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IES Perspectives on the

HR Year Ahead 2013

interesting times

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Introduction

As befits a document looking forward, the meta theme of this publication is change. And it is not surprising that change should be so prominent since most of us believe that 'we live in interesting times' (to quote the allegedly Chinese proverb, though more likely an English curse: 'may you live in interesting times'!). People through the ages have tended to believe that they are experiencing unprecedented change, such that the term can become almost meaningless. It can be said, however, that in economic terms at least there has been severe market dislocation of most unusual proportions, leading to a real terms fall in the living standards of many across the western world. Thus, these interesting times may well feel to them as cursed not blessed.

Against this background, our set of papers explores issues in HR and OD from a number of different angles. Valerie Garrow and Sharon Varney's piece emphasises the distinctive OD voice. It reminds us of the adaptability of OD to adjust to changing contexts. The point that the OD mindset is one where 'being' is as important as 'doing' perhaps allows this adaptability to prosper compared with other disciplines that get stuck with rigid formulations. OD, they emphasise, is a values-based approach. This makes it all the more relevant because, as contributors to our recent Provocation event stressed, there is a vital role to be played in organisations in defining and promoting values. HR and OD practitioners can take the lead in this task and can become 'guardians' of the organisational values set on behalf of the enterprise. Given the apparently frequent violations of organisational values, if one listens to the media, this requirement is urgent as well as important. As a consequence, a number of IES events in 2013 will reflect the theme of organisational values, integrity and ethics.

Employee engagement, as Dilys Robinson reminds us, is driven in part by employers making their staff feel valued and involved: returning us to the principle of encouraging organisations to have people-centred operating principles. One can see employee engagement as part of a mindset in which higher performance can be delivered through people. This is a critical insight when so many organisations (especially in the public sector) are seeing employees as costs to be cut rather than as assets to be developed. The Engage for Success movement is a welcome antidote to the negative downsizing story. The challenge is whether the employee engagement insights will really drive organisational behaviour as opposed to being simply a PR exercise, good for corporate branding. Understanding at a deeper level what turns on and what turns off different workforce segments will, as Dilys suggests, help the employee engagement concept have greater effect.

Paul Fairhurst uses research from behavioural economics, neuroscience and complexity theory to show us that we perhaps do not understand people as fully as we would like and a better knowledge of how employees think, feel and react will improve our management of change. He points to how coaching and appreciative inquiry can be successful in reinforcing the desired change pathway. Thus our choice of technique should be guided by what works in each situation rather than by adopting the latest fashion. Moreover, the underlying philosophy – one of positive psychology – is another reinforcement of the values set that organisations might wish to embrace if they want staff to perform to their best.

Talent management could be seen as simply a fad in itself, but Victoria Campbell shows us that there are good business reasons to identify and develop talented people. As she emphasises, organisations that claim that everyone is talented ultimately concentrate their efforts on those with the potential to hold down senior or critical positions, or those who are in these roles already. She makes the important point therefore, that organisations do need to think through who these employees are and the roles vital to organisational success. This insight will be business specific and to an extent context specific – the skills you need to survive are not necessarily the ones you need to prosper, as we found after the last big recession.

This brings us to innovation. Penny Tamkin reinforces the best fit rather than best practice mantra that informs so much of IES's commentary on organisational practice. Whilst changes to the content or design of work increased employee job satisfaction through job enrichment, more challenging work, and greater task variety, it was not always plain sailing in the case studies of innovation she describes. It is challenging to successfully innovate because you need to be mindful of the circumstances under which change is taking place and the culture of the organisation. Great care, as always, is needed in the implementation of revised ways of doing things. However, an important message the paper gives returns us to the employee engagement debate; namely, that employee perception that their employer is genuinely interested in their well-being is both a useful by-product of the innovation and a stimulus for further successful change.

Mary Mercer reminds us how external factors can drive innovation. Taking the question of flexible working she looks at how three specific external events or trends have driven new ways of working. The pressure on the planet's ecosystem has caused some organisations to respond by finding creative ways to reduce carbon emissions associated with their work activities. This is a win:win situation – the environment is protected and the organisation gets a brand benefit and lower costs. The recession has hit working hours more than jobs, as the figure on page 52 shows. Organisations have tried to keep people but have done so by reducing hours; potentially another win:win. The Olympics in London was a one-off – at least in my lifetime – but it allowed employers to experiment with locational as well as temporal flexibility. Again, employees can benefit from such flexibility in cutting commuting times and costs. Hopefully, we will at last see workforce flexibility as having mutual advantage as argued in my book in 2000 (Reilly, 2000) rather than purely a benefit to one party.

Catherine Rickard examines the particular example of change in relation to an aspect of reward, namely pay progression. This might appear to be a topic of esoteric interest to remuneration specialists. In fact, culture and change are prominent aspects of her research. Trying to effect reward change may be an existential matter for some organisations in these straitened times. For others it may be simply a matter of continuous improvement in modernising HR practice. Either way, a decision has to be made as to whether reward reform goes with the grain of organisational culture or whether it is used as a lever to try to achieve cultural change. Those in dire straits may well have to do the latter. But if the aim is to bring staff with you then small pay budgets may make this task extremely difficult: how do you lubricate change to prevent there being more losers than winners? Some organisations do not think through the implications of their modifications and are surprised when they do not produce the motivational effects that they desire. Once more this is an argument for more thoughtful and business-specific HR management.

Dilys's focus on line managers is surely right in improving the way employees are engaged with the organisation. My own paper returns to this point. HR continues to struggle with the devolution of people management activities to managers and is frustrated with the extent to which managers have taken up the baton. The problem with the debate, as I argue, is that it confuses several distinctive aspects of the line/HR relationship. Critical to organisational success is that managers fully accept in theory, and deliver in reality, their people management responsibility to their staff. Though of interest to the HR function's cost profile, who does which administrative task is of little consequence when set against the benefits to be obtained from people-centred management. HR transformation is a necessary part of the organisational landscape and no doubt cutting 30 per cent of 1 per cent of organisational costs is welcome to the finance department. But transformation implies much more than this and will not be completed until a proper working relationship, based on mutual respect and understanding, is obtained.

Peter Reilly

IES, December 2012

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Meet the IES HR team

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Specialist area: Pay and reward.

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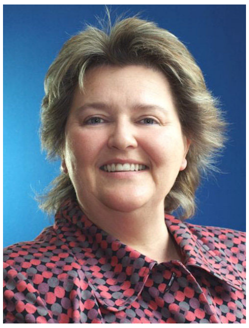
Specialist areas: Recruitment and retention; employer branding; labour market intelligence and graduates.



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integration.

Building OD capability: learning how to swim and fly

Valerie Garrow, Principal Associate and Sharon Varney, Associate

Organisation Development (OD) continues to be much in demand in UK organisations across all sectors. As leaders look to renew and restructure for greater effectiveness in changed, changing and challenging circumstances, there is a real need for people who have a deep understanding of organisational dynamics and who are skilled in working with the often messy and unpredictable business of whole system change. In this article we consider why OD continues to become increasingly important for HR professionals, re-visit what OD practice is and describe how individuals and organisations can develop OD capability.

Why do organisations need OD capability?

Clearly the scale and pace of change has been an important factor since the recession, particularly in the public sector. But across sectors, influential institutions have also been rocked by scandals over recent years; from the press, the BBC and the finance sector to MPs' expenses and accusations of collusion at senior levels. This has led many to question how corporate cultures might lead to what is sometimes referred to as 'a systemic failure'. There has been an accompanying public debate about fairness, values and corporate social responsibility and a call for greater openness and accountability.

People fear that there has been a widespread loss of integrity and values in public and corporate life; OD, rooted in humanistic values, has an important role to play in supporting a change in 'mindset' and culture.

As part of our research (Garrow and Varney, 2009, 2011), a sweep of advertised OD roles over a two month period in both 2008 and 2010 revealed that organisations are looking for help with a wide range of issues:

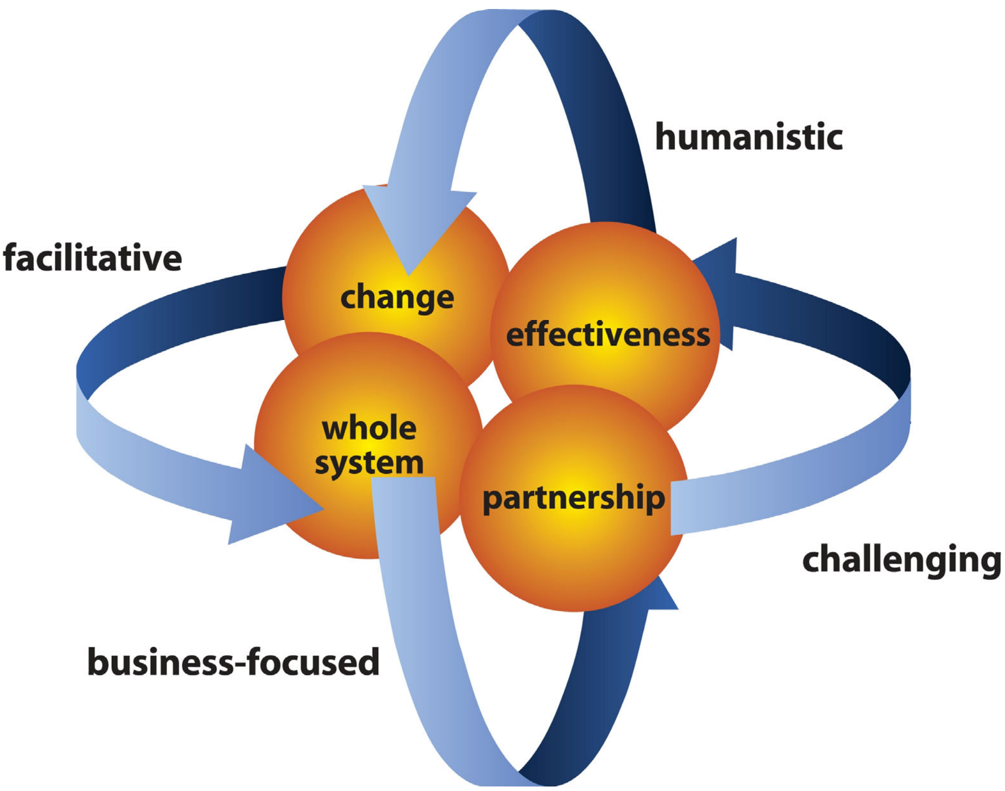
- **Organisational effectiveness:** embedding strategy, maximising performance, business improvement and process mapping, organisational design, alignment and growth.
- **Building capability:** developing talent, organisational learning and change leadership.
- **Employee engagement:** motivation, performance management, branding, reward, communication.
- **Supporting change:** frameworks to underpin large-scale change, project management, transition through rationalisation and downsizing.

We might be forgiven for thinking that OD has become a 'catch-all' role and it is worth, therefore, re-visiting our earlier research that examined current OD practice.

What is OD?

The title of IES' first phase of research, *Fish or Bird? Perspectives on Organisational Development*, reflects the highly contextual and multi-faceted nature of OD. For some, OD retains a 'mystique', not fitting easily into any one function but rather working in between and at, or across, the traditional boundaries of functions and organisations.

