HUMAN RESOURCE MANAGEMENT

STRATEGY AND PRACTICE

ALAN **NANKERVIS**
MARIAN **BAIRD**
JANE **COFFEY**
JOHN **SHIELDS**

AHRI
Australian HR Institute®

10TH ASIA-PACIFIC EDITION

HUMAN RESOURCE
MANAGEMENT

STRATEGY AND PRACTICE

To all HRM students and professionals who dream of making their workplaces attractive, inspiring, productive and future-focused.

Alan Nankervis

To my work colleagues and students, for your ongoing interest in and commitment to creating good employment relations and workplaces.

Marian Baird

To all those who have taken the time to either adopt or read this wonderful edition – thank you for your ongoing interest to learn more about building and improving an HR culture that will build dynamic and positive workplaces of the future.

Jane Coffey

To Millennials worldwide – the generation of future leaders on whom our hopes for responsible organisational stewardship now so much depend.

John Shields

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BRIEF CONTENTS

CONTENTS

Guide to the text

As you read this text you will find a number of features in every chapter to enhance your study of Human Resource Management (HRM) and help you understand how the theory is applied in the real world.

CHAPTER OPENING FEATURES

Gain an insight into HRM with **industry quotes** at the beginning of each chapter.

Identify the key concepts that the chapter will cover in the **learning objectives** section at the start of each chapter.

Consider the scope of **emerging issues** in HRM with a box feature that links to relevant highlighted issues throughout the chapter.

CHAPTER 1

Evolution of strategic human resource management

There is a global shift towards non-standard, flexible employment models, including agency work (which) is set to become a permanent feature of the modern workplace.

Zhang, M. M., Bartram, T., McNeil, N. and Dowling, P. J. (2015), Towards a research agenda on the sustainable and socially-responsible management of agency workers through a flexicurity model of HRM. *Journal of Business Ethics*, 127(3), p. 514.

We must pursue innovation through technology as the main contributor to our future prosperity and happiness. The new jobs generated will allow us to compete with the world.

Williamson, R. C., Raghnaill, M. N., Douglas, K. and Sanchez, D. (2015), *Technology and Australia's future: New technologies, and their role in Australia's security, cultural, democratic, social and economic systems*. Melbourne: ACOLA.

OBJECTIVES
After reading this chapter, you will be able to:

1 explain the development and concepts of strategic human resource management (SHRM)
2 understand the relationship between business strategies and HRM strategies, processes and functions in the context of a dynamic global environment
3 understand the principles behind international human resource management
4 appreciate the critiques of SHRM
5 describe the principal roles, functions and ethical principles of SHRM professionals
6 understand the SHRM model and framework used throughout this text.

Emerging issues
1 Globalisation
2 New technology – the Fourth Industrial Revolution
3 Employability
4 SHRM theories and new models
5 HR ethics

NEW

FEATURES WITHIN CHAPTERS

Examine how theoretical concepts are used in practice through the **HRM in Practice** boxes.

HRM in practice 1.2

Prognosis positive
The largest employer in the city, the Auckland District Health Board (ADHB), didn't have a current HRM strategy when the new Chief HR Officer arrived eighteen months ago. So, she set out to develop one. She heads a team of 80 HR professionals with a total workforce of more than 10,000 employees, spread over hospitals and community health care centres. Her first task was to gather all the data and information already available and to assess the most important components, which were then aligned with the newly-developed organisational strategy.

The board agreed with her HRM strategy which was 'not set in stone, but needed to be a good, solid pathway that allowed us to keep improving and making changes. A document that was going to evolve as our skills, context and people evolved', she explained. The implementation of the strategy after a year is going well – 'everything we are seeing and hearing is supportive that the direction is right, and where we've had feedback to keep changing, we've done that'. She has had to prioritise some aspects of the strategy so that employees are not overwhelmed. The priorities include: accelerating employee capabilities and skills; making it easier to work; building constructive relationship across the board; and ensuring quality

HRM IN PRACTICE

Are you work-ready yet?	**Ch 1, p. 5**	Australian government axes 457 work visa: experts react	**Ch 2, p. 51**
Prognosis positive	**Ch 1, p. 16**	To chip or not to chip?	**Ch 2, p. 53**
Picture perfect	**Ch 1, p. 20**	KCGM ups level of support for new parents	**Ch 2, p. 62**
Professional certification	**Ch 1, p. 31**		

FEATURES WITHIN CHAPTERS

HRM IN PRACTICE

FEATURES WITHIN CHAPTERS

HRM IN PRACTICE

Explore practical applications that show how HRM relates to and informs international practices through the **International Perspective** boxes.

International perspective 1.1

Managing talent in cross-border mergers and acquisitions in China: going global

China is continuing its 'going global' process and has occupied the headlines with its prominent outbound foreign direct investments (FDIs). Since 2009 the cross-border investment deals have grown steadily according to the 2017 World Investment Report, 'Chinese outward FDI rose by 44 per cent to $183 billion, driven by a surge of cross-border (mergers and acquisitions – M&A) purchases by Chinese firms'.[40] Despite a reduction in its outbound investment during the first half of year 2017, it is forecasted that the outstanding cross-border M&A activities will reach an aggregated volume of $278 billion in 2018, and by 2019 the amount will hit $297.1 billion. Obviously, the increasing appetite for international M&As has pushed forward China's strategy and outcomes on moving towards a more dynamic, inclusive and sustainable economic globalisation process.

INTERNATIONAL PERSPECTIVE

Gain helpful hints on how to be a successful human resources practitioner with the **Professional Tip** boxes.

Professional tip 7.2

Use a checklist

To avoid overlooking items that are important to employees, many organisations devise checklists for use by those responsible for conducting some phase of induction. The use of a checklist compels the manager and the HR manager to pay more attention to each new employee at a time when personal attentiveness is critical to building a long-term relationship. However, as mentioned earlier, it is important that the checklist does not become the only element, or the focus, of the induction program. The checklist is a helpful tool to assist in ensuring that all items are covered and to keep the induction focused.

PROFESSIONAL TIP

FEATURES WITHIN CHAPTERS

PROFESSIONAL TIP

Understand the changing HRM landscape with **The Future of Work** boxes.

The future of work 1.1

The gig economy, virtual workplaces and digital disruption

The emergence of the e-commerce economy based on information technology, and on fluid and changing notions of work and conditions of employment (especially the emerging 'gig economy) provides a significant dilemma for HR strategists. The management of the 'virtual workplace' will require far more complex and contingent approaches to the structuring of organisations and the development of appropriate work cultures than have been used formerly. New applications of technology, such as BYOD (bring your own devices); 'digital disruptions' (such as the challenge to the taxi industry from innovative internet-based services such as Uber); workplace interactions via social media tools and iPads as integrated work systems, represent 'the blurring of personal and work lives' and demand new approaches to employment contracts, job design, office space utilisation, learning and development, and performance recording and evaluation, to mention just a few areas.[56]

In response to these challenges, new forms of employee benefits and rewards have begun to emerge, including variable leave entitlements and greater flexibility in attendance requirements and work–life balance opportunities. As examples of these new benefits and rewards trends, pharmaceutical company MDA provides 'green' bonuses to employees who choose to use public transport or ride to work; Ernst & Young offers free personal financial planning services to its

NEW

THE FUTURE OF WORK

ICONS

Emerging issues icons link the content to the emerging issues outlined in the chapter opener to highlight topical HRM issues throughout each chapter.

Political and demographic factors

Emerging issue 1
Globalisation

Political developments, including the awkward and divisive Brexit negotiations between the United Kingdom and the European Union (EU); the replacement of President Barack Obama with President Donald Trump in the United States; ongoing leadership instability in countries such as Germany, Australia and the United Kingdom; China's expansion, and tension on the Korean peninsula, have also provided both challenges and opportunities for global business and the management of workforces. Demographic factors such as the ageing workforces of most

FEATURES WITHIN CHAPTERS

At the end of each chapter you'll find several tools to help you to review, practise and extend your knowledge of the key learning objectives.

• Review your understanding of the key chapter topics with the **Summary**.

SUMMARY

SHRM is a complex and rapidly changing field of practice in industry. Despite its comparatively recent origins, and drawing upon both overseas and local influences, SHRM is a critical factor in the success of all organisations.

Beginning in the 1940s as a series of functions, often neither integrated nor based upon solid conceptual foundations, modern SHRM is a dynamic specialisation in the process of refining its philosophies, practices and overall contributions to organisational effectiveness. In response to external influences, including economic, demographic, technological, legislative and social changes, as well as

• Revise the key concepts from the chapter with the **Key Terms** list.

KEY TERMS

- AHRI Model of Excellence (MoE) 29
- ASEAN Economic Community (AEC) 4
- employment relationship 12
- Fourth Industrial Revolution (FIR, or Industry 4.0) 4
- globalisation 3
- 'hard' HRM 20
- psychological contract 12
- resource-based view (RBV) 13
- social contract 12
- 'soft' HRM 20
- strategic human resource management (SHRM) 8
- strategic international human resource

• Develop your knowledge of topical HRM issues with the **Emerging Issue** questions linked to the icons throughout the chapters.

EMERGING ISSUES

1 **Globalisation**

Globalisation of business has become a reality, with the economic interconnectedness of nations and their organisations facilitated by new technologies and an increasing number of trade agreements between countries and regions.

a   Visit the ASEAN Economic Community website (http://asean.org/asean-economic-community) and consider the positive and negative implications for labour mobility across the ASEAN region, and also the possible challenges for Australian organisations wishing to expand to the region.

• Examine the **Ethical Challenge** scenarios and consider the ethical implications of theories and practices covered in the chapter.

ETHICAL CHALLENGE

Work hours and pay rates

You have been asked to provide advice to a fellow student who works in a restaurant on weekends and feels pressured by their boss to work longer hours than they wish. In discussion with your fellow student, you also realise that the student is possibly not being paid the correct hourly rate. You also suspect the student is already working more hours than their visa allows.

1   How would you advise the student about their initial request to refuse more hours of work?
2   What other issues does the conversation raise?
3   Would you raise these issues with your fellow student, or keep them to yourself? What would you say and do?

• Analyse in-depth **Case studies** that present issues in context, encouraging you to integrate and apply the concepts discussed in the chapter to the workplace.

CASE STUDY 2.1

HR director's challenge: advancing women to leadership positions

A large (just over 3000 employees) publicly listed company has received bad publicity recently about the low representation of women in leadership positions in the organisation. The company is headed by a male CEO and the current senior executive team has one woman (the HR director) and three men (Marketing director, Operations director and Finance director). The composition of the non-managerial workforce is largely female, with 75 per cent female and 25 per cent male. The profile changes at the managerial level, with 20 per cent of managers being female and 70 per cent being male. As a consultant specialising in women and work, you have been asked to provide

Guide to the online resources

FOR THE INSTRUCTOR

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INSTRUCTOR'S MANUAL

The Instructor's Manual includes:

- learning objectives
- chapter outlines
- key questions
- sample responses to emerging issue questions, ethical challenges and tutorial activities

- tutorial activities
- answers to case studies
- websites and readings

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PREFACE AND AHRI ENDORSEMENT

Preface: The future of human resource management

As we approach 2020, profound sociopolitical, economic, technical and environmental changes are affecting the world of work. These changes and the accompanying challenges will impact on the roles, skills and significance of human resource management (HRM) in theory and in practice.

Perhaps the most important catalyst in changing present and future organisations, workplaces, employment conditions, jobs and employees' skills requirements will be the impact of the so-called Fourth Industrial Revolution (4IR, 'Industry 4.0', or simply '4.0'). Coined by Charles Schwab, founder of the World Economic Forum, this technological 'revolution' is the digital transformation in society and business which involves an interface between technologies in the physical, digital and biological disciplines. Emerging technology – such as artificial intelligence, robotics, the Internet of Things, autonomous vehicles, 3-D printing, nanotechnology, biotechnology, materials science, energy storage and quantum computing – represent just the tip of this technology iceberg. Significant workplace changes and the potential to replace low- and medium-skilled jobs with robots are anticipated. It is likely that all industries and most occupations will be transformed by the 4IR.[1] Some observers suggest the occupations that will be least affected by these technological developments are those in creative work, human-centred and skilled trades jobs.[2]

Compounding these major technological changes are political and economic uncertainties, and broad demographic and sociocultural developments, including the ageing of the population and workforces in most developed and many emerging countries. This is contrasted with youthful labour markets in countries such as Indonesia and India. Younger generations of workers possess particular lifestyles and attitudes towards their jobs and careers, working alongside older employees who have different motivations and considerable work knowledge and experience. The gig economy and project-based or contract work have challenged traditional employment models, and global career opportunities requiring multicultural knowledge, skills and capabilities have also provided significant challenges for organisations, managers, unions and, in particular, human resource professionals.

Legislative changes aimed at ensuring equity, encouraging diversity and strengthening corporate governance have been enacted in many countries, with far-reaching consequences for all organisations, HR professionals and employees. As examples, the UN Human Rights Commission and UNICEF have been more active in recent years in proscribing child slavery and sex work, enhancing female workers' rights and attempting (often with only limited success) to enforce the rights and employment conditions of cross-regional migrant workers.

At the global level, the volatility of political and economic environments provides organisations across the world with new and unexpected threats and opportunities. These are illustrated by such diverse developments as the election of President Donald Trump in the United States and the challenges posed by North Korea; the contested withdrawal of the United Kingdom from the European Union following the Brexit referendum; the formation of the ASEAN Economic Community (AEC); the continuing rise of China and India; frequent leadership changes in Australia and elsewhere, and constantly fluctuating currencies and stock markets.

While it is difficult to predict, there are indications that HRM theories will need to incorporate stronger environmental, social responsibility and ethical dimensions ('green HRM', 'sustainable HRM' and 'responsible HRM') as communities and workers demand that organisations respond more strategically to these global challenges. In an increasing 'war' for talent, organisations that fail to respond will find it difficult to compete as employer branding in these dimensions becomes more imperative for choosy younger workers. In many organisations, HRM professionals are (or will become) the catalysts for such challenges. In addition, given the monumental changes to jobs, skills and entire workplaces associated with Industry 4.0, HRM professionals will need to focus more intensively on proactive human resource planning, global and local environmental scanning, devolving many of their traditional functions (attraction and retention, learning and development, performance and rewards management) to line managers and/or outsourcing to external service providers, and using artificial intelligence or robotic technologies to augment them. The increasing use of big data and more sophisticated human resource information management systems (HRIMS) will become mandatory for these purposes, as well as stronger accountability for their strategies, processes and outcomes.

The roles of HRM professionals are also likely to become more fragmented, with emphases on functional specialists (e.g. attraction and retention consultants, reward specialists, learning and development experts) and 'fair work' counsellors who monitor and enforce compliance with legal and industrial relations regulations and processes. Such new HRM roles may be undertaken both within organisations and externally. With respect to traditional HRM functions, the demands of Industry 4.0 are likely to transform attraction and selection systems via the use of chatbots, computer-aided selection processes and social media; learning and development is likely to comprise blended, self-paced packages on demand; job and performance management criteria may emphasise soft skills over specific technical competence and capabilities; while, increasingly, rewards and benefits are likely to be individualised rather than generalised, dependent on mutually agreed outcomes. Multiple (internal and external) careers will become the norm.

The challenge for the HRM profession and its practitioners is to understand the avalanche of forthcoming changes; to develop flexible long-, medium- and short-term strategies and plans to accommodate them based on available data; to collaborate with line managers, outsourced and in-sourced service providers and (where appropriate) unions in order to deliver responsive,

responsible and cost-effective HRM systems; and to account for their effectiveness in terms that reflect business imperatives. As Peter Wilson, National President of the Australian Human Resources Institute (AHRI) suggests, it is important to 'measure and reward the execution of HRM service delivery that optimises human relationships and a more positive culture … (and) secures a more responsible operation that safeguards brand and reputation'.[3]

Our goal in this 10th edition of *HRM Strategy and Practice* is to provide students of HRM with the capacity to understand and act within this new context, and to become capable and ethical HRM practitioners and leaders across the range of HRM functions.

<div align="right">Alan Nankervis, Marian Baird, Jane Coffey and John Shields</div>

ENDNOTES

1   Ford, M. (2018), *Architects of intelligence: The truth about artificial intelligence from the people building it*. New York: Pacht Publishing.
2   Schwab, F. (2015), *The Fourth Industrial Revolution: What it means and how to respond*. Geneva: WEF.
3   Wilson, P. (2019), Ethics 4.0: An HR guide to shaping modern ethics. *hrmonline.com.au*, December/January, p. 6.

AHRI endorsement

AHRI is pleased to endorse this textbook as a key HR reference for students. The book is a set text for the AHRI Practising Certification Program (APC), a program equivalent to AQF 8 postgraduate level. Familiarity with the 17 behaviours and capabilities set out in the AHRI Model of Excellence (MoE) is a central part of the APC, and this updated 10th edition of the textbook examines each of the 17 attributes of the MoE in detail. The APC is a mandatory requirement for HR practitioners seeking AHRI certification.

The Australian Human Resources Institute (AHRI) is the national association representing human resource and people management professionals. AHRI leads the direction and fosters the growth of the HR profession through actively setting standards, building capability and providing a certification credential for the profession. Through its international affiliations and its close association with Australian industry and academia, AHRI ensures that its members are given access to a rigorous world class professional recognition framework and professional development opportunities. Professional, Graduate, Affiliate, Organisation and Student memberships are available through the Institute. Find out more and how to become a member at http://www.ahri.com.au.

ABOUT THE AUTHORS, CONTRIBUTORS AND ACKNOWLEDGEMENTS

About the authors

Alan Nankervis is an Adjunct Professor of Human Resource Management at RMIT University (Melbourne) and Curtin University (Perth) in Australia. He has previously taught and researched at universities in Melbourne, Sydney, the United Kingdom, Canada, Indonesia and Thailand. He has co-authored a dozen books and many scholarly articles and conference papers and was the co-editor of the journal *Research & Practice in Human Resource Management* from 2001 to 2011. He is currently the Chair of the Australian Human Resources Institute's National Accreditation Committee. His current research interests include comparative Asian HRM, graduate employability and the future of work in the Asia-Pacific region.

Marian Baird, AO, BEc (Hons), Grad. Dip. Ed., PhD (Sydney), is Professor of Gender and Employment Relations, Co-Director of the Women, Work and Leadership Research Group, and Head of the Discipline of Work and Organisational Studies at the University of Sydney Business School. Marian is a highly recognised academic in the fields of industrial relations, human resource management and work and family. She is the recipient of several major research grants from funding bodies, including the Australian Research Council and state and federal governments, to explore critical aspects of women's working lives, the ageing workforce, and the impact of regulatory change across the public and private sectors. She is the Co-editor in Chief of the *Journal of Industrial Relations*, and has published extensively in national and international journals. Marian has contributed to numerous government review panels on gender equality, discrimination and parental leave.

