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the HR Agenda for 2010

ten top trends as we come out of recession

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Contents

Introduction

Although 2009 was one of those years that many of us will be glad to see the back of, it has taught us some salutary, if sobering, lessons about organisational life; from the implications of our globally interconnected world to the psychology of managing and regulating risk. Perhaps the credit crunch was the inevitable fate of the debt-fuelled, celebrity-addicted 'noughties' with a Generation Y, like Icarus, flying too close to the sun.

As we move forward to a new decade, the 'twenty-tens', the 'teens' or the 'teenies', as it is variously designated, the HR team at IES has been reflecting on some of the priorities we see for organisations as they start to emerge from recession and look to the future. In these short articles our topic leaders provide insights that have emerged from our own recent consultancy and research practice across the public and private sector.

Issue 1: Workforce planning – a workforce fit for the future

A top priority for organisations this year is to ensure the workforce is 'fit for purpose' as we emerge from recession. Although the recession has made it easier to recruit good people with scarce skills, it has created a new set of workforce challenges. *Dilys Robinson* provides some tips on effective workforce planning and understanding demand, supply and the labour market.

Issue 2: Ways of working – keping your organisation agile

Figures suggest that employers, where possible, have tried to avoid redundancies in order to take advantage of the recovery with a fully equipped workforce. Creative approaches to reducing wage bills have seen people take sabbaticals, agree shorter working weeks and adopt more flexible working patterns. *Mary Mercer* considers how new forms of working have helped organisations through the recession and their importance for the future.

Issue 3: The future of learning and development – enhancing capability

Well before the recession there was a keen focus on skills as organisations struggled to compete, or at least find a way to co-exist, with the rising BRIC (Brazil, Russia, India and China) economies. *Paul Fairhurst* helps organisations to develop strategies for future skill needs using scenario planning techniques. He discusses the future for L&D in enhancing the capability of people in organisations, and sees the organisation's ability to deploy that capability as a major driver of future success.

Issue 4: Leadership – engaging the 'teenies'

During the recession we have seen the demise of many hitherto respected leaders and we expect a period of reflection on the qualities and style of leadership needed for the 'teenies'. Terms such as 'humble', 'authentic', 'sustainable' and 'inclusive' are currently attaching themselves to the concept of leadership. *Dilys Robinson* discusses key issues around employee engagement – a concept that appears to be here to stay, in hard times as well as good – including IES's latest in-depth study of 'engaging' leadership.

Issue 5: Refocusing coaching for the upturn

The demand for coaching has remained relatively strong throughout the recession. *Alison Carter* discusses its role in supporting restructuring, maximising the contribution of remaining employees, balancing short and long term priorities and building change capability. She warns, however, about the need to demonstrate value and suggests how coaching might be more clearly aligned with business needs during the recovery and evaluated so that business benefits can be identified, reported and promoted.

Issue 6: Managing talent in tough times

The 'war for talent' message has reportedly made organisations wary of losing the people they have invested heavily in during the noughties. *Wendy Hirsh* provides some insights into talent management in tough times. She suggests that talented people need to have challenging work and a good network of support. HR, managers and directors all have a key role to play in supporting and retaining talent.

Issue 7: Performance and reward management beyond the crisis

City bonuses have again been much in the headlines to the astonishment of the general public who assumed that things would have to change after the banking crisis. *Duncan Brown* reflects on the learning from the recession and proposes a new direction for reward. He argues for a more integrated reward structure with a renewed emphasis on fairness and openness, and discusses the importance or employee engagement versus simple incentivisation.

Issue 8: Managing older employees – act your age

Over the past decade the percentage of over sixty year olds in the UK population has grown from 19 per cent to 22.7 per cent and life expectancy continues to increase. As we come out of recession, there is an increased need for employers to better understand trends in the employment of the older generations. *Marie Strebler* explains how, with effective planning and sensitive management, issues such as motivation, capability and age discrimination can be addressed to benefit both employer and employee.

Issue 9: The role of organisational development (OD) post-recession

All of the preceding articles to some extent could be bundled under the heading of organisational development but *Valerie Garrow* suggests that it is the holistic, organisational level approach that earmarks them as OD. The past year has provided ample examples of 'systemic' failure where organisational culture has supported and rewarded the wrong behaviours. Institutions in both public and private sectors will need to draw on OD skills to rebuild trust with employees, customers and the general public.

Issue 10: Transforming HR for the future

Our final article considers how HR can best deliver to its own customers some of the priorities we discuss in these articles. Recession inevitably means cost cutting and *Peter Reilly* discusses the merits of saving through sharing and the benefits of devolving responsibilities to the line. He argues strongly, however, that HR must continue to build its own functional capability and talent through developing challenging professional career paths.

We hope you enjoy reading our series of short articles and from all the HR Research and Consultancy team wish you a successful 2010!

ISSUE 1

Workforce planning: a workforce fit for the future

Dilys Robinson, Principal Research Fellow

Workforce planning during recession

Experience from previous recessions suggests that the recovery of full employment lags a year or so behind economic recovery; even when private sector companies are once more successful, there may be a natural disinclination to recruit to previous levels until there is greater certainty about the economy. In addition, the recession is hitting the public sector later than the private sector, which means that public sector organisations, especially in the NHS and local government, have yet to face the full consequences of funding cuts. Taken together, these two factors mean that the labour market is unlikely to return to the buoyant days of the early 2000s for some time yet.

From one perspective, a recession might suggest that there is no longer a need for workforce planning. Suddenly, there is no 'war for talent'; good people with scarce skills are in plentiful supply, the public sector is no longer seeing its trainees depart to better-paid jobs once qualified, and any organisation that has retained its graduate programme has seen applications sky-rocket; they can take their pick from the most able. However, the recession also brings problems that require workforce planning attention. Labour turnover, already low in some organisations, has dropped dramatically, with few people wanting to risk a job move unless absolutely necessary or extremely safe. People staying put always presents difficulties; not only is there no injection of fresh blood, but promotion blockages can lead to frustration and disenchantment, and there is less scope for restructuring. Another issue is that even in recovering companies, and certainly in the public sector, financial and headcount constraints will impact on the ability to recruit; essentially this means that more will have to be done with fewer people. Maximising the use of the existing workforce has all sorts of implications for HR – training, performance management, relocations, selective retention initiatives in some areas and selective redundancies in others – and one of the most important is to ensure that workforce plans are in place for key employee groups, functions, and areas of work.

What is workforce planning, why do it and when is it needed?

Conceptually, workforce planning is simple. It is all about looking into existing and future demand for different types of employee, matching this to the current workforce and to likely future supply, putting the two together and assessing the impact on training, recruitment and retention plans. A simple, often quoted definition, is that workforce planning involves ensuring that there are the right number of people, with the right skills, in the right place, at the right time. It involves a lot of different activities: understanding the strategic direction of the organisation, finding out about things, talking to people, understanding the existing workforce and the labour market, manipulating data, presenting analyses and their implications clearly to the organisation, and helping to translate workforce plans and forecasts into action plans. However, because workforce planning is all about people, and because it takes a longer-term look (in some organisations, six months is long term; in others it might be ten years or more), actually doing workforce planning in practice is much harder than it sounds. Priorities shift, managers get distracted, politicians change direction, and the economy does unexpected things. At a recent IES event, participants quoted all sorts of things that get in the way of effective workforce planning: lack of strategic direction, poor quality data, or data not in the right format, getting workforce planning on the senior management agenda, choosing where to put workforce planning energies, getting the organisation to think long term, and extracting sensible demand forecasts from managers.

A practical approach to workforce planning

To make an impact, it is best not to dissipate workforce planning energies too widely. Instead of trying to produce a comprehensive plan for the whole organisation, focus on key activities and key employee groups. This does not mean ignoring the rest, as it is essential that workforce planners have a good understanding of the workforce as a whole, in order to identify 'hot spots' and future sources of supply. However, helping the organisation to staff effectively its areas of highest risk (or greatest pain) is probably the most efficient way of using workforce planning resources.

IES's eight-step approach to workforce planning, taken from our 2008 publication *Workforce Planning Guide*, is described in outline on the following page.

Eight steps to workforce planning

1. **Understanding the business and its direction**: particularly strategic plans, priority areas and any planned major changes such as closures, new markets, new products/services etc.
2. **Analysing the workforce**: planning for the future is difficult without a thorough understanding of the existing workforce, including entry points, career progression routes, employee turnover rates, and exit points.
3. **Identifying skills gaps**: assessing skills and capabilities of the existing workforce, especially in key areas, and how these might change in the future.
4. **Assessing future workforce demand**: which means understanding any existing shortfalls/surpluses, and any planned changes for the future. This is where the co-operation of managers will often be needed – about which more later.
5. **Recruitment and retention**: the translation of demand forecasts into recruitment, training and development, and retention plans.
6. **Understanding labour markets and planning for succession**: this involves getting a really good grip on workforce supply, both now and in the future.
7. **Training and development plans**: the workforce plan needs to inform these, especially in areas where organisations 'grow their own' and training is lengthy and expensive.
8. **Developing workforce plans**: putting everything together – and then revisiting plans at intervals.

Understanding demand

Understanding workforce demand is notoriously difficult. Common problems include assuming the future will be the same as the past; failing to think through the implications of change, both internal and in the external environment; and not factoring in productivity improvement. The end result is that workforce forecasts often look remarkably similar to the existing picture – even though managers, if pressed, often admit that their existing workforce profile is far from ideal.

Demand setting, if done at all, tends to use a variety of methods: financially derived (what the budget can afford, or labour unit costs), ratios (of full-time equivalents required for a certain level of activity), trend analysis (follow the direction of the trend), benchmarking (see what others are doing), and professional judgement are probably the most common. Sophisticated organisations may takes things further and use business process modelling, or even scenario setting.

In practice, demand setting will need to involve managers, who have a better understanding of their workforce and area of activity than a centrally-based workforce planner. However, involving managers has its own challenges. There are all sorts of reasons why managers may be reluctant to commit themselves to workforce forecasts – including fear of losing part of the budget, difficulties in thinking longer term, being too busy with day-to-day activities, and reluctance to admit that they need help with a difficult task. It is often useful to involve HR business partners in discussions with managers, and to try some mind-loosening exercises, such as a SWOT analysis, before getting into the nitty-gritty of workforce numbers. In practice, two or three meetings with a manger, and perhaps his/her direct reports, may be necessary before a workforce forecast is arrived at. The sort of questions to ask are:

- Do workforce problems inhibit our ability to meet business goals?
- What items come up repeatedly in appraisals or PDPs as weaknesses or development needs?
- Are there roles we can't do, or jobs we can't fill? What do internal candidates lack?
- Are there better ways of working? What might be inhibiting these?
- Where will the business be changing in nature? What are the workforce implications?
- Are there external changes (eg legislation) which will affect the work we do and how we do it? Which employee groups will be affected?