Core OD Concepts



Source: Garrow and Varney, 2009

The figure above summarises our conversations with UK practitioners, who described eight core concepts of OD practice. Change and organisational effectiveness are at the heart of OD, as is working holistically across the whole system through partnerships and collaboration. But there is also a balancing act, firstly between today's greater business focus and traditional humanistic values, and secondly between being facilitative and the need to challenge assumptions and ways of working.

The practice of OD itself is constantly evolving from its early origins of planned, top-down change. While still drawing heavily on the behavioural sciences, it is equally at home with the new sciences such as complexity and chaos theory, which offer new ways of thinking about emergent change in our turbulent economic environment. Practitioners are more likely to find themselves working on the right-hand side than the left of the following figure:

Trends in OD

Traditional OD	OD today
Planned change	Emergent change
Top down	Co-creation/bottom-up
Linear	Complex/self-organising
Motivating people (push)	Social movement (pull)
Problem-solving	Unleashing energy
Leading	Coordinating/engaging/facilitating
Incremental (small groups, teams)	Transformational (large groups, whole organisations)

From its post-war origins in combating worker alienation under scientific management principles, to a modern-day practice of enabling whole system change in order to increase organisational effectiveness, OD offers a values-driven approach to developing healthy organisations.

Our research showed that individual practitioners bring a variety of skills, knowledge, approaches, tools, qualities and personal experience, which means that the scope and feel of OD initiatives look and feel very different in every organisation. Cheung Judge describes this as the importance of the 'self as instrument'. So in the absence of a formal curriculum how do people forge a successful career in OD?

How can we develop OD skills and capability?

Our second piece of research, *Learning to swim, learning to fly: a career in organisational development*, looked more closely at what it means to be an OD professional and offers some practical advice gleaned from those who have been successful in the field.

As shown in the figure below, our sweep of job roles in October 2011 revealed what organisations commonly ask for in an OD professional.

What 39 organisations said they wanted from an OD professional

Qualifications	17 asked for graduates (4 at masters level) in occupational psychology, organisational behaviour, design or change, psychology, HRM or business administration 9 asked for CIPD qualifications
Experience	Managing change (15) Industry-specific experience (11) Senior management (6) Project management, Consulting, Cross-cultural /international (5) Employee engagement, Talent management, Training (4) Coaching and Mentoring, Partnership working, Strategy formation, Employee relations (3)
Qualities/skills	Influencing, analytical problem solving (8) Strategic thinking (7) Ability to deliver (6) Team working, cultural sensitivity (5) HR knowledge, commercial focus, personal effectiveness (4) Leadership, political astuteness (3)

Source: IES, 2011

As organisations wrestle with complexity and turbulence, OD professionals who can work at this level are much in demand, and clearly it takes time to build the full range of skills. There is, however, often more capability within an organisation than is initially apparent and potential change champions can be found in all kinds of roles and at all levels. Practitioners told us that there are four key things to look for:

1. People who **think** differently: they understand social dynamics and politics (small 'p'); they stay open to a variety of models, frameworks and ways of working; they are analytical and are good at interpreting and making connections.

2. People who **do** things differently: they listen, question, challenge 'compassionately' and coach others.

3. People who **relate** well to others, build relationships and consult. They are networkers, collaborators, work across teams and boundaries and work through others.

4. People who **are** self-aware, curious, show emotional intelligence, intuition, integrity and personal presence.

From the stories of three experienced senior OD professionals, only one of whom had come up through the personnel/HR route, the specific skills they brought to OD were: commercial awareness to engage with the business and strategy; process improvement and re-engineering experience; organisation design; cultural understanding and diversity awareness from international postings; strong relationship-building and partnering ability; operational experience and audit skills.

The figure below shows significant commonality in their career development.

Building OD Skills

Source: Garrow and Varney, 2012

So, are OD practitioners are born or made? The answer, of course, is a bit of both. Successful OD practitioners are a combination of 'nature' and 'nurture'. Broad experience, sound training, a good grasp of theory and a well-stocked toolkit are important basics. But there is something too about an OD mindset and the 'being' is as important as the 'doing'. OD practitioners are curious about people, intuitive about intangibles, willing to take risks, tolerant of ambiguity, have strong values and want to make a difference.

Organisations wanting to build OD capacity should first look at what capability they have internally that could be nurtured through corporate or change projects (including international assignments where available) and development or by working alongside an experienced OD practitioner or in a team with complementary skills.

For individuals, the advice from successful practitioners is to:

Get curious about OD and find out more

There is a wide variety of OD roles and contexts and individuals work in different ways to influence an organisational system. Find out what people do, what tools they use and how they approach OD practice.

Build another career first

OD is rarely a first career. Practitioners come from different educational and professional backgrounds which all serve to enrich the discipline. Consider what organisational and life experience you can bring.

Get some solid business experience

Helping organisations become more effective requires an appreciation of how the whole system works and having hands-on experience of functional roles such as finance, sales, marketing and general line management develops valuable insight.

Believe in people

OD is rooted in the behavioural sciences and if you are not curious about what makes people tick both as individuals and within their peer groups then OD is probably not for you. Ask yourself whether you really believe that, given the right opportunities and support, all individuals can do remarkable things.

Get the right training and development

Good OD practitioners have a hunger for learning and the ability to integrate theory and practice seamlessly. Think about a master's level qualification, be eclectic in building a flexible repertoire of OD tools and techniques, and hone your facilitation and consultancy skills.

Develop your self awareness

OD practitioners stress the importance of understanding the impact they have on other people as well as managing the impact other people have on them. Seek feedback at every opportunity and practice giving developmental feedback to others.

Learn from others

Practitioners learn from working with and watching more experienced people. Join an OD network for additional learning and support and read up on some of the early OD masters.

Look for opportunities to work internationally

Cultural understanding features prominently in the development of our senior practitioners, developing their awareness of how to work with diversity. Take advantage of any overseas assignments or work in different organisational cultures.

Prepare for the future

OD practitioners need to flex with changing needs, business practices, technologies and so forth – and be willing to hold fast to their own moral compass. Find out how the new sciences such as complexity and chaos have provided innovative metaphors and ways of thinking about organisations that can encourage creativity in organisation design and development.

The year ahead

We can draw many parallels with the current business environment and the post-war 'alienation' that the early OD movement set out to challenge. The year ahead promises to be one of re-building confidence and trust in our institutions and corporations and the people agenda and the quest for employee engagement are likely to remain high on the agenda. Organisations that are starting to invest in OD skills and build their capabilities in this field will find themselves on the front foot and HR professionals who develop their OD skills will be much in demand.

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Employee engagement: what next?

Dilys Robinson, Principal Research Fellow

IES has been active in researching engagement since 2002, when it was in its infancy as a management concept. Before 2000, the academic research focus was on employee commitment and the relationship between commitment and performance (*eg* via the service-profit chain). Despite good evidence, however, the concept of commitment somehow failed to capture the imagination – unlike engagement, which caught on fast with (at first) very little evidence.

Since the early 2000s, and regardless of the economic climate, employee engagement seems to have remained something of a holy grail, with repeated business surveys showing that CEOs regard engagement as one of their top priorities. The recent launch of the Engage for Success movement represents a good opportunity to look back on how far employee engagement has come, and to reflect on its future. After 10 to 12 years of research and practice, what do we now know about engagement?

Defining and measuring engagement

There is no single accepted definition of engagement. Back in 2009, the MacLeod Review found more than 50, and they have continued to multiply. Academics, consultancies and survey companies have all produced definitions, and many organisations – not content with any of these – have defined the concept in their own terms. These tend to differ in subtle ways: company definitions often emphasise a sense of identity with the organisation, consultancies stress discretionary effort leading to benefits for the company's bottom line, while academics focus more on the individual's positive emotional state. Kahn, an academic who can perhaps be called the 'father of engagement' talked about engagement as:

> '*The harnessing of organisation members' selves to their work roles; in engagement, people employ and express themselves physically, cognitively, and emotionally during role performances.*' Kahn, 1990

Compare this to a consultancy definition:

> '*A state of mind in which employees feel a vested interest in the company's success and are both willing and motivated to perform to levels that exceed the stated job requirements.*' Mercer, 2007, from the company's website

At IES we have ambitiously attempted to encapsulate the different facets of engagement into one (long) definition, using inputs from 46 of our member organisations. Ours has one feature that is missing in almost all other definitions – namely that engagement cannot be demanded from employees, as engagement is a two-way process which includes organisational responsibilities.

> '*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.*' IES, 2004

Just as there are many definitions, there are also many engagement measures available for use within employee attitude surveys, of which the better known are perhaps Gallup's Q12, NetPromoter and the Utrecht Work Engagement Scale. IES's engagement scale is in the public domain and we receive frequent requests to use it. Some parts of the public sector, notably central government and the NHS, have their own engagement measures, enabling extensive benchmarking within the sector. Although they have features in common, all the available indicators use different wording in their attitude statements and different scoring methods, and are presented in different ways – which of course means they cannot be compared reliably.

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

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

In summary, an engaged employee works to make the organisation better – and this firmly-held belief is a key driver of much of the corporate work that is underway to improve engagement levels.

The evidence mounts

There is a growing body of research evidence that supports the view that engagement is indeed linked to performance, in the sense that there are correlations between engagement and indicators such as customer satisfaction, employee turnover, sickness absence, and bottom-line measures like profit and sales. A small number of studies demonstrate a causal link, and some companies (notably in the financial and retail sectors) have their own data which they firmly believe demonstrate that engagement is a good forward indicator. There appear to be even further benefits from having high levels of engagement: receptivity to change; willingness to participate in decision-making and make suggestions for doing things better; taking ownership and responsibility for the organisation (including whistle-blowing); and a greater sense of physical and emotional well-being. Below is a small selection of the research evidence:

- **Customer loyalty**: customers in retail environments where employees are highly engaged are more likely to make repeat purchases and make recommendations to their friends (Levinson, 2007).
- **Employee retention**: engaged employees are over three times more likely to plan to stay with their organisation than their disengaged colleagues (BlessingWhite, 2008).
- **Positive advocacy:** engaged employees are more likely to say that they recommend their organisation to friends and family – both in terms of the organisation's products and services, and as a place to work (Robinson, *et al.*, 2007).
- **Improved performance and productivity**: a study of 50,000 employees found that the most engaged and committed perform 20 per cent better than their colleagues (Corporate Leadership Council, 2004).
- **Receptivity to change:** Cambridgeshire County Council (cited in a Scottish Executive publication, 2007) found that their engagement improvement initiatives led to time savings when introducing new policies and implementing change, due to increased employee receptivity.
- **Enjoyable work:** people who work in engaged teams feel positive about every aspect of work, and report high levels of job satisfaction (Robinson, *et al.*, 2009).
- **Health and well-being:** the survey company Gallup reported increased health and well-being in engaged employees, with 62 per cent of engaged employees reporting a positive effect of work upon their physical health (Crabtree, 2005, cited in Lockwood, 2007).

- **Self-efficacy:** with increasing engagement come higher levels of employee belief that they can tackle tasks and succeed, which is demonstrated as a willingness to take on challenges and see them through successfully (Luthans and Peterson, 2002).