Jane Coffey, BA (Soc.Sc.), Grad Dip., M.Comm, PhD (Perth), is a senior lecturer with the School of Management within the Faculty of Business and Law, Curtin University. She has held numerous positions within the faculty and university, including International Academic Director, Deputy Head of School, Discipline Leader and Course Coordinator, HRM and industrial relations. Throughout her academic career, she has developed, managed and taught a range of HRM and industrial relations programs throughout Australia and South-East Asia. Jane has actively contributed to the last four editions of this textbook. She researches and publishes in the areas of career expectations of Generations X and Y and career attraction and retention issues within the performing arts.

Jane also has significant corporate professional experience, having operated a highly successful HR consultancy business prior to joining Curtin University. She specialised in

providing support and advice to the public sector, and she maintains a significant consultancy profile in this area with the university. She also conducts and facilitates workshops throughout Australia.

John Shields is Professor of Human Resource Management and Organisational Studies in the Discipline of Work and Organisational Studies at the University of Sydney Business School, where he is also Deputy Dean. In the HRM field, John's research focuses on reward management and work motivation and performance. He also researches in the corporate governance field, with a particular interest in board capability, executive reward and firm performance. A co-authored third edition of his text on managing employee performance and reward is currently in preparation.

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HRM IN CONTEXT

CHAPTER

1

Evolution of strategic human resource management

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We must pursue innovation through technology as the main contributor to our future prosperity and happiness. The new jobs generated will allow us to compete with the world.

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OBJECTIVES

After reading this chapter, you will be able to:

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2 understand the relationship between business strategies and HRM strategies, processes and functions in the context of a dynamic global environment

3 understand the principles behind international human resource management

4 appreciate the critiques of SHRM

5 describe the principal roles, functions and ethical principles of SHRM professionals

6 understand the SHRM model and framework used throughout this text.

Emerging issues

1 Globalisation

2 New technology – the Fourth Industrial Revolution

3 Employability

4 SHRM theories and new models

5 HR ethics

INTRODUCTION

Organisations exist for a variety of purposes. Some produce goods for local or overseas consumption while others provide necessary services for profit or community benefit. In pursuit of their objectives, all organisations rely on the availability and effectiveness of several kinds of resources, which (for the sake of simplification) can be divided into finance, technology and people. Some organisations emphasise their financial resources (banks, credit unions, stockbroking companies), others rely on the sophistication of their technology (telecommunications, manufacturing, information technology), while the growing services sector throughout the world depends heavily on the quality of its employees – its human resources.

Regardless of the particular resource emphasis in an industry, the human resource is almost always the key ingredient for organisational success. People design, operate and repair the technology, people control the financial resources, and people manage other people in all organisations. Compared with technological or financial resources, human resources are the most unpredictable – because of their complex blend of rational and emotional characteristics – and often the largest ongoing cost factor in any organisation; they may also be regarded as its most valuable asset. It is therefore crucial that people are managed effectively, equitably and ethically, and that their personal and work needs are satisfied, if organisational objectives are to be achieved. The next sections of this chapter briefly explain four important external challenges facing the management of employees as human resources in the modern world of work: globalisation, political and demographic factors, new technologies, and work–readiness (or 'employability') issues. These issues are discussed in more detail in Chapter 2, and their implications for human resource management (HRM) strategies and processes are included in all subsequent chapters.

Globalisation

A number of developments have begun to transform the nature of jobs and the workplaces in which they are performed. Globalisation, or the growing interconnectedness of economies across the world, is perhaps the most significant and enduring of these challenges. On the positive side, globalisation has broadened the markets for Australian and regional businesses, reshaped labour markets and, with the aid of enhanced information technology and telecommunications systems, begun to fashion new kinds of jobs, new forms of workplaces and, increasingly, more innovative approaches to all human resource management (HRM) processes. Less positively, the economic interconnectedness of countries, coupled with the unethical behaviour of some senior managers in many industries, has contributed significantly to serious global financial difficulties, currency fluctuations and continuing major economic problems in many countries. Such events have resulted in the demise of many businesses; more active intervention of governments in the re-regulation of industries; and associated changes in HRM strategies,

globalisation
The expansion of organisational operations across national, regional and global boundaries, with its associated financial, marketing, operational and HRM implications

human resource management (HRM)
The management of employees for their own benefit and for their organisations

including major revisions to staffing, performance management, executive pay systems, human resource development, rewards and career development programs.

Two recent developments are likely to significantly affect labour markets in Australia and the Asia Pacific. First, the revised Trans-Pacific Partnership (TPP2), a grouping of 11 countries (Australia, Brunei Darussalam, Canada, Chile, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore and Vietnam – see https://dfat.gov.au/trade/agreements/in-force/cptpp/Pages/comprehensive-and-progressive-agreement-for-trans-pacific-partnership.aspx) – excluding the United States; and second, the formation of the ASEAN Economic Community (AEC), which aims to facilitate trade and labour mobility across the region. Members of the AEC include 10 countries – Indonesia, Malaysia, the Philippines, Singapore, Thailand, Vietnam, Lao PDR, Myanmar, Cambodia and Brunei Darussalam – excluding Australia. Both developments pose potential challenges and opportunities for HR professionals in local organisations with global or regional operations.

Political and demographic factors

Political developments, including the awkward and divisive Brexit negotiations between the United Kingdom and the European Union (EU); the replacement of President Barack Obama with President Donald Trump in the United States; ongoing leadership instability in countries such as Germany, Australia and the United Kingdom; China's expansion, and tension on the Korean peninsula, have also provided both challenges and opportunities for global business and the management of workforces. Demographic factors such as the ageing workforces of most developed countries (the United States, United Kingdom, Australia, Canada, New Zealand, Singapore and in Europe), but younger workforces in emerging nations like Indonesia and India, pose different business and SHRM challenges; as do rising education levels in many countries and regions, combined with diverse expectations of jobs and workplaces from different generations.

New technology – the Fourth Industrial Revolution

Perhaps the greatest challenge for global business and SHRM is provided by the predicted impacts of new technology on all industries, workplaces and jobs in the next decades. The so-called 'Fourth Industrial Revolution' (FIR, or Industry 4.0) is the digital transformation in society and business that involves an interface between technologies in the physical, digital and biological disciplines. It involves the 'transformation of systems of production, management and governance'.[1] Emerging technologies, such as artificial intelligence, robotics, machine learning, the Internet of Things (IOT), autonomous vehicles, 3-D printing, nanotechnology, biotechnology, materials science, energy storage, and quantum computing, represent just the tip of this technology iceberg. The FIR is predicted by some observers to be 'a major driver of long-term economic growth…(and) investment in the skills and organisational capacities that allow effective technological development, evaluation, adoption and adaptation will help solve social, economic and environmental challenges, leading to a prosperous and healthy future'.[2]

Trans-Pacific Partnership (TPP2)
A free trade agreement between 11 Pacific Rim countries, excluding the United States

ASEAN Economic Community (AEC)
A regional trade grouping of 10 ASEAN countries, excluding Australia

Emerging issue 1
Globalisation

Fourth Industrial Revolution (FIR, or Industry 4.0)
Interface between physical, digital and biological technologies

Other experts are less sanguine, predicting that between 20 and 60 per cent of all current jobs are likely to be replaced, or at least seriously modified, due to the FIR. Whichever prediction is correct, it will be the key responsibility of SHRM professionals to ensure the optimal use of human resources to meet both organisational and employee needs; and the outcome of the FIR will have significant effects on all SHRM functions; for example, HR planning, work and job design, talent attraction and retention, learning and development, performance management, rewards, remuneration and career development. These issues are discussed in considerable detail throughout this book.

Work-readiness (or 'employability')

The following section considers the last important challenge facing many workplaces and their HR professionals – namely, graduate **work-readiness (or 'employability')**, expressed as a perceived gap between the skills required by employers and those possessed by vocational and higher education graduates (see **HRM in practice 1.1**).

Emerging issue 2
New technology – the Fourth Industrial Revolution

work-readiness (employability)
Perceived gaps between employers' skills requirements and potential employees' competencies and capabilities

HRM in practice 1.1

Are you work-ready yet?

Contrary expectations of employers and vocational and higher education institutions with respect to the employability or 'work-readiness' of their graduates have created significant concerns for governments, industry and educational institutions. This section illustrates some of the challenges, causes and possible solutions associated with the identified employability issues in Australia. Similar challenges are reported in many, if not most, Asia Pacific countries.[3]

Recent reports suggest that it may take new graduates up to five years to find a full-time job after completing their TAFE or university programs. Employers are constantly complaining that they can't attract graduates with the right combination of technical skills, work experience and key workplace competencies. An Australian Industry Group 2016 report, as one example, found that Australian graduates are falling way behind their regional counterparts on basic literacy and numeracy competencies, apart from more sophisticated workplace skills.[4] So, what's the problem? Why are there such major mismatches between the skills expectations of governments and industry, and the work-readiness (employability) outcomes of education systems?

Emerging issue 3
Employability

So, what's the nature of these work-readiness challenges?

In a recent study, most employers agreed that graduates generally possess the appropriate technical skills, and that many also have strengths in project management, teamwork and interpersonal communication, verbal skills and information technology competencies. However, concerns were generally expressed about the soft skills of many graduates. In particular, their business communication, problem solving, initiative, attitude, work ethic, critical thinking, resilience, adaptability, innovation and creativity skills; that is, 'the inability of new employees to self-regulate...learning how to work, how to pursue a goal'; and 'being willing to learn and have a go...showing initiative, being a good cultural fit'.[5]

> ### What causes them?
>
> A multi-stakeholder model was used to analyse the causes of graduate work-readiness, and the possible strategies that might be used to address them. Employers were criticised for their inadequate human resource planning, unclear expectations of graduates, unwillingness to engage with educational institutions, a lack of investment in potential employees and failure to provide supportive induction and training programs. Other issues included that some employers have negative generational stereotypes or biases against young employees.
>
> The education sector is also considered to contribute to these work-readiness challenges due to the imbalance between theory and practice in many of its programs; its research versus teaching priorities; the lack of industry experience of many (if not most) of its teaching staff; and a distinct absence of dedicated on-campus industry engagement professionals. According to the study, however, graduates themselves also exacerbate the problems. Unrealistic job expectations, together with difficulties in demonstrating resilience, adaptability and the willingness to integrate into the new work culture, only widen the increasing mismatch between graduate skills demand and supply.
>
> ### How should we address the challenges?
>
> Employers need to provide supportive cultures; focused graduate recruitment processes; ongoing training and support; targeted mentoring systems; and, most importantly, strong partnerships between industry and educational institutions. Education sectors also need to review and revise their programs and learning approaches in order to better address the challenges, in closer partnerships with associated industry sectors and professional bodies. These can range from relatively simple program inclusions such as incorporating industry guest speakers, more focused practical components, integrative and multidisciplinary capstone units in all programs, and adding work experience criteria for all new lecturers, to broader imperatives such as rethinking their graduate outcomes, revising work-integrated learning (WIL) and internship components, and designing 'incubators for graduate mentoring' that combine education institutions, employers and professional associations.

Most, if not all, of these strategies fall into the domain of HR professionals, not only to initiate and design the programs but also to implement them and to evaluate their contributions to the organisation in terms of talent attraction, development and retention.[6]

The following section traces the origins and historical development of the field of study and the profession, in order to understand its current and future roles and practices.

DEVELOPMENT AND CONCEPTS OF SHRM

Early employee specialists were called personnel managers (or personnel administrators), and this term is still in use. 'Personnel management' refers to a set of functions or activities (e.g. recruitment, selection, training, salary administration and industrial relations), often performed effectively but with little relationship between the various activities and overall organisational objectives.

Personnel management in the United Kingdom and the United States developed earlier than in Australia and Asia Pacific countries in response to their earlier and more widespread adoption of mass production work processes. Power-driven equipment and improved production systems enabled products to be manufactured more cheaply than before. This process also created many jobs that were monotonous, unhealthy or even hazardous, and led to divisions between management and a working class. The concentration of workers in factories served to focus public attention upon conditions of employment and forced workers to act collectively to achieve better conditions. The humanitarian, cooperative and Marxist theories of the early 1900s highlighted the potential conflicts between employee and employer interests in modern industry – situations that laid the foundations for the growth of trade unionism and industrial relations systems.

Governments in both the United Kingdom and the United States became involved in these issues and passed series of laws to regulate the hours of work for women and children, establish minimum wages for male labour and regulations to protect workers from unhealthy or hazardous working conditions. Australian governments, both state and federal, gradually began to follow suit from the early 1900s, although Australia and New Zealand adopted systems based on conciliation and arbitration rather than mandated conditions (see Chapter 3).

During this period, management theorists in the United States and United Kingdom began to examine the nature of work and work systems, and to develop models based upon emerging psychological and sociological research. The ways in which these theories have developed and have been applied, by both general management and HR professionals, reflect changing attitudes to jobs, work processes and organisational structures. The Classical School (or 'Scientific Management', founded by Frederick Taylor, and best exemplified by Henry Ford in his vehicle manufacturing plants) puts emphasis on the job itself and the efficient adaptation of workers to work processes. The Behavioural School (e.g. Elton Mayo's Hawthorne Studies) focuses on workers, and the satisfaction of their needs to achieve greater organisational productivity. Subsequent management theories (e.g. systems theory, contingency approaches) attempt to build on earlier ideas to benefit both employees and their organisations.

Contingency, Excellence and Total Quality Management (TQM) theorists have applied these ideas to particular industries and organisations, or to different economic and social situations. The relevance of these theories to SHRM is twofold. First, personnel management has historically developed into SHRM by incorporating management theories (notably strategic management); second, a sound knowledge of these theories can assist HR professionals to more effectively adapt their practices to organisational requirements and realities.

Stages in the development of SHRM

SHRM in Australia and the Asia Pacific region[7] has progressed along similar lines to its counterparts in the United States and United Kingdom, but with differences in the stages of development and in the relative influence of social, economic, political and industrial relations factors. The two main features of the United States' development of SHRM are

its initial emphasis on largely administrative activities, directed by senior management, and then the move to a more confident, business-oriented and professional approach in the 1980s and 1990s. Similar processes occurred in the United Kingdom, with emphasis on the welfare roles of personnel practitioners because of the excesses of early capitalist industry, a strong humanitarian movement and developing trade unionism. In Asian countries, there has been a blend of administrative, paternalistic and cooperative, and business-focused SHRM that varies between countries depending on their cultures, stages of development, extent of government intervention in the economy, and industrial relations systems.

In Australia, HRM has developed through the following stages:
- Stage one (1900–1940s): welfare and administration.
- Stage two (1940s–mid-1970s): welfare, administration, staffing and training – personnel management and industrial relations.
- Stage three (mid-1970s–late 1990s): HRM and strategic human resource management (SHRM).
- Stage four (2000 onwards): SHRM into the future.

We now describe some of the major features of each developmental stage.

strategic human resource management (SHRM)
A coordinated and integrated approach to HRM which ensures that HRM strategies and processes are aligned with broad organisational goals and strategies

Stage one (1900–1940s): welfare and administration

During this period, personnel functions were performed by supervisors, line managers and early specialists (e.g. recruitment officers, trainers, welfare officers) long before the establishment of a national association representing a profession of personnel or SHRM. The early management theorists contributed ideas that would later be incorporated into personnel management theory and practice. Through job design, structured reward systems and 'scientific' selection techniques, Scientific Management helped to refine personnel management practice in the recruitment and placement of skilled employees. Behavioural Science (or Industrial Psychology) added psychological testing and motivational systems, while Management Science contributed to the development of performance management programs.

Prior to World War II, personnel management functions were largely fragmented, and often conducted by line managers as part of their overall management responsibilities.

Functions during this period were mainly restricted to administrative areas (e.g. wage/salary records, minor disciplinary procedures and employee welfare activities). In 1927, A. H. Martin established the Australian Institute of Industrial Psychology at Sydney University to promote the ideas of behavioural scientists and industrial psychologists in Australia.

Stage two (1940s–mid-1970s): welfare, administration, staffing and training

This second stage marked the beginning of a specialist and more professional approach to personnel management in Australia. World War II had significant repercussions for both those who went overseas and those who stayed behind, and particularly for business, the economy and the labour market.

During World War II, not only was there a scarcity of labour for essential industries such as munitions and food, but there was also a corresponding increase in the problems and performance of existing employees, especially women with children. When the war ended, returning soldiers, often with few work skills, flooded the labour market. Therefore, employers – spurred on by government initiatives and their own postwar requirements for skilled employees in a developing economy – began to focus on the importance of a wider range of personnel functions.

Increased provision of welfare services for employees was seen by some employers as a means of attracting and retaining employees and ensuring their continued productivity. The Commonwealth Department of Labour and National Service established an Industrial Welfare Division in the 1940s to promote the welfare function, offering emergency training courses to equip practitioners with the necessary skills. These activities were supported by the new human relations theories that were filtering into Australia from the United States.

In addition, Scientific Management, the Quantitative School and Behavioural Science, contributed employee and management assessment and development techniques such as productivity measures, management planning and control mechanisms (e.g. Drucker, McGregor, Chandler), psychological testing and applications of the emerging employee motivation theories (e.g. Maslow, Herzberg, McGregor).[8] Many more organisations began to employ specialists to conduct recruitment, training and welfare activities, taking these functions away from line managers.

In 1943, the first personnel officer was appointed to the St Mary's Munitions Filling Factory in New South Wales, and in the same year a Personnel and Industrial Welfare Officers' Association was established in both Victoria and New South Wales. These state associations combined to form the national Personnel Officers' Association in 1949, renamed the Institute of Personnel Management Australia (IPMA) in 1954.[9] Sydney Technical College and the University of Melbourne developed personnel management courses, and later business schools with personnel management strands were established in most Australian states during the 1950s.

This stage was characterised by the expansion of necessary personnel functions for the postwar Australian economy (welfare, recruitment, selection, training); a gradual move from specialist to more general approaches; the adoption of management theories, including Scientific Management, Behavioural Science and Human Relations; and the emergence of professional associations and courses. The resurgence of unionism during these decades cannot, of course, be overlooked. Unions in a buoyant economy focused on issues of pay and work conditions, forcing further expansion of personnel activities to include industrial relations considerations. The complex industrial relations structure at the national level was originally established by the Commonwealth *Conciliation and Arbitration Act 1904*, with similar developments at each of the state levels. They were further developed during the postwar period (see Chapter 3).

While the range of functions performed by the growing number of personnel specialists expanded greatly during this period, they were often conducted in isolation from one another

and generally without any consideration of their impact on overall organisational effectiveness. Personnel management activities were largely separated from those concerned with industrial relations, and a clear professional philosophy did not exist.

