on performance changes.

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PART 8

Total Rewards and Compensation

Total rewards systems, including compensation, belong to one of the critical areas of organizational and HR strategy. They have a high impact on the employers' ability to attract talented candidates from the labour market, retain current employees in the long run and support optimal employee performance in line with business strategy. Compensation costs represent one of the most significant operating expenses in most organizations, not only in labour-intensive industries such as education, research and development or the service industry. Finding the balance between maintaining an optimal and sustainable cost structure and providing fair and competitive compensation to employees is a critical challenge for HR and top management.

Compensation, as part of an organization's total rewards system, has been changing in line with the changing needs of organizations and employees in recent years:

- Greater emphasis is given to employee performance and contribution to strategy in compensation decisions, compared to traditional practices focusing on employee length of service (seniority).
- More employers offer flexible benefits to meet individual employee needs and preferences.
- Employers tend to offer more immediate rewards to employees instead of waiting for the annual performance reviews to announce pay decisions.
- The drive towards sustainable operation compelled HR to develop fair rewards, long-term incentive plans (instead of one-time bonuses) and talent-nurturing programs.
- Digitalization gave a push to HR administration. As a result, compensation data of employees became accessible real time, more transparent (thus also provided employees with more visibility into how their pay is calculated) and more protected under data protection regulations.

This part highlights the terms, goals and possible structures of organizational total rewards and compensation.

Part 8 of the SHRM handbook has the following learning objectives:

- listing the most important features that shape individual pay,
- defining the essential elements of total rewards and compensation in organizations,
- providing an overview of the possible goals of sufficient total rewards and compensation systems,
- offering insights into the basic theoretical and applied features of pay equity,
- explaining the most common elements of total rewards and compensation in detail including monetary rewards, both direct and indirect, and non-monetary rewards.

CHAPTER 29

Nature, Determinants and Goals of Total Rewards and Compensation

Human work within the framework of an employment relationship must always be compensated with money; it is never free of charge. The implementation of this idea into practice is guaranteed in many ways by labour law regulations. The existence of minimum wages in most countries, having base pay as a compulsory content of employment contracts or the fact that compensating employees is one of the fundamental duties of employers in the employment relationship all safeguard this principle.

Developing a competitive and well-operating total rewards and compensation system is always crucial for an organization. Managerial support, strong cooperation among organizational units and HR plus analytical excellence are all required to succeed.

Compensation theory has never provided a completely satisfactory answer to the worth of an individual performing a job. Although no scientific approach is available, organizations typically determine individual pay by using the factors indicated in Figure 8.1.

The following determinants have a varying degree of influence on individual pay:

- *main elements of the external environment (labour market) shaping total rewards:* cost of living in the region, industry specifications, competing employers, powers of trade unions, status of the economy, inflation, shortage/oversupply of workforce, educational system and labour legislation including minimum wage and overtime regulations,
- *main features of the firm shaping total rewards:* ownership, international or domestic nature of its operation, size, geographical location, strategy, organizational culture, compensation policy, profitability, existing pay structure, bargaining power of local trade unions and content of the collective agreement,
- *main features of the job itself shaping total rewards:* job grade and its strategic relevance, managerial or non-managerial job, domestic or international scope of the job, working in one or more shifts and hazardous working conditions,

- *main features of the employee shaping total rewards*: profession, job-related knowledge, skills and abilities, performance, length of service, job-related experience, managerial experience, international work experience and foreign language skills.

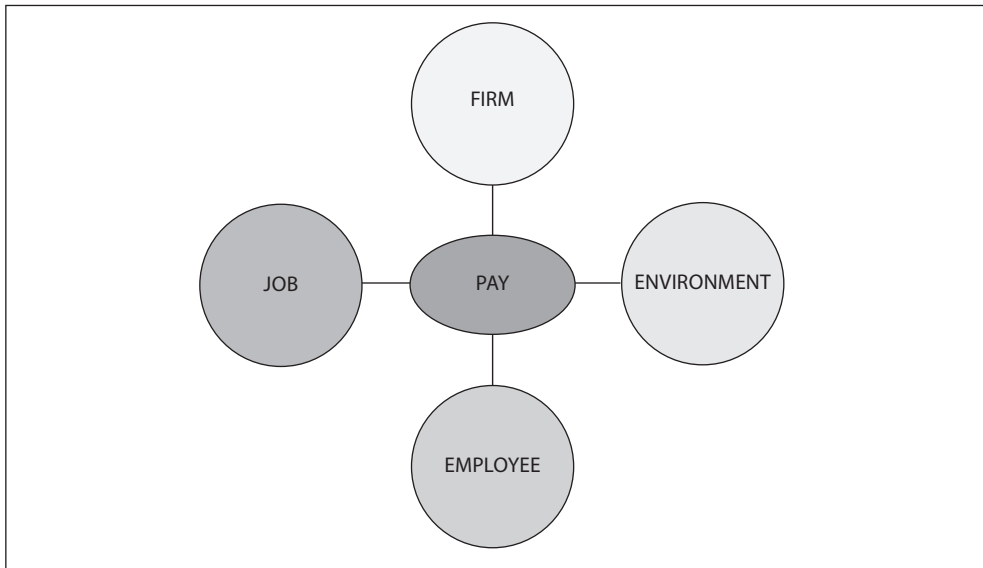


Figure 8.1

Determinants of Organizational Total Rewards and Compensation

Source: author.

This section of the handbook deliberately uses two specific terms, total rewards and compensation, in its title.

Total rewards refer to both monetary and non-monetary rewards provided by the organization to attract, motivate and retain employees (source: Valentine et al., 2020, p. 374).

Total rewards include compensation in the following way:

- *Direct monetary rewards* (also called tangible direct rewards) are part of compensation. These include base pay, allowances, individual, team or organizational variable pay. Providing base pay is always a legal obligation, and minimum wage regulations define its minimum level. Allowances (such as overtime or shift allowance) compensate employees' extra efforts so they must also be paid, while variable pay is dominantly optional to offer.

- *Indirect monetary rewards* (also called tangible indirect rewards) are also part of compensation. These include benefits, perks and training and development programmes. Here, some elements are legally required (such as social security benefits, paid holidays or trainings on work safety), while others are optional (cafeteria elements, perks).
- *Non-monetary rewards* (also called intangible rewards) cover a variety of elements such as career advancement, personal growth, inspirational work environment, high-quality leadership, attractive organizational culture, flexible work schedules, ethical workplace, work autonomy, meaningful work, job security and good employer brand. Intangible elements are difficult (or impossible) to quantify as their perceived value can differ among employees and have social or psychological effects on employees, which directly impacts the value of their psychological contract (Chapter 1).

Figure 8.2 illustrates the elements of total rewards and compensation.

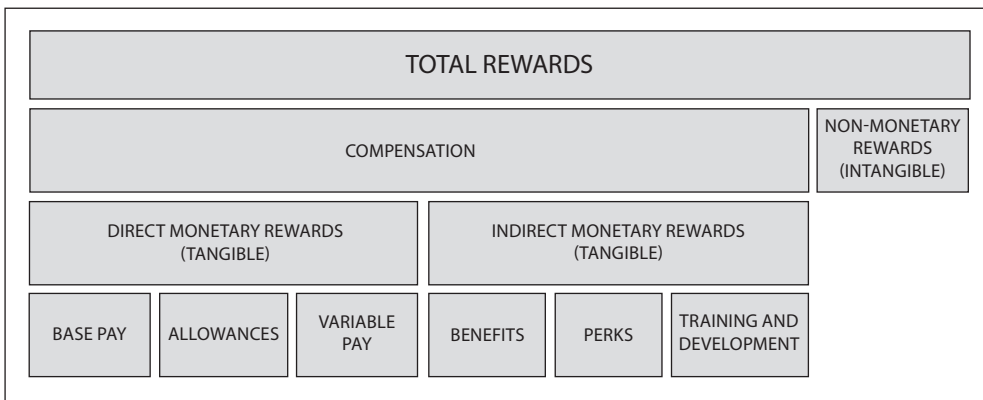


Figure 8.2

Elements of Total Rewards and Compensation

Source: author, based on Valentine et al. (2020, p. 375) and Stredwick (2014, p. 225).

Organizations understand the various purposes of total rewards and compensation, which are the following:

- *Legal compliance with all appropriate laws and regulations:* Compensation is the HR practice with the most significant number of legal rules. Pay is where employees need protection the most. States intervene by laws in the negotiations of employers and employees in favour of the latter. Minimum wage regulations, overtime provisions, equal pay rules and payment deadlines are examples of how firms must adjust their pay systems to laws.
- *Providing cost-effectiveness for the organization:* As indicated in the introduction, pay is a considerable element of overall organizational expenses.

Employing and compensating employees is always an expensive (and risky) way to make people work. For firms, gross pay, including taxes and other allowances (such as health and pension allowances), is calculated within the compensation budget. Finding and keeping a sustainable balance between the cost operation and an engaging compensation system is always a challenge for HR.

- *Performance enhancement*: There are many ways organizations can enhance their performances; compensating employees with special techniques is just one example. Most people work for monetary rewards. Supposing that employees perceive their compensation as being fair (i.e., proportionate with their efforts), this often positively affects both their performance and the way they view their jobs in general. The following brief examples of performance-based pay will be explained in more detail in Chapter 31:
 - = One typical model linking compensation to performance is *when base pay is performance-based* (also called *piecework*). Production line workers, for example, receive their base pay according to their individual or team performance. This compensation technique has also been used for centuries among commission-based sales staff members such as car salespeople. Those who sell more products receive a higher salary, while low performers earn less.
 - = Performance-based pay also includes the case when the organization offers *additional compensation*, typically in the form of *bonus*, to employees who have performed above their job requirements. Bonus, also called premium, is above base pay, which is time-based. Firms determine bonus amounts based on performance appraisal outcomes (see Part 7).
 - = It also belongs to the category of performance-based pay if the *base pay increase* results from high individual or team performance. Again, the ground for such a management decision is performance appraisal, but the reward of high performers is (time-based) base pay increase.
 - = *Profit-sharing* or *share of ownership* are further types of performance-based pay. Here, the organization's overall positive performance, the realized profit, or a part of it, or some shares are redistributed among employees.
- *Work peace for the organization*: Peace in industrial relations means that employers and workers' representatives, typically trade unions, negotiate or bargain about working conditions peacefully and come to an agreement. Trade unions can achieve and maintain advanced working conditions and higher wages without strike actions or other violent steps. Part 9 of the handbook will deal with industrial relations more in detail. Here, we refer to the fact that compensation schemes always lie in the heart of the so-called *collective bargaining process* between employers and trade unions.

CHAPTER 30

Pay Equity

Providing external, internal, individual and procedural equity (fairness) of pay is crucial for all for-profit and non-profit organizations. Equity, or fairness of pay, is both an ethical and a legal requirement. Equity in a moral sense means the perceived fairness between what and how a person works and what s/he receives for this effort compared to others. From a legal perspective, pay equity refers to non-discrimination in pay (for details, see Chapter 13). John Stacey Adams introduced first the equity theory of motivation in the 1960s.

Equity theory states that individuals judge fairness (equity) in compensation by comparing their inputs and outputs against the inputs and outputs of referent others (source: Adams, 1965).

Inputs include time, effort, loyalty, KSAs and enthusiasm. Outputs include pay, job security, benefits, praise and recognition (Adams, 1965). If the ratios of input-output comparison do not equal, the individual senses inequity. See Figure 8.3 for equity theory.