Engagement drivers

Aside from our increased understanding of what engagement is and how it can be measured, we now also know a reasonable amount about its antecedents: what causes people to engage or disengage with their organisations? The research all tends to point to similar drivers:

- Employees feeling valued by, and involved with, their organisation.
- Effective day-to-day management by line managers who are good at motivating their staff to perform well.
- Good quality leadership from the top team, including leading by example in terms of behaviours, and both setting and explaining the overall strategic direction.
- Interesting, satisfying work with job autonomy.
- Effective, two-way communication – with listening as important as telling.
- A view that the organisation is serious about staff safety, equality of opportunity, corporate social responsibility and staff well-being.
- The provision of development opportunities.
- Aligned performance – so staff understand their contribution to organisational success.
- Fair reward and opportunities – not necessarily financial – for recognition.

The MacLeod Review summed up these drivers under the four ‘enabler' headings of:

1. A clear and compelling **strategic narrative** describing the organisation's purpose, values, aims and direction, with which employees can identify because they can see where and how they contribute, and which inspires them to want to perform well.
2. Genuine opportunities for the **employee voice** to be heard and acted upon; not only via the annual survey, but in daily interactions with colleagues and managers. This enabler includes both formal processes (such as staff suggestion schemes and consultations, as long as they are genuine and feedback is given), and more informal relationships, such as a line manager listening and responding to a member of staff's ideas. It should also allow employees to speak out if they have concerns, without any fear of retribution.

3. The daily demonstration of **good management and leadership behaviours**, so that employees feel that they are managed well and with respect. This involves the identification and dissemination of these behaviours, senior leaders acting as role models, upward feedback, appropriate behaviours being rewarded and inappropriate behaviours being sanctioned.
4. Organisational **integrity**, which essentially means everyone within the organisation acting honestly and behaving in line with the values, leading to high levels of trust.

The Engage for Success Movement

'Engage for Success' can be seen as a demonstration of engagement belief. Growing out of the MacLeod Review, which reported in 2009, it now has over 700 people in its practitioner group and around 250 guru group members. The central taskforce is made up of an impressive list of business leaders, and many companies have shown their support by donating resources (people, facilities, skills, time, money) to the movement. Beyond 'Go Live', interesting developments are planned, notably the creation of the Engage for Success Foundation, which will have a small number of employees as well as relying on goodwill and pro bono contributions.

Taking engagement forward

There is considerable scope for digging much deeper, to enhance our understanding and enable better targeting of effort to improve engagement within organisations. We already know, via attitude survey analysis, that different groups of people within the same organisation can have very different engagement levels. Sometimes, the reason may be obvious: the more engaged teams may simply have better managers. However, there are often underlying differences in engagement, regardless of the quality of management, depending on factors such as age, ethnicity, length of service, role, position and location. Why is this, and what (if anything) can be done about it? Are organisations missing opportunities by failing to engage some groups of staff that may have valuable contributions to offer?

Research has also shown that engagement drivers can vary markedly, not only between organisations, but also between different employee groups within the same organisation. We know from research that feeling valued and involved and job satisfaction are usually the two most important drivers; however, it would be unhelpful to base all engagement programmes on the basis that this is always the case. Current methods of assessing engagement drivers tend to rely on statistical techniques requiring fairly large amounts of data. How can we gain a better understanding of engagement drivers, and use these more flexibly?

Another key question to be answered is 'engagement with what?' Some employees may be highly engaged with the work they do, or their clients, or their profession, or their manager and their team colleagues, but not with their organisation. To some extent, this may not matter if they are doing a good job. However, the organisation could lose out: it is unlikely, for example, to benefit from positive employee advocacy, and is vulnerable to employees departing if they get a better offer to engage with similar work in a different company. It is also very difficult to implement large scale change when organisational engagement (rather then job/work engagement) is low.

Perhaps the question 'what's the most effective thing we can do to improve engagement?' can be answered very simply: improve the people management skills of your line, middle and senior managers. IES's 'Engaging Manager' research demonstrated very clearly that managers who are good at motivating and engaging their teams behave in similar ways, regardless of such things as background, training and personality. Organisations are very dependent on the line to implement strategy, policies, systems, processes, targets *etc.*, yet managers are often recruited and rewarded for skills other than people management, and rarely receive any training or development focusing on people management.

Engagement has been around for a long time now, in a fad-prone world. The argument does seem compelling, but in practice it is not easy to raise engagement levels and keep them raised – especially in large, dispersed organisations, and during a long-lasting recession. Is there a danger that engagement will be abandoned because it is too difficult to tackle, or requires too much effort to maintain?

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IES Research

A special interest group within the Engage for Success Movement is looking at 'engagement futures' and would welcome your contribution to the debate: email dilys.robinson@employment-studies.co.uk with any further thoughts.

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Influencing people to behave in different ways

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The need for change seems to be ongoing and increasing, and becoming more challenging as the years go by. Some commentators now describe the environment that we are operating in by the acronym VUCA ('voo-kah') – Volatile, Uncertain, Complex and Ambiguous. The acronym was originally used by the American Military to describe extreme conditions in Afghanistan and Iraq. Whilst it would be totally inappropriate to compare the business or economic environment directly with a war context, it is easy to recognise these dimensions at play in an organisational context.

Changing the culture of an organisation or getting people to behave in new ways is often a critical, and overlooked, part of any organisational change. Too often organisations focus on structural or process change and then are surprised when these changes don't have the effect that they expect. It is human nature for people to carry on doing what they have always done unless the conditions and support are put in place for them to do something different. Other times, organisations do recognise the need for behavioural change but perhaps aren't prepared for the time and effort required to make this happen.

The good news in terms of influencing how people behave is that there has been much progress over the last decade or so in the scientific understanding of how to help people change. In this article, we will explore some of these new ideas and how they can be applied in organisational change. Specifically, we will look at what the fields of behavioural economics, neuroscience and complex systems can teach us.

Behavioural economics

In 2010, the Institute for Government on behalf of the Cabinet Office published 'MINDSPACE Influencing behaviour through public policy', and the authors also published their finding as 'Influencing behaviour: The mindspace way' in the Journal of Economic Psychology. The work was originally undertaken to understand how government could use the latest thinking from behavioural science to more effectively influence behaviour through public policy. The mnemonic MINDSPACE was developed to summarise the most robust effects identified in the scientific literature that can be used to influence behaviour. It is a useful summary of the current thinking, though Dolan, *et al.* recognise there remain significant gaps in the knowledge base.

MINDSPACE

Messenger we are heavily influenced by who communicates information

Incentives our responses to incentives are shaped by predictable mental shortcuts such as strongly avoiding losses

Norms we are strongly influenced by what others do

Defaults we 'go with the flow' of pre-set options

Salience our attention is drawn to what is novel and seems relevant to us

Priming our acts are often influenced by sub-conscious cues

Affect our emotional associations can powerfully shape our actions

Commitments we seek to be consistent with our public promises, and reciprocate acts

Ego we act in ways that make us feel better about ourselves

Source: MINDSPACE influencing behaviour through public policy, Institute for Government, 2010

It is argued that generally people respond in automatic and unconscious ways to these factors rather than making conscious decisions about each of them and so they lead to more effective behavioural change levers. For example, the weight given to information that we receive depends on our automatic reaction to the messenger, their perceived authority (formal or informal), similarity to us and our feelings (positive or negative to them). So, information needs to be delivered by credible people, perhaps through peers and by those who are respected or liked by the recipients. Or, some combination of these.

The role of incentives is a complex one. One of the most interesting factors though is the fact that people appear to dislike losses more than they are attracted to gains of a similar amount. Following this thought through to consider bonuses and variable pay, it may be appropriate to give people the money in the first place (or put in an escrow type arrangement) and take this money away from those who fail to hit targets rather than to offer an incentive to those who are successful. Along the incentives route there are also issues around our interpretation of probabilities, reference points and comparators and the value of current vs. future incentives which are discussed in more detail.

Most people tend to follow what others are doing, particularly when this becomes the cultural norm (*eg* the use of seatbelts and reduction in smoking). Letting people know that other people like them have already changed their behaviour, connecting people together so that they can see what others are doing and reinforcing the norms that you want to emerge are all powerful tactics. It is also important to take care not to talk too much about the behaviours that you don't want, as merely talking about them can be seen to be a way of indicating that they are existing social norms (and as we see later, it also causes people to think about those undesirable behaviours rather than the ones that you want.)

It takes less effort and energy to go with the flow and follow any default settings. If you want people to start using a new system or working in a new way, make it as easy as possible for them so that they don't have to make any conscious decisions to do so. If it is too hard then people will just revert to the old way of doing things.

People focus on what is relevant or salient to them and what is novel catches their attention. Making change directly relevant to an individual – we need to save £250 per employee rather than we need to save £25 million – is perhaps more likely to encourage behavioural change. Linked to this is the role of priming. Viewers of Derren Brown on television will recognise that exposing people to words, sights and sounds (indeed any of the five senses) that point people towards the way that you want them to behave is a powerful unconscious way to influence people. On TV it seems gimmicky but the effects are robust and shown in many studies.

People respond differently to situations depending on their mood (or affect, as psychologists call it). People in good moods make unrealistically optimistic judgements and those in bad moods make unrealistically pessimistic ones. It is important to be aware of the emotional state of people and how this might influence any attempts to communicate.

The evidence suggests that people are more likely to actually do things if they commit to somebody else that they are going to do them, and even more so if this is public. This commitment can be to a coach or manager or a peer as well as the team. Websites now exist which help people take advantage of this to make changes in their personal life by allowing people to post their commitments publicly.

Finally, we act in ways which make us feel better about ourselves (ego). Helping people find ways that do this, rather than making them feel bad that they are not changing successfully, can be an important part of the process and reflects the importance of positive, reinforcing feedback which emerged in the science from Positive Psychology in the last decade.

MINDSPACE appears to be a useful summarising framework to think about some of the levers which are available for influencing behavioural change, primarily in an automatic, unconscious way. This requires a high level of ethics and responsibility on the part of the organisation and its agents to ensure that this influence is used in the best interests of the individual as well as to achieve organisational outcomes.

Neuroscience

Neuroscience has been one of the scientific areas of biggest growth over the last ten years or so as tools such as fMRI (functional magnetic resonance imaging) have allowed scientists to study what is going on in the brain in a non-invasive way (*ie* by not cutting someone's head open!). This field is moving very rapidly and new learning is emerging all the time, which needs to be interpreted and translated for use in organisations.

In terms of behavioural change, perhaps the most important finding is that the brain can and does keep on changing throughout our lives. This is in contrast to the view held until relatively recently (certainly until the mid-90s, if not more recently) that the brain structure was relatively fixed by our early twenties and that we just had to work with this. We now know that with the right focus and activity we can continue to develop our brains. This general idea is known as neuroplasticity – *ie* the brain is plastic and can continue to be moulded.

Indeed, the brain is changing all the time in response to the environment that we live in, the thoughts we have and the things we do. This happens whether we like it or not. Evidence is beginning to emerge (though still disputed exactly how) that our brains change as a result of using the internet as our first resort to find things out. At the extreme, we run the risk of losing the ability to think things through for ourselves and solve problems in innovative ways.