Understanding supply

Before spending too much time considering external sources of supply, it is worth remembering the obvious, but often neglected point: your future supply (at least for the next few years) is, for the most part, already with you. A significant proportion of your current workforce will still be with you in five years – maybe even in ten years if your workforce is very stable. This means that establishing a really good understanding of the existing workforce is crucial. In particular, look at:

- age and length of service profiles
- employee turnover rates (often called wastage rates)
- resourcing patterns, such as key points of entry and exit, career structures, and the balance between external hires and internal promotion.

When thinking about new entrants (to replace leavers, or to staff expansions), it is important to consider whether the labour market is local, regional, national or international, and whether there are skills shortages or surpluses in the labour market, which could inform external recruitment versus 'grow your own' decisions.

Many sources of information about the labour market are readily available. The Office for National Statistics (www.statistics.gov.uk) has information about employment/unemployment rates and the UK's demography, while the Department for Children, Families and Schools (www.dcsf.gov.uk/trends) has information about educational attainment and education providers. Council websites often contain a wealth of information about the local population and businesses, and JobCentre Plus can help with local vacancies and employment/unemployment rates. Sector Skills Councils are helpful for particular employee groups.

References

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ISSUE
2

Ways of working: keeping your organisation agile

Mary Mercer, Principal Consultant

Flexible working in recession - the current situation

According to the Keep Britain Working Survey (1 June 2009):

- 54% of UK workers have experienced a cut in pay, a reduction in hours or a loss of benefits since the recession began.
- Over the previous nine months 27% of UK workers had their pay cut, 24% had their hours reduced and 24% had lost benefits, according to the survey. While 37% of UK workers had experienced just one of these changes, 12% had experienced two of them and 5% had experienced all three.
- Some 2% have been offered a semi-paid sabbatical, while 6% have been offered an unpaid sabbatical since the recession began.

Businesses, and the employees within them, have been thinking creatively about how to organise work in order to keep production running and services delivering, while also holding onto staff, in the face of economic difficulty. Learning from the last recession, employers have been more reluctant to shed staff, acknowledging the need to be fully prepared for recovery, which is harder if you are at reduced capacity with knowledgeable and skilled employees gone.

Other surveys have also found an increase in different ways of working to combat recession. According to the CIPD and KPMG research (February 2009), 15% of companies had introduced short-term working and 19% were making greater use of flexible working, and CBI research (June 2009) found that 69% of organisations had increased or were planning/considering increasing flexible working.

These are examples of flexible working necessitated by recession, but what will happen after recession? Will we all go back to 'normal' with the majority of men working full time and flexible working slipping back to being the preserve of the working mum? What benefits will organisations have found from flexible working? Will they recognise that flexibility can have productivity and other business benefits even in the good times? It is a bit like the situation for women in the World Wars. Women who had worked to cover for the men folk who were away at war did not all want to relinquish their roles on the men's return. Will more men (as well as women) want to retain their flexible status?

Flexible working - the past

The Right to Request flexible working for people with children under 6 (or children with a disability under 18) has been in place since 2003. This has subsequently been extended to people with children under 16, or for those with caring responsibilities.

The nature of the introduction of the Right to Request, based as it was around childcare, has meant the majority of those who have taken up flexible working have been women. Even in organisations which have extended their flexible working schemes to all staff, the pattern is usually the same. Studies, such as that produced by Working Families (Flexible Working and Performance 2008), have found that anecdotally, managers value their flexible workers and report a positive relationship between flexible working and performance. However, many organisations find that their flexible workers receive poorer outcomes in the performance management process and are less likely to receive the top performance awards. Flexible workers are just not seen as committed and flexible working has been described by many as 'career suicide'. In IES's 3rd Work Life Balance Survey for BERR (2007) we found that men are more likely to request flexible working for work-life balance reasons, not for childcare. Their flexibility is more to do with lifestyle choice and not the necessity of childrearing. So, while women may opt for flexible working knowing they are making a career sacrifice, they feel this is the price to be paid and there is little choice. Men, still responsible for the majority of the family's income, cannot take the risk if they do not have to.

The outcome, as IES found in the 3rrd Work Life Balance Survey, is a lot of frustrated men who want to work fewer hours and would like to request flexible working but who cannot do so because of the risk of sacrificing their career aspirations. Some men want flexibility – when the survey asked 'Would you prefer to work fewer hours, if it meant earning less money as a result?' 31% of men said yes, compared to 21% of women. There is also a growing divide between men and women because of flexible working, where the flexible workers, the women, become less visible, less well paid and are less likely to be promoted. As a consequence, flexible working becomes more and more the preserve of women and is seen as unsuitable for men (who are also more likely to be turned down when they do make a request). The career of women goes backwards and there are major implications for equal pay as they lose out on consolidated and no-consolidated pay bonuses.

Ways of working – the future

Will the enforced flexibility of recession show more employers the power of flexible working and convince them that there are business benefits as well as benefits for staff? Will this in turn make flexible working more acceptable? The business benefits have long been known, but have not always convinced people. Employers who implement flexible working successfully, so that it matches the business need as well as the individual's request, have reported bottom line benefits in terms of reduced levels and costs associated with sickness absence, more returners from maternity leave, greater productivity and engagement, and an ability to retain the employees they want to retain without necessarily having to increase financial incentives or rewards. If employers can be convinced that flexibility is good for them and their employees then the reward and recognition risks of being a flexible worker ought to diminish and there ought to be more scope for men as well as women to have their voluntary requests accepted and for flexibility to become more mainstream.

Two organisations working with IES for an in-depth piece of research on alternatives to redundancy have told us quite a bit about the appetite for flexible working amongst employees, and have given us an insight into how more permanent approaches to flexible working might be approached to ensure buy in from all staff, whatever their working patterns.

KPMG launched 'Flexible Futures' in January 2009 and will run it until September 2010. The scheme involved two completely voluntary options:

- 1 day off a week unpaid
- Between 1 and 3 months off at 1/3 pay.

It provided a guarantee that there would only be a maximum 20% salary reduction for employees. For some employees the cut in annual salary would only be 10%, the average was 15%. Employees could opt to take one or both options. The second option was the most popular as employees could fit the time release in blocks to fit around school summer holidays or childcare. Some 83% of the workforce signed up to the scheme across 10,000 employees.

Norton Rose, an international legal practice, voted Law Firm of the Year in 2009, asked employees to change their terms and conditions of employment for the financial year running from 1 May 2009 to 30 April 2010. This gave the firm the opportunity to increase the flexibility of their workforce during the downturn, reduce redundancies and make cost savings through a reduction in the pay bill.

Staff could take a sabbatical of 4, 6 or 8 weeks at 30% of pay or work a 4-day week at 85% of salary. Salary deductions are spread over 6 months to reduce the impact of the loss in salary. All employees across the business were covered by the initiative, covering some 1,100 staff in London, where the programme was launched, and then extended to international offices. The company was looking for 75% of staff to sign up to the programme, but 96% of staff agreed.

Neither firm have introduced their scheme as a permanent arrangement, but the large number of positive responses and agreements to take part may have a longer term impact on the organisations. At KPMG there has also been an increase in normal flexible working options being signed up to, as well as an increase in annualised days and glide time (8am to 4pm or 10am to 6pm). KPMG predict that when employees come off the Flexible Futures scheme more may want to sign up to flexible working patterns. Currently KPMG do not offer term-time working but they predict this will be introduced next year on the back of the sign up to Flexible Futures.

This suggests employees want more flexible working and that flexibility can become more acceptable for men and women if sustainable employment practices and business benefits are at the heart of schemes, rather than a focus on childcare and work-life balance, although these are of course, much valued by-products.

Both KPMG and Norton Rose emphasised the importance of continuous, clear communication to all staff about their flexible schemes, and stressed that fairness and equity in application were key. To this we would add fairness and equity in outcome to ensure flexible workers can continue to have careers and have their commitment to their organisations recognised. If this is achieved there is a chance that greater flexibility will be a feature of all our futures.

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ISSUE 3

The future of learning and development: enhancing capability

Paul Fairhurst, Principal Consultant

In the first half of 2008, in conjunction with TJ (Training Journal), IES carried out a project exploring the future of learning and development using techniques from scenario planning. The three scenarios are summarised below.

Scenario 1 – L&D is Queen
L&D is genuinely embraced as a driving factor in business success and individual fulfilment. L&D activities are not seen as purely remedial for fixing people's weaknesses but are regarded as an integral part of people's on-going growth and contribution. The impact of L&D on organisational performance has been clearly demonstrated.

Scenario 2 – Organisational necessity
Whilst markets are competitive in all the scenarios, they are particularly tough in this scenario. Competition is very hard and organisations are focused on keeping costs down. Although learning is recognised as important, it is also seen as a cost in both time and money. In this environment, L&D activities are focused on the skills and knowledge that are required to do the immediate job.

Scenario 3 – National learning
Recognising the growth of the BRIC nations (Brazil, Russia, India and China) and the potential impact that they will have on the UK's ability to compete, successive governments have put skills development at the heart of their strategies. The UK is just about hanging on to its position in the first division of labour capability but is having to fight ever harder to attract inward investment.

Remembering that this work was carried out before the demise of the financial sector and its knock-on effect on the rest of the economy and workforce, Scenario 2 now seems to have been quite prescient though at the time most participants in the project indicated that we were moving more towards the 'L&D is Queen' scenario. Wishful thinking at the time perhaps but there is no doubt that the landscape has shifted since then.

Direction of travel

Drawing from extensive discussion about the implications of these scenarios, the expert and practitioner participants in the process concluded that, whilst there will be changes over the coming five to ten years, this will be along routes that have been previously identified and discussed in the L&D world, but are now expected to have a more significant impact. This is likely to lead to a change in the balance of L&D activity rather than a complete new way of working – evolution rather than revolution (albeit rapid evolution).

In addition, the speed of movement along these new routes is increasing as elements of the skills and knowledge needed to be successful in many jobs change faster. There is no longer always one central repository of the 'right' knowledge or skills; it is dispersed amongst experts spread across an organisation or even in other organisations. Businesses are looking for more responsive and more targeted solutions to their L&D requirements, and technology is facilitating new ways of working and learning.

It is becoming harder to anticipate what new skills and knowledge will be required and to put in place a structured programme to deliver it; problems (or opportunities) will occur in organisations and solutions will need to be found, rapidly. The people involved will need to learn about a new area and create a solution much more rapidly than previously – the learning curve will need to be much shorter and people will be going up new learning curves on a regular basis.

Continuous, informal and social

Learning will continue the shift from being just thought of as formal and away from the office to an on-going process where learning is continuous, social, informal and embedded in the workplace. People learn all the time, it is almost impossible not to learn on a daily basis, but many people only think of development as having happened when they have been formally trained in a particular area. As the knowledge required for many jobs changes more rapidly and becomes more dispersed, it won't be practical to help people learn all that they need to in this way.