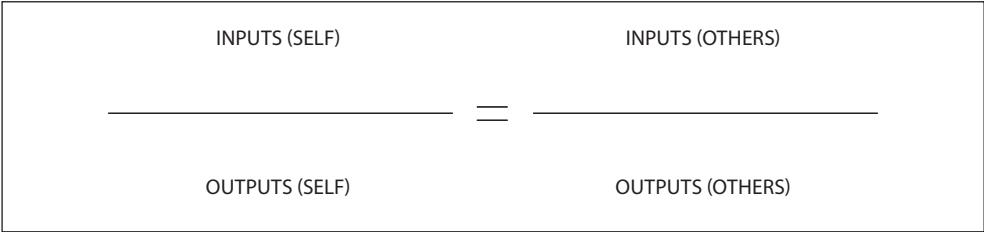


Figure 8.3
Equity Theory

Source: Mello (2015, p. 491).

External pay equity exists when an employer offers workers pay that is equitable to that of other workers who perform similar jobs in other organizations (source: Valentine et al., 2020, p. 384).

Being competitive in the labour market is a critical element of professional HRM that may attract and engage talents while keeping the turnover ratio low. Organizations track external equity by *pay surveys* to learn about compensation policies of competitors or other firms in different industries. To avoid antitrust laws, employers should not contact other organizations directly for compensation information. Instead, they buy such services from private HR consulting firms. Pay surveys do not limit themselves to comparative studies on base pay and variable pay levels. They also provide information on benefits, overtime policies, starting salaries and pay increase plans. When conducting pay surveys, employers should be aware that job titles vary between organizations. The pay surveys should be used only as reliable market data that match different jobs in different organizations based on related tasks and levels of responsibility, and not based on job titles.

After an investigation of the market has been completed, the organization determines its pay strategy relative to the market. The three possible external equity strategies are the following (Valentine et al., 2020, pp. 384–388):

- *Lead-the-market strategy*: The employer uses an aggressive strategy by paying higher wages than its competitors to ensure that the organization becomes the employer of choice. The organization that offers higher compensation than its competitors needs to have operational efficiencies that its competitors lack. A rate of employee productivity that exceeds that of the competitors and a product or service for which consumers are willing to pay a premium price are such advantages.
- *Lag-the-market strategy*: The organization pays employees below its competitors. In most cases, this is not a matter of choice but a situation where the employer cannot permanently or temporarily spend more on wages. An organization that employs a low-cost strategy must attempt to compensate employees through other means, such as career advancement, good location, good working conditions or work security to avoid high turnover and damaging morale.
- *Match-the-market strategy*: This strategy means that the organization sets its salary levels equal to those of its competitors. Balancing between cost pressure and the need to attract and retain employees usually results in developing rich non-monetary reward systems.

Internal pay equity exists when employees receive pay according to the relative value of their jobs in the organization and their KSAs used in the job (source: Valentine et al., 2020, p. 385).

By providing internal equity, employees feel that pay differentials among organizational jobs are fair and they are paid according to their merits. In most organizations, pay secrecy exists, and payment information is closed. The violation of this policy may lead to disciplinary actions. Still, it is possible that employees gain relevant information on others' inputs and outputs to assess the internal equity of their pay. According to a recent argument, complete pay transparency would be desirable for the organizations that develop competitive pay practices and have fair and reasonable pay structures. Employee concerns about possible inequity could be reduced in this way.

In attempting to establish internal equity, employers *evaluate* and *rank jobs*. In Chapter 18, it was indicated that discussing job evaluation could belong either to job systems (Part 4) or to total rewards and compensation (see Part 8). This handbook preferred the first option. Figure 4.9 in Chapter 18 shows the interconnectedness of job evaluation and compensation systems and the ways in which individual pay decisions are made.

Job grades (i.e., the groupings of same-level jobs to simplify pay policy) are outcomes of job evaluation. When job grades are determined, HR establishes base pay ranges for each job grade (see Figure 4.13 in Chapter 18) based on both market data and the internal cost structure of the organization.

Pay range is a minimum and maximum pay rate for a specific job grade, with enough distance between the two endpoints to allow individual base pay differentiation within the pay range (source: SHRM, 2018).

Organizations need to establish minimum, midpoint and maximum pay rates for each pay range. A simple way to develop a proposed midpoint is to average the market data between the different positions grouped in a grade. Figure 8.4 shows an example of the way to establish base pay ranges for job grades.

| Job grade | Base pay range | | |
|--------------------------|--------------------------|----------------|----------------|
| | Minimum | Midpoint | Maximum |
| Grade I | \$11.48 | \$13.50 | \$15.53 |
| Maintenance I | (Market salary: \$13.00) | | |
| Administrative assistant | (Market salary: \$14.00) | | |
| Grade II | \$15.09 | \$17.75 | \$20.41 |
| Mechanic I | (Market salary: \$17.50) | | |
| Machinist | (Market salary: \$18.00) | | |

Figure 8.4

Example of Establishing Base Pay Ranges

Source: SHRM (2018).

In private sector organizations, there are no hard-and-fast rules concerning the ways in which base pay ranges are created. Pay ranges may or may not overlap between job grades. The more they overlap, the more cost-effective they will be for career progression (providing smoother pay transitions during promotions). In contrast, less overlap will require more significant pay increases for internal promotions.

According to the width of the pay range, we differentiate between *narrow* or *traditional pay ranges* and the technique of *broadbanding*. *Narrow pay structures* are made up of many (typically ten or more) job grades, with each grade having a separate, usually narrow, pay range. These structures have about 40% difference between the lowest and highest rates within a pay range. As the ranges are very narrow, this system can perfectly fulfil the requirement of “equal pay for equal contribution”. However, most employees reach the top of their pay range quickly, which potentially leads to demands for upgrading. Narrow pay structures are easy to communicate and transparent but rigid, which makes it challenging to adjust them to the external candidates’ sometimes high pay demands. In some labour markets, this feature of traditional pay systems can seriously hinder effective competition. Narrow pay structures are widely used in the public sector and in large and hierarchical organizations. Figure 8.5 shows an example of narrow base pay structure.

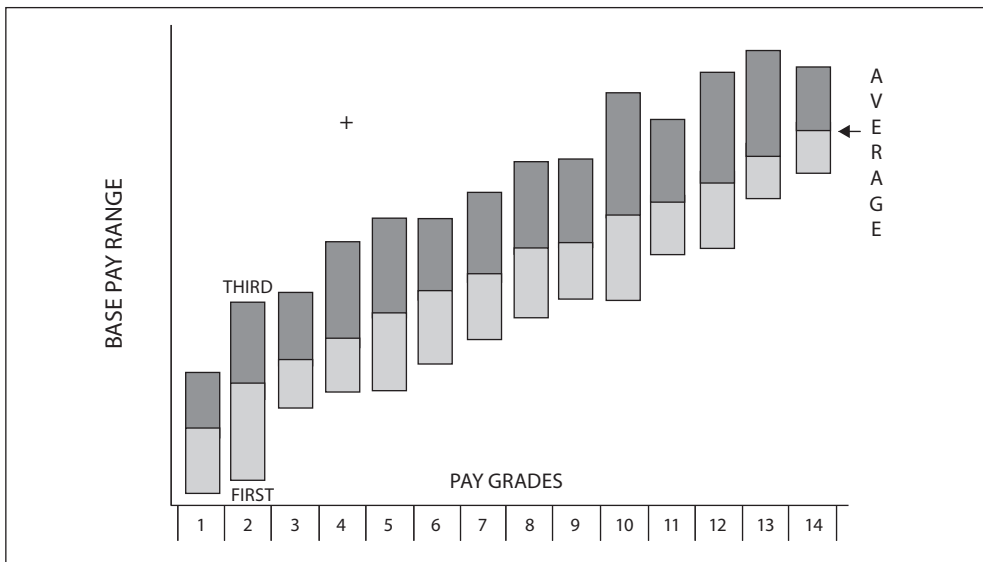


Figure 8.5
Overlapping Narrow Base Pay Structure

Source: author.

The practice of *broadbanding* means having fewer (perhaps four to six) job grades, with a broader pay range in each grade. With this approach, employees typically

stay within a pay range for a more extended time, and there can be up to 80% difference in the levels of pay within one range. Uniting job grades in fewer but broader pay ranges gives employers and employees more space for pay negotiations, based more on the individuals' KSAs or their external market value. An essential advantage of this kind of an approach is its ability to reduce hierarchical thinking. However, a significant drawback is that broadbanding can reduce pay transparency and may lead to confusion and lack of equity if individual pay decisions are random or not justified. Broadbanding pay structures make sense in the case of start-ups, creative agencies and lean businesses. Figure 8.6 illustrates the broadbanding technique.

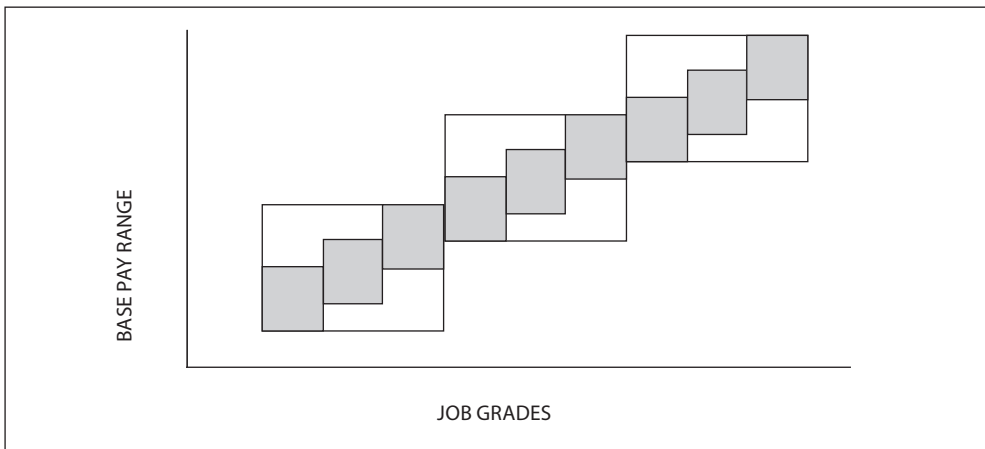


Figure 8.6

Overlapping Broadbanding of Base Pay Ranges

Source: Dessler (2020, p. 414).

Job family-based pay structure (also called market-based pay) is not a separate technique of designing base pay ranges. Instead, it groups jobs within similar occupations or functions into one job family (such as IT, technical, finance and accounting, marketing, HR or administration). This system establishes a separate pay range, either a narrow or a broad one, to each job family differently. This approach may help adjust pay to labour market needs (by providing higher pay for highly sought-after workers).

Establishing internal base pay structures includes intensive dialogue with trade unions in many organizations who nurture industrial relations. Pay negotiations on a collective level are fundamental parts of the 'social dialogue' between employers and trade unions. Pay structures are established for longer terms so they must rely on the mutual agreement of the parties. It is also not rare that the final pay range scheme is published in the collective agreement.

Individual pay equity is the employees' perceptions of pay differentials among individuals who hold similar jobs in the same organization (source: Mello, 2015, p. 497).