Each time a particular thought process or behavioural pattern is used by someone the neural pathway in their brain is reinforced and becomes easier to use next time. Imagine water running down a hill; the more water that runs down a particular path, the wider and deeper the path becomes so that it is easier for more water to run next time. The brain is just the same.

This means that it is important to focus people's thinking on the changes that you want them to make rather than either the things you don't want or the things they do now. Whatever it is that they think about, these are the neural pathways that will be reinforced. Solution-focused tools such as coaching and Appreciative Inquiry are effective because they are reinforcing the desired pathways in the brain. It is also important to recognise that it takes continued focus and repetition to cause behavioural change to happen and stick, and this takes time and effort (water needs to run down a hill for a long time before a defined path appears). Once it is easier for someone to use the new neural pathway than the old one then they will do this by default and over time the old one will disappear.

There are many other relevant areas of practice emerging from neuroscience some of which can be found in David Rock's very readable book 'Your brain at work'. Others require some reading of the scientific literature!

Complexity science

Finally, we look at what complexity science can tell us about creating behavioural change. This is an area of science which has been developing since the mid-90s, and has seen practical applications particularly in public policy, finance and human systems over the last few years. Essentially, complexity theory, rather than making the simplifying assumption that everyone is the same, recognises that the various actors (people or organisations) all have their unique characteristics and will respond in different ways. They may also all be connected to each other and both respond to and influence each other. This creates what is known as a complex adaptive system and it is recognised that these are inherently unpredictable.

So, whilst we might believe we are communicating the benefits of a change in a rational and convincing way, we cannot really know how people will respond and what the impact of this response will be on others. This property is known as emergence – we cannot predict what will happen in these situations but it will emerge over time as individuals respond, influence others and feedback occurs.

We can have a system where this feedback can be either positive or negative. Negative feedback will act as a damper on the whole change process and cause people to revert to their previous state and way of behaving. Positive feedback though will build on itself so that more people start behaving in the new way and people that are already behaving in new ways do so even more. We have a virtuous circle.

This links to the norms idea in MINDSPACE, where people are influenced by those around them (albeit in unpredictable ways) and what is important is that desired behaviours are reinforced and the undesired behaviours are allowed to wither away. Drawing on the neuroscience ideas, it is important not to pay too much attention to the undesired behaviours but keep people focused on what people are doing that is working and what the organisation wants. This leads not only to a positive feedback loop reinforcing the desired behaviours but also stronger neural pathways in the individuals.

If you are interested in exploring the ideas of complexity science further, then the Overseas Development Institute paper, 'Exploring the science of complexity', is an interesting starting point.

Summary

Behavioural change is an important aspect in running an organisation in a VUCA environment and different disciplines of science are providing new tools and approaches for OD and HR people (and others) to use. We have seen here ideas from behavioural economics, neuroscience and complexity science and how they can be used together.

It should be evident though that in this short article we have just scratched the surface of what is now known and so we encourage you to explore the suggested reading or get in touch with IES if you want to learn more about how these ideas can be applied in practice.

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The talent management journey: a four stage approach

Victoria Campbell, NHS management trainee on external placement at IES

Organisations continue to operate against an uncertain economic backdrop, therefore identifying, developing and maximising the effectiveness of your talent is key for sustaining and improving business performance. But what is 'talent' and how do we define 'talent management'?

The 'talent management' term has become increasingly recognised and adopted in recent years. In 2005, searching the term 'talent management HR' using a well-known internet search engine yielded eight million hits (Lewis and Heckman, 2006); in 2012 the same search achieves over 25 million hits. Yet rather than gaining a well-defined concept we are presented with a collection of unclear and muddled ideas and assumptions, with no universal picture of how practices are enacted across workplaces.

Recent research with IES HR Network members aimed to unpick the talent management concept and illustrate what the process looks like in practice. HR professionals shared their experiences and learning from adopting talent management approaches.

Talent management at a glance

Generally, organisations recognise they need to do more about developing their people and, for the majority, the reason is to ensure they have the right people with the appropriate skills and behaviours to fill prospective posts and prepare for future challenges. By most, talent management was viewed as an integral way of achieving this.

The insight provided by this research enabled IES to construct the following model that illustrates the talent management 'journey'. Generally, organisations describe it in four key stages: definition, focus, process and outcomes.

Talent management journey

Source: IES

Influencing each stage of the talent management journey are various 'business moderators' and this may go some way to explaining why it looks different across organisations. It is common across organisations that:

- **Drivers** determine how clearly talent management is defined.
- The assessment of **business risk** will determine how accurate the focus is.
- **Organisational readiness** will indicate how appropriate the process is.
- Understanding of **measurement issues** will determine how reflective and impactful the outcomes are.

Definition: what is talent management?

Recent reviews of talent management visualise it as a spectrum, referring to its exclusive or inclusive nature (Reilly and Williams, 2012). Common interpretations encompass issues of performance and development, including:

- **Building organisational capability:** at one end of the spectrum, talent management is open to all and 'everyone has talent'. Those who did this well gave examples of strong employee engagement through clearly-structured appraisals and personal development reviews (PDRs), and offering mentor support for soft skills development.
- **Accelerated skills development for high potentials:** at the other end of the talent spectrum lies a more exclusive approach to talent management where the focus is

on developing high-performing, high-potential employees destined for senior positions and the 'top team.'

- **Career development:** this places more emphasis on individual ability, interest and ambition, and mobilising talent across the organisation. Ideally, desire and need to gain exposure and learning, for example, in particular project areas or with other departments, will be weaved into individual personal development plans (PDPs). A balance must be struck between individual development and immediate business needs.

Despite this wide choice of perspective, almost a quarter of HR Network organisations do not define talent management. Interestingly, for half of these this was a conscious decision, as they observed that similar organisations introduce what some described as 'fad-prone' or 'elitist' processes.

Whether the definition of talent management emerges from a fad or from business-critical need, having a definition still encourages managers to take a step back and think about what they are doing with their best people, as well as address any performance issues. In doing so, they must ensure practices do not alienate the rest of the workforce.

Business moderator: drivers

These moderator drivers shape the way in which talent management operates in any particular organisation. Important moderators include:

- **Business strategy:** talent management needs must be aligned to the overarching business strategy. HR professionals should assist management colleagues in translating business needs to people needs and map these to roles. It is important to allow scope to modify these roles alongside changing business priorities.

- **Economic and political agenda:** the economy has forced businesses to undergo considerable restructuring to become more 'lean', resulting in the rationalisation of a number of HR practices, including talent management. Public sector budget cuts have led to service redesign decisions which require an evolved skill-set and stronger leadership.

Focus: where is it needed?

In the current economic climate, talent management is concentrated on internal talent identification with a huge focus on 'grow your own', building capability and potential from within. This contrasts with earlier periods when the emphasis was on bringing in talent from outside. This switch might be a recognition that outsiders take time to bed in and may never be fully effective if they do not absorb the culture of the receiving organisation.

Critical or scarce roles

Retaining hard-to-replace people in key roles has become a growing focus in recent years due to the risk they pose to the business if they cannot be filled.

- **Technical specialists:** in-house development programmes, *eg* IT professionals, engineers. This concentrates on taking someone from their early functional role through to a senior specialist role.
- **Skilled professionals:** many public sector organisations are considering ways in which they can partner with universities or other professional bodies to 'skill up' their staff by offering professional qualifications, *eg* social worker. For some, this is a strategy to retain employees in challenging times as well as equipping services to become more self-sufficient.

The interest in these specialists has led some organisations to use the term 'high professionals' to sit alongside 'high potentials' as part of the talent pool.

Leadership development

Leadership development was the most cited focus of talent management for the HR Network.

- **Future senior leaders/executives:** this focuses on middle and senior managers in the organisation. One-step and executive development programmes are the most commonly adopted approach. A growing number of businesses are valuing development centres as a means to assess leadership behaviours and readiness to move to more senior roles.
- **Fast-track graduates:** with recruitment freezes in many parts of the public sector, organisations have been using fast-track schemes as an opportunity to attract external candidates possessing the desired leadership behaviours, with the intention that they will progress quickly to senior roles. They have been cited by many as a key resource in the quest to change the 'traditional management mindset'.

What about everyone else?

In some cases there appears to be a misalignment between what organisations define as talent management and what they do in practice. Often, those who claim to be offering 'talent for all' are not in fact acting on PDRs or offering on-the-job learning opportunities. This is understandable from a practical perspective, especially if development funding is limited. Nevertheless, it can be seen by those excluded as a fundamental breach of their psychological contract, with the risk of lowering morale and producing a negative attitude towards those who are actually being developed.

If clear and honest reasoning was provided from the outset as to why certain staff are being developed over others, individuals might be able to manage their expectations more readily. Otherwise, this can have damaging effects on business performance.

Business moderator: business risk

Talent is an expensive, perishable commodity. As such, effective talent management relies on balancing business investment (*ie* time, money and effort) with risk. A greater understanding of what the business risk is and targeting investment to mitigate this risk, will allow for a more accurate people focus.

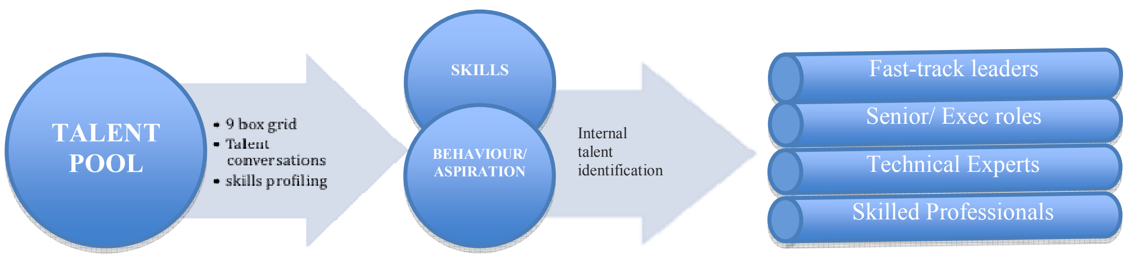
- **Inability to execute business critical tasks:** if talent plans do not focus on the right employees, organisations may be unable to fill vacancies or deploy staff during critical projects or in emergency situations. This could cause reputational damage.
- **Inefficiency:** If organisations do not have the correct focus they are wasting resources on non-essential activity (remember to consult managers during design!). Further, if organisations rush into talent management without getting the focus right for the business it can be more costly than not doing anything at all.

Process: how is it done in practice?

Transparent process

Performance alone does not equate to talent and some HR professionals are struggling to differentiate talent and manage employees through separate pipelines reflecting their potential. To fairly and consistently control the flow of people to these pipelines, managers must profile skill needs to roles and thereby determine robust assessment criteria. These criteria should be applied to employees who have been identified within the talent pool. As such, the process can be used to legitimise management judgement and demonstrate credible talent practices.

A common talent management process



Source: IES

Talent conversations

Organisations who are reporting most benefits from their talent management approach place high importance on holding open and honest talent conversations with all employees in order to manage their expectations of development opportunities. Those who adopted a mentoring approach reported more soft skill development, *eg* communication, confidence, attitude change, which is linked to better team performance.