Stage three (mid-1970s–late 1990s): HRM and SHRM

During the 1970s, most Australian organisations found themselves in turbulent business and economic environments, with severe competition from organisations in Europe and the United States, and emerging Asian markets. The influences of the excellence (e.g. Peters and Waterman)[10] and quality movements were beginning to affect the management of employees, together with increasing cost–benefit pressures. Prior to the importation of such quality management theories and practices, organisational work systems in Australia were often ad hoc or not well integrated, and it was their applications that led to the important concepts of 'best practice' and 'continuous improvement', which are the foundations of management practice in most contemporary organisations.

Personnel management was becoming HRM and eventually SHRM, representing a change towards the integration of personnel functions, strategically focused on overall organisational effectiveness. Significantly, the use of the term 'human resource management' was first noted in Australia in these years,[11] reflected in the formation of the Australian Human Resources Institute (AHRI) to replace the IPMA.[12] This evolution was enhanced by industrial relations changes, including award restructuring and enterprise agreements, increasing employment legislation, and economic realities such as declining trade with the United Kingdom and Europe and increasing opportunities in the Asia Pacific region. **Table 1.1** illustrates the essential differences between personnel management and SHRM.

TABLE 1.1 Differences between personnel management and SHRM

	PERSONNEL MANAGEMENT	SHRM
Time and planning perspective	Short term, reactive, ad hoc, marginal	Long term, proactive, strategic, integrated
Psychological contract	Compliance	Commitment
Control systems	External controls	Self-control
Employee relations perspective	Pluralist, collective, low trust	Unitarist, individual, high trust
Preferred structure/ system	Bureaucratic/mechanistic, centralised, formal/defined roles	Organic, devolved, flexible roles
Roles	Specialised/professional	Largely integrated into line management
Evaluation criteria	Cost minimisation	Maximum utilisation (human asset accounting)

Source: Adapted from Anon. (1987), Human resource and industrial relations, *Journal of Management Studies*, 24 May, p. 507.

In essence, SHRM recasts employees as human resources who are vital organisational assets possessing knowledge, skills, aptitudes and future potential; and who therefore require integrated and complementary management strategies (through, for example, human resource planning, job design, talent attraction and retention techniques, performance management and rewards programs, and work health and safety (WHS) systems) in order to assure their individual and collective contributions to the achievement of organisational goals and objectives.

Building upon previous developments, this stage represents the integration of personnel management and industrial relations and HRM into a coordinated and strategic approach to the management of an organisation's people – SHRM. SHRM can be perceived as a 'macro' perspective (e.g. strategies and policies), whereas HRM represents more of a 'micro' approach (e.g. activities, functions and processes). SHRM adds the extra dimension of the alignment of the goals and outcomes of all HRM processes with those of their organisations as a whole, but both are intertwined, as described later in this chapter. SHRM also provides practitioners with renewed confidence to perform their activities as an integral component of organisational success.

Stage four (2000 onwards): SHRM into the future

While it is difficult to predict the nature of SHRM in the future, there are strong indications that its theory and practice will be continually transformed as a consequence of globalisation, political and demographic changes, new technology, and associated fundamental changes in the nature of work and jobs. The external and internal pressures on all workplaces are discussed in detail throughout the text, as are the likely impacts on organisations, their employees and overall employment conditions. It is sufficient, at this stage, to suggest that concepts of SHRM and the roles of HR professionals will likely change continuously to remain relevant. The section below on SHRM models illustrates the dynamic development of SHRM and strategic international HRM (see later) theories in relation to these global challenges.

The globalisation of business means that HR professionals will need to be more proactive in relation to such issues as business ethics, corporate social responsibility (CSR), corporate governance and the management of employees' work–life balance. Communication and information technology changes such as the digital revolution, 'big data', multiple forms of social media (e.g. Twitter, Facebook, LinkedIn), mobile telephone networks and high-speed fibre-optic cables will require the adoption of radical new approaches to HRM strategies, structures, organisational cultures, HRM practices and employment relationships as a whole.

Professor Ulrich has suggested that the survival of SHRM demands that HR professionals are perceived to add value to four key stakeholders in organisations, namely:

1 employees who want competence and commitment
2 line managers who want to make strategy happen
3 key customers who want to buy more products/services
4 investors who want the stock price to go up.[13]
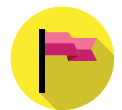
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SHRM

Associated imperatives include requirements for HR professionals to demonstrate a deep understanding of their organisation's business environment, the industry challenges and opportunities, and the ways in which HR programs deliver human capability for the business to compete;[14] the nurturing of more creative organisational cultures and the development of appropriate HR metrics and data analysis;[15] and the formulation of organisational ethical codes.[16]

The following section explores the changing nature of the employment contract, which underlines the relationships between employers and their employees. It is likely to change further given the anticipated impacts of globalisation, political and demographic changes, new technologies and growing skills mismatches in most countries in the Asia Pacific region and across the world.

The changing employment contract — legal, social and psychological

There is considerable agreement that a focus on the business outcomes of SHRM must be coupled with increased attention to employee satisfaction, for both productivity and retention purposes. This is exemplified in recent emphases on the importance of the 'psychological contract' between organisations and their employees; associated employee engagement strategies; and emotional intelligence (EI). While this is not a new idea, more flexible industrial relations systems, changing employee expectations and the imperative to compete for scarce talent have compelled employers to pay more attention to all facets of the employment contract. As Baird (2001) explains, the **employment relationship** comprises a set of overlapping contracts: the **legal contract**, the **social contract** and the **psychological contract**.[17] The *legal* contract sets out the terms and conditions of work, and is based on enforceable legal rights and obligations (see Chapter 3), whereas the *social* contract underpins a mutual relationship between the state and its citizens; that is, 'the mutual expectations and obligations that employers, employees and society at large have for work and employment relationships … a set of norms that hold us all accountable for adding value at work and for providing work that is a productive, meaningful life experience'.[18]

The *psychological* contract refers to the 'reciprocal expectations of individual employees and their individual managers, and includes the whole pattern of rights, privileges and obligations between employees and their organisations … beliefs about fairness, trust and the delivery of worthwhile employment relationships',[19] which together are deemed to lead to greater commitment, productivity and retention. Other authors suggest more simply that the psychological contract is either the 'perceptual component of the formal (written) employment contract'[20] or 'an intermediate variable between HRM practices and firm performance'.[21]

Practical workplace applications of the psychological contract might include employer demonstrations of their concern for employees' physical, social, intellectual and emotional needs, illustrated through health and safety, work–life balance, employee wellbeing and engagement, counselling, and support policies and programs.

employment relationship
The acknowledged relationship between an employer and employee; it comprises a set of overlapping contracts: the legal contract, the social contract and the psychological contract

legal contract
The legal documents that detail employer and employee rights and responsibilities

social contract
The mutual understanding and set of social norms that underpin an employment relationship, regarding expectations and obligations of employers, employees and the society at large

psychological contract
The expectations and beliefs of employees and their managers about working conditions and relationships in the workplace

When the psychological contract (on both sides) is positive, then employees are seen to be 'engaged' with their work, their colleagues and the organisation as a whole, a result brought about when organisations encourage their managers and employees to display emotional intelligence in their dealings with their colleagues and customers. Emotional intelligence (EI) has been defined as 'the ability to perceive and express emotion, assimilate emotion in thought, understand and reason with emotion, and regulate emotion in oneself and others'[22] and generally includes non-cognitive capabilities and competencies.

It is also important to note that emotional intelligence skills are not enough by themselves; an organisation's management and culture should also support the application of these competencies, and reward employees who demonstrate them. It is suggested that this can be achieved in several ways – as practical examples, job design might incorporate the emotional aspects of jobs (customer service, nursing and counselling), reinforcing a positive emotional work climate; employee selection processes could include awareness of the value of emotional attitudes and contributions; rewards systems might recognise employees' positive emotional skills; and training on EI skills institutionalised within organisations.[23]

Many authors emphasise the need for HR professionals to undertake two main roles in this respect – first, to development 'commitment-oriented' HRM practices that aim to support employees on the one hand, and second, to support line and middle managers in their employee relationships on the other hand.[24]

SHRM, BUSINESS STRATEGIES, PERSPECTIVES AND MODELS

This section explores the relationships between SHRM theories and models and business strategies, a key feature of SHRM.

SHRM

SHRM emphasises the need for HR plans and strategies to be formulated within the context of overall organisational strategies and objectives, and to be responsive to the changing nature of the organisation's external environment (i.e. its competitors, the national and international arenas). A strong implication of SHRM theory is that HR plans and strategies should be developed on a long-term basis, taking into account likely changes in society, industrial relations systems, economic conditions, legislation, global and technological issues and new directions in business operations. Ultimately, the key focus of SHRM is to contribute to organisational effectiveness by ensuring that HR strategies and policies support desired organisational outcomes.[25]

Its origins are in what has been called the **resource-based view (RBV)** of organisational competitiveness and sustainability, which proposes that 'each organisation is a collection of unique resources and capabilities that provides the basis for its strategy and that is the primary

resource-based view (RBV)
The theory that proposes organisations are comprised of a series of competing 'resources' that need to be effectively managed

source of its (financial) returns'.[26] In this model, organisational resources are classified as 'physical, human and organisational capital'[27] and the internal environment (strategies, cultures, structures) of the organisation is perceived to be of equal (or greater) importance than its external industry or country contexts.

From a SHRM perspective, the RBV includes three major components of human 'resources' – namely, employees' knowledge, capabilities and dynamic capabilities.[28]

SHRM is a model for practice, which, like all models, requires interpretation and adaptation by HR professionals to ensure the most suitable alignment or 'fit' between HR and business strategies and plans. Its key characteristics are a longer-term focus, clear linkages between HRM and strategic planning and with organisational performance, and the inclusion of line managers in the HRM policy-making process.

Business strategy and SHRM

The term 'strategy' has its origins in the military campaigns of ancient Greece and has been adopted by many national governments, industries and individual organisations as a way of describing their progress towards desired long-term objectives. Business strategy is determined at national government, industry and organisational levels, and is used to explain both the processes (e.g. organisational restructuring, rightsizing, multi-skilling, product development) and the outcomes (e.g. market position, profitability, competitiveness) of chosen long-term directions. It can be either a conscious, planned activity or a series of events that lead to a desired objective.

Strategy is a neutral term, so business strategies can result in both successes and failures. As examples, many organisations have consciously chosen to extend their operations, or even relocate, to other countries to take advantage of less expensive labour markets or to create new market opportunities (e.g. Tata, Haier, HSBC, BHP Billiton, Huawei, Optus, Infosys, Amazon, Virgin Records, Singapore Airlines). Other organisations have offshored parts of their operations, lured by host government incentives, industry promotions or the promise of lucrative markets. These processes have been facilitated significantly through the development of information technology. However, some companies, notably those that have invested in call centre services in regional countries, are reviewing these business strategies, due to customer complaints, union concerns about the adverse effects on home country jobs, or the variable quality of offshore services.

Porter divides all business strategies into three categories – cost leadership, product differentiation and market segments,[29] while Schuler and Jackson refine these as innovation, quality improvement and cost reduction strategies.[30] **Table 1.2** illustrates the alignment between these three kinds of organisational strategies and associated HRM strategies and functions.

Some organisations may wish to pursue either innovation and quality enhancement, or quality enhancement and cost reduction strategies, and some may wish to pursue all three business strategies. In those cases, HRM specialists will need to devise strategies that incorporate

TABLE 1.2 Linking HRM and business strategy

ORGANISATION STRATEGY FOCUS	RECOMMENDED HRM STRATEGIES
Innovation	1 Jobs that require close interaction and coordination among groups of individuals 2 Performance appraisals that are more likely to reflect long-term and group-based achievements 3 Jobs that allow employees to develop skills that can be used in other positions in the firm 4 Compensation systems that emphasise internal equity rather than external or market-based equity 5 Pay rates that tend to be low, but that allow employees to be stockholders and have more freedom to choose the mix of components that make up their pay package 6 Broad career paths to reinforce the development of a broad range of skills
Quality improvement	1 Relatively fixed and explicit job descriptions 2 High levels of employee participation in decisions relevant to immediate work conditions and the job itself 3 A mix of individual and group criteria for interdependent behaviour 4 Performance appraisal that is mostly short-term and results-orientated 5 A relatively egalitarian treatment of employees and some guarantees of employment security 6 Extensive and continuous training and development of employees
Cost reduction	1 Relatively fixed and explicit job descriptions that allow little room for ambiguity 2 Narrowly designed jobs and narrowly defined career paths that encourage specialisation, expertise and efficiency 3 Short-term, results-orientated performance appraisals 4 Close monitoring of market pay levels for use in making compensation decisions 5 Minimal levels of employee training and development

Source: Gill, C. (2002), A fitting strategy. *HRMonthly*, November, p. 30.

comprehensive SHRM approaches aligned with desired overall goals and objectives. These may involve macro approaches, such as culture change or substantial organisational restructuring, and/or micro HR techniques, such as job redesign, selective recruitment and career management.

HRM strategies (like business strategies) will need to take account of changes in both the external and internal environments of organisations, and consequently to provide for contingencies that may arise during the planning period. In order to be a strategic partner, HRM specialists need to develop close links with all levels of management and form relationships that promote the 'bottom line' value of the strategic management of an organisation's employees (see Chapter 12). Partnership may involve devolving the majority of practical HR processes (e.g. job design, recruitment and selection, human resource development, performance management) to line managers, or the outsourcing of specialist activities such as payroll administration and

employee benefits. Other HRM specialists will focus on the development of close relationships with senior management in order to effectively contribute to the formulation and revision of strategic plans.

Several types of linkages between HR and organisational strategies have been identified, as follows.

- *Accommodative*: HR strategies simply follow organisational strategies, accommodating the staffing needs of already-chosen business strategies.
- *Interactive*: This is a two-way communication process between HRM and corporate planning in which HRM contributes to, and then reacts to, overall strategies.
- *Fully integrated*: The HR specialist is intimately involved in the overall strategic process in both formal and informal interactions – a real reflection of SHRM in practice.[31]

The ideal linkage is where HR and organisation strategies are fully integrated with each other, and where the HR specialist has direct reporting and communication relationships with the highest levels of management in the organisation.

HRM in practice 1.2 illustrates the development of a HRM strategy in association with the organisational strategy and culture of a New Zealand government health authority. The engagement of both senior managers and all existing employees were key priorities of the new HRM strategy.

HRM in practice 1.2

Prognosis positive

The largest employer in the city, the Auckland District Health Board (ADHB), didn't have a current HRM strategy when the new Chief HR Officer arrived eighteen months ago. So, she set out to develop one. She heads a team of 80 HR professionals with a total workforce of more than 10,000 employees, spread over hospitals and community health care centres. Her first task was to gather all the data and information already available and to assess the most important components, which were then aligned with the newly-developed organisational strategy.

The board agreed with her HRM strategy which was 'not set in stone, but needed to be a good, solid pathway that allowed us to keep improving and making changes. A document that was going to evolve as our skills, context and people evolved', she explained. The implementation of the strategy after a year is going well – 'everything we are seeing and hearing is supportive that the direction is right, and where we've had feedback to keep changing, we've done that'. She has had to prioritise some aspects of the strategy so that employees are not overwhelmed. The priorities include: accelerating employee capabilities and skills; making it easier to work; building constructive relationship across the board; and ensuring quality processes and outcomes.

One of the key imperatives of the new HRM strategy was to 'capture the hearts and minds of our people from day one', and the first step was to modernise the employee orientation process – 'Whether you are a cleaner, nurse, brain surgeon or in HR, how you feel about working here changes how you work here'.

Source: Michel, F. (2017), Treatment plan. *HRM*, http://www.hrmonline.com.au, September, pp. 18–19.

The following section presents some of the contemporary models – or visual representations – of SHRM. Our model of SHRM, and the framework for this book, appears at the end of the chapter.

SHRM models

There is a wide range of *SHRM models*, ranging from those that have soft and pluralistic emphases, to others with a hard and unitarist (see below) HRM focus.

Figure 1.1, known as the Harvard model of SHRM, shows HRM as a set of broad strategic choices in response to the demands of organisational characteristics (e.g. stakeholders, business strategy and conditions, management philosophy, technology) within the context of the external labour market and social, economic and political conditions. Strategic choices of HRM policies and practices encompass the nature of all HR processes (e.g. work design, recruitment and selection, performance management and reward systems), and hopefully lead to desirable HR outcomes and long-term consequences for the organisation.

FIGURE 1.1 The Harvard model of SHRM
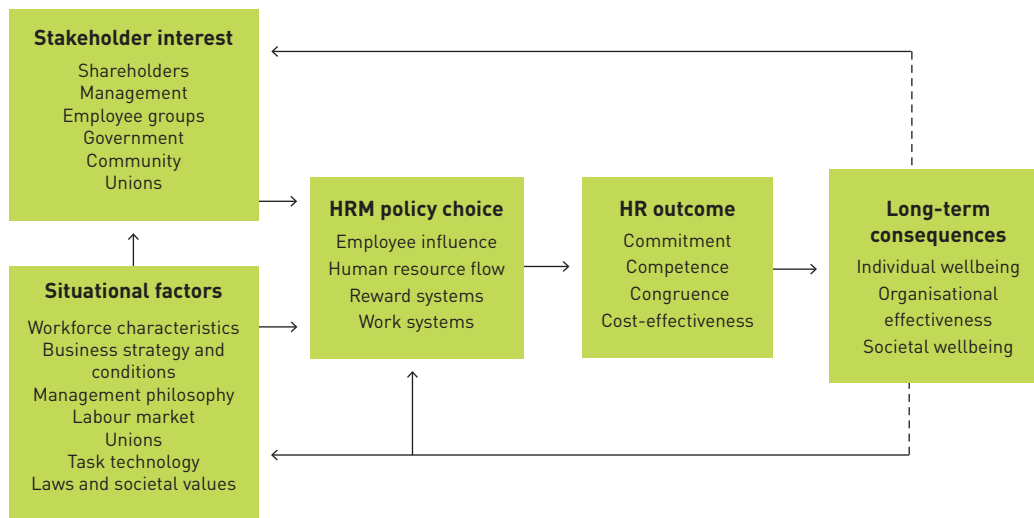
Source: Beer, M., Spector, B., Lawrence, P., Mills, D. and Walton, R. (1995), *Human resource management: A general manager's perspective.* New York: Free Press.

The Harvard model suggests that SHRM strategies, policies and processes fall into four broad areas.[32]

1 *Employee influence and involvement:* The extent to which employees are encouraged to share their ideas and participate in organisational consultation and decision-making procedures.
2 *Human resource flow:* All HRM functions involved in employee management (e.g. HR planning, job design, recruitment and selection, performance review, termination).