More traditional models of classroom based or facilitated learning will still have their place, particularly for regulatory, core skill set and/or brand values-based development. It is likely though that their role will diminish for other types of development as people draw on their network of contacts or use technology to access relevant learning material on a just-in-time basis.

The challenge for organisations is how to help people learn most effectively in these connected and independent ways which will allow the rapid spread of knowledge as and when required, perhaps recognising that they can't control this process but can create the right conditions for it to occur.

The importance of technology

It is tempting to think of some of the advances in technology as just new delivery mechanisms, delivering the same content in new ways. Indeed, some of it may be just that, an extension of e-learning to m-learning, podcasts, and so on. However, even these provide opportunities for people to learn at different times and in different situations than they did previously, accessing the required material on a just-in-time basis. Organisations are also getting smarter at deploying these technologies, solving real business problems rather than implementing them just because they can.

More fundamentally though, recent advances in technology have helped people connect and collaborate more easily with a wider range of colleagues. Always-on internet connections make it possible for people to interact and learn wherever and whenever they need to. This isn't just about delivering the same content in a new way, but providing ways for people to seek out and find learning for themselves, be that through accessing existing knowledge or tapping into a network of contacts (or their contacts).

These networked uses of technology require a different way of thinking about learning which isn't about content delivery necessarily, but more about providing the means for people to find and share information for themselves. Understanding the psychology of relationships and networks will be fundamental to creating effective learning environments.

Recognising the value of learning

One of the challenges of a world in which more learning is on-going, independent, social and informal or just in time and bite-sized, is how to recognise that people have learnt new things. This is important both to help people acknowledge that they are already learning (and perhaps don't need to go on a training course) and also so that they can demonstrate their learning to other potential employers.

How can employers and academic institutions establish accreditation processes which recognise and value these new styles of learning? How can this learning be made portable to, and valued by, other employers?

Learning as a skill

A key message is the importance of individuals taking responsibility for their own learning and not expecting organisations to 'drip feed' them. Throughout the education process most people have a clear structure provided for what to learn and yet, in the world of work, there is not a similar clear path. Learning as a skill was identified as being very important and one that many people haven't been helped to acquire. Situations where learning capability could be used as a key factor in recruitment selection processes for certain roles, equal to or more important than the knowledge to do the job today, are likely to increase.

Critical role of the line manager

Whilst helping individuals develop their learning capability is seen as a high priority, so is developing the ability of line managers to help in the learning process. Not everyone can learn totally independently and the coaching skills to help people think through what to learn and to reinforce the learning that has taken place will be essential to optimising the learning that occurs. The line manager also has the responsibility for focusing the learning on the skills and knowledge that are required for success and progress in the current organisation/role.

As many organisations are recognising, this part of the manager role does take time and needs to be valued. However, sometimes whilst the role is specified for the manager, the time pressures of the job mean that they are not able to give it the necessary attention.

Measuring the effectiveness of L&D

Measuring the effectiveness of L&D interventions is challenging at the best of times. As the focus of L&D shifts towards creating learning environments that encourage collaborative, informal learning in which it is the networked impact of different elements that makes the difference, this will become even more difficult. Certainly 'happy sheets' won't do it! Perhaps the answer lies partly in the blurring with OD and is in the measurement of overall capability and capacity of the organisation through understanding the behavioural drivers of business performance and using some form of balanced scorecard. Despite its difficulty, measurement will continue to be important as it may be possible to invest significant time and effort in initiatives which deliver no real business benefit. The challenge will be in isolating those that do from the ones that don't.

Opportunity for L&D functions

As learning becomes even more on-going, social and informal, and at the same time is increasingly being recognised as key to organisational success but needs to be delivered in a highly cost effective way, the nature of L&D changes to one which is much more integrated into an organisation's culture and ways of working. Organisations will need to be designed (structure, processes, technology, physical space and culture) to enable people's learning and to allow them to put that learning into practice.

For L&D professionals the shifts raise interesting questions about the skills that will be required in the future and possible career paths. As the HR function has been working towards over recent years, the L&D function will need to be able to think about how it can lead business changes through the application of L&D rather than just responding to specific business problems that are presented to them. Some practitioners will also require skills that will allow them to initiate and manage change to enable the organisation to benefit from the social, informal, networked approaches discussed earlier. This will require skills which are perhaps more closely aligned with existing OD roles but will also require the practitioner to understand the opportunities afforded by the latest ideas and thinking in L&D.

Finally

Whilst the future portrayed is one of evolution rather than revolution, the opportunity is there for all L&D functions to work with, or join with, the OD function to really focus on enhancing the capability of the people in the organisation and the organisation's ability to deploy that capability. When this opportunity is fully seized, the L&D/OD function can be a powerhouse of influence in organisations and be a major driver of organisational success. The question for L&D leaders is whether they want to seize this opportunity.

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ISSUE
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Leadership: engaging the 'teenies'

Dilys Robinson, Principal Research Fellow

Engagement and the recession

When we first embarked on our research into employee engagement in 2002[1], it seemed to be a fair-weather concept, designed to firstly maximise the retention of high-performing employees, and secondly increase the commitment and therefore the productivity of average performers. Over the years, engagement has developed and matured and now appeals much more strongly to people's emotional attachment to, and belief in, their organisations and what they stand for. This does not mean it has lost its hard edge, however, as there is clear evidence that engagement is linked to individual and organisational performance. Companies that have invested heavily in engagement (such as Sainsbury's) believe that engagement is a good forward indicator – ie that increased levels of engagement are likely to lead to improved performance, and vice versa. Although there is relatively little research to prove this causal link, the body of evidence is growing.

In the early days of employee engagement, attention was mainly focused on how to measure it, and on the actions organisations could take to drive it up. More recently, there has been a lot of interest in the role of leaders at all levels in the organisation, from supervisors and first line managers right up to the chief executive, in engaging employees in a sustainable way. It is interesting to note that engagement has not fallen out of fashion during the recession; if anything the reverse is true, as there is a widespread belief that engaged employees are the people who will keep companies afloat during hard times, and help them recover and thrive when things get better. This has led to strenuous efforts to avoid redundancies if at all possible, for example by offering reduced hours or temporary lay-offs.

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[1] This research led to the publication of two reports:
Robinson D, Perryman S, Hayday S (2004), *The Drivers of Employee Engagement*, IES Report 408
Robinson D, Hooker H, Hayday S (2007), *Engagement: The Continuing Story*, IES Report 447

Another aspect of engagement is the difference between the public and private sectors. The economy influences these sectors in different ways, with private companies being more immediately affected. The public sector – particularly local government and health – is preparing for the worst in terms of financial constraints over the next two years, just as many private sectors are expecting to go into recovery mode. Another difference between the two sectors is that employees in the public sector often owe their loyalty and commitment less to the specific organisation they work for (NHS trust, local council, government department etc.) and more to the wider ideal – the NHS as a whole, or public service in general.

What is engagement, and why does it matter?

There is no single accepted definition of engagement. Academics, the CIPD, consultancies, survey houses, and organisations themselves have all produced their own definitions. These tend to differ in subtle ways. Company definitions often emphasise a sense of identity with the organisation and beneficial outcomes such as increased discretionary effort, while consultancy definitions stress individual motivation and commitment, and academics focus more on the individual's positive state of mind. Both the CIPD and IES have somewhat ambitiously attempted to encapsulate all the aspects of engagement into one (long) definition, and interestingly both stress that engagement cannot be required, as engagement is a two-way process. IES's definition, created after consultation with 46 of our member companies, is in the box below.

IES's definition of employee engagement

'Employee engagement is a positive attitude held by the employee towards the organisation and its values. An engaged employee is aware of business context and works with colleagues to improve performance within the job for the benefit of the organisation. The organisation must work to develop and nurture engagement, which requires a two-way relationship between employer and employee.'

Does it really matter that there are so many definitions? Probably not, because when people are asked to describe an engaged employee, almost everyone comes up with the same things. An engaged employee:

- believes in the organisation and its values (affective commitment)
- 'talks it up' to friends and relatives (positive advocacy)
- goes the extra mile if required (discretionary effort)
- works well in teams, and helps others to succeed (organisational citizenship).

In summary, an engaged employee works to make the organisation better.

The above pen-picture of an engaged employee is essentially why organisations think engagement is important, and invest time and effort into understanding and increasing engagement levels. For the sceptics, the published evidence is mounting. Two recently-published documents, IES's own engagement evidence review[1] and the report of the MacLeod Review into employee engagement[2], both contain a wealth of material from a variety of sources; the MacLeod Review report also features case studies of organisations in different sectors. Some snippets of evidence are given below.

- Engaged employees create loyal customers, who make repeat purchases and recommend the company to friends[3]
- A survey of 946 companies across 22 countries found that employees who are highly engaged are more than twice as likely to be top performers than are other employees[4]
- A study of 2,000 banks in the UK found that with every ten per cent rise in engagement levels comes a four per cent rise in sales[5]
- Engaged employees are more likely to report positively about their health and well-being[6]

The engagement role of leaders

In the past few years, the view of the organisational leaders as a heroic, maverick rule-breaker has become somewhat tarnished, perhaps discredited completely. Instead, a very different set of character traits – integrity, honesty, humility, modesty and reliability – is attracting attention and admiration. This had started before the recession, which has accentuated the trend. IES's recent research focused on the behaviours adopted by managers who are perceived by their organisations and in particular their teams as being 'engaging'. Twenty-five of these engaging managers,

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1 Robertson-Smith G, Markwick C (2009), *Employee Engagement: A review of current thinking,* IES report 469

2 MacLeod D, Clarke N (2009), *Engaging for Success: enhancing performance through employee engagement,* Department for Business, Innovation and Skills

3 Levinson E (2007), *Developing High Engagement Makes Good Business Sense,* www.interactionassociates.com/ideas/2007/05/

4 Watson Wyatt (2007), *Playing to Win in a Global Economy: Global Strategic Rewards Report and United States Findings,* Watson Wyatt Worldwide

5 Young, 2007, cited in Crush P (2007), 'Rules of Engagement', *Human Resources,* October 2007

6 Mauno S, Kinnunen U, Ruokolainen M (2007), 'Job demands and resources as antecedents of work engagement: a longitudinal study', *Journal of Vocational Behaviour,* 70, pp. 149-171

22 senior managers and 154 team members from 25 teams participated in our research, from seven organisations (four private sector, two public sector and one professional membership body).

It soon became apparent that our 25 managers had little in common apart from their engaging behaviours, which were notably consistent. Their personalities, job roles, spans of control, career pathways, career aspirations and experience of formal management training and development were very varied. All had spent some time reflecting on their behaviour as managers, and observing others: *' … looking at managers I've worked with and for, and stealing the bits that work for me and losing the bits that don't.'* Although most felt at their ease when communicating with people, not all considered themselves to be natural 'people persons'; for some, adopting engaging behaviours had been hard work.