Tailored tools

The nine-box grid (three levels of potential set against three of performance) is widely adopted across the economy to identify talent, and is considered the tool of choice by central government. Over half of HR Network organisations use this or are planning to introduce it in the future. Where it has worked best is in organisations that tailor the tool to particular functions or workforce groups, and use it as a basis for career discussions. However, a note of caution: strong past performance does not mean high potential for the future. We must understand what potential means to the business. There are many definitions of what constitutes talent, taking in concepts like commitment, aspiration, intellect. As no 'one size fits all', organisations need to find the definition that suits them and their business requirements.

Business moderator: organisational readiness

- **Cultural fit:** some organisations that have a flatter management structure do not feel that the concept of talent management sits readily with them, as they have fewer promotions and therefore less vertical progression. As these organisations are less hierarchical they tend to embrace a culture far removed from 'management jargon'. For organisations to be successful in introducing talent management they must clearly communicate what they seek to achieve and how they aim to do it, in a language that is accessible to managers and employees.
- **Understanding responsibilities and building capability:** ultimately managers make the decision as to who they invest in, therefore they must have the ability to make an informed judgement. It has become common practice for HR, which designs the processes, to provide strategic-level guidance for staff. Organisations which have embedded the process more successfully engaged the line during the design stage and sought feedback from managers, making changes as appropriate. Further, delivery workshops that provide advice and support managers on having talent conversations have proved the most beneficial.

Outcomes: what is the business impact?

There is a growing need for more accurate HR analytics, particularly when justifying funding to the Board. Organisations struggle to evidence the talent-performance link. However, three common areas for measurement were noted by businesses when exploring the effect of talent management:

- **Promotion and progression:** when determining focus and process, organisations must build in ways to monitor the promotion and progression of those involved. In doing so they can find out whether they are using their planned successors and what level of the business they move in to.
- **Employee engagement:** the staff opinion survey was the most cited way of monitoring business impact, *eg* do employees feel valued? Are they satisfied with development opportunities? Do they intend to stay?
- **Retention rates:** low levels of retention indicate a loss of knowledge and expertise through turnover. Is the business losing newly trained / developed staff? If so, are they monitoring the reasons and where staff are going? One organisation spoke of keeping an alumni list of past employees for networking purposes and to potentially attract them back later in their career.

Business moderators: measurement challenges

- **HR impact:** HR professionals spend a lot of time managing HR activities including recruitment, training and PDRs, yet how they link it back to business strategy and performance is lacking. Workforce information can be used alongside financial figures to realise business impact, *eg* what is the impact of talent management practices on absence rates? What is the associated cost saving?

Summary

The four-stage model of talent management outlined here drew on shared experience and practices to determine a common journey. Whilst we acknowledge that this model is a simplified interpretation, it does go some way in understanding how specific business needs influence and somewhat dictate talent management definition, focus, process and outcomes. HR professionals, talent leads and those working in Organisational Development must demonstrate talent practices are adding real business value. Data need to be better analysed, reported and integrated with other measures to demonstrate HR contribution.

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Innovating work

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In a time when the pressure is on to do more with less and to keep staff motivated through potentially destabilising change, new and innovative ways of working are often necessary. In the HR world, we discuss innovating products and services, or innovating production processes, new strategies, new forms of partnerships or alliances etc but we rarely talk about innovating work. Recently, IES has been looking at work innovation across Europe, *ie* innovations involving changing business or work practices. This is fascinating stuff and shows that trying to do work in different and innovative ways is unusual, but something that some employers do in response to a small range of broad drivers: trying to increase performance to cope with difficult trading conditions, developing a dynamic capability to innovate, an internal drive for continuous improvement, cost reduction to increase efficiency *etc.*

Case study examples

The drivers may be fairly generic but what organisations actually do is very varied. Below, we present the detail of some of the case study innovations.

A supermarket chain in Slovenia implemented a wide-ranging health and well-being initiative in response to increased absence levels and an ageing workforce; this included creating new stores (better working environment) and activity to promote healthy eating, exercise, better ergonomics *etc*.

A food manufacturer in Spain created a new open-plan office environment with three different kinds of spaces: neighbourhoods for each department which can act as a home space for people who might nonetheless be sitting with others if working in a different neighbourhood for a period; added-value spaces which included rooms for confidential activity, silence, or creative work; and flexible spaces for informal meetings. These working environment changes were complemented with changes in ways of working to encourage greater flexibility (including the provision of a laptop, Blackberry, and home broadband connection) and also wider benefits such as a concierge service for employees providing support for personal activities, *eg* laundry and booking holidays.

A SAP solutions company in Portugal emphasised creating an exciting working environment and as part of this has placed a focus on open and fluid communication (including introducing a cultural rule that no criticism is made without a suggestion), instigated an annual meeting for employees, now holds a strategic weekend for managers, launched a newsletter, an electronic suggestion box and an internal social network.

A care home in Finland introduced ‘ward hostesses’ whose role was to improve the social environment of wards and encourage the residents to participate in a range of social activities.

A Belgian engineering manufacturer introduced team working to the shop floor, moving from a hierarchical environment with vast spans of control to one where small production teams were self managing to a much greater extent and supported by shared expert operational teams.

A domestic goods manufacturer in Italy introduced four generic innovations:

- Employee-driven initiatives to address working life and work-life balance, which have included engaging with artists to work with employees to increase their appreciation of design.
- World Class Manufacturing: a production process which implements employee suggestions and employee-driven projects to reduce waste, increase safety, and create value.
- An agreement developed in conjunction with the unions and employees that addresses well-being and employee relations.
- A matrix re-structuring of departments to allow greater use of autonomous, flexible teams.

A maintenance and repair service provider in Germany adopted the principles of lean. This involved not only starting a series of LEAN[1] projects but also investments in workforce qualification and equipment including the creation of a LEAN department, a training academy and the continuous education of ‘LEAN specialists’ from within the existing workforce. Projects adopted the principles of standardisation, continuous improvement, transparency, leadership, team spirit and wasteless processes. The organisation’s approach is based on the assumption that only simultaneous and equal consideration of the technical, management and employee systems produces the desired effect.

In a Dutch financial services organisation the adoption of a new innovative work style connects customer orientation with innovative entrepreneurship by employees. Extensive training helps employees take personal responsibility for their work and exercise more freedom to decide where, when, how and with whom they do their job.

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[1] Definitions vary but broadly there are FIVE overriding principles to LEAN: **Identify** customers and specify what adds value to them, Map the activities involved in delivering the product or service, **Eliminate** what doesn’t add value, **Respond** to what the customer wants when they want it and **Pursue** the theoretical end point of perfection, where every asset and every action adds value for the end customer. See for example http://cardiff.ac.uk/lean/principles/index.html

This includes considerations of office design and work style such as taking initiative, being decisive, innovative, having change capacity and being resilient.

In an Irish pharmaceutical company flexible working has meant that employees can adapt their working hours to suit their personal preferences and lifestyle and can also work from home as desired.

The UK case study explored the adoption of the productive ward programme in an **NHS Trust** which emphasised LEAN working and a focus on those processes that achieve key values and outcomes and focusing on releasing time through more efficient regimes, better organised wards and more effective use of data.

Although the detail is unique to each organisation, some broad approaches emerge. Some case studies focus on flexible working (through office design, homeworking, new technology and flexibility in time and location of work). Some use health and well-being initiatives to create a healthier, more committed workforce. Some use the principles of LEAN to increase efficiency and reduce waste and some introduce new jobs or roles or structures to improve the experience of work or its impact.

Outcomes

Regardless of the detail, innovating work brings benefits to both employees and organisations. In the majority of organisations, we saw that changes to the content or design of work can increase employee job satisfaction through job enrichment, more challenging work, and greater task variety. For example, the Belgian manufacturer enabled employees to take on more responsibility through the creation of small teams supported by experts; the German service provider increased employee ownership of problems and solutions; the Italian manufacturer increased meaningful work through job rotation and cross-functional working, the opportunity to better understand the product and the opportunity to make decisions.

In these examples, an increase in autonomy is strongly related to an increase in job satisfaction. Well-being initiatives also tend to increase job satisfaction through improving working conditions, increasing flexibility and employees' perceptions that the employer is genuinely interested in their well-being.

Benefits for employers arise from behavioural outcomes which include increases in suggestions from employees, increased knowledge and ideas sharing and greater collective problem solving. Those innovations that involved LEAN management were associated with increased organisational commitment through job enrichment and team co-operation and trust.

Other organisational gains include increased organisational productivity, improvements in service quality (because the innovation produced a stronger customer focus), improved responsiveness to customers, increased communication between functions, and improved problem solving.

Possible dangers

However, work innovations are not a panacea and there is evidence that such changes need to be designed and implemented with care to ensure positive impacts. One potential danger is that increased autonomy also results in increased job strain with employees experiencing increased work loads, tighter targets, and stronger performance management. This is context dependent; in one manufacturer implementing LEAN processes we found workers believing that they had to work faster due to stronger performance management, and perceptions that relationships with colleagues were strained due to internal pressures to hit targets. And yet, in another manufacturing case study implementing LEAN, work strain was decreased due to the opportunity for employees to make suggestions to reduce unnecessary stresses in the production process.

Increases in flexible working opportunities are normally warmly welcomed by existing staff but new recruits can find it harder to integrate into a work environment where location and timing of work can be highly flexible.

New jobs can take the strain off roles that are overloaded but if they also cream off the bits of work that are perceived to be the most fun they may result in less job strain but also lowered job satisfaction.

Top tips

Hopefully, the examples presented here can help those who would like to innovate work itself. We have distilled from the experience of others some key facilitators to successful implementation:

Firstly, organisational support for change includes **tangible support** through the provision of necessary physical resources such as the right equipment.

Secondly, we found that softer forms of support such as **cognitive and/or knowledge-based learning** is essential at all levels to help employees understand new principles and methodologies. Those organisations adopting LEAN tend to implement change through training programmes, for example, a value mapping and team building day in one manufacturer, extensive LEAN production training in another, and nine days of training for the UK NHS trust. Other forms of learning focused on shifting engrained attitudes, such as workshops to develop an organisational vision or to develop leadership skills for new team managers, art classes to stimulate creativity, and widespread use of collaborative work group discussions to identify collective improvements to processes.

Thirdly, **managers and leaders** are key to enabling change. How they do so varies from case to case but managers can provide inspiration for change, they can pilot changes themselves before the workforce is expected to adopt them, and they can play a major part in ensuring that innovations are tailored to individuals' needs and expectations through face-to-face discussions and targeted support.

Fourthly, **cultures** are also important; many of the case study organisations were aware of the potential power of cultures in helping make change but were also aware of the importance of allowing sufficient time for change to happen and embed – a particular challenge for those innovations that required changing habitual routines or encouraging employees to make suggestions to improve performance. Broader approaches to change can also make a difference, such as communication processes, employee involvement and employee participation.

Innovating work can seem daunting, complex and potentially disruptive. Indeed it can be all those things, but when done well it can produce major gains for both employees and organisations; more interesting, satisfying work, happier customers and more productive and innovative workplaces. We are in bleak times; anything that has the potential to both improve working lives and work outcomes should be particularly welcome.