3 *Rewards systems:* The monetary and non-monetary ways by which staff are recognised.

4 *Work systems:* Includes consideration of the 'fit' between employees and their workplaces (e.g. technology, workplace design, teams).

The model further suggests that a strategic approach to HRM policy and processes fundamentally reflects management choice about how employees are managed – a choice about the nature of the employment relationship, including the psychological contract between employees and their employers.

The Harvard model can be considered as 'soft' HRM and a 'pluralist' perspective (see later) of the employment relationship, because it embraces a range of relevant stakeholders who might have conflicting interests on some (or all) of the strategic policy choices. Fombrun, Tichy and Devanna's Michigan model of HRM, conversely, is generally classified as 'hard' HRM and a 'unitarist' perspective because it implies that employees should be managed in a similar manner to other resources (finances and technology), towards a 'tight fit' between business and HRM strategies. Their model emphasises four HRM processes: selection, performance review (appraisal), rewards, and learning and development as the key imperatives to achieve a tight fit and excludes stakeholder interests apart from those of owners and managers.[33] Guest's later model attempted to fuse both soft and hard HRM approaches, presenting an amalgamation of strategic integration and flexibility (hard HRM) with high employee commitment and quality (soft HRM).[34]

More recent models of SHRM build on the Harvard and Michigan models, either by expanding on the range of relevant stakeholders[35] or by proposing different combinations of factors. Thus, some versions broaden the definitions of 'employee' to include contractors, agency and 'gig economy' workers, reflecting changes in work processes and the associated workforces in most countries. Zhang et al., for example, argue for 'flexicurity' models of HRM that protect the interests of vulnerable contract, 'virtual', casual or agency workers.[36] They further suggest, more generally, that 'future HRM research (and practice) has much to gain by adopting an inter-disciplinary, multi-level and multi-stakeholder approach'.[37]

Others emphasise the need to incorporate employee wellbeing;[38] corporate social responsibility;[39] social and environmental sustainability imperatives and outcomes; ethical principles and 'political' skills for HR professionals;[40] or variations according to organisational type – large, multinational or small and medium enterprises. A more recent development, *Green HRM*, which is a component of models emphasising environmental sustainability, suggests that organisations benefit from the 'use of HRM policies (which) promote the sustainable use of resources within business organisations' for reputational and 'employee morale and satisfaction'.[41] (For an interesting short discussion of the specific applications of Green HRM, see the blog at https://www.linkedin.com/pulse/business-ethics-environment-evolution-green-hrm-gaurav-jain.)

All of these models illustrate the principles on which SHRM theories are based – namely, the effective utilisation of employees in order to enable the achievement of organisational objectives. Therefore, the entire resource of the employee should be tapped (i.e. physical, creative, emotional, productive and interpersonal components) in order to achieve this goal. However, SHRM theories also recognise that the human resource, unlike financial or technological resources, cannot be manipulated or exploited, and that complex and sensitive management is required in order to fully realise its potential.

Diverse national, cultural and industrial relations environments demand different SHRM applications. An SHRM theory derived from experience in the United States will be diffused and adapted differently in the United Kingdom, Europe, Australia, New Zealand or the Asia Pacific, according to their different social, political and industrial relations histories and circumstances. These issues are discussed in the following sections.

SHRM – a unitarist or pluralist approach to the employment relationship?

All SHRM models are based upon assumptions, values and beliefs about the nature of relationships between employers, their employees and unions, and all HR processes take place within the national, industry and industrial relations contexts that shape them. Accordingly, a single model of SHRM will not be appropriate for all environments.

Considerable debate takes place over whether SHRM is essentially unitarist or pluralist in its perception of the employment relationship. A unitarist approach, often reflected in North American models of SHRM and the traditional practices of countries such as Singapore and Malaysia, assumes common interests between employers and employees, and attempts to encourage commitment by both inclusive (e.g. communication, consultation, rewards systems) and exclusive (e.g. discouragement of union membership, greenfield sites) means.

While the unitarist perspective may prove effective in countries or industries with low rates of union membership, authoritarian management traditions or high unemployment levels, it is not appropriate in all industries or countries. A pluralist approach, on the other hand, recognises that employers and their employees will inevitably experience conflicts of interest, which SHRM will need to negotiate and resolve in order to meet organisational goals (see Chapters 3 and 11).

Given contemporary changes in industrial relations systems and associated legislation, a significant decline in union membership in many regional countries (notably New Zealand and Australia), and the proliferation of small and medium size enterprises (SMEs), SHRM approaches may be influenced by elements of both perspectives.

unitarist
The perception that employer and employee interests are shared and that there is no need for conflict between them

pluralist
The view that conflict is inevitable between employers and employees and therefore conflict needs to be resolved effectively

'Hard' or 'soft' HRM?

'hard' HRM
The measurement and management of employee costs and outcomes for organisational benefit

'soft' HRM
HRM approaches that focus on employee needs, and may include consultation, engagement, counselling and support

Depending on the assumptions made about the nature of the employment relationship, different HRM approaches have been developed to accommodate the diverse industry and workplace contexts in which they operate. Both 'hard' and 'soft' HRM approaches reflect their underlying management theories as well as different national or industry environments. SHRM as a concept incorporates both perspectives – the 'hard' management aspects of strategy formulation, human capital management, human resource planning and program evaluation; and the 'soft' features of employee commitment and engagement, communication and consultation, motivation and leadership.

'Hard' HRM has a strategic and managerial focus, emphasising the effective utilisation of human resources towards broad organisational objectives and goals, whereas 'soft' HRM infers the involvement and engagement of employees through such means as consultation, empowerment, commitment and communication. HRM in practice 1.3 illustrates a practical application of soft HRM focused on reinforcing employee engagement.

HRM in practice 1.3

Picture perfect

Employment engagement, where staff are not only motivated at work but take pride in their organisations, is one of the more complicated HR responsibilities. In pursuit of this goal, Canon Australia has implemented the Canon Australia Advocacy Program, which aims to break down silos and 'advocate' its brand through a three-stage process.

The process requires employees to sign up for one of the seminars, knowledge-sharing sessions or learning programs offered by Canon, with content ranging from basic camera skills to advanced lighting techniques. Employees are then given the opportunity to join the Canon Collective team, which is first and foremost a customer-outreach program for the paying public to be taught photography by qualified Canon staff while using Canon equipment in interesting locations. These include taking pictures of sunrises, humpback whales breaking off the coast or spectacular events such as Vivid Sydney. The final step is sharing the experience – employees show the pictures taken to their friends and families and networks.

The company's Director of Human Resources was amazed at the results of the program: 'People want to wear the Canon shirt, they love the brand and really advocate what we stand for. It's very powerful'. In addition, Canon rewards staff who turn out to be talented photographers with incentives such as an employee photographic competition which highlights the image of the week.

Source: Dorney, G. (2017), Case study: Canon – picture perfect. *HRM*, http://www.hrmonline.com.au, September, 36, pp. 26–30.

Both hard and soft approaches have validity in particular industry and organisational contexts, and both can contribute to overall organisational goals. Consequently, SHRM models and practices need to be sufficiently flexible to accommodate the particular paradigms of the environments in which they operate.

SHRM and industrial relations

An issue for subsequent discussion (Chapter 3) is that of the relationship between SHRM and industrial relations. Some writers suggest that industrial relations systems and traditions interfere with (or even prevent) the application of HRM theories. Others observe that the management of human resources includes the management of the industrial (or employment) relations systems and practices of each organisation. Yet others see industrial relations systems and practices as merely a part of the overall environment within which HRM functions.

Kelly, for example, suggests that, while industrial relations has 'an institutional focus with most interest in trade unions, employer associations, and the state, and state agencies such as the conciliation and arbitration systems', HRM has a managerialist focus, which is concerned with 'the control and administration of the employment relationship'.[42]

Of necessity, the ways in which HRM and industrial relations operate are heavily dependent on national, industry and workplace contexts. Therefore, in corporations in the United States, unions may be neutralised or excluded, as was formerly common in many of our regional neighbours. However, in recent years, some Asia Pacific countries such as India, China, Vietnam and Malaysia have experienced upsurges in industrial action due to perceived exploitation of employees, especially by foreign multinational corporations, suggesting that pluralism may be becoming more prevalent there as well. In contrast, in Australia and New Zealand, where unions have traditionally been fully included in the formalisation of enterprise agreements, and sometimes provided active opposition to the implementation of HRM programs, more cooperative perspectives are appearing. These developments merely reinforce the need for SHRM models to be sufficiently flexible to accommodate the differing requirements of the environments in which organisations operate.

STRATEGIC INTERNATIONAL HUMAN RESOURCE MANAGEMENT

The field of international human resource management (IHRM) has been in existence for more than 20 years, particularly in the United States, and to a lesser extent in Europe and Australia. Its emphasis has changed from a focus on the management of expatriate managers and employees in multinational organisations, towards a broader and more integrated perspective that incorporates the study of SHRM in the global context. This is often referred to as **strategic international human resource management (SIHRM)** or **strategic global human resource management (SGHRM)**.

This expansion of the SHRM model recognises the growth in international operations of many kinds of organisations — not only those that can be classified as multinational corporations (IBM, Tata, Rio Tinto, Infosys, Virgin, HSBC, Huawei, Citibank, Shell, Deutsche Bank, Lenovo, InterContinental and Hilton hotel chains) — but also the multitude of internet-based companies

strategic international human resource management (SIHRM)/ strategic global human resource management (SGHRM)
The application of SHRM theory and practice to international (or global) business

(Amazon, Webjet.com, Facebook, Expedia.com, Google, Microsoft, Alibaba) that trade online throughout the world.

SIHRM now encompasses SHRM in multinationals (i.e. the impact of context and culture on SHRM); comparative HRM (i.e. comparisons of HRM theories and practices in different countries or regions); and the management of expatriates in different countries or regions. It also explores a broad range of employee types – short-term assignments, repatriates (employees returning home from international assignments, especially the diaspora from China, Vietnam and India), third country nationals (employees from neither the home nor host countries of operation), locals working for global corporations, and self-initiated employees (people who choose to work overseas to advance their skills and careers).[43]

In essence, SIHRM is concerned with the management of global workforces, including features such as the choice and development of global leaders and global mindsets, global employees and global HRM systems. Accordingly, SIHRM is now linked with sub-disciplines such as knowledge management, change management, managing joint ventures and multinational work teams, the transfer of management systems, and the management of post-merger or post-acquisition processes, in regional and global contexts.[44]

While these kinds of jobs and work regimens require some of the same HRM activities as those in domestic operations, they also present more complex problems, including the need for more sophisticated employee skills (e.g. language and cross-cultural); additional human resource development and career plans; complicated international remuneration and performance management schemes; and a broader range of occupational health and safety issues (e.g. stress, fatigue, terrorism and security threats, deep vein thrombosis) and associated family issues. **International perspective 1.1** presents an apparently counterintuitive approach to talent management in some global corporations operating in China.

International perspective 1.1

Managing talent in cross-border mergers and acquisitions in China: going global

China is continuing its 'going global' process and has occupied the headlines with its prominent outbound foreign direct investments (FDIs). Since 2009 the cross-border investment deals have grown steadily according to the 2017 World Investment Report, 'Chinese outward FDI rose by 44 per cent to $183 billion, driven by a surge of cross-border (mergers and acquisitions – M&A) purchases by Chinese firms'.[45] Despite a reduction in its outbound investment during the first half of year 2017, it is forecasted that the outstanding cross-border M&A activities will reach an aggregated volume of $278 billion in 2018, and by 2019 the amount will hit $297.1 billion. Obviously, the increasing appetite for international M&As has pushed forward China's strategy and outcomes on moving towards a more dynamic, inclusive and sustainable economic globalisation process.

As overseas M&A activities become the new 'hot spot' for many Chinese firms, the phenomenon has been accompanied by setbacks and risks. The 2015 Report on the Overseas Sustainability of Chinese Enterprises, that was jointly issued by the Research Center of State-owned Assets Supervision and Administration Commission of the State Council (SASAC) and the Research Institute of the Chinese Ministry of Commerce, shows that only 13 per cent of enterprises in China's 'going global' strategy have gained substantial profits, while 24 per cent are in a balanced-loss status. This outcome is often caused by a 'clash-of-culture', namely a lack of cultural integration in M&As, a challenge that is considered as the biggest obstacle for most Chinese firms.

Demand for talent

Consequently, to handle the complex dealings required prior to, during and after M&As consolidate, there is an increasing demand for talented personnel. However, global firms, including those in China, face a paucity of talent, which further widens the gap between the demand and supply of experienced executives. Although China had aimed to become the world's largest economy by 2018, its strategic ambition was influenced by an acute shortage of qualified professionals. More specifically, Chinese firms are experiencing difficulties in finding the necessary skilled talent, with both qualitative and quantitative skills and who can function in a global context. To build a solid foundation for Chinese firms to navigate the global landscape, Chinese firms need to implement an active cross-border talent management initiative.

'Suboptimal' rather than 'optimal' talent options?

In terms of talent identification and selection, there is a need to shift the attention to focus on the 'suboptimal' (or not fully skilled and work-ready) talent rather than the very best ('optimal') talent. Most Western and Chinese firms are only interested in talents that are considered as best, which is determined by their strength, but ignore the suboptimal talents with some weaknesses. However, 'best talents' are rare and, therefore, it intensifies the war for talent and increases the difficulties of gaining this type of personnel. The suboptimal talents may not be valued by some Western companies if they fail to meet the talent selection standards due to certain perceived weaknesses – for example, speaking loudly in public or in restaurants is considered bad manners by some Westerners, but for the Chinese, being loud can be an indication of cheerfulness, friendliness and hospitality.

The unmet standards may be deemed as individual personality flaws that separate them from the best talent. However, some of these individual flaws may be considered valuable to the Chinese firms. This value is guided by the traditional Chinese philosophy of *yin* and *yang*, which suggests that seemingly opposite forces may actually be complementary and interdependent. In other words, the strengths and weaknesses are interchangeable according to the contexts, and contextualisation is the critical element in the process of talent selection. Arguably, the suboptimal talents can be cultivated in order to reduce weaknesses and turn them into strengths.

As illustrative examples, Hillary Clinton as the 67th US Secretary of State, who has demonstrated a stable and robust personality with an entrepreneurial spirit, is sometimes recognised as the 'best talent' by Westerners and Chinese alike. However, her type of talent is very limited in terms of numbers and, therefore, companies are often forced to focus on less than

optimal talents. Barack Obama, on the other hand, was the 44th President of the United States, who was often blamed by millions of Americans for not getting anything done during his administration. Often, he has been considered as an individual who has a stable and robust personality but lacks entrepreneurial spirit. In this case, he will be considered as a suboptimal talent.

Working in accordance with standards may be considered as strengths to many Western companies, but this type of strength is likely to be regarded as a weakness by Chinese firms. Chinese value the ideology of non-linear thinking. Additionally, Donald J. Trump as the current US President has attracted numerous controversies. On the one hand, Mr Trump possesses certain strengths, including a strong entrepreneurial spirit, that is valued by many Westerners. On the other hand, he also showed an unabashed individuality, which appears to be a fatal weakness to the Chinese. Instead, Chinese prefer low profile with a steady personality. Hence, Trump can be seen as a good example of a suboptimal employee by Chinese employers.

Source: Case kindly provided by Dr Yi Liu & Dr Zengke An, Department of Human Resources, School of Business and Administration, Zhongnan University of Economics and Law, Wuhan, China.

CRITICS OF SHRM

As discussed earlier, many authors question the underlying philosophies and practical applications of SHRM theories and models. The managerial focus, strategic perspectives and realities of HR practice have been questioned by several writers. SHRM is certainly concerned primarily with contributing to the bottom line success of organisations, which may sometimes involve a unitarist approach to the management of employees. However, many recent models address these criticisms by integrating both management and employee perspectives, values and outcomes, or by reflecting multiple stakeholder interests.

Some authors have also raised ethical questions about SHRM, particularly concerning its emphasis on employees as resources or human capital. Van Buren, Greenwood and Sheehan, for example, suggest that 'human capital analyses may turn employees into commodities [leading] to the diminution of fundamental human rights and [violation of] ethical duties owed to employees'.[46] Kramar raises an additional contemporary concern – namely, the possible 'negative impact on human, social and environmental outcomes of HRM systems and practices' in her concept of 'sustainable HRM'.[47]

The newer SHRM models – especially those that include multiple stakeholders and emphasise broad sustainability or 'green' components – have largely addressed these concerns. SHRM may also infer a 'hard' (rather than a 'soft') HRM focus, which does not sit comfortably with some authors. However, as Legge points out, 'If HRM, in either its "hard" or "soft" guises, involves the reassertion of managerial prerogative over the labour process, the strategies of flexibility reflect and constitute a path to this, … employees as both resourceful humans … and human resources'.[48] In other words, the essence of SHRM is to adopt a flexible but strategic perspective that accurately analyses both the internal and external environments of organisations to assure 'fit' between HR strategies and practices, and between these and business strategies.

SHRM theory assumes the capacity and commitment of senior managers and HR specialists to broad- and long-term perspectives of organisational planning. However, some may lack the appropriate managerial capacity or commitment, and others may not possess the status, self-confidence or business acumen to implement the SHRM agenda.

SHRM – research evidence

Some research (although by no means conclusive) has been conducted into the application of SHRM theory to organisational HR practice in the United States, the United Kingdom, Europe and, more recently, Australia, New Zealand and Asia. Many earlier studies were based on relatively small and, arguably, unrepresentative samples of industry as a whole in these regions. Tung, Schuler, and Martell and Carroll, among others, have researched SHRM in the United States, and Brewster, Dowling and Fisher together with many local researchers have conducted surveys in the United Kingdom, Australia and Asia to determine whether organisations have actually converted the rhetoric of SHRM into operational practice. Overall, the results have become increasingly more positive in recent years.

The American studies provide most support for the practice of SHRM. Martell and Carroll, for example, reporting on a small survey, suggest that two-thirds of their sample linked HRM and strategic planning processes and that HRM executives were considered by their companies as 'valuable members of the top management team'.[49] However, they also concluded that while seen as important, HRM was not considered as important as other business functions (e.g. marketing and finance) in its contribution to overall organisational success.