So, what behaviours are seen as 'engaging'? Managers, senior managers and team members gave very similar responses. An engaging manager:

- has integrity, and is honest and open – for example, when breaking bad news
- gives clear explanations and direction, and is skilled at communicating organisational culture and aims to the team
- is interested in people, knows what interests and motivates them as individuals, and understands their strengths and weaknesses
- wants team members to develop and succeed, and is good at coaching and sharing knowledge
- involves the team in decision-making and work organisation, and delegates effectively
- is visible and accessible
- has high expectations and a keen performance focus
- recognises and celebrates success, but is typically modest about his/her own achievements
- tackles poor performance and difficult behaviour quickly
- is a good internal networker.

Engaging managers' ability to motivate people, their performance focus, and their ability to tackle difficult people and situations, means that they are highly valued by their organisations – especially as all the teams in our research turned out to be high performing teams, even though this was not a criterion for participation.

A key requirement for a leader is the ability to inspire people, and the managers in our research clearly had this ability. However, when we asked team members to draw pictures of how they saw their manager, the most common representations were not of swashbuckling heroes. Instead, images abounded of warmth (eg a sun), working together (eg the team roped together, tackling a mountain), talking and listening as a team (eg everyone sitting round in a circle, sharing views and ideas) and reliability/dependability (eg a friendly dog). In almost every picture, the manager was smiling, suggesting that an engaging leader needs to be welcoming and genuinely open to approaches and ideas. However, teams were also very appreciative of the fact that their managers were performance-driven, and aware that they could be hard-edged and firm if the situation required it. It would appear that a key lesson for leaders is that engaging with employees takes time, effort and hard work, and is about genuinely establishing a two-way, collaborative relationship.

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ISSUE 5

Refocusing coaching for the upturn

Alison Carter, Principal Research Fellow

There is nothing more important in Britain's boardrooms than recession and recovery. Different companies and sectors have seen varying degrees of cost-cutting. Anecdote suggests, however, that in general discretionary development activity has not been drastically cut this time round compared to the recessions of the 1980s and 1990s. Instead much has been 'on hold' as managers focus on the balance sheet, wage costs and employee engagement.

Coaching activity levels have held up. There are some good reasons for employers attaching importance to coaching:

- During recession when things are tough, coaching is one of the positive measures that organisations can use in supporting line managers and employees in keeping motivation and engagement high (McCartney, 2009).
- Where coaching objectives are linked with business critical needs, this enables employers to cope with reductions in headcount for as long as the economic outlook is uncertain (whether by natural wastage or redundancy). Coaching is suitable for supporting restructuring, maximising the contribution/turnover per remaining employee, balancing short and long term priorities and building change capability.
- Some established in-house coaching networks are excellent value for money. The BBC estimated that the cost of the coaching through its in-house network was only £50 per hour (Macann, 2008) which compares very favourably to other training investments in a company's human capital.
- During recovery, when the dark clouds have gone and speed of response to fresh business opportunities is essential, coaches can support existing staff in operating at maximum capacity and capability, and keeping focus on delivering a business strategy of growth and innovation. This will help existing staff to cover the time lag while new staff are recruited.

- Where team coaching is being used, this enables a company's teams to pull together with confidence and make ready for recovery in addressing different markets and business situations.

One of the growth areas for coaching in recent years has been in internal coaching schemes: whereby managers and HR specialists are trained and supervised as internal coaches. As these schemes become embedded, and subject to evaluation, it is apparent that some organisations cannot identify the business benefits apparently 'promised' by others' coaching success stories. Internal coaching schemes that fail to deliver employee morale, business responsiveness and mitigate against headcount reduction may well be under threat. During 2010 schemes will increasingly have to identify and demonstrate business benefits and value for money. In order to take advantage of what coaching promises for recovery, some re-focussing may be needed by employers during 2010. These suggested adjustments and the issues that underpin them are the subject of this chapter.

Based on findings from eight coaching programme evaluation studies (reported in Carter, 2009), IES has identified a number of ways in which schemes need to refocus for recovery.

Keep the focus on business critical needs

In the early pre-recession days of internal coaching schemes, most work-based coaching initiatives grappled with the question of what should be focused on: business benefits, or person-centred development (and assume that this feeds through to business benefit)? There is a place for person-centred development, but if the business is paying it should expect business benefits, be clear about success in business terms, and monitor what is happening. Adjustments to make in 2010 are:

- Be clear at the outset what business benefits are expected and how/when they will be measured.
- Brief everyone that at least one area to work on should explicitly designed to deliver business growth and innovation.
- Avoid giving coachees the sole responsibility for selecting areas to work on in their coaching. Make sure organisation needs are included.

Select the right people to get the coaching

Some schemes keep a low profile for fear of being swamped with potential coachees. As a consequence they end up with insufficient numbers to justify the initial investment, or only those who put themselves forward and who may be looking to jump ship. What can you adjust for 2010?

- Target and prioritise coachees from business critical roles or projects. These are more likely to make you a faster return for your money and deliver a measurable impact on the business.
- Target whole teams. This may mean additional coach training in the future or using external coaches and/or OD/HR Business partners in the short team. IES expects team coaching to be the biggest area of growth in coaching, and there's a reason: team coaching seems to work especially well in a business recovery scenario.

Get your line managers involved

Often line managers or sponsors do not play an active enough role or any role. Uninvolved line managers can be a real weakness for internal coaching programmes. Managers are best placed to ensure that coaching has a relationship to business needs and can identify indicators of progress to which later performance can be compared. Coachees may not identify the same development areas that the organisation or line manager would select. Without knowledge of the coaching objectives, managers are not able to identify the opportunities for individual development, or provide support.

Even in schemes where managers, coach and coachee are meant to meet to agree objectives and outcomes (usually called three-way contracting), IES has observed that it is not always implemented well. Line managers may be disinterested or may turn up to the contracting or final review sessions but be confused about their role. Adjustments to make in 2010 are:

- Spend time to get and keep managers and sponsors involved. They should ensure the coaching has a real link with business needs.
- Explain to line managers how coaching works, how they can help and how they should assess whether they are getting the outcomes the business needs.
- Ensure you provide support and guidance for everyone involved and not just at the outset of a programme of coaching but throughout.
- Consider whether a more thorough contracting process is needed, perhaps three or even four-way contracting (where line managers and OD/HR specialists become involved) so that the organisational perspective is better reflected in the coaching relationship.

Evaluate and communicate the results

There are three different levels of evaluation of most relevance for coaching schemes. They are effectiveness (Did the coaching work?), impact on individuals (What did people do as a result of being coached?), and business results (What was the value of the coaching to the company?). Currently three-quarters of companies who use coaching do no meaningful evaluation of their coaching provision. If you have a good scheme getting good business results, an evaluation could prove a wonderful defence against being next in line for cost-cutting.

Adjustments to make in 2010 are:

- Keep your evaluation design simple. Evaluation is essentially about asking questions, being curious, making decisions and putting a value on things. You don't need a complicated process.
- A focus on a small handful of key indicators can be sufficient (eg sales figures, employee engagement) and ideally select indicators that are already being collected for staff whether or not they are receiving coaching.
- Avoid merely asking for satisfaction data from those you are coaching. Different types of measures at different times and from different stakeholders ensures a more complete picture.
- Modify your evaluation process over time to make it shorter and more focused on the key goals. You can eliminate items where there is little variability and no new information and where you already have what you need.
- Ensure you summarise results at regular intervals and communicate it to the relevant stakeholders to justify continued expenditure.
- For new schemes, coaches can be relatively under-utilised at the early stages, meaning there is scope to secure a faster return for the up-front monies invested in coach training.
- For well established schemes, business recovery (when your remaining staff are very busy) is the wrong time to ease off using your volunteer coaches' time. When coach utilisation is high then the payback on the investment in coach training is growing and the fixed costs of managing the scheme appear better value.

For a straightforward recommended evaluation process see Carter and Peterson (2009).

Conclusion

The current economic situation may focus organisations on ensuring that internal coaching schemes show real impact. Aligning coaching more clearly with business needs during recovery is essential to leverage the benefits on offer. As is the introduction of a planned evaluation process so that business benefits can be identified, reported and promoted.

With the recommended adjustments in the way coaching schemes are managed, the business benefits and value of coaching should allow it to flourish as a robust and transformative tool as we leave the noughties and move into the' teenies'.

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ISSUE 6

Managing talent in tough times

Wendy Hirsh, Principal Associate

'Talent management' is on its way from being the HR fashion of the early years of this decade to a more embedded part of people management. Although the 'war for talent' hype was often less than useful, it reminded organisations that they had lost their focus on actively developing the skills and careers of their best people. Some companies now feel that the 'talent' movement of recent years often led to excessive focus on the individual rather than the business need and consequently poorly planned spending on development interventions. It also led, in some organisations, to separate teams working on 'talent management' and 'succession planning' – a curious state of affairs.

So how are the ideas about 'talent' and the approaches developed in the heady years of boom going to play out in tougher times? Can the good ideas be pared back and integrated more powerfully? Does the emphasis need to shift if the job market is weak?

The risk we see in some of our current assignments is that people who have been told they have high potential see opportunities for promotion – or even sideways movement – drying up or being prioritised for people needing redeployment from jobs which have been cut. Some of these high potential people may leave, but in the short term they are more likely to stay put and get disaffected. Having your best people in a continuously bad mood is not a bright idea.

The current craze for the 9 box performance-potential grid (three levels of each in combination make for nine boxes to put people into) is jacking up the effort going into assessment, but this may not be balanced by tailored development effort. Although such approaches can be useful tools to help managers think about talent and succession, having a conversation about being put in a box is not often an engaging experience. HR needs to think much more carefully about the kinds of conversations individuals really do need about their careers. Also calling some conversations 'difficult' is not helping managers to approach them positively – 'important conversations' might be a better tag.

So what would we suggest that organisations *do* focus on with their people in talent pools or on talent programmes?

1. **Challenging work with supportive managers:** Promotion can wait a while if the work is good enough and if you are working with someone you respect and can learn from. The mix of activity in a job may need to be renegotiated, and this is not just important for those with particular potential but for the workforce more widely. Job swaps at the same level may be easier to arrange than some other kinds of movement. We are also finding that high potential people can see the merit in staying rather longer in a job role to see delivery or change through – and sometimes feel that HR is too keen on 'acceleration' and not keen enough on quality of work experience. Periods of retrenchment and change often give rise to challenging innovation and change projects – just the job for high potentials to get their teeth into.

2. **Strong relationships with people higher up:** If you are feeling a lack of opportunity, you want to be doubly sure that the organisation has not forgotten you. For high potential people on the brink of moving into senior roles, relationships with directors – or at least with people a couple of levels above them – are much appreciated. These relationships give recognition and the chance to observe good leaders in action. They also offer career mentoring of a formal or informal kind and help individuals to keep abreast of shifts in what the company or market is looking for in its leaders. This in turn helps individuals keep active in their own development rather than feel they are 'marking time'. If these relationships are not strong at present, now is the time to 'match up' your up-coming talent with your top team, and to tell top team members they are personally responsible for keeping their mentees firing on all cylinders.