After determining the base pay structures, an individual base pay should be agreed upon with the employee within the base pay range. This can be done in several ways or by combining the following criteria:

- *Employee seniority*: This system determines individual base pay according to the duration of the employment at the employer. Although this rewards loyalty, it has no direct relationship to performance.
- *Individual performance* (also called *merit pay*): Merit pay systems offer individuals a base pay increase for their past and tested performance on the job.
- *Employee's skill and competence*: Skill-based or competency-based wage/salary establishes base pay depending on the employee's acquisition and mastery of skills/competency used on the job. This, however, does not always mean improved performance.
- *Employee's experience*: Job-related experience always has the potential to enhance a person's ability to perform well. However, experience weighs in pay differentials only if it is justified by knowledge and skills required for the effective use of one's experience.

The way in which individual pay decisions are born indicates **procedural pay equity** (source: author).

External and internal equity in pay, effective pay decision communication and employee participation in pay decisions all contribute to procedural pay equity.

Figure 8.7 illustrates the possible outcomes that pay equity has.

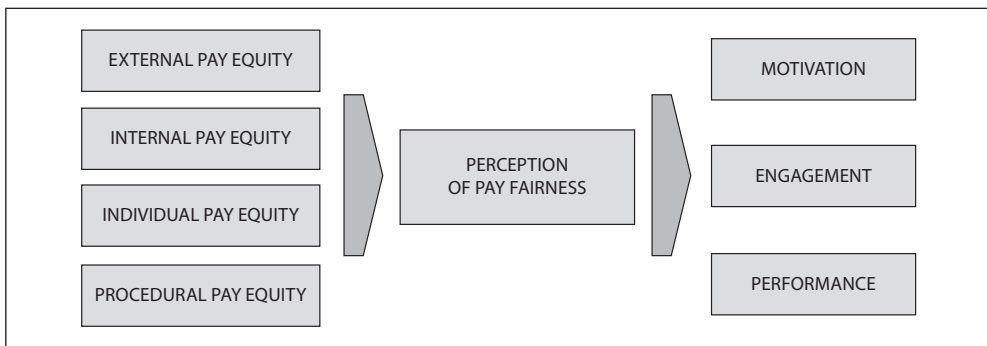


Figure 8.7
Pay Equity and its Work-Related Outcomes

Source: author, based on Mello (2015, p. 492).

CHAPTER 31

Elements of Total Rewards and Compensation Systems

Figure 8.2 of Chapter 29 illustrates the major categories of organizational total rewards and compensation. This chapter provides a more detailed description of these categories.

31.1 Direct Monetary Rewards

Direct monetary (tangible) rewards cover base pay, allowances and variable pay.

31.1.1 Base Pay

The most basic direct compensation that an employee receives is base pay. It is generally an obligatory element of the employment contract in most countries.

***Base pay**, paid as hourly wage or salary, is the minimum amount paid to employees for their work (source: author).*

Base pay is only one, but a core, component of total compensation. Both minimum wage regulations and the principle of compensating employees refer to base pay. Base pay can be time-based, performance-based or a combination of the two. The latter happens if some elements of job performance are beyond the employee's powers. In this case, a particular part of base pay is guaranteed as time-based. Many organizations use two time-based base pay categories: wage and salary. Wages are payments calculated directly based on the hours worked by employees, while salaries are consistent weekly/monthly payments.

Individual base pay is defined within the pay range of the given job grade. To provide internal equity, personal base pay is based on the employee's seniority (length of service at the firm), their KSAs or their performance.

When job grades and pay ranges are modified in an organization, some discrepancies may occur between existing base pays and new pay ranges. Some employ-

ees may fall into ‘red-circled’ categories, meaning that they are already paid above the pay range set for the job. Employers typically address red-circled employees using one of the following options:

- cutting the employee’s pay to fall within the range (if the employee approves),
- exploring developmental opportunities to facilitate promotion into a higher job grade,
- freezing the employee’s pay, and
 - = with time, the annual base pay adjustments will move the pay range upwards, and, eventually, the employee will fall back within the pay range,
 - = providing the employee a lump sum bonus instead of a traditional pay increase,
 - = giving non-monetary rewards (such as an extra paid vacation) instead of a traditional pay increase.

Using the same metaphor, ‘green-circled’ employees are paid below the new pay range set for the job. This may come from different geographical locations of employees within the same organization or from actually hiring employees with below-market pay. Green-circled employees usually receive pay increases at once or in multiple steps.

31.1.2 Allowances

Allowances are added to base pay, and they directly compensate employees for their work-related extra efforts or inconveniences (source: author).

Allowances are added to base pay. Many labour codes and collective agreements regulate these extra payments. The following instances are typically compensated by extra allowances: work overtime, shift work, having exceptional skills (such as foreign language skills), night differentials, Sunday work, being on standby or on-call duty, dangerous work settings, being a single parent, willing to travel frequently or willing to commute.* Allowances are paid either hourly or as a lump sum.

* “London weighting” (first introduced in 1920) is an allowance paid to civil servants, teachers, airline employees and police and security officers in and around London to help these workers with the cost of living in Greater London, which is higher than that of the rest of the UK. The purpose of this allowance is to encourage key workers to stay in Greater London (Hirsch, 2021).

31.1.3 Variable Pay

Variable pay is added to base pay, and it is directly linked to individual, team or organizational performance (source: author, based on Valentine et al., 2020, p. 376).

Companies can use variable pay options (also called incentives) instead of increasing base pay. This makes companies more flexible as it does not necessarily involve employees in the decision-making process. Variable pay also shifts some risk to employees, and it is more closely aligned to the employees' efforts than fixed-cost base pay. However, trade unions usually prefer guaranteed base pay increases instead of offering variable pay to employees.

It is also important to note that recent studies (such as Ogbonnaya et al., 2017) found that not all employees respond well to performance-based pay. In general, compensation does not contribute to performance, at least not directly. No matter how much firms pay to employees, they will eventually cycle through their everyday routines. In addition, it may negatively affect company culture if team members are not comfortable with the competitive work climate. Breaking down collaboration and teamwork by individual performance-based pay (which is more general than team incentives) causes more harm than good for the organization. Variable pay has not been well received in the public sector, either.

Still, variable pay structures are popular among most companies, especially if they meet the following criteria:

- variable pay is separated from base pay,
- critical success factors are available (variables that have a strong influence on organizational results),
- key performance indicators (KPIs) tell management how well the firm performs,
- performance expectations and results are clearly communicated among employees,
- pay is linked to results,
- the variable pay system is consistent with the organizational culture,
- the firm has sufficient financial resources to pay variable pay.

Figure 8.8 lists variable pay groups and their most common forms.

Individual variable pay structures tie personal efforts to additional rewards. The most common types provided to employees are the following:

- *Bonus* (also called *premium*):
 - = Bonus is linked to the organizational performance management system (Part 7). The questions of whether to pay a bonus or not, how much, to whom and when are primarily regulated in performance management policies. In its traditional form, bonus is a one-time payment (usually annually

or 2–3 times a year), and it is added to the base pay after goal attainment. The bonus amount is primarily determined by a certain percentage of individual base pay, which may vary between departments and positions within one organization.

- = Some companies offer new hires a *signing-in* (or *sign-on*) *bonus*, a one-time payment if the company highly desires the job applicant. Signing-in bonuses usually require that the new hire stays with the company for at least six months.
- = *Spot bonus* or *discretionary bonus* is offered to employees who have extraordinary achievements.
- = *Retention bonus* rewards employees for staying with the company for an extended period. Retention bonus can be a one-time payment, but nowadays companies tend to offer it monthly.
- = *Employee referral bonus* is an award given to an employee who successfully helps the company recruit new candidates. Employee referral programs were discussed in Chapter 20.
- = *Christmas bonus* or *holiday bonus* is given to employees before the winter holiday, thus saying thanks for the year’s work.
- *Sales commission*: Sales commissions complement the base salary of salespeople based on the amount of money or revenue the salesperson earns within a certain time. Sales commissions can be provided to employees in addition to base pay with a specific ratio (i.e., 60%–40%) or fixed amounts (i.e., after a certain number of new customers).
- *Non-monetary awards* can also be offered to reward key performing employees. These include gifts, travel awards, “Employee of the year/month” awards (based on peer-to-peer evaluations) or “Safest driver” awards, among others.

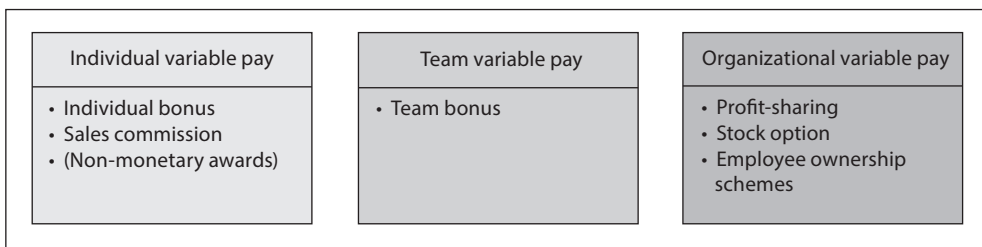


Figure 8.8
Typical Forms of Variable Pay

Source: author, based on Valentine et al. (2020, pp. 399–404).

Team variable pay connects team efforts to additional rewards. Team bonus is dominantly linked to performance management systems: instead of individual goal setting and goal evaluation, teams work together on goal attainment. Although col-

laborative work has increased in popularity in recent years, equitably compensating team members (i.e., whether to offer same-size rewards to all team members or differentiate among them) remains a challenge. In addition, a team-based operation is difficult to establish in strongly individualistic countries or industries (for a detailed description of national and organizational schemes of culture see the works of Geert Hofstede's official site: <https://www.hofstede-insights.com/>).

Organizational variable pay compensates all employees for their efforts that contribute to organizational success. The idea of “rowing the same boat” is represented here with the concept that all corporate participants have a role in overall results. Typical forms of organizational variable pay are the following:

- *Profit-sharing*: All employees receive a certain amount of cash from the company's profits based on quarterly or annual earnings after the gain is realized. In some company practices, profit-sharing is invested in securities and becomes available to the employee (or survivors) at retirement, termination or death.
- *Stock option*: To make employees or executives act like ‘owners’, some organizations let their employees purchase a certain number of shares from company stock at a discount price within a specific time period.
- *Employee stock ownership plan (ESOP)*: This is similar to a stock option. Here, the employer contributes shares of its stock to a trust, to which annual contributions are made later on. The trust holds the stock in individual employee accounts and distributes the stock to employees, usually at retirement. ESOP may have substantial tax advantages for the company, whilst it requires much more administrative work than a stock option. ESOP may also have damaging morale on employees as they own a company but have no say in its management.

31.2 Indirect Monetary Rewards

Indirect monetary rewards (tangible rewards) cover benefits, perks and training and development programmes (discussed in Part 6). With these compensation elements, employees get financial rewards without receiving cash or other direct payments.

Benefits are provided to employees as part of membership in the organization, regardless of performance (source: Valentine et al., 2020, p. 376).

Benefits can be provided to people by governments (health, unemployment or retirement insurance after the redistribution of taxes), by employers or by both. In this section, we discuss only organization-provided benefits. These also vary from country to country so we mention only the most common benefit schemes.

Benefits can be used to create a competitive advantage for the organization. They are an essential part of the employer's brand both in the internal and external labour markets. The image influences employees' decisions about which employer to work for and whether to stay or leave an organization. Benefits also have tax-favoured status in many countries (some elements can even be non-taxable), providing cost savings for both employers and employees. Benefits may be required by law, granted unilaterally by employers or obtained through collective bargaining.