In Australia, one study by Sheehan, Holland and De Cieri found that HR representation on organisational boards had grown from 17 per cent (1995) to 25 per cent (2005), and on senior management committees from 56 per cent to 68 per cent during the same period. Their interpretation of the findings is that 'the HR function continues to accept and adjust to the role of strategic partner', but that this development 'involves further challenges that include the development of business breadth in the HR career base, the need for improved HR metrics and a broader commitment to attraction and retention initiatives'.[50]

More recently, some broad global studies, and others in the United States, the United Kingdom and Asia, have found positive relationships between HR systems and organisational performance in the forms of increased involvement in the formulation of business strategies and inclusion on company boards, enhanced employee commitment, productivity, sales revenues and overall financial indicators.[51]

As examples, Kramar and Parry's 2014 global study found increasing use of SHRM practices in the Asia Pacific region, albeit with some differences between countries.[52] More specifically, Dharmasin's small study of mobile communication companies in India, Bangladesh, Pakistan and Sri Lanka found a 'satisfactory' reasonable level of SHRM[53] and Prikshat and colleagues discovered an overall, if gradual, transition to SHRM in Vietnam, Malaysia and India but with significant differences between companies on the bases of organisational size and ownership. In

particular, in all three countries, the larger and more international the organisation, the more likely it was to adopt a strategic HRM approach.[54]

However, there are still constraints to the achievement of SHRM due to such issues as contested definitions of HRM strategy, senior and line managers' lack of understanding of SHRM, and different applications in large versus small and medium organisations.[55]

New SHRM approaches

The predicted changes in the nature of future workplaces, jobs and their associated skills and competencies will also necessarily change HR professional roles and practices in important ways. **The future of work 1.1** provides some insights into the challenges ahead.

The future of work 1.1

The gig economy, virtual workplaces and digital disruption

The emergence of the e-commerce economy based on information technology, and on fluid and changing notions of work and conditions of employment (especially the emerging 'gig economy) provides a significant dilemma for HR strategists. The management of the 'virtual workplace' will require far more complex and contingent approaches to the structuring of organisations and the development of appropriate work cultures than have been used formerly. New applications of technology, such as BYOD (bring your own devices); 'digital disruptions' (such as the challenge to the taxi industry from innovative internet-based services such as Uber); workplace interactions via social media tools and iPads as integrated work systems, represent 'the blurring of personal and work lives' and demand new approaches to employment contracts, job design, office space utilisation, learning and development, and performance recording and evaluation, to mention just a few areas.[56]

In response to these challenges, new forms of employee benefits and rewards have begun to emerge, including variable leave entitlements and greater flexibility in attendance requirements and work–life balance opportunities. As examples of these new benefits and rewards trends, pharmaceutical company MDA provides 'green' bonuses to employees who choose to use public transport or ride to work; Ernst & Young offers free personal financial planning services to its employees; Cotton On allows staff to bring their pets to the office on specific days; Patagonia encourages its employees to 'go surfing' at lunch time; Netflix and Virgin have 'unlimited leave' provisions for some of their staff; and Telstra and GE employees can 'buy out' extra leave weeks.[57] HR specialists have a major role to play in ensuring that an organisational culture conducive to the achievement of overall strategic objectives is developed and maintained.

Lepak and Snell suggest that the roles of HR professionals in the management of culture change towards the achievement of desirable organisational objectives are broad and all-inclusive, involving the development of an 'HR architecture that aligns different employment modes, employment relationships, HR configurations and criteria for competitive advantage'.[58]

Their analysis suggests that the task of the HR professional is both complex and contingent. The HR professional must ensure that the appropriate HR policies and systems are in place, that they are aligned with both organisational and employee goals, and that sufficient flexibility is built in to accommodate the changing needs of organisations and their employees.

SHRM: ROLES, FUNCTIONS AND ETHICAL PRINCIPLES

The roles and functions of SHRM are many and varied, and depend heavily on the nature of organisations, the vision and skills of both HR professionals and line managers (who generally carry out operational and functional HR requirements), and changes in the external environments of organisations. These aspects will be discussed in greater detail in subsequent chapters, but such features as organisational size, history and ownership, government legislation and political factors have significant impacts on the ways in which those responsible for HR functions perform their roles. Their vision and skills allow these influences to be perceived as pressures and constraints or opportunities and challenges.

The principal responsibility of SHRM is to ensure that organisations have the right number, types and skill mixes of employees at an appropriate time and cost to meet present and future requirements. So, practitioners need to be aware of where organisations are going, the nature of the external and internal labour markets, and the most effective strategies for matching labour demand and supply.

Practitioners and line managers separately or together operate at three distinct levels:

1 strategic
2 operational
3 functional.

At the *strategic level*, practitioners are involved in corporate and human resource planning. At the *operational level*, together with line managers, practitioners develop action plans to meet present labour needs. At the *functional level*, line managers primarily carry out the many activities that ensure employees are in the right place at the right time and for the right cost. All of these roles will be examined in detail in subsequent chapters. As Dunphy suggests:

> HR management is about planning the optimum kind of workforce, hiring the best people, skilling them appropriately and shifting the mix of talent according to the demands of the marketplace. It is also about building a satisfied, productive and flexible workforce so that people like coming to work, are committed to their jobs and are prepared to innovate and change.[59]

The HRM community, its competencies and the role of HR professional associations

Due to changes in the workplace, in society and among human specialists, human resource managers and their associations (e.g. World Federation of People Management Associations, UK Chartered Institute of Personnel and Development, Asia Pacific Federation of Human Resource Management, Singapore Human Resources Institute, Australian Human Resources Institute, Malaysian Institute of Human Resource Management, Human Resources Institute of New Zealand and Hong Kong Institute of Human Resource Management) have begun to see themselves as part of a unique profession.

One of the characteristics of a profession is the development through research and experimentation of an organised body of knowledge. This knowledge is usually exchanged through conferences, seminars and workshops sponsored by professional associations. The latest information in the field is communicated through the literature published by professional associations, industry organisations and educational institutions; for example, *HRM* (http://www.hrmonline.com.au), the *International Journal of Human Resource Management* (http://www.ijhrm.org.uk) and the *Asia Pacific Journal of Human Resources* (http://www.apjhr.org.au).

Other features of a profession include the establishment of a code of ethics and accreditation requirements for its members, such as the AHRI Model of Excellence discussed below. Given these criteria, SHRM can be regarded as a credible and rapidly developing profession, although some observers suggest that its practitioners and professional associations will need to become more politically active in the future if it is to raise its public profile and that HR institutes will need to police their codes of conduct more strictly. Recent developments in some HR associations have addressed (at least) the latter imperative, with the formulation of Certified HRM Practitioner systems (see **HRM in practice 1.4**).

The HR competencies that underpin the AHRI Model of Excellence and professional certification systems are based on Ulrich and Brockbank's global research projects exploring the desirable (and actual) competencies required by HR professionals in order to perform their roles effectively. Their findings identified seven domains – namely, 'business driven', 'strategic architect', 'ethical and credible activist', 'stakeholder mentor and coach', 'culture and change leader', 'expert practitioner' and 'workforce and workplace designer'. These competencies reflect the importance of HR strategy development, HR planning, culture change, innovation, capability development and the use of new technology for communication and program accountability purposes.[60] They have informed the development of the AHRI's Model of Excellence (MoE), although there are some differences in its terminology reflective of Australia's diverse industrial conditions. **Figure 1.2** represents this Model of Excellence and its contribution to the achievement of an organisation's overall goals and objectives, as envisaged by the AHRI. It sets out how skilled HR professionals can lead a business through a relevant body of knowledge to achieve effective and sustainable HRM solutions.

FIGURE 1.2 AHRI Model of Excellence
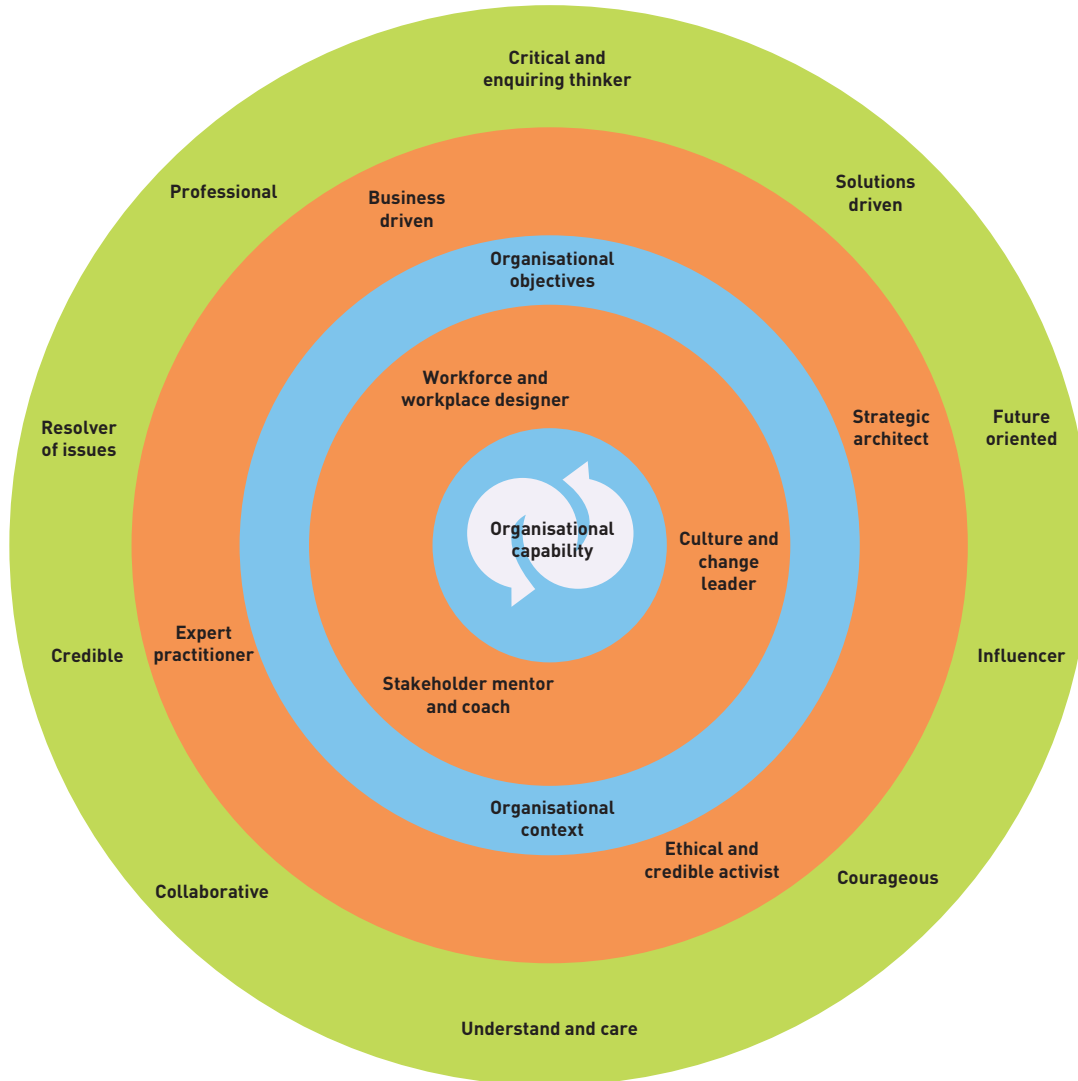
Source: AHRI Ltd (2015), http://www.ahri.com.au.

The AHRI Model of Excellence

According to AHRI, 'The Model of Excellence is a graphic representation that combines what HR practitioners should know, what they are expected to do and what their peers expect them to be in terms of behaviours and capabilities'.[61] The concentric circles of the Model of Excellence (MoE) outline 10 behaviours and seven capabilities considered indispensable for HR practitioners. The model addresses three central questions:

1 As a HR practitioner, what am I expected to know?
2 What am I expected to do as a practising professional?
3 What am I expected to be?[62]

AHRI Model of Excellence (MoE)
The guiding framework for HR professional roles and competencies

The MoE is used not only as the conceptual basis for assessment and accreditation of all HR management programs in technical and vocational education, providing assurance to industry that graduates possess the necessary practical competencies required to successfully operate in their field, but also for the Certified HRM Professional program.[63]

Table 1.3 includes the 10 key HR behaviours (or roles) and Table 1.4 lists the seven professional capabilities associated with the MoE.

TABLE 1.3 Ten key HR behaviours (or roles)

KEY HR BEHAVIOUR	SKILL SET
Critical and enquiring thinker	Can analyse data and situations in order to provide advice and make decisions
Solutions driven	Is focused on achieving business objectives
Future oriented	Focuses on continuous learning and improvement
Influencer	Has the capacity to exercise influence on others to affect the actions, behaviours or opinions of others
Courageous	Has the ability and necessary authority to negotiate outcomes as required
Understand and care	Is able to look at a situation and understand the varied perspectives of different stakeholders
Collaborative	Has the ability to build productive relationships and consults with key stakeholders when making decisions
Credible	Is ethical, personally credible and operates with integrity
Resolver of issues	Can bring together teams and deliver outcomes when appropriate and required
Professional	Conducts self appropriately to the situation and is held in high regard by stakeholders

Source: Reproduced with permission of the AHRI, http://www.ahri.com.au.

TABLE 1.4 Seven HR capabilities

HR CAPABILITY	PROFESSIONAL SKILL SET
Business driven	Understands the organisational context and objectives
Strategic architect	Contributes to organisational strategy translated into HR strategy
Ethical and credible activist	Influences through the provision of valued insights, resulting in the achievement of individual and organisational objectives
Expert practitioner	Builds, maintains and applies HR knowledge

HR CAPABILITY	PROFESSIONAL SKILL SET
Workforce and workplace designer	Designs a workplace that sustains a capable workforce
Culture and change leader	Fosters a productive and sustainable organisational culture
Stakeholder mentor and coach	Builds and fosters relationships and partnerships with key stakeholders in order to ensure organisational capability

Source: Reproduced with permission of the AHRI, http://www.ahri.com.au.

HRM in practice 1.4

Professional certification

Around the globe, HR is at the frontline of dramatic workforce challenges and HR practitioners need to increase their skills in an environment that is volatile, complex and ambiguous. Currently, anyone can practise as a HR practitioner as there are no prerequisites for working in the HR field. Setting globally recognised standards for HR professionals is gaining momentum, with the United Kingdom, Canada, Singapore, the United States and Australia establishing certification systems. HR certification is the industry standard for HR professionals in Australia and recognises HR capability as a combination of acquired knowledge ('what you know') and application of skills and professional behaviours ('what you do'). AHRI introduced HR certification to set the bar for HR practice in Australia. HR certification clearly defines what good HR is and distinguishes HR practitioners who are capable of bringing their HR expertise to their organisation as a business partner.

The National Certification Council (NCC) oversees the HR standards, administration and credentialling of eligible candidates seeking HR certification. The NCC also awards the Certified Practitioner post-nominals to candidates who have successfully completed the four units of the AHRI Practising Certification (APC) Program, entitling these Certified HR Practitioners to use a Certified Practitioner post-nominal.

HR certification can be achieved through one of four pathways:
1 CPHR (Certified Practitioner Human Resources)
2 FCPHR (Fellow Certified Practitioner Human Resources)
3 CAHR (Certified Academic Human Resources)
4 FCAHR (Fellow Certified Academic Human Resources).

These post-nominals signify that certified practitioners have:
- achieved a cognitive mastery of globally benchmarked HR knowledge and skills
- demonstrated the capability to apply these knowledge and skills in the workplace
- made a commitment to continuous professional development (CPD) in order to ensure they maintain their certification.

Employing a Certified HR Practitioner means that employers have certainty about how their HR business partner can benefit their business by having applied their HR competence to real business problems.

Source: Kindly provided by Dr Kim Schofield FCPHR, General Manager, HR Standards & Practice, AHRI.
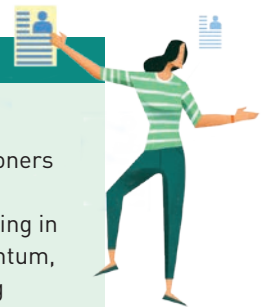
The HRM 'community'

In the past, it was usual for dedicated HRM professionals to assume the responsibility for all of the roles outlined in **Table 1.4**, with differing degrees of effectiveness. However, modern organisations recognise that HRM specialists do not necessarily possess all of the required competencies to perform such roles, and that operational managers have both the responsibility and the capacity to manage their own staff in a shared and supportive relationship with specific HR professionals. It is also recognised that HR professionals usually do not have the intimate knowledge of, or relationships with, employees in order to efficiently perform functions such as job design, recruitment and selection, human resource development, performance management, and industrial relations and remuneration, especially at the workplace level. So, HRM has become an organisational responsibility, shared between HRM professionals, middle and line managers, and sometimes external service providers, in the form of a **HRM community**,[64] as illustrated in **Figure 1.3**.

HRM community
The group or 'community' formed by HRM professionals, middle and line managers, and sometimes external service providers

FIGURE 1.3 The HRM community
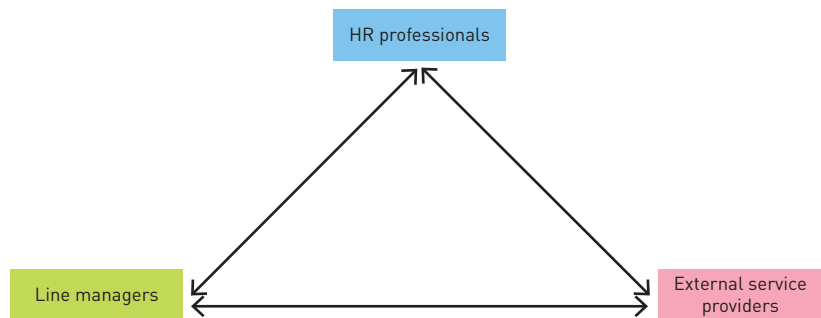
Source: Nankervis, A. (2001), Restructuring the HR function: Strategic partnership or deconstruction? *Human Resources Management Bulletin.* CCH: Sydney, p. 10.

While it is likely that organisations will differ in the ways that they allocate their strategic, operational and functional HRM responsibilities, depending on their history, ownership, industry type and relative expertise in these areas, the predominant HRM structures of many will conform with the above model, involving considerable communication and linkages between HRM professionals, middle and line managers, and external consultants.

Some authors suggest that there are five choices for HR professionals and their departments within the broader HRM community – namely, as an in-house agency, an internal consultancy (cost centre), a business within a business (profit centre), an in-sourced service provider or an appropriate combination of these.[65] In these scenarios, the roles and competencies of HRM specialists will include strategic planning, talent supply, vendor management (i.e. the choice and control of external HR service providers), middle and line management training and support, management of the broad 'employment relationship',[66] and comprehensive HR auditing. Middle and line managers, on the other hand, will conduct their own job design, recruitment and selection; manage their employees' performance (including appraisals, job counselling

and discipline); and monitor relevant remuneration and career plans, guided by overall HRM policies and supported by HRM professionals. In other words, while HR professionals usually determine policies and practices, it is most often line managers who are charged with their implementation.[67]

Given that middle and line managers often differ in their perceptions of the value of HR practices, their priorities and HR functional skills, it is not surprising perhaps that some will take their roles in these areas very seriously while others may not consider them to be as important as their operational or financial management responsibilities. As Sikora and Ferris point out, the implementation of HR functions by these managers is dependent on such issues as organisational culture and politics, and their relationships with other organisational members, and hence the key roles of HR professionals are to communicate the required processes and outcomes clearly and consistently, to support them in these functions, and to work with them in order to resolve associated problems as they occur.[68]

External HRM consultants will provide specialised services such as executive or talent sourcing, learning and development, HR information management systems (HRIMS – see Chapter 4), specific industrial relations advice and payroll administration. There is clearly, then, a sharing of HRM responsibilities between line managers, HRM professionals and outsourced specialists in this new HRM community. A significant number of HRM processes (performance management, staff ownership of the organisation's strategy, knowledge management, team development, the facilitation of change management, leadership development and workforce planning) have been, or are likely to be, shared with line managers, in particular, and the principal roles of HRM professionals will become HR measurement reporting, managing HR compliance, WHS standards, human capability profiling, human resource development (HRD), strategic planning and induction. **Professional tip 1.1** illustrates the associated priorities for Australian HR professionals.