IES Research

This article is based on research carried out by IES on behalf of the European Foundation for the Improvement of Living and Working Conditions (Eurofound). The full report, *Work organisation and innovation*, can be found on the Eurofound website: http://www.eesc.europa.eu/?i=portal.en.events-and-activities-boosting-europe

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Delivering strategy through flexible working

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In our 'HR Year Ahead' piece on flexible working last year we looked at how to establish flexible working for all. In that article we noted that organisations needed to 'make it clear flexibility is open to both men and women'. We noted how the introduction of flexible working, focused on caring responsibilities, had generated the notion that flexible working was a benefit to working women and, in particular working mothers, and that, despite much data showing the business benefits of flexible working, the idea stubbornly persists that only those not really committed to their careers would want any kind of flexible working arrangements. The government has recently announced that, from 2015, the right to request flexible working will be open to all but will this change culture or will the attitude still prevail that flexible working is really only for those with childcare needs?

Recently, we have seen some organisations making this cultural shift by re-branding and re-focusing flexible working away from a benefit for the individual towards an organisational tool for achieving business strategy. There are three reasons that organisations we know of have been developing flexible working. They are:

1. to achieve carbon reduction
2. as an Olympic legacy
3. to withstand the rigours of recession.

Carbon reduction

Workplaces are key settings in which to reduce emissions. Along with homes and schools they are the three basic 'microenvironments' in which individuals pass most of their daily lives[2]. Therefore employers can do much to introduce concepts of carbon emission reduction but this cannot necessarily be done in isolation. It is important to consider both rebound and replacement impacts where emissions saved through reduction in commuting are simply replaced elsewhere: through increased business travel; journeys from home that would usually be undertaken during the commute, and increases in emissions from the home office. Also, simply getting people working from home on occasion is not enough unless significant changes can also be made to the scale and carbon impacts of the office environment.

A study IES carried out in 2012 for the Scottish Government looked at the impact of workplace initiatives[3] and found that flexible working had the most profound impact on low carbon behaviours of all the initiatives looked at. Four new ‘profiles' for different working styles of fixed, home, flexible and mobile working were implemented in the case of Aberdeenshire Council. While the scheme was motivated by the need to rationalise office buildings and to cut costs, it has resulted in substantial carbon savings. The Council implemented:

- **Worksmart programme to focus on reduced transport:** a flexible working initiative to reduce the number of commuting miles. Staff can choose between: **Fixed working** (at a single base); **Flexible working** (splitting time between a fixed base and home, with the majority of time spent at the base); **Mobile working** (splitting time between a fixed base and remote working, with the majority of time spent working remotely/from home); or **Home working** (with around 90 per cent of time spent working from home). These working patterns are supported by providing staff with technology to aid remote working (*eg* laptops, electronic organisers).
- **Workspace programme to achieve energy reduction:** an office rationalisation initiative aiming to reduce the number of small offices run by the Council, to deliver both cost and energy savings.

Over 1,000 staff are now participating in Worksmart. Based on 722 employees' travel claims for first half of 2011/2012, the value of reduction in business mileage from the previous year was £46,632. The council has estimated that they have achieved a 68 per cent saving in commuting mileage corresponding to 136,588 saved commuting miles and 33,995 CO_2 g/km emissions.

The Council reported that for some the whole experience of work was rearranged so that, as well as their location and hours, their relationships with colleagues and managers and their use of IT systems all changed significantly. The report noted that ‘this is not simply a case of removing barriers to change from longstanding

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2 See Bronfenbrenner, 1979 on *Ecological models of behaviour*, as exemplified in *eg* Kumanyika, 2002

3 *The Impact of Workplace Initiatives on Low Carbon Behaviours*, Scottish Government, 2012

arrangements (*eg* the inefficiency or location of buildings), but the positive opportunity to build new institutions and arrangements, with resource efficiencies and carbon efficiencies at the middle'.

It is essential that flexible working is not just bolted onto traditional ways of management. Employees will only embrace mobile and flexible working if they feel it will not impact negatively on their careers, if their bosses also work in this way and if organisations get to grips with managing people who are in the office less often, if at all. Organisations which keep an office-based desk for everyone, while encouraging mobile and flexible working, and whose managers exhibit office-based presenteeism are unlikely to achieve mobile and flexible working, no matter how fully they have thought through and laid out their desire to support reduction in carbon emissions.

Olympic legacy

IES is a co-founder and partner in the Top Employers for Working Families benchmarking and awards. This year the winner of the Innovation Award was Citi, a large banking group employing over 8,500 people in the UK. Citi has always had traditional flexible working opportunities but with variable take-up. Citi had identified that the manager's attitude to flexible working was the key component in whether flexible work arrangements succeeded or failed and decided to leverage the London 2012 Olympics as an opportunity to develop managers' management techniques and to embed flexibility throughout the organisation. From June 2011 they planned their strategy which included:

- An online resource that allows teams to plan working patterns. Agile work (from home, early start/finish) is scheduled in a way that supports the wider team and also meets customer requirements. Managers can access these plans to see weekly and monthly work patterns and arrangements.
- An investment in technology which supports remote working, 96 per cent of employees can now access systems remotely.
- A phone system allows seamless switch through of office numbers to home phones or mobiles.
- Mobiles, laptops and Blackberries have been provided, along with video call technology to encourage face-to-face remote contact.
- Training has been given to managers and employees on how to work in an agile way.
- Drop-in clinics are available for employees to go over their technical setup issues, and learn about what technology is available for effective working.

- A communication plan was developed which lead all staff through the planning and implementation stages in the run-up to the Olympics.
- Test days, enabling agile working to test for any issues.

Their aim was to embed flexibility as a 'must-have' not 'nice-to-have' way of managing work with continuous monitoring and learning carried out during and beyond the Olympics. Throughout the Olympics they sent out regular pulse surveys to staff to gain feedback on productivity and performance, impact and challenges. Citi saw London 2012 'as a catalyst to embedding flexibility at a cultural level within the organisation and providing a unique opportunity to push this agenda forward[4]'.

Withstanding recession

As reported in Chubb, *et al.*, 2010, KPMG and Norton Rose both introduced flexible working to ensure they could retain their employees during the recession. KPMG ran 'Flexible Futures' between January 2009 and September 2010. The scheme involved two completely voluntary options:

- one day off per week unpaid
- between one and three months off at one third pay.

Employees could opt to take one or both options. The second option was the more popular as employees could fit the time release in blocks to fit around school summer holidays or childcare. Some 83 per cent 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 four, six or eight weeks at 30 per cent of pay or work a four day week at 85 per cent of salary. All employees across the business were covered by the initiative, some 1,100 staff in London, where the programme was launched, and then extended to international offices. The company was looking for 75 per cent of staff to sign up to the programme, but 96 per cent of staff agreed.

The large take-up in both firms and the fact that, post schemes, the companies have had both men and women wanting permanent flexible working has shown that once flexible working is embedded and becomes culturally acceptable it becomes increasingly desirable and shrugs off its 'just for the mummies' label.

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[4] *Top Employers for Working Families, 2012: Award Winners Case Studies*, published by Working Families

If you are committed to flexible working, recognise the business benefits and want to develop a culture of flexibility, then lifting your flexible working provision from a policy to a key tool in achieving business strategy is definitely the way to go.

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Getting the HR/line balance in people management right

Peter Reilly, Director, HR Research and Consultancy

Over many years HR has tried to move some activities to managers, with the aim of making line managers more self sufficient and less reliant on HR, whilst simultaneously allowing HR to exit from these tasks which, on cost or philosophical grounds, it does not believe it should be doing. This allows the focus of the HR function to shift from routine transactional and administrative work to a more strategic contribution.

'Devolution' is the term often used to describe this process, but it has not been without its critics. One view is that 'devolution' is a misnomer, as HR does not have anything to devolve. People management responsibility rightly belongs to the line. For these firms, encouraging managers to manage their staff has long been part of the company culture and an integral part of the drive for performance improvement.

The other objection, related indirectly to the first, is that we are confusing three sets of activities that are candidates for devolution:

- HR administration (completing overtime, absence, leave forms, *etc.*)
- manager involvement in HR policy making
- the exercise of people management responsibilities by line managers in relation to their own staff.

Of these three areas, managers have largely been exercised about HR administration, complaining that they are having administrative tasks 'dumped' on them to solve HR's problems and/or reduce their costs. In some cases, they have objected to the poor economics of this move – using expensive managers rather than cheaper HR clerks – or the distraction of taking away their focus on making money for the business, servicing the customer, *etc.* Many feel that they have neither the time nor the skills for this work. And compounding the problem is that the e-enabled processes, such as overtime recording or training logging, have not delivered the goods: systems being more complex to operate and less reliable than they should be.

There has been less debate about management participation in policy making, despite the academic evidence (McGuire, *et al.*, 2008) that this could lead to a more positive relationship between management and HR (replacing complaints about the function's controlling and policing methods), as well as a positive improvement in people management performance (Kulik and Perry, 2006).

Despite widespread indifference to participation in HR decision making, some managers seem to want to go further to seize control over HR policies because of frustration at the restrictions placed on their ability to manage staff the way they wish: 'policed by the (HR) rule book' (Renwick, 2003).

At the opposite end of the spectrum, a retail company interviewed by IES in 2008 questioned the involvement of the line in HR policy making at all, on the grounds that it would offer limited benefit. This was because policy was increasingly corporately set to apply across the company. Standardisation of HR policies is driven to achieve such conformity and to ease the cost of applying HR policies (particularly true where remote shared services are in place). So, ironically, HR's 'cop' role (an American manager quoted in Eisenstat, 1996) is making a comeback in some sectors, *eg* financial services, in order to control managerial behaviour by making them comply with these standard policies for the sake of the firm and especially its reputation.

In what appears to be a compromise position between full engagement and total detachment, Marchington and Wilkinson (2005) commend managers who 'elaborate' broad themes that HR has developed, rather than getting involved in more detailed policy making.

Managers' responsibility for people management in their teams, however, should not be a matter for debate: it is what managers do (or should do). As described by Ulrich and Brockbank (2005), HR should ensure that managers stay aware of their people management role and stay accountable for it. This point was more pithily put by the recently-retired HR Director of RBS, Neil Roden: if managers do not regard people management responsibilities as being part of their role they should be prepared to forego a proportion of their pay! (Reilly and Williams, 2006). Without line manager interest in their people role, the positive developments in people-related performance, described elsewhere in this compendium, will not be achieved. There will be no employee engagement, innovative work practice or participation in change.

A different approach to line management and HR relationships offers a partnership. This notion came through in two CIPD surveys (CIPD, 2003; Reilly, *et al.*, 2007). The results are shown below.

The allocation of responsibility and line management in how decisions are taken

Work area	Line/mainly line	Shared	Mainly HR/HR
Recruitment/selection	29	55	16
Pay and benefits	7	28	65
Employee relations	6	40	54
Training and development	10	49	42
Implementing redundancies	4	34	62
Work organisation	54	37	9

Source: CIPD, 2007

The 2003 survey elicited almost the same results.

The picture that emerges is that HR takes the lead on some subjects, the line on others, whilst for a third group matters are shared. Thus on remuneration and implementing redundancies, HR takes the lead in roughly two thirds of organisations, whereas work organisation is much more a management area of responsibility. The other activities are more shared, though with the lead assumed more by the line on recruitment and by HR on employee relations and training and development.