Benefit programs can be designed in various ways, such as the following:

- In the case of standardized benefits, the same benefits are offered to all employees (one package fits all).
- Various forms of flexible benefits (also called *cafeteria plans*)* are also used:
 - = A *fully flexible* cafeteria plan allows employees to select the benefit they prefer from options offered by the employer and up to a certain amount. In extreme cases, an employee can swap all benefits for cash or channel the total amount into one benefit element.
 - = With *core plus option plan* cafeteria plans, the employer specifies a core set of benefits (such as medical insurance) to be compulsory. Beyond these, the employee can freely choose the other benefits s/he wants up to a specified limit.
 - = *Pre-packaging* offers different benefit menus designed to suit various groups of employees. Employees must then opt for one package from a choice of five or six packages, each having the same overall cash value. One is typically tailored to meet the needs of senior employees, while another is for those with young families, and a third one is for new graduates and so on (Torrington et al., 2008, p. 713).

Cafeteria plans can be difficult to calculate, require time for HR to administer and need a proper IT solution to track employees' choices. However, their popularity lies in the fact that these programs recognize that individual employee situations differ because of age, family status, lifestyle or health condition.

Figure 8.9 illustrates the most common benefit types.

* The name comes from the earliest types of these plans that allowed employees to choose from different benefits, just as a customer chooses among available items in a cafeteria.

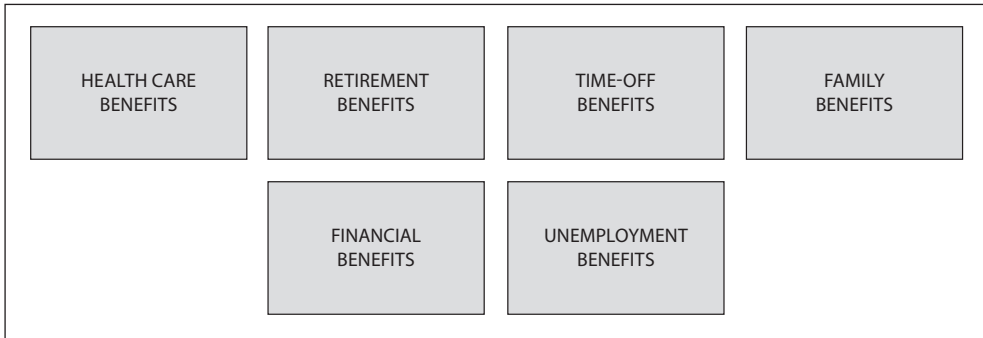


Figure 8.9
Types of Organizational Benefits

Source: author.

Perks are extra rewards or 'nice to haves' on top of benefits (source: author).

It is impossible to list all the perks that organizations may provide. Some examples of extras that are growing in popularity include the following: volunteer time, free office food/snacks/fruit/coffee, standing desks, company car, company phone, free car washes, company bikes, discount travel fares, relocation assistance, exclusive access to premium hotel suites, gym membership, on-site yoga or massage, health check-ups, break room, 'Summer Fridays' (free Fridays during summertime), reserved parking space, office with a view, pet-friendly site, work from home opportunities, laundry service, free hairdresser, childcare, tuition reimbursement, store discounts, sabbatical (paid leave), free access to cultural sites and museums, paid parental leave for both parents and free legal consultations (Glassdoor Team, 2017).

31.3 Non-Monetary Rewards

Non-monetary rewards (also called intangible rewards), as indicated in Chapter 29, cover a great variety of reward elements.

Non-monetary rewards contribute to the employees' social, emotional and psychological well-being (source: author).

They are not part of the monetary compensation system and cost the company little or no money, yet carry significant weight. Non-monetary rewards are particularly effective for employees who are comfortable with their compensations or have been at the organization for a long time.

The components of non-monetary rewards consist of job-specific and job environment-specific features (see Figure 8.10).

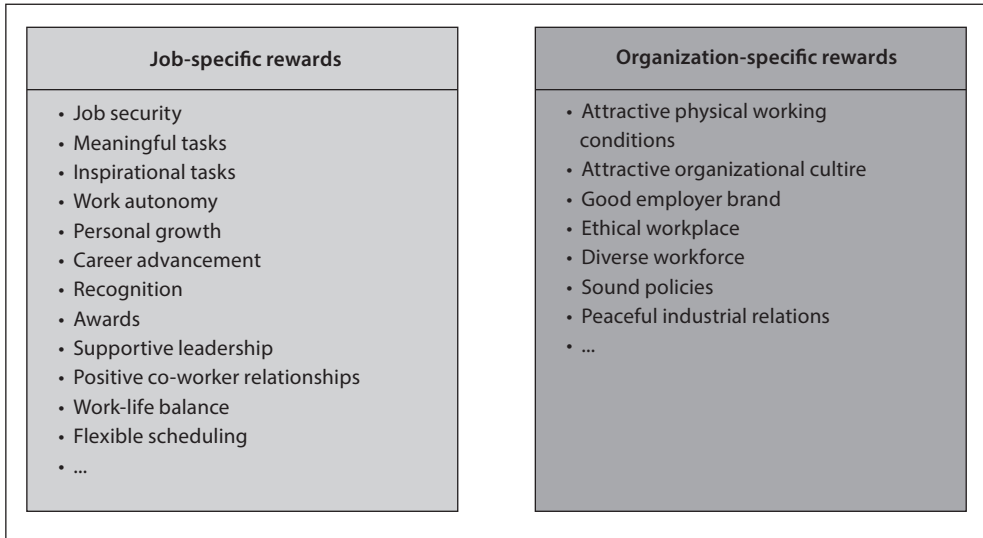


Figure 8.10
Components of Non-Monetary Rewards

Source: author.

SUMMARY

- Using total rewards systems, including compensation, is one of the critical areas of organizational and HR strategy. They have a high impact on the employer's ability to attract talented candidates from the labour market, retain current employees in the long run and support optimal employee performance in line with business strategy.
- Compensation costs represent one of the most significant operating expenses in most organizations, not only in labour-intensive industries.
- Individual pay is dominantly shaped by external, organizational, job-related and individual-related features.
- Total rewards include direct monetary and indirect monetary rewards (these are part of compensation) as well as non-monetary rewards.
- Effective total rewards and compensation systems should be in line with laws and regulations, they should be cost-effective, and they should provide performance enhancement and work peace.
- Pay equity covers external, internal, individual and procedural equity (fairness) of pay.
- External equity refers to the pay structure compared to competitors.
- Internal equity refers to pay differentials among jobs within the organization.
- Individual equity refers to pay differentials among same-job employees.
- The way in which individual pay decisions are born indicates procedural pay equity.
- Narrow pay structures, broadbanding and job family-based pay structures are techniques to set base pay ranges.
- Direct monetary rewards cover base pay, allowances and variable pay.
- Base pay is only one, but a core, component of total compensation.
- Allowances are added to base pay, and they directly compensate employee inconveniences related to work.
- Variable pay is directly linked to individual, team or organizational performance.
- Indirect monetary rewards cover benefits, perks and training and development programmes.
- Benefits are provided to employees as part of membership in the organization, regardless of performance.
- Perks are extra rewards provided to employees.
- Non-monetary rewards contribute to the employees' social, emotional and psychological well-being and connectedness to the organization.

SELF-CHECK & INDIVIDUAL AND/OR GROUP ACTIVITIES

1. What are the major categories of total rewards and compensation?
2. Think of a company you have worked for. What elements of total rewards did it offer to its employees? Put them into the categories defined in Figure 8.2.
3. Explain external, internal, individual and procedural pay equity with your own words.
4. Who are the 'red-circled' and 'green-circled' employees in an organization? How should HR handle them regarding pay?
5. Compare the minimum wages in at least three different countries.
6. What allowances do you know in your country?
7. Give five reasons for, and five reasons against, performance-based pay.
8. List examples of employee benefits in your home country.
9. List the advantages and disadvantages of cafeteria plans.
10. What would you put on your personal list of non-monetary rewards?

KEY TERMS USED IN THE CHAPTER

| | |
|-------------------------------|--------------------------------|
| allowances | job family-based pay structure |
| base pay | narrow base pay structure |
| benefits | non-monetary rewards |
| bonus | pay equity |
| broadbanding | pay survey |
| cafeteria plans | perks |
| direct monetary rewards | procedural equity |
| employee stock ownership plan | profit-sharing |
| external equity | sales commission |
| indirect monetary rewards | stock option |
| individual equity | total rewards and compensation |
| internal equity | variable pay |

GLOSSARY

Total rewards refer to both monetary and non-monetary rewards provided by the organization to attract, motivate and retain employees.

Equity theory states that individuals judge fairness (equity) in compensation by comparing their inputs and outputs against the inputs and outputs of referent others.

External pay equity exists when an employer offers workers pay that is equitable to that of other workers who perform similar jobs in other organizations.

Internal pay equity exists when employees receive pay according to the relative value of their jobs in the organization and their KSAs used in the job.

Pay range is a minimum and maximum pay rate for a specific job grade, with enough distance between the two endpoints to allow individual base pay differentiation within the pay range.

Individual pay equity is the employees' perceptions of pay differentials among individuals who hold similar jobs in the same organization.

The way in which individual pay decisions are born indicates **procedural pay equity**.

Base pay, paid as hourly wage or salary, is the minimum amount paid to employees for their work.

Allowances are added to base pay, and they directly compensate employees for their work-related extra efforts or inconveniences.

Variable pay is added to base pay, and it is directly linked to individual, team or organizational performance.

Benefits are provided to employees as part of membership in the organization, regardless of performance.

Perks are extra rewards or 'nice to haves' on top of benefits.

Non-monetary rewards contribute to the employees' social, emotional and psychological well-being.

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PART 9

Industrial Relations

The purpose of this part of the handbook is to introduce industrial relations and the role of HR in these. In a nutshell, industrial relations are different cooperation schemes of employers, employees(’ representatives) and sometimes states, who shape working conditions. Industrial relations are deeply rooted in the economic, historic and political contexts of countries. Their patterns are diverse because they appear on various levels (such as international, national, sectoral or company levels). However, a common feature of all industrial relations is that they deal with improving workers’ social and economic conditions. Industrial relations do not belong to classic HRM functions. Still, as both the nature and outcomes of cooperation have significant impacts on working conditions, HR must have a crucial role in shaping it by providing a bridge between employers and employees or by representing the employer in the dialogue. Dealing with industrial relations is also an academic subject and part of the curriculum of undergraduate or graduate programs of universities, either as a separate program or as a specialization of human resource management.

Part 9 of the SHRM Handbook has the following learning objectives:

- understanding the term *industrial relations*,
- differentiating between bi- and tripartite forms of industrial relations,
- providing an overview of the roles of the actors of industrial relations: state, employers and workers’ representatives,
- elaborating on the most significant features of trade unions,
- explaining briefly the three classic approaches to industrial relations: the unitarist, pluralist and radical approaches,
- describing the primary differences between the two bodies of workers’ representation: trade unions and works councils,
- introducing the basic tasks and responsibilities of management and HR related to industrial relations, including collective bargaining and handling collective labour disputes.

CHAPTER 32

Defining Industrial Relations

Industrial relations comprises of two terms: industry and relations. In this context, *industry* refers to any public or private business in which employees are engaged. By *relations*, we mean the relationships among state, employers and workers' representatives, which are typically, but not exclusively, trade unions. The term has several synonyms such as labour relations, social dialogue (which is primarily used in the EU), hearing the employees' voices or dealing with unionized workers.