Professional tip 1.1

Key HRM issues

A recent survey of AHRI members revealed the key HRM issues faced by professionals. In order of importance, they are:

1   Identification of, and planning for, new employee skills and competencies associated with new technology
2   Managing a 'portfolio' workforce – Generation X, Generation Y and Millennials, older and more diverse workforces
3   The need to develop engaged and inclusive workplaces
4   Closer alignment between HR professionals and senior management
5   More sophisticated talent retention strategies and programs
6   Enhanced data analysis skills for HR professionals, and better workforce modelling

Source: Kindly provided by Ms Dana Grgas and Ms Dot Borland, AHRI.

HRM functions

HRM is concerned with resolving answers to the following key questions.

- What quantity and quality of employees will be required now and in the foreseeable future to satisfy or exceed corporate objectives?
- Which strategies will be most effective in attracting, choosing and efficiently incorporating employees into the organisation?
- How can well-chosen employees be kept productive, satisfied and motivated to contribute to organisational growth and development?
- What methods are appropriate to maintain effective relationships between employees, jobs, work environments and management?
- Which strategies are required to ensure that all HR activities are linked and accountable?
- What systems are suitable for administering and evaluating the overall HR function?

The functional areas that constitute a HR program and contribute to the resolution of these issues include:

- human resource policy
- human resource planning
- human resource information management systems
- knowledge management
- ethics, governance and CSR/Green HRM
- work and job analysis, design and evaluation
- talent attraction, selection and retention
- diversity management
- career management
- employee and management training and development
- counselling, discipline and termination/separation
- performance and quality management
- remuneration and benefits
- industrial relations management
- financial management of employee schemes and overall accountability and evaluation
- work health and safety.

These functions will be analysed in considerable detail in subsequent chapters and constitute the structure of this book. It is important to note that proactive/strategic HR practitioners see their functions as parts of a whole or integrated approach. Each function should be clearly linked with all other functions in ways that are cost-effective, reflect organisational objectives, and are both equitably and ethically applied. The following section considers the application of HRM ethics, and the roles of HR professionals in ensuring ethical behaviour in organisations.

HRM ethics
Includes moral, stakeholder and community accountability, governance and stakeholder responsibility issues

Ethics and HRM

It has been argued that HRM principles are based on 'scientific approaches' with neutral positions in ethical and moral domains of managerial decisions. The critics of HRM argue that the fundamental ideas of HRM are rhetorical, manipulative and in essence tools in the hands of managers in controlling workers. They assert that soft HRM (see earlier in the chapter), where employees are treated as valued assets and source of competitive advantage, may only be 'a wolf in sheep's clothing' to hard HRM, where the main idea is to increase the profit for shareholders.[69] From this perspective, employees are regarded as the mere 'means' to the organisation's strategic 'ends'. They contend that human beings, although termed 'assets', are in fact treated more widely as 'costs',[70] despite the use of jargon like 'our most valuable asset', 'human capital', 'intellectual capital' and so forth.

This contradiction in purpose is powerfully articulated as an 'ethics deficit' by an increasing number of scholars and has been largely addressed by more contemporary 'moral', 'green' or 'sustainable' HRM models, as described earlier in this chapter. Most managerial decisions in HR across a range of industries and organisations entail an ethical perspective. More mundane and routine practices in recruitment systems, salary and wage administration or performance appraisal contain significant ethical choices. Examples of these choices include the levels of equity and transparency in recruitment processes and the avoidance of overt or covert discrimination or generational stereotyping; an emphasis on consistency in disciplinary procedures and penalties; the avoidance of favouritism in performance management, promotion and reward systems; and clear policies on employee harassment and bullying. Unfortunately, very few organisations establish deliberate methodological frames to acquire ethical competencies.

The international context

The relevance of ethical competencies is more important in organisations that operate across national boundaries. This is because sociocultural norms and assumptions vary across cultures and require significant understanding and clarity of perspectives. Employment issues related to child labour, gender equity, safety standards or other rights including union participation are increasingly becoming central challenges in international HRM.[71] The need for organisations to maintain their HRM integrity, and to be coherent, coordinated and consistent in ethical assumptions, is enhanced as global units respond to diverse contexts in their own ways. While a global company might have a HR *policy* across all its operations with an 'ethnocentric' orientation, the local HRM *practice* might make it necessary to adopt a 'polycentric' perspective in resolving a particular dilemma. HR issues of expatriation or 'in-patriation' have therefore gained special significance as globalisation increasingly embraces the world of business.

Media attention over the past several decades has highlighted the need for ethical robustness not only in developing countries, but also in developed countries like Australia. Nike, Adidas and Union Carbide were among multinational companies condemned for their grossly unethical labour practices; while in Australia, the Royal Commission into Misconduct in the Banking,

Superannuation and Financial Services Industry (2017–18), revealed numerous instances of violations of ethical standards within the banking and financial services industries.[72] It is paradoxical that ethical obligations in Australia do not fall on key stakeholders like investors, banks or shareholders, but on those who are in paid employment in these organisations. Even where banks have attempted to be compliant with their legal obligations, society now demands much greater responsibility in the conduct of their business. The Royal Commission highlighted that ethical practices must be the fabric upon which HR strategies, systems and principles are designed. Many companies are creating codes of ethical conduct to align the behaviours of individual employees with their overall philosophy. For example, the guiding philosophy for aligning HR principles and ethics of Johnson and Johnson, a global leader in the pharmaceutical and healthcare industries, is:

> we are responsible to our employees worldwide. Everyone must be considered as an individual. We must respect their dignity and recognise their merit. They must have a sense of security in their jobs, compensation must be fair and adequate and working conditions clean, orderly and safe … there must be equal opportunity for employment, development and advancement. We must provide competent, ethical management.[73]

HRM ethical codes

In many progressive organisations, one of the major functions of HRM is to become the agency for translating the ethical goals of organisations into practice. Besides global and national guidelines, this transformation process is also assisted by internal codes. These may be summarised as codes of ethics and codes of conduct. A *code of ethics* is generally articulated in broad terms that provide employees with an understanding of the philosophical fabric of the organisation. This can be contrasted with a *code of conduct*, which provides more specific advice to employees on their roles in a variety of situations. The areas covering codes of ethics and conduct may include:

- equal opportunity
- bullying, harassment (including sexual harassment) and discrimination
- conflict of interest
- receiving gifts, bribes and kickbacks
- equity and justice.

The AHRI outlines its code of ethics and professional conduct for all members, stating that all certified members must practise and be bound by these codes. The key HR professional role here is 'ethical and credible activist', according to the AHRI Model of Excellence (see earlier in the chapter).

As was pointed out by Wiley, a professional code of ethics in HRM includes five aspects:

1 integrity: high levels of honesty and fairness
2 legality: obedience to law and rights
3 proficiency: maintaining and improving competence
4 professional loyalty: not using the profession for personal gain
5 confidentiality: respecting privileged information.[74]

Global ethical guidelines

HR professionals will also find Organisation for Economic Co-operation and Development (OECD) ethical guidelines to be of relevance. Two of the most significant OECD guidelines are:

1 recommendations in improving ethical conduct in public service[75]
2 recommendations to multinational corporations in improving their ethical standards.[76]

The other guideline complementing the OECD recommendations is the set of principles espoused by the United Nations. The Global Compact, initially launched by the former Secretary General Kofi Annan in 2000, is based on 10 principles covering areas of human rights, labour, environment and anti-corruption. These principles promote standards in the areas of employment and industrial relations relevant to HR professionals. It has to be remembered that the UN Global Compact's reach is global in scope while the ethical guidelines of the OECD are only applicable to the 39 member countries. Of the 10 principles that constitute the current guidelines of the United Nations Global Compact, four principles deal with human resources in particular (see **Figure 1.4**).

FIGURE 1.4 UN Global Compact: Principles of Labour Standard

Business should uphold:

- The freedom of association and its effective recognition and of the right to collective bargaining
- The abolition of all forms of forced labour and compulsory labour
- The effective abolition of child labour
- The elimination of discrimination in employment and occupation

Source: United Nations Global Compact, https://www.unglobalcompact.org/what-is-gc/mission/principles.
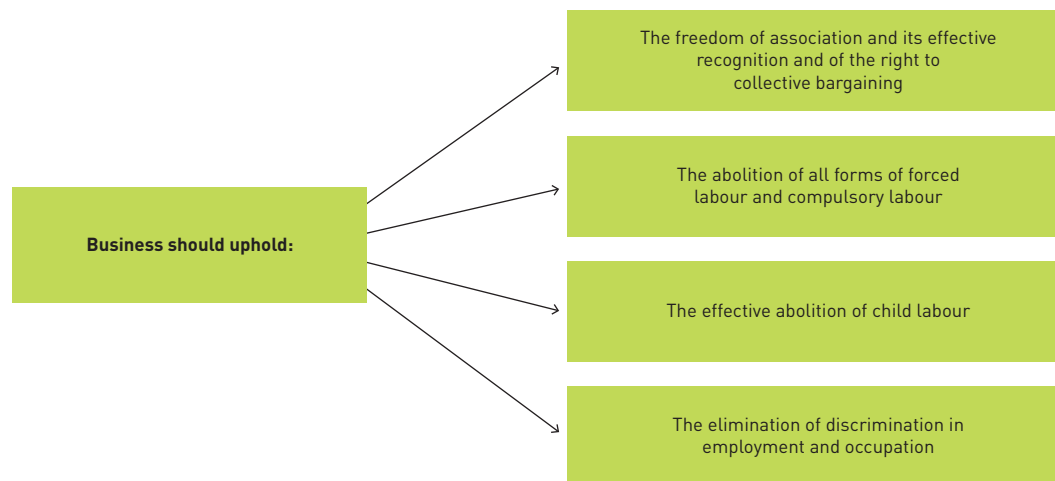
A large number of Australian organisations have become official signatories to the UN's Global Compact, including:

- Australia Post
- BHP Billiton
- Commonwealth Bank of Australia
- ANZ Bank
- Woolworths
- Wesfarmers
- David Jones
- Accenture
- Deloitte Australia
- Fortescue Metals Group
- CPA Australia
- Law Council of Australia
- Curtin University
- RMIT University
- Monash University
- University of Western Australia.

The foregoing discussion provides arguments against the proposition that the principles and practices of HRM can be 'value neutral' and 'rational'. In addition, the symbiotic relationship between values, ethics and HR principles is also driven by contextual variables, making any 'universally applicable' framework of questionable merit. Many of the principles need to be measured against unique sociocultural elements and their practice guided by a 'cross-vergent' perspective. That makes the leadership role of this functional area of utmost importance in any organisation. The ethics deficit in organisations can only be addressed through the building of a strong culture of values and the implementation agenda needs to be led by HRM.[77]

SHRM – OUR MODEL AND THIS TEXT

Emerging issue 5
HR ethics

Our notion of SHRM, illustrated in **Figure 1.5**, is derived both from consideration of the theory and from our collective practical experience in HRM. It is used as the guiding framework for this book.

This model incorporates the major themes of SHRM.

- There is awareness of, and responsiveness to, the characteristics of the dynamic external environments (e.g. global, national, industrial) of organisations.
- Business acumen and knowledge of the HR specialist feeds into the strategic business plan of the company.
- Human resource strategy is directly responsive to identified business requirements, which then inform specific HR plans and policies.

FIGURE 1.5 A SHRM model

- In their turn, the HR plans and policies guide the development and refinement of all HR practices and systems, which are shown as clearly integrated with each other, and with the HR strategies and plans.
- The effectiveness or outcomes of the HR processes are reflected in desired strategic organisational outcomes (e.g. performance, productivity, effectiveness, cost–effectiveness, profitability) and the achievement of overall business strategies.
- The process is long-term and cyclical, with sufficient flexibility to permit directional changes in human resource strategy according to changes in organisational strategies and/or the dynamic external environments.

Like all such models, our model is represented as a linear process, when in reality SHRM is multidimensional. This is due to the limitation of text-based representation rather than a constraint on the creativity of innovative HR practice.

This SHRM model is used as the overall structure of the text. Therefore, this chapter has described the essential features of SHRM, its origins, and the relationships between SHRM and organisational strategy, structure, culture and policy. Chapters 2, 3 and 4 extend this discussion

to the nature of the environments in which HR operates, industrial relations systems and human resource planning. The model also incorporates the influence of diversity management on overall HR plans and on the various HR processes. Links are made between HR plans and HR strategies and between HR plans and specific HR processes.

Chapters 5 to 11 explore the broad range of HR processes (e.g. job design, staffing, human resource development, performance management, remuneration systems and the management of occupational health and safety, negotiation and conflict resolution). While many of these processes will be performed by line managers in decentralised organisations, each chapter examines the specific techniques and systems used, within the context of their strategic relationships with each of the other functions and with overall HR plans and strategies. The text incorporates the notion of a HR community, within which both these functional and strategic operations of SHRM are encompassed and integrated.

The final chapter, Chapter 12, discusses the ways in which HR specialists and senior managers can assess whether HR strategies and functions have been successful in contributing to the bottom line expectations of their business strategies, and contains some concluding discussion on the likely future of SHRM; that is, strategic organisational outcomes and business outcomes. The chapter then attempts to predict the likely future of SHRM.

SUMMARY

SHRM is a complex and rapidly changing field of practice in industry. Despite its comparatively recent origins, and drawing upon both overseas and local influences, SHRM is a critical factor in the success of all organisations.

Beginning in the 1940s as a series of functions, often neither integrated nor based upon solid conceptual foundations, modern SHRM is a dynamic specialisation in the process of refining its philosophies, practices and overall contributions to organisational effectiveness. In response to external influences, including economic, demographic, technological, legislative and social changes, as well as significant transitions in the nature of global jobs and workplaces, SHRM requires the adoption of a strategic approach to the management of human resources for organisational and employee benefit. As with other professions, SHRM confronts a number of difficult issues and dilemmas concerning its ethical frameworks, roles, processes and practices. Further development of SHRM will eventually resolve these issues in creative and effective ways.

KEY TERMS

- AHRI Model of Excellence (MoE) 29
- ASEAN Economic Community (AEC) 4
- employment relationship 12
- Fourth Industrial Revolution (FIR, or Industry 4.0) 4
- globalisation 3
- 'hard' HRM 20
- HRM community 32
- HRM ethics 34
- human resource management (HRM) 3
- legal contract 12
- pluralist 19

- psychological contract 12
- resource-based view (RBV) 13
- social contract 12
- 'soft' HRM 20
- strategic human resource management (SHRM) 8
- strategic international human resource management (SIHRM)/strategic global human resource management (SGHRM) 21
- Trans-Pacific Partnership (TPP2) 4
- unitarist 19
- work-readiness (employability) 5

EMERGING ISSUES

1 Globalisation

Globalisation of business has become a reality, with the economic interconnectedness of nations and their organisations facilitated by new technologies and an increasing number of trade agreements between countries and regions.

a   Visit the ASEAN Economic Community website (http://asean.org/asean-economic-community) and consider the positive and negative implications for labour mobility across the ASEAN region, and also the possible challenges for Australian organisations wishing to expand to the region.

2 New technology – the Fourth Industrial Revolution

The Fourth Industrial Revolution (FIR) is the digital transformation in society and business that involves an interface between technologies in the physical, digital and biological disciplines. New technological applications include driverless cars, trucks and trains, 'cashier-less' shops, and robotic doctors, lawyers, farmers, mechanics, construction workers, tutors, insurance agents and bank tellers, among many others. Significant workplace changes, and the replacement of (particularly) low and medium skilled jobs by robots, are anticipated.
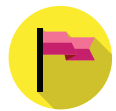
a   Considering an industry of your choice (e.g. banking, retail, tourism or government), which jobs do you think are most likely to be affected by the FIR? Which competencies and skills are likely to be replaced by artificial intelligence and robotic technologies? How might HRM professionals plan to balance robotic and human intelligence work systems?

3 Employability

Recent reports suggest that it may take new graduates up to five years to get a full-time job after completing their TAFE or university programs. Employers are constantly complaining that they can't attract graduates with the right combination of technical skills, work experience and key workplace competencies. An Australian Industry Group 2016 report,[78] as one example, found that Australian graduates are falling far behind their regional counterparts on basic literacy and numeracy competencies, as well as more sophisticated workplace skills.

a   Reflect on the skills and competencies that you have acquired in your higher education studies. Do you agree with these assertions? Draw up a list of your strengths and weaknesses in the competencies required to perform your chosen job or profession. How will you address the skills gaps to obtain such a position?

4 Strategic HRM

SHRM models and theories suggest that all HR strategies, plans and processes should be formulated within the context of broad organisational strategies, and should be responsive to the changing nature of organisations' external environments.

a   What are the reasons HRM strategies are sometimes not well-aligned with business goals and objectives, from the perspectives of both senior managers and HR professionals?

5 HR ethics

Ethics and values are important in all aspects of management but are especially crucial in the design and implementation of HR strategies, plans and processes. Equity, fairness, professionalism and respect for employees ensure employee satisfaction and contribute to business success.

a   Consider each of the following activities. Which are unethical? Why, or why not?
   – Managers failing to reveal redundancy plans to their employees
   – Employees 'blowing the whistle' on doubtful organisational practices
   – Job applicants exaggerating their qualifications, experience or skills
   – Unequal wages for employees doing similar jobs in different locations
   – Replacing long-term employees with robots
   – Telling jokes and making innuendos at work
   – Government leaders or social media presenting 'fake news'
   – Downloading videos from the internet

ETHICAL CHALLENGE

Coffee or tea? Nature and nurture: the birth of Maya Australia

Historically, tea has been one of India's principal agricultural exports to Australia. Much of Australia's tea is imported from India, which is one of the largest tea producers in the world. However, Darjeeling tea, which is universally acknowledged as the 'Champagne of Teas', is yet to penetrate the Australian

market to the extent that it could. Also, women form the majority of tea growers and pluckers in the Darjeeling tea industry, consisting of nearly 60% of the total cohort of 71 669 who toil and nurture the industry to produce one of the finest handcrafted teas in the world.