3. **A direct link with HR:** In tough times people need to be able to talk in confidence and get a balanced and well-informed view on career matters. Talent pools which are well supported by respected HR or L&D professionals can keep individuals on board much better and keep them informed about what is happening in other parts of the business. Line managers, and even directors, have limited insight into opportunities outside their own work areas.

4. **Building talent pools into communities:** People can take more control over their own development if they are well networked with peers across the organisation. This also helps them up their performance by having others to tap into. Making sure that people in talent pools at different levels can keep in touch with each other is a powerful motivator and enabler of learning. You don't have to have big meetings all the time – smaller groups work well too, as do learning set approaches.

We've heard a lot the past few years about the 'three legged stool' of structure in the HR function. High potential people need a three legged stool too – of support. It is the combination of a developmental work setting and boss, plus relationships with more senior players, plus an HR function which knows you well and can offer sound advice, which is going to keep the talent pipeline in good health through these difficult times.

Over the past year IES has developed a toolkit for evaluating the individual experience of being in a high potential or talent pool. Both interview protocols and an online survey tool can now be used through our consultancy services. The IES approach is based on an underlying model of different categories of inputs, outputs and outcomes from talent pools, and includes the ability to relate learning and career outcomes to psychological impact on motivation and engagement. For more info please contact Wendy Hirsh at IES.

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ISSUE
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Performance and reward management beyond the crisis: back to the future?

Duncan Brown, Director HR Development

Back to 2009: A Tough Year

'It's like the past, only better.' says Marty to Doc after one of his time-machine trips in the film *Back to the Future*. 2009 was the toughest year most of us with responsibilities in the fields of reward and performance management will have experienced in their life time, and the fervent hope must be that whatever happens in 2010, it is better.

There have been extensive pay freezes and some cuts, with widespread redundancies in the private and third sectors, as the economy shrank by almost 5%. The banking crisis, which drove the wider recession, and the role of what Lord Turner referred to as *'inappropriate remuneration structures'* and incentive plans in bringing it about, has led to a serious questioning of the thirty year domination of an ideology of performance and market-driven rewards in this country.

There has been the fear of what's to come in the public sector, as the politicians compete to outdo each other with the scale and speed of proposed spending cutbacks (excuse us, but was it the public sector that was responsible for the economic crisis we are in?!). Pension and benefits scheme closures have multiplied.

And if this has been difficult, predicting what will happen over the next 12 months, never mind five to ten years, seems even harder, given the uncertain pace and nature of economic recovery and the effects of a likely mid-year election and probable change of government. At present, the experts seem unable to determine whether the recession has in fact ended, never mind what shape of downturn it has been.

We all need what Winston Churchill once described as the most important attribute of an MP: the ability to forecast and loudly proclaim what will happen in the coming year, and then to be able to explain convincingly why it hasn't happened 12 months later.

So here are the three key trends and sets of actions that we at IES hope, (rather than necessarily expect or predict), will happen in this field in the next 12 months and beyond. These need to reflect our learning from the past 12 months and from previous recessions and public spending cutbacks, while taking the opportunities for change and improvement that will, we believe, emerge. As the economy picks up, will it be 'back to normal' in reward management? Or have some new insights and approaches emerged to create a new 'new reward' movement, or a 'new normal'?

From isolated to integrated

In recent years many HR professionals have concentrated on designing technically excellent HR and reward programmes. The trouble is that they often haven't talked to, and therefore can duplicate or even conflict with, each other. The recession and consequent cost pressures have forced employers and IES members to face up to and address questions such as:

- Why do we have five different performance management systems operating around Europe (in an FMCG multinational), or six different overtime regimes operating in the UK *(in an accountancy firm)*?
- Why do we have so many grades when we are trying to develop our talent up into senior level roles more quickly (*in a professional services firm)*?
- Why are different parts of our organisation all commissioning work from the same supplier on leadership development, and why do so many of those with leadership potential seem to be frustrated in their current jobs *(in a public sector organisation)*?

With improved HR information systems we have seen more organisations in the past year working on this 'lateral' integration of their HR and reward programmes, taking the opportunity presented by restructuring to: develop more interesting and enriching roles; using briefer role profiles and more focused and practical competency frameworks for a range of reward, performance and talent management purposes; and thereby increasing their effectiveness and their efficiency.

We need to see more of this activity in 2010 and beyond, with Unilever's work levels approach to organisation design, reward and talent management providing an interesting integrated model.

But integrated shouldn't mean uniform and inflexible. The common assumption that 2009 has been one of complete austerity on pay in the private sector and that the same will be true in the public sector in 2010 is and should be a false one. In fact, only around one-third of private sector pay reviews in 2009 resulted in a freeze, (the average pay increase in retail banking, interestingly, was over 3%). As GDP and RPI recover and rise in 2010, we hope that earned and affordable pay increases become the norm once again throughout the private and third sectors. Incomes after all are a key driver of growth in our heavily knowledge and service-based economy.

We also hope to see a sensible and reasoned approach to managing cost and debt reduction in the public sector, whoever wins the general election. The history of blanket pay controls and freezes in the UK is not an auspicious one, and rapidly rising price inflation and stronger trade unions will make this year in the public sector a very different context compared to pay freezes in the private sector last year.

A blanket pay freeze across the public sector may look simple and fair but is in fact the opposite. It would unfairly penalise the most able and highest contributing public servants and those living in the highest cost locations, as well as holding out the prospect of a 'brain drain' back to the private sector, and risking the failure of essential long-term reforms and service improvements in areas such as social work, the health service and education.

When a 1.5% cap on public sector pay awards was implemented in 1994, incremental progression was excluded. If progression can be genuinely related to growth in competence and contribution then it should be excluded once more, and we would like to see more of the performance gain-sharing bonus plans introduced, which were referenced in the Treasury's 2009 pay guidance.

Speaking at IES's annual HR network conference last year, Canon Europe's HR chief Massimo Macarti told us how the firm had implemented their pay and recruitment freeze, *'with a pinch of salt',* sharpening up their performance management systems to really identify the high performers and potentials, and rewarding them accordingly. The same approach needs to apply in the public sector this year.

From the market and performance to fairness and openness

'Farewell to internal equity as companies seek to reward merit' was how one HR magazine headlined the contemporary trend in 1989, and extreme performance management and differentiation underpinned Mckinsey's *Harvard Business Review* clarion-call to aggressively manage your talent 10 years later.

The past 12 months have taught us that the trend has probably gone too far, and that we have relatively ignored the importance of fairness and internal equity at our peril. Following the market and ever higher levels of incentivisation have driven FTSE 100 CEO pay from 17 to 75 times average earnings over the past 20 years. Research suggests that there are still only very weak relationships between executive earnings and corporate performance in the private sector, and market comparisons have simply served to ratchet up pay levels.

Similarly, despite the statistics showing declining overall productivity, there is worrying evidence of pay and incentive escalation in parts of the public sector as well, stimulating the current PASC inquiry and minister John Denham's comment that executive pay in local government has 'got out of hand'.

Social and popular reaction at the unfairness of all this has spread well beyond the issues of bankers' pay and MP's expenses. Recent polls indicate that 75% of us think that the gap between rich and poor in this country is too wide, and two-thirds would like to see remuneration committees include employee representatives. The governance and pay reforms proposed by Sir David Walker and the FSA for banking (and likely to be extended by the Financial Reporting Council across the private sector) are to be welcomed, alongside of which we hope for greater openness on senior pay and the widespread introduction of independent remuneration committees across the public sector in 2009.

Gender pay is another area where the fairness agenda needs to be given greater emphasis, given the persistence of an almost 20% male:female earnings gap more than thirty years after the original equal pay legislation was passed. The Equality Bill will hopefully become law and help to encourage employers to report on and address the shortfall.

Pay fairness more generally is a critical issue within our organisations. Many studies show that perceived fairness is a much stronger motivator of staff than the absolute level of pay and recent surveys suggest that one of the biggest barriers to higher levels of employee engagement is that only around one-third of staff feel that their pay is managed fairly at present. IES have done a number of recent client studies showing unexplained variations in performance ratings for different minority groups.

Anyone with more than one young child will know just how difficult it is to be held to treat each of the little darlings fairly and equally ('that's not fair, he/she got more than me!!'). So just how do we improve perceptions of pay fairness within employers?

Explicitly asserting fairness to be a key strategic reward goal of the organisation, right up there with a performance and market-relationship, would be a good start in many more employers, as would carrying out an equal pay review, which fewer than half of UK employers have yet carried out. Do it now.

Using well-designed pay and performance management methods, including job evaluation and bonuses, and applying them to all staff, including executives, would also improve the situation. *'There won't be any (executive) bonus, I certainly won't be getting anything over and above what my staff enjoy'* was how chief executive Sir Stuart Rose wisely chose to manage and communicate the pay approach in such a tough climate at M&S last year. And effectively managing and monitoring pay, bonus and performance rating processes to highlight and address any untoward variations should be practiced by all employers.

Communications and greater openness on pay is perhaps the most important process of all, not just in supporting perceptions of fair pay and employment, but also in ensuring that staff fully understand and appreciate the investments that are being made in them and their reward and welfare, which, unfortunately, many still do not.

'Total reward is all about communications'; 'you simply can't over-communicate'; 'communications is key'. IES's current research on reward effectiveness highlights just how critical communications really are, with the majority of participants planning and investing in improvements. They need to. In one recent survey fewer than half of employees in organisations which had frozen or cut pay agreed with the action, leading to the conclusion that 'poor communications have eroded the bonds of trust between employer and their employees'.

Scarcely surprising then that the employers who seem to be leading the way on reward communications in our research, including KPMG and McDonalds, are also exemplars and leaders in employee involvement and engagement.

From incentives to engagement

The often unspoken philosophy underpinning the spread of performance pay and incentives in the UK in recent decades was a fairly crude one of 'carrot and stick' motivation: achieve 'X' SMART objectives and receive 'Y' financial reward. The research evidence is quite overwhelmingly that, as Professor Simon Burgess puts it, *'employees do respond to cash incentives'*. But the problem is, that as those responsible for the design of bank traders' incentives will now be ruefully reflecting, they respond *'often in sophisticated ways that may or may not benefit the organisation'*, and in that situation helped to wreck their employer and threatened the entire financial system in the Western world. We need to replace rewards for incentive with rewards for engagement.

Employee engagement is nothing new. In 1929 J B Priestley visited the Cadbury factory in Bourneville and was amazed by the employee benefits, *'magnificent recreation grounds, a large concert hall with continuation schools, medical attention … works councils, pensions'*. *'Here'*, he wrote, *'is definite and enormous gain'* for employers, owners and employees.