Industrial relations refer to the interactions of employers, workers' representatives and sometimes states, who negotiate and agree upon working conditions (source: author).

As indicated in Chapter 11, labour law, beyond *individual legal relationships* (established between one employer and one employee) also regulate collective relationships. This latter category, which deals with workers as groups, practically covers the legal background of industrial relations. In this way, the emergence of trade unions, which first appeared in Great Britain during the industrial revolution as representatives of workers, resulted in the development of industrial relations and collective labour law in many countries. This process finally led to the evolution of labour law as a separate legal branch. Good industrial relations reduce work-related unrest and the possibility of strikes and improve employee morale by establishing the institutions of industrial democracy.

Industrial relations can be either *bipartite* (between employers and workers' representatives) or *tripartite* (among state, employers and workers' representatives). See Figure 9.1.

The role of each actor can be described as follows:

- *State*: States have both indirect and direct roles in shaping industrial relations.
 - = Indirect roles: The state has an indirect role in industrial relations when it establishes its legal framework or the rules of the game. It is also considered as an indirect role when the government assists employers and workers in reaching an agreement by offering them voluntary mediation services.

= Direct roles: A typical example for the direct role of state and for advanced tripartite industrial relations is when national-level employers and workers' representatives together with the state negotiate on matters such as cross-industry minimum wage, overtime provisions, health and safety issues or other work-related topics. The state's interest in doing so derives from its desire to move the national economy in a particular direction and maintain social peace by dialogue. These kinds of direct tripartite industrial relations also operate on international levels: the ILO and the EU (the European Commission) have platforms where member states sit together with international umbrella bodies of employers and workers to negotiate on working conditions.

In the case of public institutions, the state acts as an employer in industrial relations.

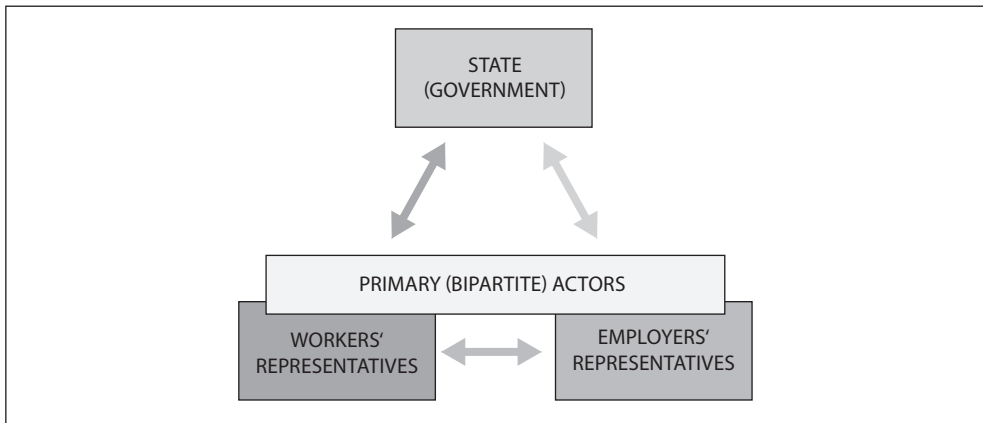


Figure 9.1
Bi- and Tripartite Schemes of Industrial Relations

Source: author.

- *Employer(s)*: Employers may participate alone or through employers' organizations in industrial relations (such as chambers of commerce, economic federations or other employers' organizations that deal with social and labour affairs). Organizations unite in federations on higher-level negotiations (i.e., on regional, national, international or global levels).*

* Some examples of employers' federations in Europe are the following: BUSINESSEUROPE (for private firms), European Association of Craft, Small and Medium-Sized Enterprises (UEAPME), European Centre of Employers and Enterprises providing Public Services and Services of General Interest (CEEP, for public employers). The biggest global employer federation is the International Organization of Employers (IOE).

Some employers would not negotiate with trade unions because they affect how workplaces are managed. In organizations where independent contractors (e.g., Uber or Lyft) or temporary workers are numerous, employers try to avoid the unionization of workers as the move may harm their flexibility. Other employers seek to build a cooperative relationship with trade unions because they believe that better overall treatment of workers may increase job performance and tenure.

- *Workers' representatives*: Employees represent themselves in industrial relations in most countries by trade unions. Trade unions reflect the conviction that only by acting together can workers improve their employment situations.

A **trade union** (also called labour union) is a legal entity that consists of employees who have a common interest in developing the working conditions of its members (source: author, based on EurWork & European Observatory of Working Life, 2009).

One of the primary determinants of whether employees want to unionize is how well they are treated and managed by their employer. When basic expectations are not met, employees feel disrespected, unsafe, underpaid, and they see unions as an option for change.

Trade unions may unionize workers by more selection criteria:

- = general unions: open to all employees, irrespective of their craft or industry,
- = craft union: with workers who belong to the same profession or craft (e.g., carpenters, electricians, mechanists), irrespective of industry,
- = industrial union: with workers who unionized based on the industry they are in, irrespective of their craft (e.g., IG Metall for the metal industry in Germany).

To increase their bargaining powers, trade unions join federations of different scales. As the bottom-up building logic dictates, single company trade unions (no matter whether these are general or craft trade unions) may join local, regional or industry federations, which are integrated into national,* international** or global confederations*** of trade unions.

Figure 9.2 illustrates different types of trade unions.

* Some examples of national trade union confederations are the following: Austrian Trade Union Federation, Danish Trade Union Confederation, German Confederation of Trade Unions, Pakistan National Federation of Trade Unions, etc.

** Some examples of EU-scale trade union confederations are the following: European Trade Union Confederation (ETUC), Eurocadres (Council of European Professional and Managerial Staff), CEC (European Confederation of Executives and Managerial Staff).

*** Some examples of global trade union confederations are the following: World Federation of Trade Unions (WFTU), Industrial Workers of the World (IWW), International Workers' Associations (IWA).

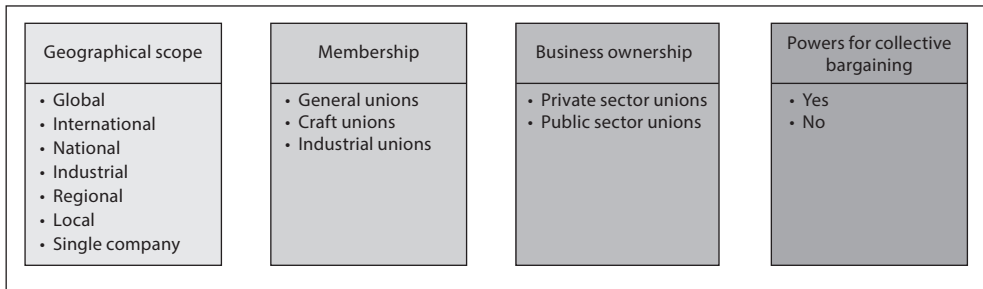


Figure 9.2
Different Types of Trade Unions

Source: author.

Since the 1980s, trade union membership has generally been declining worldwide, primarily because many members retired and there is a growing number of young employees who choose not to join trade unions. *Trade union density* is the ratio of wage and salary earners who are trade union members to the total number of wage and salary earners in the economy. Accordingly, it is a standard measure to compare the powers of trade unions across countries. Figure 9.3 shows countries with the highest trade union density.

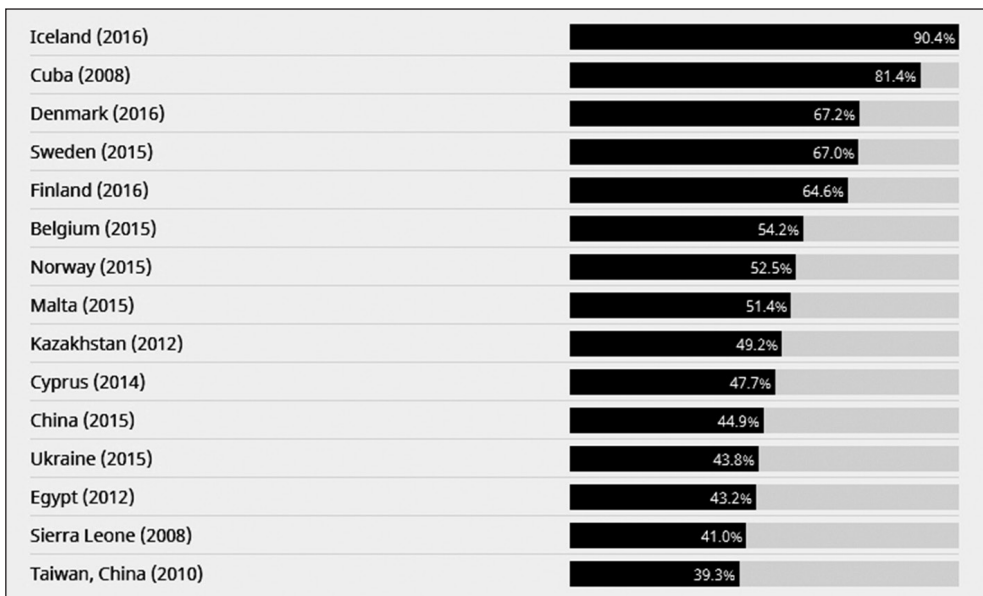


Figure 9.3
Countries with Highest Trade Union Density Worldwide

Source: ILOSTAT (2021).

In some countries, employees have another body that complements trade unions to represent their needs: *works councils*. In addition to the long-established history of trade unions, some European countries introduced mandatory consultation and information procedures between employers and employees. In the beginning, these procedures were linked to extraordinary business situations (such as collective redundancies or mergers and acquisitions). Later, they became standing and permanent tools to exchange information on a wide range of work-related topics. The employees' right for information and consultation usually applies to all workplaces over a specific size.

A **works council** is an elected body of workers that exercises workplace-level consultation with local management by representing the entire workforce (source: author).

The similarities and differences between trade unions and works councils will be covered in detail later in this chapter.

32.1 Unitarist, Pluralist and Radical Approaches to Industrial Relations

According to Alan Fox (1966), an English industrial sociologist, industrial relations have three frameworks, and each offers different practices to resolve work-related conflicts.

The *unitarist approach* of industrial relations views an organization as an integrated and homogenous whole, using the concept of 'one happy family'. Its members share the same interests, they are loyal to the firm, and cooperation between management and workers is rooted in the organizational culture. There is a shared vision and purpose. In this way, no 'two opposing sides' of business exist, and conflict is a result of poor management. These kinds of organizations do not have trade unions as workers' rights are provided without extra negotiations. Critics of this approach (Wood & Elliot, 1997) argue that this is not a realistic option as it denies the legitimacy of conflict. Organizations experience conflict, and, without agreed communicational procedures, tension will occur between the employees and management. Organizations that are smaller in size and follow the unitarist approach, may, however, manage conflict resolution effectively even by ad hoc conflict resolution procedures.

The *pluralist approach* frames the organization as a whole consisting of powerful and divergent subgroups, out of which the two most dominant groups are management and trade unions. These groups have opposing interests: management wants to maximize profits at low costs, while trade unions, on behalf of their members, wish to maximize wages and enjoy increased benefits. In contrast with unitarism, pluralism recognizes the nature of conflict and the importance of negotia-

tions, which is channelled into collective bargaining. Mediation seeks to find a balance between what the workforce wants and what the management suggests. However, the authority/loyalty conflict appears to be a difficulty for the employees here: they need to be loyal to their management and their labour leaders at the same time, with different underlying drives (to keep the job vs. to develop the working conditions). In the pluralist approach, HR needs to have the expertise to handle employee unrest to avoid more damaging actions such as strikes.