Overview of the Darjeeling tea industry — a mandate for ethical trade from a social sustainability perspective

Darjeeling tea is a restricted commodity and is highly regulated by the Indian Government. It is a rare, coveted and exotically flavoured tea that is grown only in Darjeeling and cannot be grown, manufactured or replicated anywhere else in the world. The unique agro-climatic conditions of the region contributes to its distinctive flavour and aroma. It is well-recognised that tea is an important export commodity for India and is a big contributor to national income, employment and environmental protection. Darjeeling is the only tea-growing region globally that has 80 per cent of its plantations certified organic, meaning that in the production process, which includes harvesting, fertilising, weeding, pruning, soil conservation, control of pests and diseases, no chemicals are used. These premium-quality teas are all harvested and nurtured by hand, to guarantee that the leaf is whole, undamaged, the natural flavour and aroma is intact, and the produce is good for health, the environment and the community. This means this industry is one of the most labour-intensive industries in the world.

However, according to official sources, around 10 million kg of tea are grown in 87 tea gardens spread over 17 500 hectares of land annually, but over 40 million kg of tea are falsely sold worldwide as Darjeeling. Such unethical practices negatively impact on the business cycle, reduce the genuine demand of the commodity, lower the prices of the tea, and thus negatively impact on the profitability of the tea gardens, which in turn directly impacts on the wages, livelihood and social sustainability of the garden workers. For example, according to the Indian Plantation Act 1951, the responsibility for providing basic health facilities falls with the management of respective tea estates. However, in times of financial difficulties due to falling production, productivity and the market value of Darjeeling tea, numerous instances have been recorded where plantations withdrew many of the health entitlements hitherto provided to labourers. On the other hand, during such trying times, the management also felt that labourers demanded higher wages and other entitlements, which were beyond their capacity to pay. Such vicious cycles often have led to disputes between workers and management following sickness, closure and abandonment of tea gardens – thereby amplifying the problem.

This labour-intensive industry also employs a disproportionate number of women. In the Darjeeling tea gardens, women are extremely hardworking, balancing their strenuous work demands in the tea gardens with their family life. Generally, the husbands stay at home and help the wives with household duties. However, even though women contribute economically to the household, the family structure is quite patriarchal with the ultimate authority and power resting with the men in the family. As one recent study notes, alcoholism among men is quite prevalent and was one of the prime reasons for domestic violence, a common phenomenon in every household. Such domestic violence–related incidences become more acute when a tea garden closes down and stops providing wages and necessary amenities. It is to be noted that working in a tea garden is not only onerous but also requires specialised skills such as balancing the wicker baskets on the head, while braving the stiff mountainous terrain – carefully plucking the tea leaves is not child's play. However, unfair and unethical practices take away the balance from the system while negatively impacting on the key players on this industry; that is, the women. Therefore, ensuring authenticity in this commodity trade ecosystem is not only a mandate but also a necessity from human resource management and social sustainability perspectives.

In colloquial terms '*maya*' symbolises 'women power'. Women, who form the majority of the workforce in this tea-producing ecosystem, play a significant role in the sustainability of the tea industry. Thus, through the name 'Maya' as well as the 'mother and child' image on the products, the essence of female empowerment was signified.

Source: Dr Jayantee Mukherjee, Director, Aei4eiA, Sydney.

1 How do ethical trade practices impact the social sustainability of the Darjeeling tea industry?
2 How can female economic empowerment be a driver of social sustainability in the Darjeeling tea industry?
3 What initiatives might the tea-growing companies take in order to better reward the workers for their labour, and to protect their job security, health and safety?

CASE STUDY 1.1

Readify: developing graduate work-readiness skills

The managing director of Readify, an Australian software developer, believes that it is time for local companies to get involved and stimulate the domestic talent pool. 'What we are realising is that we need to do something to support the industry inside Australia,' the MD said, 'simply shunting more kids into science, technology, engineering, and mathematics (STEM) classes isn't going to fix the problem. Even with the extra emphasis on STEM, building a new crop of local talent big enough to meet the demand of the industry was going to be a generational challenge. We have a country full of technology consumers and what we want is a fair percentage of them to become technology creators. There's no silver bullet here but we are trying to do our bit,' he said.

According to the MD, a bachelor's degree provides just a modicum of qualification and the need to pick up skills as you go becomes even more acute as new concepts and trends come to the fore. The traditional structures of tertiary education have themselves come under attack from disruptive forces and universities have always struggled to keep pace when it came to teaching computer science courses. Readify is in talks with Australian universities, including University of Technology Sydney and RMIT University, to help influence the curriculum and STEM course uptake. The two-year initiative, which comes in addition to Readify's commitment to the industry-based learning program, will recruit four university leavers in its first year. Graduates – or junior developers – will start work in the managed services team for three months to learn the ropes with a mentor before shadowing consultants on client sites. The graduate program is designed to not only give the recruits access to company-wide experts but also help develop broader skills within the organisation. Readify's head of people said it also provided an opportunity for Readify's staff to develop leadership skills.

Source: Adhikari, S. (2016), How to Readify students for work in the technology sector. *The Australian*, 23 February.

Questions

1 From your personal experience, do you agree that your qualification does not provide you with appropriate work-related skills? Argue *both* sides of the argument, based on your own and your friends' experiences.

> 2 Analyse the positive and negative aspects of the knowledge, skills and competencies that you have acquired in your university studies. Was the experience more positive than negative? Why, or why not?
>
> 3 How effective do you think Readify's transition-to-work program is likely to be? What other initiatives might be useful?

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The context of strategic human resource management

Growth has picked up momentum and the short-term outlook is positive, but there are still clear weaknesses and vulnerabilities. There is a need to focus structural and fiscal action on boosting long-term potential as monetary policy support is reduced. Countries should implement reform packages that catalyse the private sector to promote productivity, higher wages and more inclusive growth.

OECD Secretary-General Angel Gurría, Paris, 28 November 2017,
http://www.oecd.org/economy/oecd-economic-outlook-paris-november-2017.htm.

Australia's economy has enjoyed considerable success in recent decades, reflecting strong macroeconomic policy, structural reform and the long commodity boom. Living standards and well-being are generally high, though challenges remain in gender gaps and in greenhouse-gas emissions, and further challenges arise from population ageing.

OECD (2017), *Economic Surveys: Australia*, *March 2017*,
http://www.oecd.org/australia/economic-survey-australia.htm.

OBJECTIVES

After reading this chapter, you will be able to:

1 understand the current global economic and social contexts and the implications for strategic human resource management (SHRM)

2 understand the current national economic and social contexts and their implications for SHRM.

Emerging issues

1 Labour standards and migrant workers
2 Changing workforce
3 Ageing workforce
4 Flexibility

INTRODUCTION

There is increasing recognition that SHRM does not operate in isolation and that context is important and critical to understanding people and employment issues. With this in mind, this chapter considers the external environment – principally, the economic and social contexts – that impact on SHRM. As Boxall and Purcell argue, HR management needs to be cognisant of both if they are to remain 'viable' and have 'legitimacy' in the organisation.[1] It is also increasingly recognised that SHRM and employment relations are influenced by the context of the local country, and the regulations and norms of that society, and therefore there is still considerable variation in SHRM between countries. This is especially so in developing regions as economies move from low to middle income. In considering the role of SHRM in the Asia Pacific, Kasyanenko, Nevado, Rimmer and Soares conclude that 'HRM requires a deep understanding of the social context in each country'.[2]

As described in Chapter 1, the SHRM model highlights the need to adopt a flexible, agile and strategic perspective when dealing with the external environments of organisations. The AHRI Model of Excellence (MoE) highlights key competencies of successful HR professionals (see **Figure 1.2** in Chapter 1). Two of the foundational competencies are (1) to be business driven and understand the organisation's objectives and the context in which it is operating, and (2) to be a strategic architect and achieve this by translating organisational strategy into HR strategy. Understanding an organisation's context is an important aspect of managing human resources.

This chapter discusses those aspects of the external environment that currently impact on SHRM in Australia and many other countries. As organisations do not operate in isolation from their environments, and as employees are drawn from these external contexts, this chapter and the following chapter on the employment relations regulatory framework set the scene for managing people and for the strategic planning and practice of HRM.

In the past decade, there have been significant shifts in the global and economic environments as well as the sociopolitical contexts in which SHRM and business organisations operate. While some of these issues are discussed briefly in Chapter 1, their particular implications for SHRM are considered here in more detail. Some of these changes present new problems and others present intensified challenges for SHRM.

The chapter begins with a consideration of the global economic context and its impact on the Australian economy. It then considers changes in the labour market and the nature of employment in Australia. Here, the major demographic changes in Australia are examined, including the ageing of the population, women's changing workforce participation, flexibility and work–life balance, and diversity issues. These challenges are similar to those faced by many countries, especially those in the Asia Pacific region. In addition, changes in employment relationships, such as **casualisation**, outsourcing and offshoring are discussed, as well as the pressures for enhanced work flexibility.

casualisation
A casual worker is one who is not employed in a permanent capacity and whose contract of employment can be terminated at short notice. In Australia, casual employees are usually understood to not be entitled to paid annual or personal leave

THE GLOBAL ECONOMIC CONTEXT

As the opening quotes to this chapter show, the global economy is recovering following the economic decline of the Global Financial Crisis (GFC; 2008–09), and the outlook is generally positive, although with some caveats relating to the economic environment, low wage growth and global political unease. Through the globalisation of finance, and trade in minerals, goods and services, the Australian economy is linked with the global economy, particularly with the economies of its largest trading partners, China and Japan.[3] Although iron ore remains Australia's most significant export to China, the Australian economy has continued to adjust to the shift away from mining investment and has maintained economic growth for more than a quarter of a century, the longest period of any country. Unemployment rates are relatively low as is inflation, but so also is wages growth, a topic we turn to in Chapter 3.

Globalisation is the term used to describe the increased pace of economic and cultural interconnectedness between countries. Not only has the financial value of world trade increased, the interconnectedness of countries has deepened considerably in the past two decades as a result of the increasing use of international supply chains. The World Trade Organization (WTO) defines international supply chains as occurring when the 'traded goods and services contain inputs that may come from many different countries'.[4] The WTO estimates that 30 per cent of total trade 'consists of re-exports of intermediate inputs'.[5] This is also an indicator of the global connectedness that has increased significantly in the past decades.

One of the main channels of globalisation has been the scope of technological change that has enabled finance, information and goods to spread much faster than before. Additionally, the growth of neo-liberalism has led to an increase in the number of treaties that remove barriers to trade, many of which have implications for labour markets and their regulation. There is no single definition of neo-liberalism, but it is understood as a set of ideas and political and economic practices that stress the importance of free markets, deregulation and individual responsibility.[6] In relation to human resource management and employment relations, neo-liberalism emphasises increasing employer discretion and reducing the rules and regulations around employment. Over the past two decades, governments across the industrialised world have implemented neo-liberal policies that have increased employer opportunities to individualise the employment relationship, including in hiring and firing, determining pay and organising work practices.[7]

Despite a more positive economic outlook by the world's largest financial and trade institutions (such as the Organisation for Economic Co-operation and Development (OECD) and the World Bank), in the past few years there has been growing resistance to globalisation and neo-liberalism, with citizens in many countries questioning the assumed benefits of open markets and free trade in goods, services and labour (workers) between countries. The 2016 'Brexit' vote in the United Kingdom, where a majority of voters supported the United Kingdom's withdrawal from the European Union (EU), and the 2017 election of Donald

neo-liberalism
A set of ideas and political and economic practices which stress the importance of free markets, deregulation and individual responsibility

Trump as US President, can be perceived as reactions to the effects of globalisation and neo-liberalism on workers. The offshoring of jobs, job losses as a result of automation and ongoing fears of job insecurity, coupled with a long period of low to nil wage growth, have created a new sociopolitical environment in which decisions by governments and companies about the location of work and the introduction of new technologies receive extra scrutiny by the electorate.

Labour migration

Globally, and despite a period of recession and uncertainty in many economies, there is competition for labour, or what is often referred to as 'a war for talent', with Tung arguing that this has arisen because of a number of factors, including the 'the overall aging of the workforce, the ascendancy of emerging markets accompanied by a substantial upgrading in the educational levels and technical skills of their indigenous populations, and the general reduction in immigration and emigration to the barriers of movement of people across countries'.[8] The ageing of the workforce is an area that attracts increasing attention from policy-makers and government, and has particular relevance to human resource managers. We return to this later when considering the social context of SHRM.

labour migration
The movement of labour from one state or country to another to explicitly fill labour shortages in the receiving state or country

In the global context, the issue of **labour migration** and use of cheaper labour by investor countries and companies is highly controversial. Academic analysis of the treaty provisions of the China–Australia Free Trade Agreement (ChAFTA) suggest that two broad categories of workers may be substituted by temporary Chinese workers who are likely to be paid less than the market standard, which may well result in undermining Australian working conditions.[9] Howe provides the example of:

> a business that has a contract with an Australian business to supply service (e.g. a hospital seeking to start a particular ward) can bring its own workforce of Chinese staff under the contractual service supplier category and there will be no requirement that these jobs first be offered to local workers … It will be entirely possible for Chinese workers to replace Australian workers in fields as diverse as engineering, nursing and most trades.[10]

Additionally, she points out that such temporary workers need only be paid award wages rather than market rates[11] and that the reluctance of an employee who can be deported if they lose their job to complain about their working conditions is well known.[12]

Temporary labour migration, rather than permanent migration policies, is used as a labour market response to skill shortages in specific areas of industry. The Australian Government, after much criticism of the temporary labour migration scheme in Australia, recently introduced the new Temporary Skill Shortage Visa scheme (see **HRM in practice 2.1**). Criticisms included the
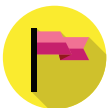
Emerging issue 1
Labour standards and migrant workers

HRM in practice 2.1

Australian government axes 457 work visa: experts react

The former Turnbull [now Morrison] government is axing the 457 visa program and replacing it with a new Temporary Skill Shortage Visa. This comes after a history of problems with the 457 program, including uncovered abuse of workers.

The new scheme will be made up of two streams, one short term (issued for two years) and one medium term (issued for up to four years for 'more focused occupation lists'). Both of these will be subject to labour market testing, including a requirement for two years of work experience, a market salary rate assessment and a new non-discriminatory workforce test.

As of June 30, 2016 there were 94 890 primary 457 visa holders in Australia. This means the total number of primary 457 visa holders who are sponsored by an employer is equal to less than 1% of the Australian labour market. This proportion rises if international students, backpackers and other temporary migrants are included.

The number of eligible occupations for the new types of visas will be shortened by 216, with 268 available for the two-year visa and 167 for the longer four-year visa. Applicants will also now have to meet English-language requirements and undergo a criminal check.

The changes are in effect immediately and will be fully implemented by the end of 2018.

Source: Australian government axes 457 work visa: experts react, *The Conversation*, 18 April, 2017, http://theconversation.com/australian-government-axes-457-work-visa-experts-react-76321.

exploitation and underpayment of workers and the lack of employer investment in training for the existing Australian workforce.

Political and economic events over the past few years have heightened attention on labour and management practices. The recessionary and austerity period generated by the GFC increased awareness and criticisms of executive pay systems around the world as well as different approaches to managing employee numbers. There is also debate over the merits of regulation as opposed to deregulation of the labour market and about how to generate employment growth, particularly among young people. Many governments around the world are curbing spending on welfare and public services, resulting in considerable social disquiet and further debates about appropriate public policies to meet the changing social and demographic context.

Prior to this most recent set of economic challenges, several other events resulted in aggressive competition on a global basis. These included the collapse of communist regimes across Eastern Europe in the early 1990s and the subsequent growth of the EU, the restructuring of the socialist economies of the People's Republic of China (PRC) and Vietnam, the resumption of Hong Kong and Macau by the PRC, and the surge, dramatic decline and gradual recovery of Asian economies. Many observers predicted that following the Asian economic crisis, India and China would emerge as the region's strongest economies.[13] To some degree, this prediction has already been realised, through the manufacturing and information technology sectors in China and India, respectively, and many multinational organisations are leveraging on such developments to both grow their international markets and restructure their global operations.

China is set to become the world's largest economy, predicted to overtake the United States, while having already overtaken Japan in 2011.

The HR implications of these changes in the global economic context have centred on the issues of labour standards and migration, performance-based pay, the level of senior executive remuneration and how organisations respond to stressful economic times. Sustainability of the environment has also become part of the HR agenda in some firms. These issues are also linked to corporate governance and lack of diversity among senior executive and board members, as well as corporate restructuring and downsizing linked to job security and flexible patterns of employment.[14]

In Australia, the GFC led to changes in HR policies and practices within some companies, with the Australian Chamber of Commerce and Industry (ACCI) reporting that almost 30 per cent of its employer members had implemented flexible working arrangements in response to the GFC, reducing working hours and levels of production.[15]

In addition to the challenges posed by the shifting ground in the global economic environment, efforts to address climate change present a further challenge to the established thinking in the business community. United Nations (UN) talks held in Paris in December 2015 committed to limiting the increase in the global average temperature, fostering climate resilience and low greenhouse gas emissions development and enabling finance flows to encourage 'low greenhouse gas emissions and climate-resilient development', while recognising different national circumstances.[16]

The response of business has been strongly debated. Wittneben and colleagues argue that:

> At the business level, while there is increasing awareness of the problem as well as some corporate involvement through sustainability policies and practices, carbon disclosure, emissions trading and energy efficiency, little has been done in terms of reducing actual emissions or transforming core products and processes. Some companies are responding to criticism of their business and carbon-intensive production methods by introducing forms of 'Green Human Resource Management' or 'Sustainable Management'.[17]

In a study of sustainability managers in large corporations, Wright, Nyberg and Grant argue that three types of manager identities can be found: the 'green change agent', the 'rational manager' and the 'committed activist'.[18] The impact of new managerial identities may be limited, however, as corporations continue to focus on increasing energy efficiencies that provide operational advantages, rather than seeking an alternative business model. Critics are arguing for a shift in theoretical approaches: 'theories of capital accumulation and resource utilisation have been largely responsible for the current crisis. It is time we turn our attention to theories of wealth and resource distribution.'[19] With respect to human resource planning and management in Australia, these global pressures provide challenges as well as opportunities.

From the perspective of particular industries or organisations, key business products or services need to be identified, strategies refined, and the numbers and types of future employees (and their jobs) predicted. A global marketplace also greatly increases the potential labour pool, if organisations are prepared to operate internationally as well as locally. Furthermore, globalisation fosters the diffusion of HRM practices within companies, across borders and between countries. HRM in practice 2.2 illustrates the increasing managerial focus on employee productivity and performance measures through new technologies, in response to enhanced global competitiveness.