But we at IES think that engagement has had a remarkably good recession. Chief executives have genuinely bought the message from all the research evidence, ably summarised in the government's McLeod review published in mid 2009, that employee engagement has a major influence on corporate performance. IES's original replication of the Sear's research study in the UK almost a decade ago conclusively demonstrated this. Two-thirds of companies in the downturn following 9/11 felt that their actions to cut costs and staff had damaged their subsequent performance in recovery, and we have seen employers working hard to retain staff and their motivation in 2009 (the subject of a current piece of IES research).

But all of IES's research also shows that while rewards and other HR processes can strongly influence levels of employee engagement, it is not simply financial incentives and rewards that do this. Rather it is the context within which people work, where they feel genuinely involved and listened to and cared for, and treated and rewarded fairly, total rewards in its genuine sense, that creates this sense of mutual purpose and commitment to perform and give your all, rather than just having, for example, a flexible benefits plan.

The rhetoric of total rewards in many organisations over recent years has to become a reality in their employee's minds and experiences in the future, if we are to see the genuine potential for reward to leverage high performance realised in many more employer settings.

We have definitely seen that employee engagement is not just for the good times – one of the bright spots to shine out from the tough experiences of 2009. Last year KPMG, winner of the *Sunday Times* best large employer to work for award for two of the previous three years, was hit by the business downturn. Rather than just slash costs or jobs, they asked all staff to volunteer for programmes to reduce their working hours and pay. 85% of them, including partners, volunteered and they estimate that over 100 jobs have thus been saved.

Now that the economy is (hopefully) starting to recover, we need to see reciprocal actions by many more employers, providing all of their employees with the opportunity to share financially in their success, not just their executives. The more than fifty years old John Lewis Partnership is we believe a much more appropriate reward model for sustained high performance in the future than the much more recent investment banking variant.

The future

My wife just brought herself a new Fiat 500, which the car salesmen told us, *'retains all the character of the old model, only better'*. 'Learning from yesterday, built for tomorrow', as the advertising expressed it.

By recognising and taking actions to pursue these three trends – from isolated best practice towards more integrated reward and HR management; from totally market and performance-driven towards fairer and more open reward and performance management; and from wholly financial incentivisation to an engagement focused and genuine total rewards approach – we at IES believe that UK employers can prepare themselves for an uncertain future, and build more effective reward and performance management approaches that better underpin the success of their organisations.

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ISSUE 8

Managing older employees: act your age

Marie Strebler, *Principal Research Fellow*

It's true: we are all getting older. Early last year, for the first time in UK history the number of people aged 65 years and over exceeded the number of those 16 years and under. A poll of IES HR network members at the end of 2009 confirmed that demographic changes and the ageing workforce are fundamental issues for employers and HR functions to address. The participants agreed that managing older employees, their recruitment, training, retention and their retirement will be critical issues in HR management over the next decade.[1] Amongst forthcoming challenges are tricky policy issues such as:

- the fate of the default retirement age (DRA), widely predicted to be abolished by some (with the government review having been brought forward), but whose demise is also resisted by many employers
- the disappearance of defined benefit pension plans and concerns that their lower cost defined contribution replacements will not adequately fund the retirement of millions of employees
- political debate over the timing of the increase of the state pension age and the shape of the new personal accounts, now known as National Employment Savings Trusts (NEST), due to be introduced from 2012.

Predictably, corporate HR network members include on their HR agenda for their older workforce the key issues of: engagement and motivation, capability and skills, talent management and age discrimination. As we tentatively come out of recession and enter this new decade what can we learn from IES research which may elucidate and provide some answers to the challenges ahead?

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1 HR member network survey results 2009: The ageing workforce
See www.employment-studies.co.uk/network/research/ageing_survey.php

A shifting landscape for older employees

For older employees and employers alike, the future shape of the employment landscape is difficult to predict. The general picture 'pre-recession' was that the older workforce was increasingly being recognised as a valuable resource and older workers were portrayed as being at liberty to choose whether, when and how they retire, with significant growth in the numbers working past their normal retirement date. Now the situation has apparently altered, at least in the short-term. On the one hand, organisations faced pressure to downsize or halt recruitment as they sought to weather the financial crisis; but this had to be balanced against the need to retain skills and expertise within the workforce, provide opportunities for talented staff and prepare for recovery, all the while being cognisant of the age discrimination laws.

As we come out of recession, there is an increased need for employers to better understand trends in the employment of the older generations. On the other side of the equation, more older employees concerned about their future financial security are perhaps more likely to want and/or expect to stay in employment past their State Pension Age (SPA). Should they want a second career or to re-enter employment, older employees need pointers as to where and how they should target their search.

Business perspectives: a need for fit-for-purpose approaches implemented with flexibility

A majority of participants in the recent IES poll were concerned that removing the DRA will add to their costs and create workforce planning issues, such as career path 'blockages', even though they recognise that from a national perspective, we need more older employees to stay in employment for longer.

Our recent in-depth research shows that with effective planning and open and sensitive management, these issues can be addressed to benefit both employer and employee, as well as the national economy. The research involved IES researchers visiting five organisations in the public and private sectors to examine the process of later life planning.[1] We conducted in-depth interviews with approximately 100 individuals including staff aged 50 and over, and their HR and line managers. We discussed what they believed to be the key issues facing their organisation in relation to the older workforce and how well equipped they felt to handle conversations about these issues.

1 Forthcoming IES report: Strebler M, Baldwin S (2010), *Should I stay or should I go? Older employees' later life planning in a business context*

Line managers, who obviously play a key role in supporting older employees' planning, were enabled or constrained by business needs and their organisation's approaches. There was a sense however that some managers were more adept and innovative in tackling the problems they faced.

For the HR manager of an insurance firm, resourcing from a mixed age local labour pool was not an issue as: '*our view as an organisation is that there is no evidence that capability declines with age*'. For managers in its call centre, however, priorities were first and foremost about delivering targets by, if necessary, redesigning jobs or finding suitable alternatives, all the while ensuring that different generations worked well together. As demonstrated by a manager, mixing the generations to keep staff motivated and engaged to ensure they successfully deliver can work well: '*It keeps the more mature people on their toes because the young ones are a bit cheeky. And the younger ones get a clip round the ear.*'

Other findings show the need for a radical review of approaches to talent management of the older workforce, which has either not occurred, or not been a priority in too many organisations. In one transport organisation, managers facing a national skills shortage and attuned to the fact that it would take several years to train specialists were seeking to attract second careerists to train up themselves, while at the same time having to think creatively about motivating people without the option of promoting them.

Meanwhile at the other end of the age range, attracting younger staff to rebalance an ageing employee profile was the strategy of a county council we visited in the research. The unintended consequence of this move was to signal to their existing older staff that they were not valued. Again, one manager successfully addressed this creatively by mixing generations in learning groups: '*someone who's got years of experience is seen as a huge asset alongside the fresh ideas of the younger members of staff.*'

In a defence organisation, closing units and restructuring was giving rise to difficulties in retaining 'sought-after' skills; the organisation was also having to let go of other staff less able to offer the kinds of skills and optimum performance needed in the leaner organisation. One manager had proactively prepared some of his people for an eventual departure by widening their horizon: '*What I did was to get them to shadow somebody else and work in a different office … some went out for one day to work for a charity to give them experience of working outside*'.

Our findings show that innovative approaches to talent management are needed, encompassing business needs and individual priorities. These approaches include flexible working patterns which our research respondents cited as the second most important improvement needed for managing older workers, after providing improved financial advice.

Training and development of older employees: it's all about understanding attitudes

Interestingly, one of the key challenges cited by participants in the IES web poll involved the maintenance of the skills of the older workforce. We need to dispel some of the myths surrounding the belief amongst employers that older employees fail to take up the training offered to them. Our research shows that in too many situations they are not offered development, and where they are, there is a key role played by managers in encouraging their older employees to take up training: '*It's fear of the unknown and as long as you are familiarising them and reassuring them they can pick it up just as quick as the 20 year olds can*,' according to one manager we spoke to. Later retirement ages give employers more time in which to recoup and benefit from the investments in training for older employees.

On the other hand, there may be a positive training culture which has not delivered on its promise, as pointed out to us by another manager: '*We've always offered training right up until people are within a short time of retirement. There's often disguised discrimination but everything is open to just about anybody*. But attending courses is not always a priority for older employees wishing to wind down. As one told us, '*The problem is you have this continuous development …. It's all geared for people getting skills whereas you're happy to lose a few skills'*.

Planning for later life is an on-going process

Participants in the IES poll agreed strongly that retirement should not be a date, a fixed point, but a process, a phase. In order to make this change in concept a reality, employers will increasingly need to help – and encourage if necessary – older employees plan for work later in life and for phased and ultimate retirement. But for most, this will require a much greater understanding of the process and much better support for managers and employees to achieve it.

What's on employees' minds

We asked our research interviewees whether they had been thinking about, and planning for, their later life. Some respondents had a clear plan mapped out for the future of their working life and beyond. But others, particularly those in their early 50s, seemed to have done little in the way of forward planning. It was interesting to note that the first reaction of interviewees when asked the question, '*What plans have you made or do you want to make for working in later life or retiring?*', was often to make a reference to 'being of right age' to think about the planning process. The older you were, the later that age became.

After issues to do with one's age and family circumstances, finance was the next most commonly cited consideration as interviewees spoke about their plans for later-life working and retirement. Our interviewees often expressed confusion and frustration at the complexities of the pension system. With the markets ever more volatile, annuity rates plunging and pension schemes closing, older employees appeared to have lost something of their sense of control over their financial position. '*It looked quite positive till this financial climate*', one told us, summing up the worries of many.

Individuals in the simplistically defined category of older workers are influenced by a wide range of situations and motivations, which adds to the complexity in helping employees to plan their work and leisure in later life. We found, for example, contrasting perspectives on older workers' engagement at work:

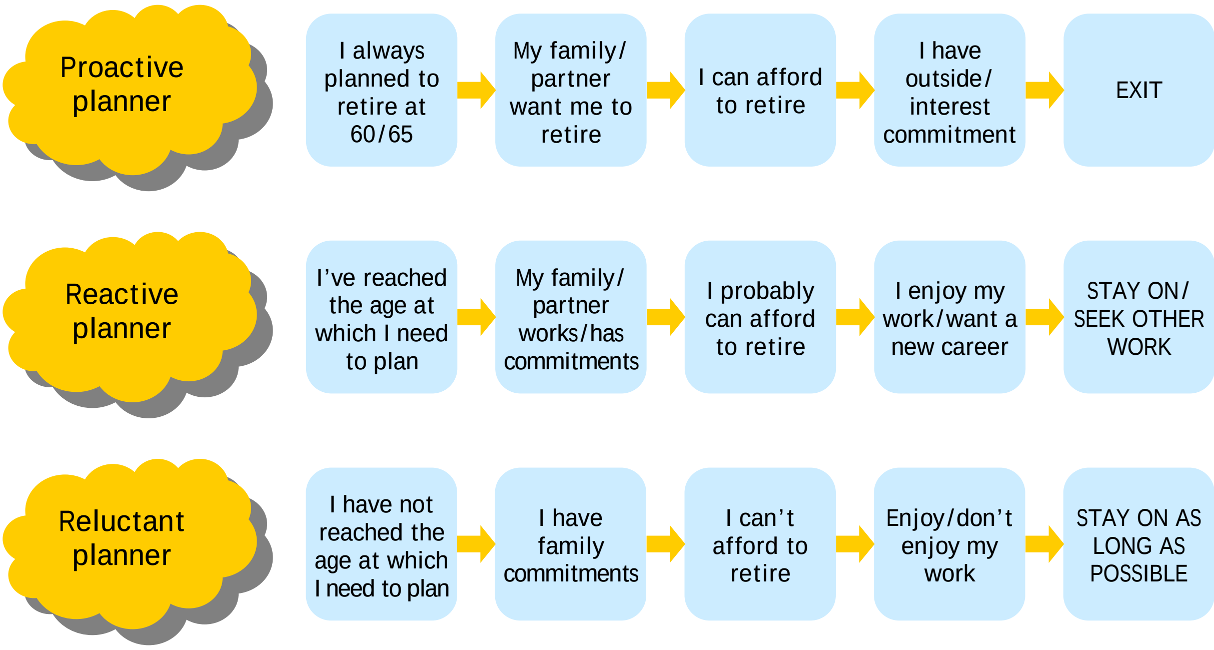
- enthused and energetic on the one hand, '*I enjoy getting up and coming to work*'
- weary and burnt out on the other: 'T*ired is the only word I can describe it … I used to get up full of the joys of spring*'.