Lastly, the *radical approach* (also called the Marxist approach) to industrial relations suggested that employees and employers were bound to have a conflict due to capitalism, which fundamentally divided the interests of capital and labour. The approach, which was dominant during the 1920s and 1930s, considered this conflict inevitable, and it suggested that trade unions were the workers' natural response to their exploitation by capital. It was argued that the imbalance in powers would not be restored as long as workers were prevented from bargaining collectively over issues related to work and over all economic parameters of the business, until the final collapse of the capitalist system. The fall of this approach happened in the 1970s and 1980s.

The pluralist approach is by far the most popular approach among industrial relations specialists and trade union representatives. The point to be made here is that awareness of the differences among the approaches is necessary. If we wish to analyse or develop a specific industrial relations practice, first we need to understand the explicit traits of the models described.

32.2 Representing Workers: Trade Unions and Works Councils

As indicated previously, different institutions represent workers' rights in different countries. Within industrial relations, we distinguish between *single-channel* and *dual-channel* systems of operations.

In *single-channel system* countries, the employees' workplace representation (i.e., rights to information, consultation) is controlled exclusively by trade unions. The advantage of this system lies in its simplicity and the lack of possible rivalry between two different channels of employees' workplace representation. However, these systems might exclude non-union members from the collective right of being involved in consultations and dialogues with management.

In *dual-channel systems*, national labour law provisions provide two separate channels for employee representation on organizational levels: trade unions and works councils. Trade unions are typically occupied with collective bargaining procedures with management to develop their members' working conditions. They intend to reach final agreements in the form of collective agreements. On the other hand, works councils are consultative bodies of workers, aiming to have a say in

work-related management decisions. This practice can be found most characteristically and traditionally in Germany, Austria (Betriebsrat) and Hungary (Üzemi tanács). In these countries, the powers, duties and bodies of trade unions and works councils are (more or less) separated.

Figure 9.4 illustrates the differences between trade unions and works councils.

| Aspects | Trade unions | Works councils |
|----------------------|---|---|
| Idea | Freedom of association | Right for information and consultation |
| Membership | Members join and leave on voluntary bases. Members are continuously recruited to increase bargaining power | Fix-sized, elected and obligatory body above a certain headcount |
| Body | Civil organization. Separate legal entity with a distinctive body from the employer | Shop-floor organization only, integrated into the structure of the firm |
| Leadership | Leaders and committees elected by and from members. | Leader elected by and from members |
| Structure | They may join federations on industrial, regional, national, international and global levels | They follow the firm's vertical structure They may have various vertical layers: single site, company-wide or international forums |
| Aim | Improving the working conditions of its members | Having employees participate in the organizational decision-making process Reducing workplace conflict by improving and systematising communication channels |
| Scope of operation | Trade union members | All employees of the firm |
| Budget | Fees paid by members | Provided by employer |
| Relation to employer | Conflicting interests | Cooperation, participating in work-related decisions |
| Rights | Right for collective bargaining and signing collective agreements. Right to organize strikes | Participation in management decision. Always strike-neutral |

Figure 9.4
**Differences Between Trade Unions and Works Councils
in Dual-Channel System Countries**

Source: author.

While the list of features in Figure 9.4 show a clear distinction between the two institutions, in organizations where both trade unions and works councils operate, it may be difficult for employees to differentiate between their responsibilities. Because of the principle of *freedom of association*, the number of active trade unions within firms is not maximized. In this way, in large corporations where several, sometimes competing, trade unions and various layers of works councils exist simultaneously, managing industrial relations can be challenging.

CHAPTER 33

Managing Industrial Relations within the Organization

Industrial relations, when examined from an organizational perspective, include various tasks and activities. In Chapter 3, the significant functional areas of HR departments were explained. If the task is complex and has strategic importance, dealing with industrial relations is a separate responsibility within HR.

In their most complex form, corporate industrial relations include dealing with works councils, negotiating with trade unions as well as participating in the collective bargaining process and handling collective labour disputes, both peaceful and forceful.

As works councils exist only in few countries, the duties that management or HR has related to them are only briefly indicated in this handbook. Works councils are committees of employee representatives within companies above a certain size, whose goal is to reduce labour conflict and promote harmonious work-related changes. To achieve these goals, works councils usually have the following rights:

- *right to be informed by management* about the general business situation,
- *right to consult with management* (dialogue) on prospected business decisions that have impact on a large number of employees, such as mass reductions, introducing flexible work schemes, monitoring workers' techniques or equal opportunity initiatives,
- *right for co-determination with management* in some area of corporate policy, which means that the employer may not make a decision without the works council.

Works councils in Europe are generally separate from collective bargaining activities and formally independent from trade unions.

33.1 Dealing with Trade Union(s) and Participating in Collective Bargaining

Coming from the right of freedom of association, workers are free to establish, join and leave trade unions or remain neutral in this respect. Employers have no legal tools that impact this right. Discrimination on the basis of the employees' union

membership is prohibited by law. If workers' unionization occurs within an organization, management should consider the benefits of trade union recognition and develop, where possible, a positive relationship with them. Freedom of association also means that workers may establish more than one trade union per enterprise. However, *collective bargaining may run only with formally recognized trade unions.*

Collective bargaining is a voluntary process whereby representatives of management and workers (i.e., trade unions) negotiate on working conditions and relations between them, which leads to the conclusion of a collective (bargaining) agreement (source: author, based on Valentine et al., 2020, p. 551).

The existence of freedom of association does not necessarily mean an automatic recognition of all trade unions for bargaining purposes. Only the most powerful trade unions gain the right to bargain collectively with the employer. In most countries, the eligibility for this right is determined by the number of trade union members working for the company. Membership numbers may be decided by an outside certifying authority, such as a labour department or an independent statutory body, as the workers' union membership is considered personal data.

Collective bargaining is at the heart of trade unionism. It settles issues through dialogue and consensus, rather than through conflict or state regulation. By collective bargaining, the parties may adjust working conditions to their particular industry or workplace.

Collective bargaining (negotiation) is *always bipartite*. The government is a party to collective bargaining only as an employer in the public sector. Negotiation involves any form of discussion, formal or informal, intending to reach an agreement. For collective bargaining to be effective, these negotiations must be conducted in 'good faith'. The principle of good faith implies that the parties make every effort to reach an agreement, conduct genuine and constructive negotiations, avoid unjustified delays in negotiations, respect agreements concluded and applied in good faith and give sufficient time to discuss and settle collective disputes (ILO, 2015).

During collective bargaining, parties cover the following two topics:

- *working conditions*: the focus of collective bargaining is on working conditions, which, together with terms of employment, can include wages, hours of work, annual bonus, termination pay, annual leave, maternity leave, occupational safety and health and other matters most suitable for the industry or the workplace,
- *relations between parties*: issues on relations between the parties can include facilities for trade union representatives, procedures for conflict resolution, consultation, cooperation and information sharing.

The goal of collective bargaining is to conclude a collective agreement.

Collective (bargaining) agreements, or C(B)As, are agreements in writing regarding working conditions and terms of employment that are concluded between:

- an employer (or a group of employers / employers' organizations)
- one (or more) representative workers' organizations (source: ILO, 1951).

Collective agreements rank immediately behind law provisions as a source governing the terms of employment relationships. They can occur on an enterprise level, on a multi-employer level, on a sectoral or industry level and on a national level. It is up to the parties themselves to decide on what level they want to bargain. For further details on collective agreements, see Chapter 12 on the internal sources of law.

On all possible levels, the collective bargaining process consists of the stages illustrated in Figure 9.5.

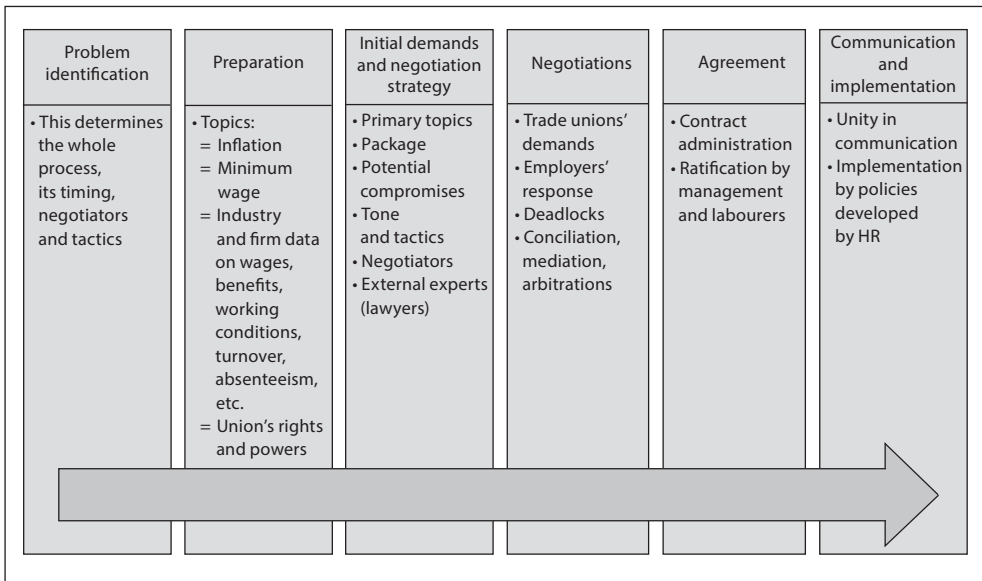


Figure 9.5
Possible Stages of Collective Bargaining Process

Source: author.

In most cases, collective bargaining takes place between internal actors, such as management members including HR and trade union representatives. In some cases, however, when negotiations come to deadlock or threaten with violence, external participants may help parties solve conflicts in peaceful ways and reach agreement (through conciliation, mediation and arbitration, as discussed later in this chapter).

33.2 Handling Labour Disputes

The official definition of ILO on labour disputes is as follows:

Labour dispute means any controversy that arises between a worker and an employer or between a trade union / works council and an employer regarding either of the following:

- the application of the law, collective agreement, work rules, employment contracts or customary rules (*rights dispute*),
- any disagreement that occurs during bargaining on labour issues (*interest dispute*) (source: ILO, 1981).

On the basis of this definition, labour disputes have the following types:

- Rights vs. interest disputes:
 - = *Rights disputes* arise from a breach (or alleged breach) of law or the employment contract of the collective agreement and are generally resolved in courtroom litigations.
 - = *Interest disputes* are about the future intentions of labour parties. These are not covered by any law or agreement, but they are currently subject to negotiations. Interest disputes obviously cannot be resolved by courtroom litigation.
- Individual vs. collective disputes:
 - = *Individual disputes* occur between individual labour parties, that is, between the employee and the employer.
 - = *Collective disputes* occur between collective labour parties, that is, between the trade union and the employer or the works council and the employer.

Rights and interest disputes can be either individual or collective.

The different types of labour disputes are illustrated in Figure 9.6.

33.2.1 Peaceful Conflict Resolution Techniques

Historically, methods used to settle *rights disputes* have ranged from negotiation to courtroom litigation and sometimes even physical combat. The legal needs of countries, multinational companies and ordinary people have changed over the past decades. When faced with a dispute, business people learned that it is more advantageous to reach practical and peaceful agreements than to fight for years and spend vast amounts of money in courtrooms to achieve resolution. Therefore, more and more businesses turned to prompt legal alternatives, called *alternative dispute resolution* (ADR) techniques. Additionally, as no litigation is available for work-related interest disputes, ADR techniques are, in fact, the only external conflict resolution techniques available here.