Other research by the CIPD suggests that HR departments tend to take the lead in designing and managing reward policies, while line managers are more involved in training, learning and development (Purcell and Hutchinson, 2007).

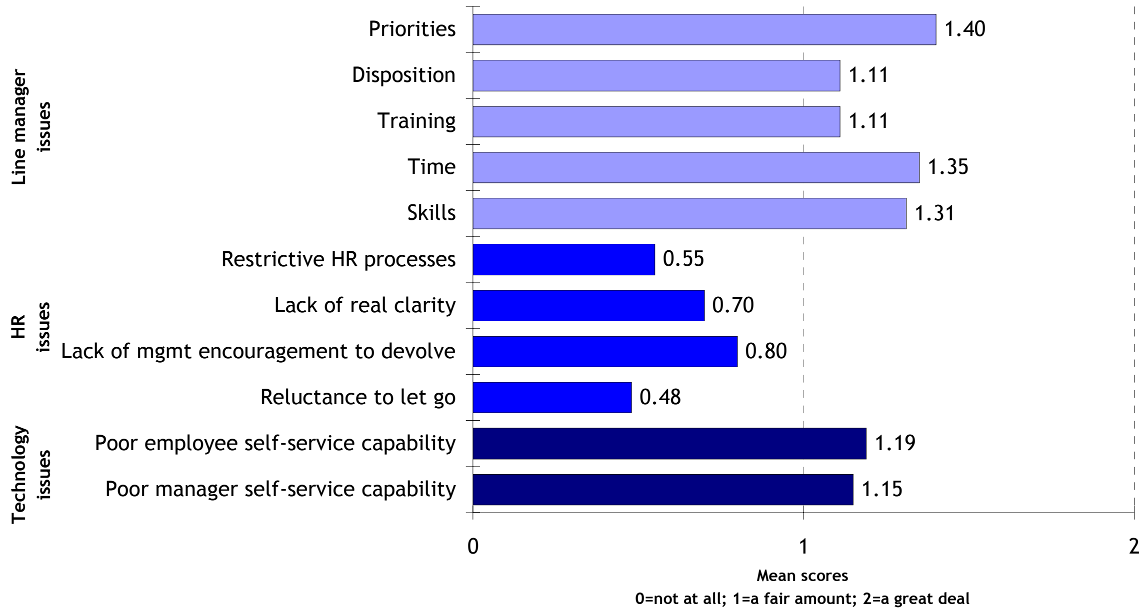
The IES report (Carter, *et al.*, 2008) comes out clearly with the view that the line is seeking a partnership with the HR role in solving business problems, making use of HR's professionalism in the people management field.

The retail company we interviewed implicitly accepted this model and suggested the division of labour should reflect different interests and skills.

This raises the interesting question, not in our view sufficiently considered, of what definition of organisational value/cost should determine the correct allocation of tasks between HR and line management. This relates back to the first point in this article on the lack of clarity as to the content of the partnership – administration, policy making or direct people management.

Leaving that aside for a minute, HR is not happy with the current state of play: nearly three quarters of respondents to the 2007 CIPD survey would have gone further in passing responsibility to managers. The figure below suggests the barriers to progress as reported in the survey.

What has restricted progress in managers taking people management responsibility?



Source: Reilly et al, 2007

Remember, in viewing this picture, this represents the views of senior HR respondents and not managers. This is an important caveat because research by Wright, *et al.* (2001) comparing HR and line evaluations of the effectiveness of the HR function found that senior HR people consistently rated their function's effectiveness higher than did executives.

In the context of this research, the blame falls on managers – principally their priorities, time devoted to people management and their skill to perform the task. The HR contribution to this 'failure' is much less pronounced, with technology taking greater blame.

So unpicking this picture rather more, why has devolution not been as successful as HR wants it to be?

For managers

There are a number of practical challenges to devolution for line managers (Larsen and Brewster, 2003). These include the fact that they may not want the responsibility; may not have the time to do it properly; may not have the ability to handle HR issues effectively, nor are they trained for it; are often ignorant about recent developments in the field of HR; do not take a long-term view about people management and are unable to develop policy in the area of HR.

Taking these points in turn:

- **Disposition:** Thornhill and Saunders (1996) found that, left to their own devices, many line managers would adopt hard-edged management practices that left little room for the consideration of employees. There was little inclination to engage staff or encourage their participation, or if there was, it was too piecemeal in nature. Their research suggested that where neither senior management nor HR gave managers contrary direction, in this vacuum, managers sought the easiest route to achieve their objectives.

- **Organisational pressure:** managers can become the ‘filling in the HR sandwich’ (McConville and Holden, 1999) in trying to reconcile employee well being and organisational priorities. This is especially true where senior managers are used to a command and control management model or the exigencies of the business situation seem to require draconian action (Thornhill and Saunders, 1996).
- **Time:** the research conducted by Maxwell and Watson (2004) found that ‘managers are overloaded with work’ and ‘more time needs to be given to ensuring department managers understand the HR activities that they have some responsibility for. A lot comes down to operational pressures and whether there is the time available to deal with things’. Forty-three percent of managers who participated in this research project indicated that heavy workloads and short-time pressures were barriers to their involvement in HR activities.
- **Skills and training:** not all organisations provide HR training or the necessary support for line managers to successfully accomplish their HR-related responsibilities (Perry and Kulik, 2008). Even when resources are available for such training, ‘turf’ wars may prevent them from being used to produce real tangible support (Perry and Kulik, 2008).
- **Awareness:** line managers’ lack of understanding of the business and HR strategy may curtail their involvement in HR activities (Maxwell and Watson, 2004). A study conducted by Renwick (2003) on line manager involvement with HR and the problems associated with devolution, found that the line lacked capability and responsibility when doing some HR work, and they tried to increase the speed of decision making by wanting to bypass procedure.

The above challenges are compounded by the lack of institutional pressure to perform those aspects of their job which encompass people management responsibilities. Research conducted by McGovern, *et al.* (1999), found that even where performance objectives include line manager’s HR responsibilities, few managers consider successful implementation of these to be ‘important’ or ‘very important’ in their performance appraisal.

By the HR function

There are a number of reasons for HR itself to be resistant to devolution:

- **Functional contraction:** there may be pressure for a reduction in the size of the HR department. With more of their work being handled by line, there is a less of a need for so many people in HR (Larsen and Brewster, 2003).
- **Loss of customer service role:** a sense of losing power and control; of relinquishing tasks that they feel confident with, are good at and find appreciated by line (Hall and Torrington, 1998). Moreover, according to Reilly and Williams (2006), HR departments may also find it hard to 'let go' because of 'a strong ethic of helpfulness'. This may lead to HR hoarding information and holding on to work to both parties' detriment (Perry and Kulik, 2008).
- **Loss of control:** Harris, *et al.* (2002) argue that there is a great reluctance on the part of HR to relinquish centralised control and its perceived moral neutrality or 'referee' status in employment practices. Therefore, increasing line manager involvement in HR is problematic because it opposes existing control structures (McGuire, *et al.*, 2008). However, continuing to adopt the mantle of corporate 'policeman' can lead to HR being criticised as 'interventionist and remote' (Whittaker and Marchington, 2003).
- **Doubts over management capability:** HR specialists may also believe that line managers do not have the skills to take on HR responsibilities effectively (Torrington and Hall, 1996).

This all adds up, in Torrington and Hall's eyes, to a 'crisis of direction' in HR. They argue that HR's expertise and authority emanates from its activities at an operational level, and thus, as HR moves away from operational work to strategic business development and implementation, it distances itself from the employee interface while at the same time seeking to provide expert input on employee-related issues. They believe this constitutes a 'high-risk strategy' because it may bring about a 'deprofessionalisation' or 'status stripping' of the function as it becomes more fragmented and dispersed, its staff and budgets decreased, and the expert knowledge associated with people management diffused throughout the organisation.

Compounding these problems appears to be a failure in e-HR to successfully address line managers' needs. The technology may not work as intended and systems may not be as intuitive as they might be, which is especially problematic where usage is occasional rather than frequent. A major weakness of e-HR is said to be the loss of face-to-face contact. The loss of this type of contact makes it more difficult for HR to understand the needs of the organisation and may produce a depersonalised service (Wanless, 2003). Another challenge is the creation of a generic e-HR service, which does not provide specific support for line managers and employees and which then has the effect of resulting in low usage of the system (Wanless, 2003).

Then there are the implications of new service delivery models. Many large and complex organisations have opted for the so-called three-legged stool model (centres of excellence, shared services and business partners). However, this approach has not been without controversy. Caldwell and Storey (2007) question whether the search for delivering increased value through structural change and automation has led to greater complexity in HR systems and technology and more fragmentation that makes boundary and process management more difficult. The total time to resolve issues may be substantial if the technology is not effective (Reilly, Tamkin and Broughton, 2007).

The way the service delivery model is set up may cause managerial irritation. Script-based contact centre 'help' to sophisticated managers is seen as worse than useless (Reilly, Tamkin and Strebler, 2006).

The role of the strategic business partners who play a key part in achieving HR's strategic goal by working with line managers has not been entirely successful either. Business partnering roles are complex, ambiguous and confusing, with business partners sometimes clashing with HR specialists and line managers, leading to fragmented HR provision (Caldwell and Storey, 2007).

Final reflections

Some of the research reported above is rather dated, but some issues seem to have remained the same. In looking forward, the HR function continues to struggle to define its role relative to the line, not always helped by a service delivery model that is difficult to implement well, especially when combined with clunky technology. The latter may well have improved, but the cost pressures to standardise, consolidate and automate have intensified, putting more pressure on delivering a good service to the customer. Even before the recession, an IES survey found only a third of managers satisfied with HR services and the reported failures concerned fairly basic activities (Carter, *et al.*, 2008).

HR's reluctance to devolve, whatever it might say, has, however, probably abated under the same need to cut functional costs. Yet, the changes to HR's service delivery model have often been predicated on managers being more effective in their people management role, requiring less support from the function. Indeed, it could be argued that the absence in the three-legged stool model of proper HR operational support to managers arose from just this assumption (Reilly, 2006).

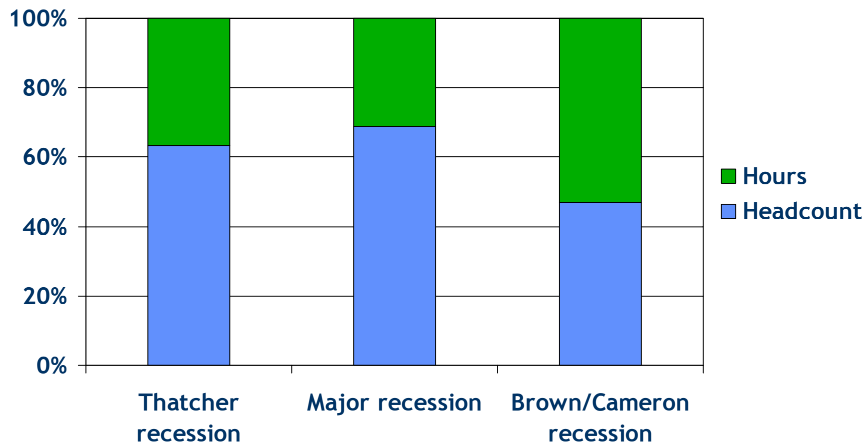
The HR business partners who should be the driver of the partnership model may find themselves struggling to cope with an operational workload and not able to fulfil their role of linking business and people performance. This may be because they do not have skills or disposition; their partnership and strategic role is not understood; the accountability for HR services is not clearly spelled out; or the basic

HR services are only poorly delivered, leaving the business partners to pick up the pieces (Reilly and Williams, 2006).