Later life planning trajectories

These individual and work factors acted as facilitators or blockers to the planning process. We distinguished three broad groups of employees who followed a common set of questions, but along varying trajectories and with different answers, (see figure on next page).

- **The proactive planners**, who have a long standing vision for retirement, and for whom most of the factors discussed above represent enablers to their planning process. '*My current planning is to retire at 60 and all my planning is aimed towards that.*'
- **The reactive planners** have similar characteristics, but their choices are more strongly determined by their current situation rather than long term planning with a mix of enablers (family) and blockers (finances). '*I am financially burdened, I have to stay on to 65*'.
- **The reluctant planners** consider retirement is too far in the future and feel daunted by the idea of getting old. Their journey is characterised by blockers, mainly psychological: '*I'm very unprepared for retirement you know! I'll admit it, I've done nothing about it*'.

Planning in later life: different planning trajectories



Source: IES, 2010

Holding win-win conversations: what do the parties need?

Whatever decisions older employees are contemplating, they reach a stage where some kind of dialogue is needed to gather more information and plan and agree what their later life, in the current organisation or elsewhere, will look like. Ideally there should be a good fit between employers' expectations and older employees' aspirations and needs. Our research findings show that there are different stages and conversations needed along this planning journey. Underpinning this process, and indeed the success or otherwise of the outcome, are older employees' attitudes and their planning styles and trajectories, facilitated or hindered by their line managers' skills and willingness to support later-life planning.

Key blockers to the process included line managers' fear of unwittingly discriminating in their discussions, or of individuals' changing their mind. Retirement still carries a certain amount of stigma and dialogues depend on the quality of line manager relations with their staff.

Managers in most settings need to play a key role in opening the lines of communications, and they need help and support from their HR functions to do so. Discussions need to be targeted to different aspects of the process: gathering information and advice, such as more in depth financial support and career options; and access to good people management discussions to help identify and chose options. A variety of inputs are needed from managers and others such as pension or HR advisers. In too many employers, these conversations are not happening at all, never mind badly.

Increased risk of discrimination claims?

This has been the first recession, and its aftermath, in which older employees have potentially been able to raise claims of unlawful discrimination on the basis of their age, and this may play a role in reinforcing line managers' fears of discussing retirement issues with their staff. In this respect, the issue of pay may be an additional cause for concern. Employers in the IES poll cited '*the danger of equal pay claims with potentially higher paid older employees doing similar work to younger employees*'. In some instances this may be so. However, it obscures the fact that, according to latest figures, the gender pay gap is widest among those aged 50 to 59, (although in the other upper age bands of the workforce it has narrowed).

We encountered situations where perceptions of being discriminated against had played a part. While ageist stereotyping is potentially the most common form of prejudice, it is quite complex. The prevalence of self-stereotyping among older interviewees was particularly striking in our research interviews. We encountered many examples of negative self-stereotyping, where the sense (for some) of being a cultural misfit was evident in the shape of denial, intergenerational comparison and self-doubt. 'Y*ou've got all these youngsters behind you and it's very, very difficult admitting that you're getting older and perhaps can't cut the bread anymore.*'

Taken together, our case study visits unearthed an interesting dilemma: whether organisations want to support and encourage people to retire; or to encourage them to stay. On the whole, the employers we have visited seem to be stuck into a reactive, procedural mindset as far as encouraging people to stay is concerned. They know the resourcing and talent management issues they face and the decline in the numbers of young people entering the labour market. But they are somewhat reluctant to make the leap of faith to work together with older employees to find a joint solution in the future, and so they tend to follow the set, fixed age-driven procedure leading up to retirement at DRA, with support generally provided via the ubiquitous retirement workshop. They were generally failing to encourage people to stay, treating requests on a case-by-case basis, thus missing potential opportunities to retain much needed skills. In the end, this lack of transparency could be counter-productive as it may fuel perceptions of discrimination.

That an age diverse and increasingly aged workforce is not an easy one to manage is perhaps the most obvious conclusion to draw from our research and web poll. But most employers accept that they can and must get much better at doing it. Exaggerated fears of discrimination claims will only slow the essential process of adaptation away from a fixed mindset of 'they are getting old so we need to remove/retire them as quickly as possible'.

Our research suggests the answers lie in upskilling and resourcing managers to have planning conversations with their employees. Better informed and educated managers hold out great potential to deliver a win:win situation of:

- employees understanding their options and able to deliver on them in a way that gives them financial security and the mix of work and leisure they require in later life
- employers able to retain and access a skilled, engaged and experienced labour pool to the benefit of their business.

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ISSUE 9

The role of organisational development (OD) post recession

Valerie Garrow, Associate Director

Over the past year many of us have come to experience first hand something about chaos and complexity. What most of us knew as a butterfly flapping its wings causing a tidal wave on the other side of the world was illustrated powerfully in the sorry saga of the sub-prime loans. Since then household names such as Woolworths and Royal Doulton have disappeared, once revered bankers such as Sir Fred Goodwin have been vilified, and ridiculed and the City has been shaken to the core. As if that were not bad enough, we have simultaneously experienced a crisis in our public institutions with widespread disbelief that tax payers money is spent on moats and duck houses and a suspicion that we were taken to war on shaky evidence. But what has all this got to do with organisational development (OD)?

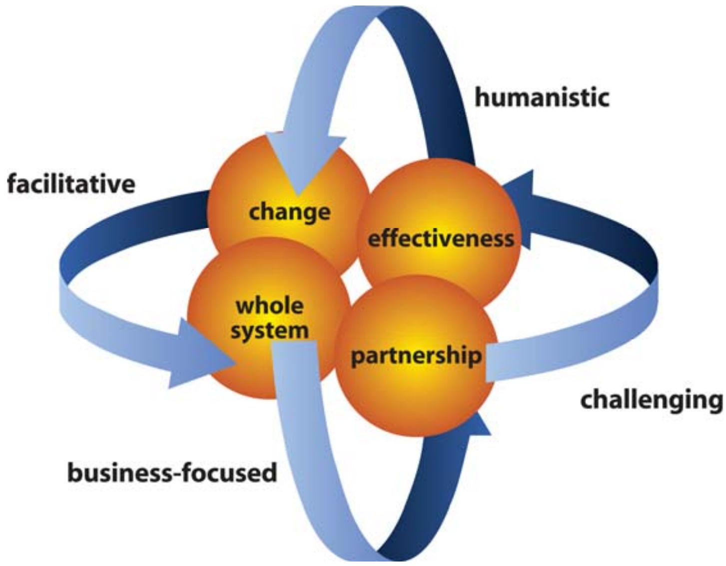
We have heard a lot recently about *systemic failure*, which suggests that the blame resides in the wider system rather than with individuals and we have reached a point where our organisations and institutions now have a major task in rebuilding customer, employee and public trust. It is time for some serious OD, taking a whole systems approach to shift cultures that have enabled some of our top people to remain blind to risk and bad practice. Frog Theory suggests that if you put a frog in a pan of boiling water it will jump out immediately; if you slowly heat the water it will simply sit there and cook. One of OD’s principle roles is sometimes to shock the system into action.

In 2009 IES published *Fish or bird? Perspectives on Organisational Development*, what we might call an ‘inquiry’ into contemporary organisational development (OD) practice in the UK. One of our key findings was that OD practice is highly contextual. It is sensitive to specific organisations, industries and environmental conditions and is developed through relationships. OD practice may look very different in different contexts.

It depends what you mean by OD!

Unsurprisingly, therefore, people were not always clear what should come under the banner of OD. From in-depth conversations with OD practitioners we produced the following model of current OD practice and territory.

Current OD practice



Source: IES, 2010

At its heart, OD is about organisational change and effectiveness but there is a careful balancing act. Along with a keen emphasis on being business focused, often data driven, the humanistic roots of OD have not been lost on today's practitioners. They have, however, been translated into current business language. Practitioners talk about *'supporting engagement'*, *'making human connections'* and *'optimising the potential of people'*.

Another fine balance is to both facilitate and challenge. '*It's like coaching for a whole organisation'*, explained the head of OD for a city firm. Yet OD is not a soft option, as a former head of OD and HR in a large housing association explains, '*OD does far more than just challenge the status quo. It can really uproot the whole lot'*.

Practitioners describe working with emergent (some call it '*improvisational*') change; establishing a direction for change and working in a way that is responsive and adapts to fluctuations in the real world.

Importantly, it works in partnership through others and with the whole system to support organisational strategy and it is this connection to the larger strategic intent that earmarks interventions as OD.

OD in tough times: luxury or necessity

Our inquiry took place in the early days of the credit crunch as we hovered near the *edge of chaos* and we wondered how far OD would be seen by its customers, CEOs and other directors, as a luxury.

This proved far from the case. In times of change the more enlightened CEs saw OD as essential to embedding strategy and increasing efficiency through behavioural change rather than purely cost cutting. They realised that you had to *'take people with you'* when you were fighting for survival. The psychology of change is seen as an essential accompaniment to organisation design work and, in some cases, avoids the necessity for a full restructuring. Changing behaviour might involve rewarding people differently such as on service or quality improvement, while ensuring undesirable behaviours such as irresponsible risk taking or short-termism are not rewarded. It might also come about through revitalising organisational values and engaging employees in striving for a future they want to be part of. In other words, *'OD can start anywhere and go anywhere'*.