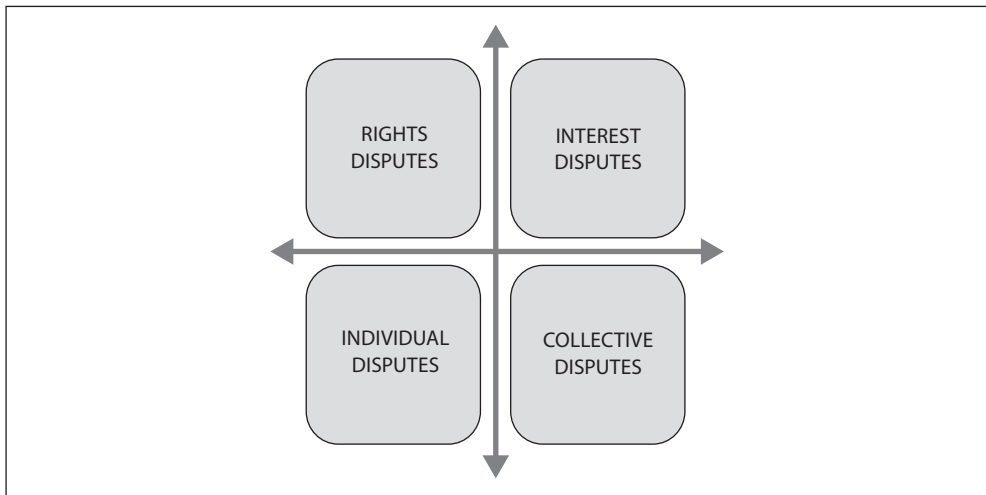


Figure 9.6
Types of Labour Disputes

Source: author.

Alternative dispute resolution (ADR) refers to settling a complaint out of court with the assistance of an impartial dispute resolution body or person (source: European Commission, 2021).

The main ADR alternatives are conciliation, mediation and arbitration (ILO, 2007):

- *Conciliation*: This is the most informal of the three ADR techniques. By conciliation, a third party facilitates the dialogue between management and trade union negotiators to reach a voluntary settlement, without suggesting a solution. The conciliator is a neutral third party who drives the negotiating parties towards an agreement. In theory, both collective *rights* and *interest* disputes can be settled through conciliation. In practice, however, conciliation is more commonly used at the negotiation phase of collective bargaining when there are interest disputes between the parties.
- *Mediation*: This is the most widely used method for resolving *interest* disputes among parties. During mediation, a neutral third party suggests ideas to help negotiators to reach an agreement.
- *Arbitration*: This technique is not widely practiced in labour disputes. This is a quasi-judicial process, in which a neutral party provides a decision to resolve the dispute. Arbitration is generally considered as an option of last resort in cases where the social partners cannot otherwise resolve their differences. More specifically, arbitration typically follows unsuccessful attempts at mediation between the parties.

ADR techniques are offered to negotiating parties by statutory bodies or agencies, often at both national and local levels.

As trade unions are confrontational worker representative bodies and works councils are cooperative ones, collective labour disputes (both rights and interest disputes) are more common between trade unions and employers than between works councils and employers.

33.2.2 Forceful Conflict Resolution Techniques

If ADR techniques are not successful in conflict resolution, more aggressive means may put pressure on the labour partner. Both management and trade unions have such tools in their hands, but industrial strike is probably the most well known among all.

Strike is when trade union members refuse to work in order to put pressure on the employer (source: Valentine et al., 2020, p. 555).

The right to strike may serve several purposes, such as the following:

- It is a fundamental human right recognized in international human rights treaties* by the Council of Europe, by EU instruments and in the constitutions of many countries.
- It is a weapon in collective bargaining as a sanction and is used when the parties reach deadlock in negotiations for a new agreement (interest dispute).
- It can be a weapon of trade unions when the employer fails to comply with the terms of an existing agreement (rights dispute).

The perspective to be used varies from country to country. While Germany, the USA or the UK are at the industrial relations end of the spectrum, France, Italy and Portugal are at the fundamental human rights end of the same spectrum (Collins et al., 2019).

As strikes cause severe damage, the scope of protected industrial action is highly restricted in many countries. Legally protected strikes usually have the following features:

- The trade union needs to notify the employer of its intention to hold an industrial action ballot (after the trade union members' secret voting on whether to strike or not).
- The trade union holds a members' ballot, which follows strict procedures.

* These treaties include the International Covenant on Economic, Social and Cultural Rights of 1966 and ILO Convention 87.

- The trade union gives notice to the employer of its intention to take industrial action.

Strikes may have different types:

- *Legal strike*: This is an industrial action that meets all the legal requirements of organizing strikes.
- *Wildcat strike*: There is no consent given for a strike by the trade unions (un-authorized strike). This is generally illegal.
- *Sympathy strike* (also called *secondary action* or *boycott*): This happens when workers of one unit or industry go on strike in sympathy with workers of another unit or industry, who are already on strike. In continental Europe, this is generally lawful.
- *Warning strike* (also called *token strike*): This is the stoppage of work for a short time (e.g., 1–2 hours), usually during collective bargaining. The aim is to demonstrate the determination and ability of employees and trade unions to organize an open-ended strike, if necessary. This is lawful in many countries.

Strikes are, however, not the only ‘weapon’ in the hands of trade unions. Figure 9.7 lists different types of industrial actions widely used by trade unions if needed.

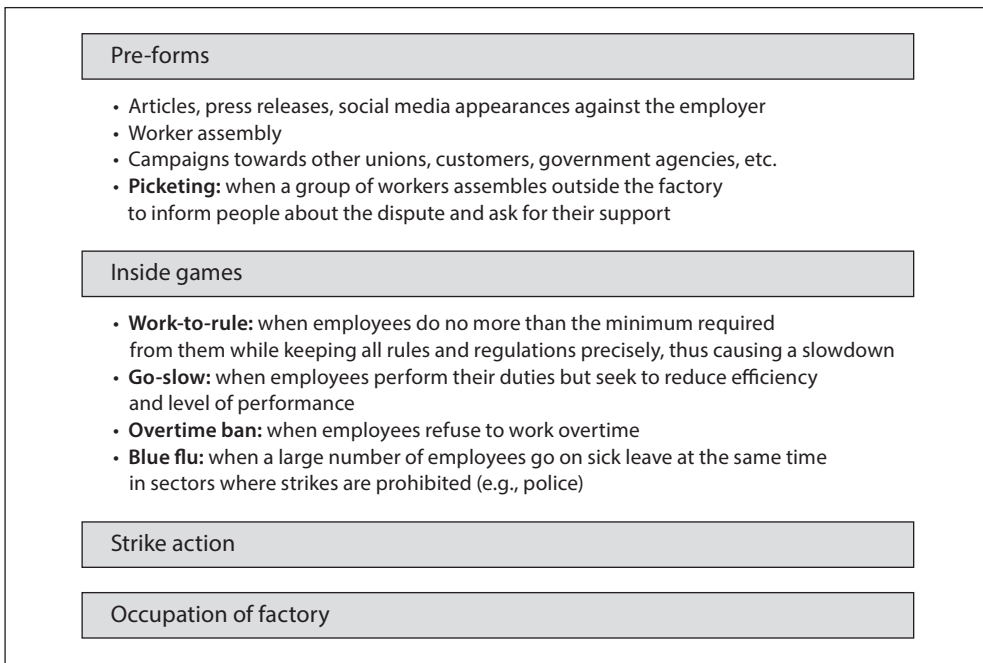


Figure 9.7

Typical Industrial Actions of Trade Unions

Source: author.

Most employers aim to avoid industrial action; however, sometimes it is impossible. Handling strike actions is incredibly complex. Employees participating in strikes practically act in breach of their employment contract but gain special protection if the unions organize strikes by taking the appropriate legal steps. Firstly, this issue needs to be examined. If a strike is unlawful, the employer might consider dismissing the employees who participate in the strike.

In most cases, the action is lawful, and the employer must consider how to minimize disruption. Some companies negotiate with the union during the strike. Maintaining honest and open communication with both the trade unions and all employees is vital. Communicating to all employees is essential as not all of them may be trade union members. In this way, employers guarantee that their message is delivered directly and accurately to everyone.

To minimize the damage caused by the strike, the following management decisions can also be made:

- The employer may *encourage the staff* who are called out to strike *to attend work* instead. However, no undue pressure can be made here; the right to strike should be provided to everyone.
- Employers should offer *free passage to anyone who agrees to work*. The employer should protect these employees from potential attacks from strikers. Bullying or harassment can and should be dealt with under the employer's usual procedures.
- Some companies hire temporary or permanent replacement workers called *strike-breakers*. However, in most countries it is illegal to use employment agencies to supply staff for employees being on strike.
- Another counteraction to a strike is a *lockout*, a form of work stoppage in which the employer refuses to allow employees to work. Lockout is prohibited in many countries.

Beyond such direct counteractions to strike, organizations also have various options to put pressure on trade unions, such as creating internal and (social) media releases against trade unions or dividing the employees on strike and turning them against each other (“divide and rule” principle). Further alternatives such as re-scheduling production deadlines, outsourcing or digitalizing tasks and using robots or cobots (collaborative robots) instead of humans are longer-term solutions to minimize strike risk. The management may also negotiate and sign an agreement with trade unions during times of peace on minimum task delivery in the case of future strikes.

SUMMARY

- Industrial relations are different cooperation schemes of employers, employees' representatives and sometimes states, who shape working conditions.
- Collective labour law regulates industrial relations.
- Industrial relations can be either bipartite (employer & trade union) or tripartite (employer & trade union & state).
- A trade union (also called labour union) is a legal entity that consists of employees who have a common interest in developing the working conditions of its members.
- To increase their bargaining powers, trade unions join federations of different scales.
- Trade union membership has generally been declining worldwide.
- Trade union density is the ratio of wage and salary earners who are trade union members to the total number of wage and salary earners in the economy.
- A works council is an elected body of workers that exercises workplace-level consultation with local management by representing the entire workforce.
- In single-channel system countries, the employees' workplace representation (i.e., rights to information, consultation) is controlled exclusively by trade unions.
- In dual-channel systems, national labour law provisions provide two separate channels for employee representation on organizational levels: trade unions and works councils.
- Collective bargaining is a voluntary process whereby representatives of management and workers (i.e., trade unions) negotiate on working conditions and relations between them, which leads to the conclusion of a collective (bargaining) agreement.
- Collective bargaining is at the heart of trade unionism.
- Collective bargaining is always bipartite.
- Collective (bargaining) agreements, or C(B)As, are agreements in writing regarding working conditions and terms of employment that are concluded between an employer (or a group of employers / employers' organizations) and one (or more) representative workers' organizations.
- Collective agreements rank immediately behind law provisions as a source governing the terms of employment relationships.
- Labour dispute means any controversy that arises between a worker and an employer or between a trade union / works council and an employer. It is either a rights or an interest dispute.
- Alternative dispute resolution (ADR) refers to settling a complaint out of court with the assistance of an impartial dispute resolution body or person. The typical forms of ADR include conciliation, mediation and arbitration. ADR is a common way of interest conflict resolution in many countries.