From a line manager perspective, business has recently got generally tougher and restructuring, especially delayering, has stretched management capacity still further with often very wide spans of control. Those working in global organisations have the added challenge of dealing with cross-national colleagues, increasing the complexity of team management.

One ray of hope comes from the research done in the early days of the recession (Chubb, Reilly and Usher, 2010). This suggested that organisations were more protective of their human resource than might have been true in the past, hoarding their labour as much as possible. At the macro level, cutting hours and pay has been preferred to cutting jobs where possible, showing up in the way unemployment has not risen as might have been expected (see figure below.)

Source of labour input reductions in successive recessions



Source: ONS

Fundamentally though, the reason why devolution of responsibilities has not worked in many organisations is that there has been a lack of debate about the relative roles of HR and the line managers in people management activity. This has been missing both at the philosophical level – what is the line's responsibility for their staff relative to HR's – and at the practical level – when does the line take the lead, when HR and when a partnership, and how is this decided?

Reddington, *et al.*, (2005) may have been right in recommending that HR address issues within its own backyard (*eg* structural modernisation and improvement, capability building within the function and better alignment with business priorities) before tackling management failures. Yet HR's reluctance to consult line management about this functional transformation and involve them in the key restructuring decisions, offers a good example of HR's myopia and reveals the lack of understanding of the holistic nature of people management – a continuing theme in the devolution debate.

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IES Research

This article draws, in part, upon a book chapter: Reilly P (2012) ‘Transforming HR to support strategic change’ in Francis H, Holbeche L, Reddington M, *People and organisational development,* CIPD

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Cost control versus pay progression

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The Olympics year saw relatively small movements in employee pay at most organisations (IDS, 2012) and 2013 is likely to see continued cost control as a significant and ongoing influence in determining reward practice. Your organisation's approach to pay progression in the coming year should ensure that it is adaptable enough to suit the affordability requirements of your organisation whilst also being able to motivate and retain staff when competitors, especially in the private sector, are once again recruiting and the competition for talent tightens.

Over the coming year, your organisation may need to consider:

- Whether existing pay arrangements still adequately meet your organisation's needs.
- How the management of your pay processes is determining its effectiveness.
- Whether reward change would offer greater cost control opportunities.
- Whether your reward approach is driving cultural change or, alternatively, further embedding the organisational culture.

New IES/OME research

In Spring 2012, IES conducted research which sought to explore pay progression mechanisms, on behalf of the Office of Manpower Economics (OME). Seven case studies were conducted in public and private sector organisations in order to examine how progression systems have been modernised during the recession. What we found was that organisations are making a move away from the traditional service-based progression systems towards more hybrid systems, commonly using measures such as market, performance, skills and contribution for determining progression.

The CIPD recommends that employers should review their pay progression systems on a regular basis and consider alternative approaches if existing arrangements are no longer able to meet their needs, including no longer fitting with the affordability of the organisation. The CIPD sees pay progression approaches therefore as being of best fit rather than best practice. However, the IES/OME research highlighted some key considerations linked to good practices for controlling cost in a challenging economic environment.

Aligning affordability to the objectives of your pay system

In times of strict cost control, organisations particularly need to review their budget for pay progression against the amount set aside for general increases. Both the public and private sector continue to face smaller pay budgets compared to healthier economic times and if pay progression is contractual and current levels of progression were set before the recession, they may now seem relatively generous, and progression may consume most, if not all of the pay budget. The consequence for employees is that if they are sitting at the top of their pay range, then they may not have their pay uprated for some time. Where organisations still have contractual progression, the proportion of staff in this position will also increase as more people reach their grade maximums.

Performance-based progression

In difficult financial times, a performance-based progression system, based on a variable-award performance matrix, can provide greater opportunity to control cost, through manipulation of the percentage rises awarded as performance pay through the matrix. A pay matrix can facilitate faster progression from the bottom of a pay scale to a market rate and then slow progression once the market rate is reached. This system can offer greater flexibility over how to allocate funds from a progression budget and can help ensure the largest increases are directed towards the highest performers that are lower in their pay range. Basing progression on performance can also remove the practice of automatic payments of increases (or increments) regardless of performance level which can occur in a traditional service-based progression system.

Market-related pay

Under market-based pay systems, through paying appropriate market salaries, progression above a market rate can be controlled through slowing progression or preventing further rises once the market rate has been reached. However, in market-related systems it is important to establish accurately the market in which the organisation is operating, as this has consequences in defining what is considered by employees and potential recruits to be competitive pay progression.

The IES/OME case studies found that under new progression arrangements at the Competition Commission, CABI, Dixons Retail and the Met Office there is now scope to earn above the established market median. The justification for this is that the added progression provides scope for attracting and retaining staff and for recognising exceptional skill. However, placing the market median below a range maximum can be hard to justify if it allows merely satisfactory/competent performers to exceed the market median. In this instance, an organisation must be willing to accept that normal but experienced performance merits higher than market median pay. This may especially be the case where particular skills dictate a premium over the market reference salary.

Contribution-based pay

Contribution-based pay aims to broaden your measurement of performance, allowing your organisation to reward employees for the way in which objectives are delivered – the 'how' of the job as well as the 'what'. It allows individuals who demonstrate higher skill levels and greater contribution to receive higher awards. However, by placing the emphasis on demonstrating a level of contribution in relation to the job requirement, individuals progress through their pay range more appropriately rather than potentially being awarded automatic rises after each year of service.

Spot rates and bonuses

Some organisations prefer to use spot salaries supported by non-consolidated bonuses, in order to avoid built-in salary progression costs each year. Here, the best performers in a single year are rewarded by a single payment rather than through an enduring pay increase, obtained through the payment of an increment which is then uprated year on year.

Within a true spot rate system there is no progression towards or above the spot rate, and the system is equality proofed as every employee is paid the same for the same job. However, the IES/OME research found that Dixons Retail had modified the spot rate system by introducing zones within a pay grade, each with a spot rate attached, which allowed for differential progression through the pay structure, based on skills or competencies. By developing the typical spot rate approach in this way, it has attempted to remove any sense of entitlement from staff that any slight change in job role, and therefore job description, makes staff eligible for a new higher spot rate.

Budgets for bonuses are also often easier to manage as they can easily be adjusted on an annual basis and as IDS has found through their regular pay monitoring, since the recession began bonus pay has become an increasingly important aspect of remuneration in the private sector as a whole (IDS, 2012). The payment of bonuses allows fixed costs to be controlled but also individual performance to be improved, with employees incentivised to enhance their performance through a one-off payment.

The payment of a bonus can also contribute to any shortfall on base pay against the market. For example, an organisation that commits to following market pay levels needs to have the available budget to make adjustments to pay if benchmarking deems this necessary. However, if an individual falls behind the reference salary in terms of base pay, through the payment of a non-consolidated bonus, they may be meeting a reference salary on total cash. Whilst this may be a solution for an organisation that does not have the funds to alter pay ranges following market benchmarking, it may not be a welcome solution to employees seeking mortgages or the security of a higher basic salary.

Managing the pay process

The IES/OME research found that one element of reformed pay progression systems during the recession was the devolvement of control in managing and determining pay progression from HR to line managers. However, for this to prove successful, managers must have the skills to operate the pay system and appraisals effectively. Managers require the operational skills to manage the process and provide objective ratings, and even determine individual pay rises, whilst in addition displaying the behavioural skills to have performance conversations with staff and justify their pay decisions.

If employees lack trust in how the process is conducted, especially its fairness, this can remove the motivational potential of any pay system, particularly if that pay system is hampered by small budgets.

Trained managers who possess the skills to operate the system effectively can help build trust among employees. An example from our research was the Competition Commission, which now allocates its pay budgets to local managers. Managers make a decision on the pay increase to be awarded, based on the employee’s position relative to the market median, their performance and their competence level. This produces more variable progression rates across the organisation. It is a more flexible practice but it requires line managers to be appropriately trained and capable of conducting effective and fair appraisals.

Making change

For some organisations, any commitment to following through with a reward change and the ability to fully operate a new progression system, will be limited by tight pay budgets. Thought needs to be given to the ability to operate any new mechanism for progression, as it is designed, during times of small progression budgets. When pay pots are limited it is justifiable to be conservative in the allocation of rewards. Whilst performance-related pay operates on the basis that not everyone deserves a similar uplift, when money is tight you may consider it better to give everyone the same award.

It is also worth noting that budget constraints can potentially cause any new pay system to become corrupted. Without an appropriate budget at the time of transition to a new progression system, employees may not be able to be moved to the appropriate position in their new pay scale and this risks discrepancy between skill/performance level and the employee's position in the pay range.

Similarly, under market-linked pay systems, organisations may commit to rigidly adhere to an objective market salary on the grounds that it is good practice for a pay system to follow market data to remain competitive. However, this commitment requires the organisation to have the funds to sustain it. Also, if your organisation has no existing recruitment or retention problems and movement to a pay system linked to market factors would drive salaries upwards, this may result in your organisation having to pay more for certain roles than the recruitment market or existing employees demand, which would unnecessarily increase wage costs.

Finally

In times of heightened cost control, consideration must be given to whether to use an available pay pot to revalorise pay ranges or facilitate progression for employees. Whatever reward approach is taken, it must be seen to be both transparent and fair by employees and meet the needs of the organisation. Research suggests that the better staff understand their pay system the more likely they are to be satisfied with it and importance should be placed on the communication processes involved in a pay system's implementation. The process has to be carefully managed given the importance of 'procedural justice' to employee satisfaction and hence motivation.

Finally, at a number of the case studies in the IES/OME research, the changes to the system of pay progression occurred alongside wider organisational changes, such as management delayering, redundancies, new leadership or the development of new business models or strategy. These changes typically supported wider cultural changes occurring in the organisations, which were renewing the focus on what the organisations wanted to achieve and therefore reward. For example, reward change at CABI was used to support a move away from the organisation's historical public sector roots towards a more commercial focus and at Dixons Retail change supported a drive for employees to be more business and less role focused. It illustrates the importance of making any reward change consistent with business change and, if possible, making it an integral part of that change process. Organisations have the choice of whether reward reform follows the grain of organisational culture or whether it is used as a lever to try to achieve cultural change. There is no best practice to follow when making this cultural alignment decision but key to success will be establishing what type of reward system will motivate your staff and also be consistent with your organisation's priorities.

IES Research

The IES/OME research was conducted in Spring 2012. The seven case studies included CABI (a not-for-profit science-based development and information organisation); Dixons Retail; the Competition Commission; the Met Office; a County Council; a large financial organisation and a University. The research, including the seven case study reports, is available on the 'Cross Cutting Research' page of the OME website: www.ome.uk.com

To talk further about dealing with the issues raised in this article, please contact:

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