One private sector organisation had been up for sale for two years. During that time the managing director believes that if they had not done things under an OD banner they would have experienced huge attrition in the organisation and disengagement, with people switching off and waiting potentially to lose their jobs. Instead, they had a good understanding of the market and a strategy to get there, giving people a clear vision of where they could participate and benefit.

> *'It is very important in tough times – trying to bring your organisation with you when you have rapidly changing market conditions, increased competition, economic uncertainty and you are up for sale – it's a bit of a challenge and if you don't take your organisation with you it will just die. Yes it [OD] has been important. We can't afford to lose key people.'*

The retention strategy has been around engaging people in the future of the business. The managing director believes:

> *'It is probably more important in tougher times – in good times you get a natural buoyancy in an organisation and a feel-good factor and people are more receptive and easier to absorb change. When times are tough people get their head down, become introspective.'*

Re-engaging a post change workforce

Change is nevertheless usually a painful process and OD has a strong legacy which remains as relevant today in tackling worker alienation and lack of trust as it did in the post-war years. Employee engagement has been high on the agenda for many organisations over the past few years but the underpinning mechanism of engagement, the psychological contract, has endured something of a battering as promises are broken and long standing relationships are severed. As we ended the year narrowly avoiding another British Airways strike, amidst the mutual recriminations we hear a lot of echoes of psychological contract breach. They and other organisations that have undergone major change will need to rebuild psychological contracts with their staff over the coming year and repair damage to the employment relationship.

For the coming year

While major change has its own momentum, sustaining, maintaining and building on change as we come out of recession may present an even bigger OD challenge. One CE described the dangers of 'running out of steam'.

> *'As an organisation we have done a huge amount of change but we are now on a plateau. We could easily slip off and I am looking for what can take us up.'*

OD practitioners themselves are generally bullish in the face of economic uncertainty and claim that OD is needed more than ever when times are tough. Change and uncertainty bring a greater need for OD, they told us, and a burning platform can make people more receptive. Continuing economic pressures and the war for talent intensify that need as OD can '*help you keep your best people AND they will be more productive*'. There is also a firm belief that organisations have learned from previous downturns that drastic cuts mean playing catch-up later.

So, what value might OD add in tough times? Here is what OD practitioners had to say:

- OD can help organisations to re-focus on their core purpose.
- OD can help people to deal with stress and uncertainty.
- OD can help organisations be more efficient and effective.
- OD can help organisations to retain talent.

Despite the overall positive feel about the value and the need for OD in tough times, practitioners are pragmatic in acknowledging that there is likely to be an increased focus on cost. Expectations are that this will require them to find more innovative approaches and to demonstrate value-added. Although stoic about the likelihood of programmes being cut, the big fear among some practitioners is that those in charge will revert to familiar behaviours in a crisis. For example, adopting a command and control style and narrowing their focus at a time that calls for greater participation and flexibility in the face of greater change and uncertainty.

The challenge for OD is to ensure that those who have the power and the purse strings understand the important role that OD can play in tough times. As organisations and institutions navigate the *edge of chaos*, rather than succumb to the temptation to control and regulate, they would do better to draw on OD skills to re-engage employees, and design more flexible structures where front line people are able to take more control and responsibility for solving the problems close to them and their customers.

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ISSUE
10

Transforming HR for the future

Peter Reilly, Director, HR Research and Consultancy

In reviewing the transformation of the HR function at this point, one is struck by the very varied stages of development reached by organisations. Some are into their third or more serious structural reconfiguration; others are about to begin their first. Many but not all these organisations have reformed processes, and investment in self-service technology may be in its infancy or quite mature. So it is hard to generalise. What is true is that there are some common objectives, even if the means to deliver them can be different.

It is obvious to report that in a recession cost reduction is the primary goal of current HR transformation. But then it always has been, and all that is now happening is that the need to make greater savings is accelerating and pushing change more aggressively. There are various routes to cost reduction being applied, as described below. But we would argue that HR should also invest in the future, not least in its own capability.

HR governance

This is a new term and refers to the way the HR function itself is organised and managed. However, in this context, what is obvious is that many companies are using a review of governance structures to drive through standardisation of policies, processes and systems. To the corporate centre, especially in multi-nationals, it is obvious that there is excessive duplication. Why do we have multiple performance appraisal practices? Why do we have different HR information systems? Why do we permit variations on the leadership development theme? By utilising corporate buying power, we can get market advantages; by creating one set of processes we can save on design time; and by having common systems we get a better bang for our buck.

There is benefit beyond cost reduction, in that standardisation allows easier internal benchmarking and the spread of organisational (or external) good practice, but reducing HR numbers is the major driver.

However, there are concerns that one size fits all models of policy and practice are inappropriate in this diverse world. Riding roughshod over cultural differences may save money in the short term but risk business, not just HR problems, if operating units are insensitive to their local market environment. And compliance negates creativity; so where will innovation in practice come from?

Sharing and saving

HR shared services is now very common for large, complex organisations. There are some organisations that still prefer a decentralised approach that generally, but not always, reflects a decentralised business model. Early movers into shared services are now seeing how they can get further economies of scale – and thereby cut costs. International companies can do this by setting up regional service hubs. SAP, for example, has three global hubs in Philadelphia, Singapore and Prague.

The challenge is both to make shared services work effectively (they get a mixed press) and to join up all the elements of the delivery model such that there is an integrated approach. One of the obstacles to the well meant separation of transactional from transformational is that there are greater challenges in communication, sharing and learning across organisational boundaries. Moreover, customers object to the multiple entry points to the function, especially where this has not been explained well.

There is also the option to outsource their shared service operation in the search for cost reduction, the acquisition of specialist skills, to drive up quality or to get access to technology, especially self-service. However, it only makes financial sense to outsource if the supplier can deliver the same quality of service at a lower price and still make a profit. This insight seems to have inhibited more than tactical sub contracting. Not all of those that have outsourced shared services are reporting positive results, with concerns about contract inflexibility and loss of control to the fore.

Some organisations may be tempted to offshore via a third party to exploit wage arbitrage between advanced economic countries and developing countries. But this seems to work better with routine process work especially in IT and finance than with HR because of the recognition that tasks involving human interaction are not so easily transferred. Examples of off-shoring HR call centres have not always gone well where they have involved using a low-cost, generic supplier.

Cross organisational sharing

It has taken a while but public sector organisations are now really focussing on how to get economies of scale, not just within their organisations, but by combining with others within their sectoral community or across sectoral boundaries. To give a few examples:

- The research councils now have a common back office HR function. Under the banner of Research Councils UK Shared Services Centre Ltd, the seven Research Councils have combined to deliver services in the areas of human resources, finance, procurement, IT/IS and grants.
- The London Borough of Hammersmith and Fulham now delivers an HR service to NHS Hammersmith and Fulham with staff seconded from the PCT to the Council. The latter also runs the PCT's payroll. Knowsley Metropolitan Borough Council and Knowsley Primary Care Trust have developed a series of 20 joint teams, including the Executive Leadership Team and HR.
- Many of the smaller civil service departments are transferring their HR administrative work to one of the six big HR shared service centres run by central government departments. The latest government report 'Putting the Frontline First' envisages the creation of a public sector service provider to support organisations across the public sector.
- Some county councils have developed close working arrangements with districts. Indeed, in the case of the Essex Strategic HR Partnership, the heads of HR from all 15 local authorities in Essex are working together on issues such as leadership building and recruitment
- Cambridgeshire County Council has combined with Northampton County Council and Slough Borough Council to create a joint venture company with Fujitsu to develop a new ERP shared service HRIS and to share the delivery of back office processes and transactional services across a range of key functions, including finance, HR, on-line procurement and payment facilities.

As these examples show, there have been several very innovative attempts to find ways of reducing costs, boosting quality and sharing benefits. Previous attempts at getting cross organisational sharing have foundered where it has required more than an ad hoc or short term commitment because of resistance from political leaders or from executive management. Those that have been established have struggled to get the governance arrangements right since this requires a kind of pooled sovereignty where you do not always get your own way because you have to acknowledge the common good. The economic circumstances in which sharing is now being considered are such that organisations may have to put aside their reservations because they cannot afford to lose the economy of scale benefits to be obtained from joint operations.

Devolution

Though not specifically seen as a cost saving measure because it is also driven by a philosophy of creating a self-sufficient culture, transferring work from HR to the line does allow a saving in HR heads. Here though we should distinguish between devolving personnel administration tasks, which may be legitimate, from transferring people management responsibility which is never acceptable because it is a core management task. The fuzzy bit in the middle is operational support. The argument for getting managers to do more of their own administration is that it means the task is only done once and then by the originator. However, for this to work the underpinning self-service technology has to be effective: too often this is not the case and leaves managers with time consuming and irritating activities. This they resent because they see it as HR saving resource at the cost of their workload, especially at a time when they themselves are being pressurised to do more with less.

HR's operational support to managers (eg casework, recruitment or training) has been another area where the function has sought to exit for the same pragmatic cost reasons and philosophic belief that managers ought to be able to do this for themselves. The jury is still out on whether this ambition is being realised. On the one hand, there are organisations where managers are confident in their people management role and do not object to taking charge of recruitment selection or disciplinary interviews; on the other hand, there are those managers that argue that HR is employed precisely to do these activities in a cheaper and more professional manner. The organisations that seem to have got this right are those that apply a mixed model – letting managers get on with these 'HR' tasks where it seems to be accepted, whilst being prepared to give more support where the economics or people management skill require it.

Building for the future

The other articles in this document describe the many excellent areas of HR policy development or initiatives, what we are concerned with here is HR building its own capability to deliver these great ideas. In the past, the knowledge, skills and experience of HR has taken a back seat compared with structural, systems and process change. Whilst the latter has had the time and money, there has not been an equivalent investment in people. The HR leadership has given insufficient attention to development needs and career paths. The exception to this is the business partner role, largely because it has too frequently been introduced without consideration of what it will deliver and whether it meets customer needs. So there are many training events or stakeholder engagement meetings, including those run by IES, to define the role in agreement with manager customers.

What must be realised is that business partners will not be successful unless the other parts of the HR service delivery model are also working well. To get to this position, attention should also be given to role specification and to the development for those working in service centres and in centres of expertise. Moreover, thought should be given to the internal movement of staff within the function so that people can be tested on their future capability. This means secondments, project working and absence cover to give people, particularly from service centres, experience both in other areas within the centre (to increase internal flexibility) and between the centre and expert roles, or even to business partner support positions. Business partners may need job rotation and experts might need refreshment too.

If HR does not improve the quality of its HR community by building capacity and capability for the future it will not be able to drive change in the organisation, develop employee engagement, push performance management etc. It needs to develop these skills internally as the external market is not going to be full of talented people ripe for the picking. Even in a recession, there is a shortage of good OD, reward and business partner people – precisely because internal capability building has been neglected. If now does not seem the right time to spend precious resources on internal learning and development programmes, this is a case where the argument has to be made that you are building for the future, not just for the function but organisational effectives more widely.

If you would like to talk further about dealing with the issues raised in this article then please contact:

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