- If ADR techniques are not successful in conflict resolution, more aggressive means may put pressure on the labour partner.
- Both employers and trade unions may use industrial actions to put pressure on each other during labour disputes.
- The right to strike is a fundamental right of employees in many countries.
- Strikes have various lawful and unlawful forms in countries.

SELF-CHECK & INDIVIDUAL AND/OR GROUP ACTIVITIES

1. Explain the purpose of trade unions briefly with the help of examples.
2. List and describe the most powerful trade unions in your country.
3. What is the trade union density in your country? How do you think more young workers could be attracted to trade unions?
4. Describe the collective bargaining process step by step.
5. Give an example of a successful collective agreement in your country. What topics does it cover?
6. Give an example of each of the following labour dispute types:
 - a) individual rights dispute,
 - b) individual interest dispute,
 - c) collective rights dispute,
 - d) collective interest dispute.
7. How widely used are ADR techniques in your country? What is the difference between conciliation and mediation?
8. Do some research to find out which industries are prohibited from going on strike in your country. What are the reasons behind this?
9. What decisions should an organization take if a strike is likely to happen?
10. List and describe the most significant strikes of your country. Elaborate on the relevance of the industry and the company as well as the goals and achievements.

KEY TERMS USED IN THE CHAPTER

| | |
|--|--|
| alternative dispute resolution (ADR) | mediation |
| arbitration | pluralist approach to industrial relations |
| bipartite industrial relations | radical approach to industrial relations |
| collective bargaining | right for information and consultation |
| collective (bargaining) agreement | rights dispute |
| collective dispute | single-channel systems of industrial relations |
| conciliation | strike |
| dual-channel systems of industrial relations | strike-breakers |
| freedom of association | trade union |
| individual dispute | trade union density |
| interest dispute | tripartite industrial relations |
| labour dispute | unitarist approach to industrial relations |
| lockout | works council |

GLOSSARY

Industrial relations refer to the interactions of employers, workers' representatives and sometimes states, who negotiate and agree upon working conditions.

A **trade union** (also called labour union) is a legal entity that consists of employees who have a common interest in developing the working conditions of its members.

A **works council** is an elected body of workers that exercises workplace-level consultation with local management by representing the entire workforce.

Collective bargaining is a voluntary process whereby representatives of management and workers (i.e., trade unions) negotiate on working conditions and relations between them, which leads to the conclusion of a collective (bargaining) agreement.

Collective (bargaining) agreements, or C(B)As, are agreements in writing regarding working conditions and terms of employment that are concluded between an employer (or a group of employers / employers' organizations) and one (or more) representative workers' organizations.

Labour dispute refers to any controversy that arises between a worker and an employer or between a trade union / works council and an employer regarding the application of the law, collective agreement, work rules, employment contracts or customary rules (rights dispute) or any disagreement that occurs during bargaining on labour issues (interest dispute).

Alternative dispute resolution (ADR) refers to settling a complaint out of court with the assistance of an impartial dispute resolution body or person.

Strike is when trade union members refuse to work in order to put pressure on the employer.

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Glossary

The **720-degree performance appraisal system** includes two 360-degree appraisals: the first appraisal measures the employee's current level of performance (pre-measurement), and the second appraisal measures the performance after a certain period (post-measurement). The comparative analysis of pre- and post-measurement results provides the individual and management sufficient information on performance changes.

Allowances are added to base pay, and they directly compensate employees for their work-related extra efforts or inconveniences.

Alternative dispute resolution (ADR) refers to settling a complaint out of court with the assistance of an impartial dispute resolution body or person.

Base pay, paid as hourly wage or salary, is the minimum amount paid to employees for their work.

Benefits are provided to employees as part of membership in the organization, regardless of performance.

Collective bargaining is a voluntary process whereby representatives of management and workers (i.e., trade unions) negotiate on working conditions and relations between them, which leads to the conclusion of a collective (bargaining) agreement.

Collective (bargaining) agreements, or C(B)As, are agreements in writing regarding working conditions and terms of employment that are concluded between an employer (or a group of employers / employers' organisations) and one (or more) representative workers' organisations.

Competitive advantage refers to any factor that allows a company to differentiate its product or service from those of its competitors in order to increase market share.

Development refers to all organizational and individual efforts to enhance the individual's abilities, knowledge and attitude for future responsibilities.

Discrimination is an approach that introduces unjust treatment towards a person or a group of people because they possess protected characteristics.

Dismissal refers to a management decision terminating the employment contract against the employee's will.

Downsizing is an organizational decision to reduce overall costs (financial costs, physical costs), including labour costs.

Employee turnover is when employees leave the organization within a specific time period.

The **employer brand** is a distinctive image of the organization as an employer. Employer branding aims to engage current employees and attract potential future talent.

The **employment relationship** is established between an individual employee and an employer. This relationship is shaped by the mutual agreement of the parties, by legal regulations and by the outcomes of social partner negotiations.

Equity theory states that individuals judge fairness (equity) in compensation by comparing their inputs and outputs against the inputs and outputs of referent others.

Exit interviews are structured interviews with parting employees to gather information about the reasons for leaving to improve organizational recruiting and employee retention.

Exit management refers to both employer- and employee-initiated exits from the employment relationship.

External pay equity exists when an employer offers workers pay that is equitable to that of other workers who perform similar jobs in other organizations.

The **hierarchy of laws** means that a legal source at a lower rank of the hierarchy may not contradict any provisions above that rank.

HR analytics is an evidence-based approach that deals with data related to employee performance (people analytics) and HR practices to improve overall organizational performance.

Human capital is the collective value of capabilities, knowledge, skills, life experiences and motivation of the organizational workforce.

Human resource management is designing formal systems in an organization to manage human talent for accomplishing organizational goals.

Human resources demand requires analysing, reviewing and attempting to predict the workforce need of the organization in order to achieve its strategy.

Human resources supply forecasting attempts to predict the availability of internal and external human resources for the organization.

Individual pay equity is the employees' perceptions of pay differentials among individuals who hold similar jobs in the same organization.

Industrial relations refer to the interactions of employers, workers' representatives and sometimes states, who negotiate and agree upon working conditions.

Internal pay equity exists when employees receive pay according to the relative value of their jobs in the organization and their KSAs used in the job.

Job refers to a group of tasks, duties and responsibilities that constitutes an employee's total work assignment.

Job analysis is a systematic way to gather and analyse information about the content and human requirements of organizational jobs and the context in which jobs are performed.

Job description is a result of job analysis that identifies the purpose, scope, tasks, duties, responsibilities, reporting relationships and working conditions of a particular job.

Job design identifies tasks that an employee is responsible for in a particular job and relates these to other jobs in the organization.

Job evaluation is a systematic process designed to determine the relative worth and importance of a job within a particular organization.

Job grading is the grouping of same-level jobs in order to simplify pay policy.

Job hierarchy means ranking organizational jobs from the lowest (simplest) to the highest (most complex) jobs.

Job redesign refers to the changing of tasks or of the way tasks are performed in a particular job in order to improve performance.

Job specification is a result of job analysis. This is the detailed list of the knowledge, skills and abilities (KSAs) that an individual needs in order to perform a job satisfactorily.

Labour dispute refers to any controversy that arises between a worker and an employer or between a trade union / works council and an employer regarding the application of the law, collective agreement, work rules, employment contracts or customary rules (rights dispute) or any disagreement that occurs during bargaining on labour issues (interest dispute).

The **multisource (or 360-degree) appraisal system** analyses the individual's performance from all possible sides: from the viewpoint of the direct supervisor, skip-level manager, subordinates, co-workers, customers, suppliers (if applicable) and their self-evaluation.

Non-monetary rewards contribute to the employees' social, emotional and psychological well-being.

Onboarding is a planned introduction of new employees to their jobs, co-workers and the organization.

Organizational culture is the collection of values, expectations and practices that guide and inform the actions of all members in an organization.

Outplacement is the effort made by a downsizing company to help the employees' transition to new jobs and help them reorient themselves in the labour market.

Outsourcing is contracting out a non-core business function to an external supplier that involves transferring people, processes and assets.

Pay range is a minimum and maximum pay rate for a specific job grade, with enough distance between the two endpoints to allow individual base pay differentiation within the pay range.

Performance appraisal (PA) is the process of evaluating how well employees performed their jobs in the past compared to a set of previously set standards and communicating this information to the employees periodically.

Performance management (PM) is a complex future-oriented management system with a holistic approach that incorporates performance appraisal, but it is extended with the following features or activities:

- linking employee performance goals to business objectives (strategic relevance),
- ongoing monitoring of employee performance with proper feedback and two-way communication between supervisor and employee,
- performance-related management decisions based on the outcome of the appraisal talk.

Perks are extra rewards or 'nice to have's' on top of benefits.

The **policy of equal opportunities** includes all legal and non-legal tools that serve the purpose of allowing different groups of society to appear equally valid or at least decrease the number of unjust treatments they may experience.

Positive action is a form of voluntary action and an encouragement to create more diverse workplaces.

Positive discrimination (or affirmative action) is a policy or a programme that provides advantages for certain groups of people who are seen to have traditionally been discriminated against.

Pre-boarding is a sequence of introduction activities for new hires from the time of signing the employment contract until the first working day.

The way in which individual pay decisions are born indicates **procedural pay equity**.

Protected characteristics are age, disability, gender reassignment, marriage and civil partnership, pregnancy and maternity, race, religion or belief, sex and sexual orientation.

The **psychological contract** is a two-way exchange of perceived promises and obligations between employees and their organization.

Recruiting is the process of generating a pool of candidates with sufficient qualifications for vacant organisational jobs.

Reduction in force (RIF) occurs when an organization permanently reduces its workforce. It is one technique for downsizing.

Resourcing in HRM means the following:

- a systematic identification, attraction and selection of individuals who are of particular value to the organization either immediately or in longer terms (positive resourcing),
- separation programs implementing the successful exit management of organizational workforce (negative resourcing).

The **rule of law** means that all members of a society as well as governments and members of parliament are equally subject to the law under the control of independent and impartial courts.

Selection is the process of choosing candidates who *possibly* have relevant KSAs to fill job vacancies.

Source of law is a legal act that contains the rights and obligations of legal subjects.

Strategic HRM is the appropriate use of HRM practices to gain or keep a **competitive advantage**.

Strategic planning is a process of identifying and executing the organization's strategic plan by matching the company's capabilities (strengths and weaknesses) with the demands of its environment (such as competitors, customers, suppliers and labour force).

Strike is when trade union members refuse to work in order to put pressure on the employer.

Total rewards refer to both monetary and non-monetary rewards provided by the organization to attract, motivate and retain employees.

A **trade union** (also called labour union) is a legal entity that consists of employees who have a common interest in developing the working conditions of its members.

Training is a systematic, organized and planned programme designed to improve employees' performance-related efficiency linked to a given task or job.

Training and development strategy (T&D strategy) is the plan by which an organization ensures that its employees have the knowledge, skills and abilities to meet the organization's objectives. In doing so, T&D strategy has to consider the internal organizational environment including HR infrastructure, the organizational strategy and the external environment.

Variable pay is added to base pay, and it is directly linked to individual, team or organizational performance.

Work is the effort directed toward accomplishing results.

Workflow analysis is the tool used to identify what needs to be done within the organization to produce a product or a service.

Workforce planning is the process of analysing and identifying the internal and external supply (availability) and organizational demand (need) of people over a specific time period to meet strategic objectives.

A **works council** is an elected body of workers that exercises workplace-level consultation with local management by representing the entire workforce.

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