HRM in practice 2.2

To chip or not to chip?

Companies around the globe are starting to provide their workers with personal microchips. The size of grain of rice, they are usually inserted into the worker's hand. These chips, which are also called implants or insertables, can be used in a variety of work-related functions; for example, as swipe cards and to operate printers. If embedded with GPS, they can also track the movements of workers, the opening and closing of doors, attendance at meetings and the delivery of products. For employers, the chips bring additional surveillance of workers, which may increase efficiency and productivity, enable them to organise work flows better and ensure that tasks are being done as expected. For workers, the chips may make day-to-day transactions at work simpler and more convenient. At least there is less risk of losing cards and keys! The implications for individual privacy are a concern and have not been fully explored. According to a report in the *Sydney Morning Herald*, '80 per cent of people that get microchipped are tech people. The other 20 per cent are pragmatists who want greater convenience'.[20]

The technology to microchip employees is clearly available, yet most discussion about the future of work centres on the capacity of artificial intelligence (AI) and robots taking over the jobs of people. But is the microchip the sleeping giant in the debate? At this stage, micro-chipping of workers is not widespread or considered best practice, but perhaps its availability suggest a new type of high-performing worker and workplace is on the horizon.

THE AUSTRALIAN ECONOMY

The Australian economy moves in response to domestic and global factors, most notably demand for mineral resources. The decline in investment in mining and the strength of the resources sector overall, and the contraction of the manufacturing sector (e.g. car assembly), indicates the degree of industrial restructuring presently under way.

A snapshot of the Australian economy and labour market in 2017 shows that it is in a reasonably strong position. Inflation was sitting at 1.8 per cent and the unemployment trend rate was 5.4 per cent.[21] The total labour force (or workforce) stood at 12.5 million and the participation rate was 65.5 per cent.[22] The participation rate is a measure of the proportion of Australians of working age who are reported to be in employment or actively looking

labour force (or workforce)
The total number of people available for work in the country. The term 'workforce' is also often used to refer to the workers of a specific enterprise or workplace

participation rate
A measure of the percentage of Australians of working age who are reported to be in employment or actively looking for work

for work.[23] Australia's rate is lower than some other countries, such as China, Thailand, Singapore, Canada and New Zealand, and is a cause for concern for the Australian Government, which is keen to see an increase in participation rates, particularly for women.

Despite positive economic outcomes in terms of employment, productivity levels remain a concern for the Australian Government and many governments around the world. **Productivity** is the measure of the efficiency by which the factors of production (land, labour and capital) are combined; whereas **labour productivity** is the output produced per hour of work and generally, 'if output per hour rises, then workers can expect wages to rise'.[24] **Capital productivity** is the output produced per capital input. **Multifactor productivity (MFP)** is the output produced per unit of combined capital and labour. In the past decade, although labour productivity has been increasing, multifactor productivity in Australia has declined by approximately 2.1 per cent, suggesting that the economy is not as resilient as it needs to be.[25]

It is also important to note that productivity is different from profitability. Profitability is a measure of the surplus left to the business after all costs (including, but not only, labour) have been met. Therefore, increases in output of goods and services do not necessarily equate to increases in productivity.

One of the assumptions underlying much of the discussion about productivity is that Australian workplaces are unproductive due to restrictive labour laws (such as the *Fair Work Act 2009* – see Chapter 3) and practices that do not give managers enough freedom to operate business in the way they wish. Yet the evidence for this is highly contested. The sources of productivity growth are diverse and include industry mix, capital investment and the composition of the workforce. As the review of the Fair Work Act's operation argued: 'We have very little direct evidence of [the] effects of labour market reform on labour productivity in the 1990s, but the work is by no means conclusive.'[26] The report went on to say that: 'Though the Panel has seen no convincing evidence that the *FW Act* impedes productivity growth, it is concerned that productivity growth has slowed. In the long run and for the economy as a whole, productivity growth provides for sustained increases in real wages and in national living standards.'[27] The Productivity Commission came to a similar conclusion in its review of the Workplace Relations Framework, noting that:

> Surmise aside, there is little robust evidence that the different variants of WR systems over the last 20 years have had detectable effects on measured economy-wide productivity. This does not mean there are no effects, but simply that they apply at the enterprise and industry level and are hard to identify in the aggregate economy given the myriad of other factors shaping productivity.[28]

Productivity growth is driven by factors other than the regulatory system, including the education levels of the workforce, the health of the workforce, the health and wellbeing of employees and management at the workplace level.

productivity
The measure of the efficiency by which the factors of production (land, labour and capital) are combined

labour productivity
The output produced per hour of work

capital productivity
The output produced per capital input

multifactor productivity (MFP)
The output produced per unit of combined capital and labour

Recently, low wage growth has emerged as a major challenge to the Australian economy as it depresses consumption and restricts economic growth overall. This issue is discussed further in Chapter 3.

Changing industry and occupational structure

Australia has seen extensive change in its industry composition over the past few decades, with more significant changes predicted to occur. The Productivity Commission reports that Australia's rate of structural change has been somewhat greater than the average for a selection of 15 OECD countries, although it has been below that of other countries in the region, including New Zealand.[29] Since the 1980s, major changes have occurred in Australia's industry structure, with a major shift towards service sector industries over the past three decades. While manufacturing was a major employer at the beginning of the 1980s, the most significant growth has occurred in the health sector; and agriculture, information media and telecommunications offer fewer jobs now than they did three decades ago.

The combination of technological, economic and political factors has contributed to the changing distribution of employees across industries. In the past, Australia's agricultural sector was the most dominant sector of the economy, but by the middle of the twentieth century manufacturing had taken on this role. From the 1970s onwards, the services sector became the most dominant and important sector of the economy, with more radical change predicted to occur in future decades.

A Committee for Economic Development of Australia (CEDA) report, *Australia's Future Workforce?*, predicted that: 'Jobs that involve low levels of social interaction, low levels of creativity, or low levels of mobility and dexterity are more likely to be replaced by automation.'[30] The authors argue that the Fourth Industrial Revolution (artificial intelligence, robotics and machine learning technologies) is likely to cause a major restructuring of jobs and, therefore, the workforce:

Computers will reshape the labour market in two key ways. They will:

1 Directly substitute for labour, with a high probability that as much as 40 per cent of the jobs in Australia could be replaced by computers within a decade or two; and

2 Disrupt the way work is conducted, expanding competition and reducing the costs to consumers but also reducing the income of workers.[31]

Figure 2.1 shows similar trends, with increases in professional workers and community and service workers, and decreases in clerical, labouring and machine operator jobs. These changes have implications for SHRM, suggesting a need to focus on work that is of an intellectual, autonomous and innovative nature.

In addition to these industry shifts and skill level changes, the impact of new technologies has been to transform or even replace traditional industries with more flexible organisational forms, resulting in significant staffing implications. Nursing, travel agencies, florists and even pharmaceutical, medical and legal services have been complemented or replaced by internet

FIGURE 2.1 The skill mix is shifting, 2013 to 2018
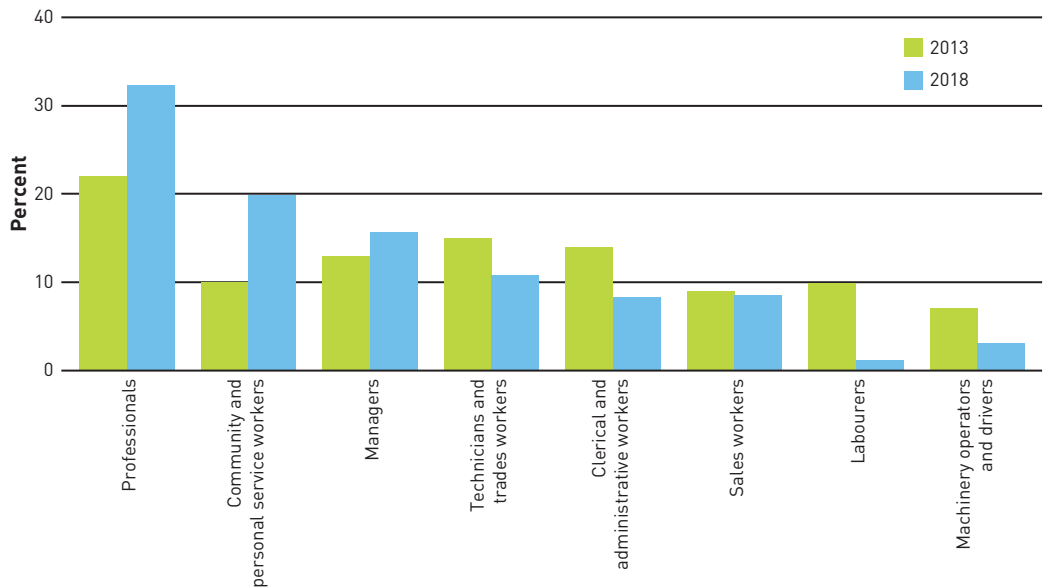
Source: Productivity Commission (2015), *Workplace Relations Framework: The inquiry in context. Issues paper 1*, p. 5, http://www.pc.gov.au/inquiries/completed/workplace-relations/issues/workplace-relations-issues1.pdf (accessed January 2019), based on Department of Employment (2014) data.

services or chatbots, staffed by fewer and more specialised service providers, either onshore or offshore. These developments have changed the operational landscape for Australian organisations and human resource management professionals. The implications of these changes for human resource planners and managers include a need for innovative remuneration programs, talent management and retention techniques, attractive career paths, job and work redesign, and more flexible work schedules. Other relevant issues include increasing skills flexibility, horizontal rather than vertical career mobility, and new industrial relations agreements.

Changes in the workforce and the nature of employment

Australian Bureau of Statistics (ABS) Australia's national statistical agency, providing official statistics on economic, social, population and environmental matters

Australia's population is now over 25 million people. According to the Australian Bureau of Statistics (ABS), Australia's population grew by 1.6 per cent during the year ended 30 June 2017, with natural increase contributing 36.8 per cent and migration contributing 63.2 per cent to this growth.[32]

As noted earlier, the Australian workforce is approximately 12.5 million and its characteristics have changed over the past 25 years, especially in terms of age, gender and educational qualifications. Another of Australia's most significant social trends is the rising educational level of employees. By 2025, the Australian Government expects 40 per cent of 25–34 year olds will hold a Bachelor degree or above.[33] Women, in particular, have invested in their own human capital, and now represent 55 per cent of tertiary students. These changes have implications for all aspects of the management of human resources, from attraction through to selection, retention, career development, remuneration, performance management and job design.

The feminisation of the workforce

In Australia and throughout OECD countries over the past 30 years, male labour force participation rates have tended to decline while female participation rates have increased. Furthermore, the Australian Government has committed to the G20 goal of reducing the gap in male and female participation rates by 25 per cent by 2025,[34] and making this an economic priority: 'Increasing women's workforce participation leads to better living standards for individuals and families, improves the bottom line of businesses and is a significant driver of national economic growth.'[35]

The gap could be reduced by further declines in male participation rates or increases in female participation rates. It is the latter path that is being pursued by the government, with the intention also of increasing gross domestic product (GDP). This strategy of increasing female workforce participation in order to increase GDP is advocated by a number of organisations in Australia, such as the Grattan Institute and Goldman Sachs,[36] and others internationally, for example, McKinsey, the OECD and the World Bank.

Male and female workforce participation rates in Australia for the period 1978–2017 are represented in **Figure 2.2**, which shows that a convergence between male and female participation rates is slowly occurring. One important difference between the labour market experiences of women and men, however, is hours of work; women tend to work part-time after they have children and men continue in full-time hours.

Emerging issue 2
Changing workforce

FIGURE 2.2 Male and female workforce participation rates – trend 1978–2017
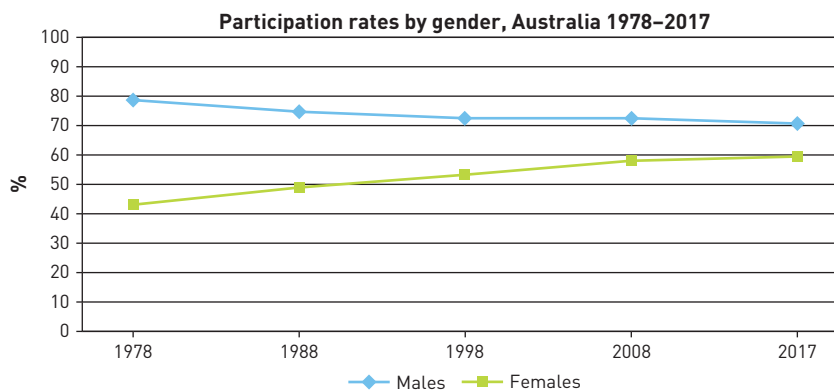
Source: Australian Bureau of Statistics (2017), *6202.0 – Labour force, Australia, Jul 2017*, http://www.abs.gov.au/AUSSTATS/abs@.nsf/DetailsPage/6202.0Jul%202017?OpenDocument.

Work and family

It has been argued that the twentieth century was characterised by a separation between the economic and social spheres of life, where the corporation and men dominated the economic sphere, and the family and women dominated the social sphere.[37] Bailyn and Fletcher, for example, argue that Western society was divided between the separate spheres of paid work (for men) and home (unpaid work for women).[38] From this dichotomised structure emerged the notion of

the 'ideal worker',[39] who was assumed to be a full-time male employee, and around whom pay, conditions, working time and organisational policies were based. In Australia, this model was epitomised in the *Harvester* decision of 1907 (*Commonwealth v Mckay*, 6 CLR 41) in which Justice Higgins of the Industrial Relations Court determined the living wage of a male with a wife and three children.[40] While the historical context is important to acknowledge, this is no longer the typical family model in Australia, and the distinction between work and home and between men's and women's work is no longer so clear. The blurring of these home/work, public/private boundaries is further disrupted by technologies that allow work to take place from almost any location, including at home and at night, and for personal services to be outsourced.

male breadwinner model
The system whereby it is assumed that the male is the full-time worker and wage earner outside the home and the female is the full-time housewife and carer providing unpaid work inside the home

Today, the male breadwinner model, with the male in full-time employment and the female as the full-time housewife and carer, is almost an anachronism, and the gendered construction of paid work and unpaid domestic work that largely dominated organisational thinking in the past is now under intense pressure to change.

As **Figure 2.3** shows, female labour force participation rates across the life cycle vary. The lowest rate is between 19 and 24 years, during education; between 30 and 40, the prime childbearing and child-rearing years; and then later in life, at 55-plus years. These variations suggest that a life cycle approach to employment and career management is needed to better accommodate the caring phases of a woman's life.[41] As gender roles and expectations continue to change, it will also be the case that more men will take time out for child care and elder care reasons.

FIGURE 2.3 Male and female labour force participation rate by age
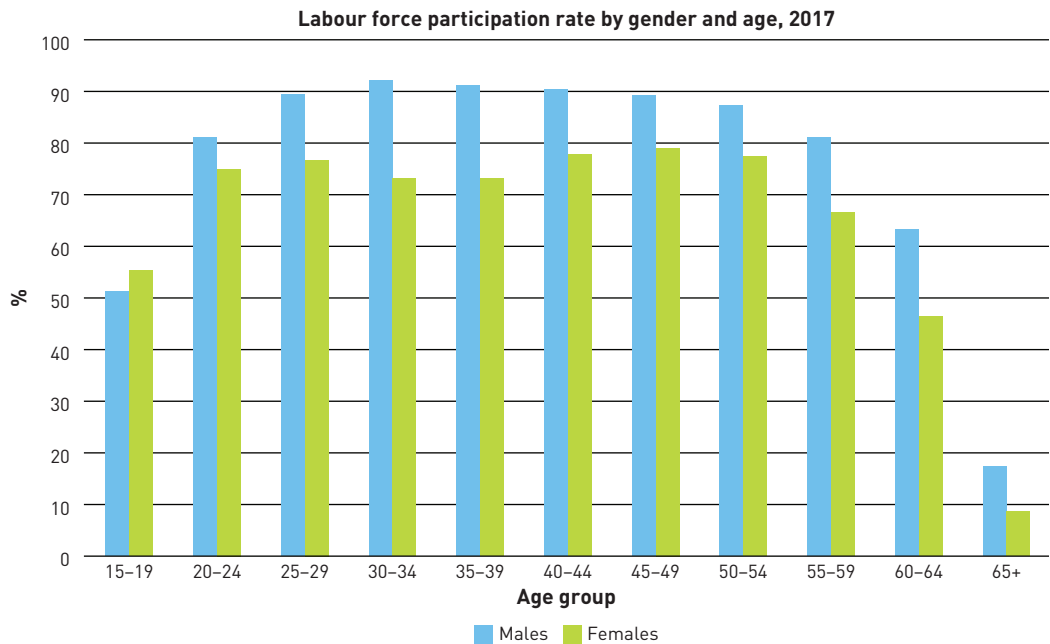
Source: Australian Bureau of Statistics (2017), *6202.0 – Labour force, Australia, Jul 2017*, http://www.abs.gov.au/AUSSTATS/abs@.nsf/DetailsPage/6202.0Jul%202017?OpenDocument.

The rise in female participation rates has increased pressure on individuals, homes and workplaces, so that balancing or combining work and family responsibilities has become a major social and organisational challenge. While female labour market activity has increased, it continues to be a concern for the Australian Government, which argues for greater participation by women.

Policy responses

In order to realise the goal of increased female labour market participation, a change in policy settings is required to enable women (and men) to balance their work and care responsibilities more satisfactorily. The public policies receiving most attention at present are child care and flexible work. Paid parental leave was advocated for many years before the Australian Labor Government finally introduced a scheme in 2010 (see below). Also receiving increased attention is adjusting the tax mix in order to remove or minimise disincentives to women – notably mothers – working. However, it is a complex interplay of personal reasons, societal norms and economics that drives female workforce engagement, and while government policy plays some part, organisational policies and cultures are also important. At the organisational level, flexible work policies, working hours, job expectations and work organisation are significant influences on women's ability to combine work and motherhood, or other caring responsibilities.

In response to the challenges presented by the increasingly blurred boundaries between the two spheres of home and work, some Australian organisations have introduced a range of HRM policies, variously referred to as 'family friendly', 'diversity', 'work–life' or flexibility' policies.[42] As Whitehouse and Zetlin argue, 'in a fundamental sense the most family friendly policies are … adequate wages, job security and the absence of work intensification', but family-friendly policies are typically considered more narrowly as organisational 'initiatives designed to facilitate the balancing of work and family commitments'.[43]

These policies include leave provisions (such as carers' leave, parental leave, family and domestic violence leave), provision for flexible hours (including different start and finish times, term-time work, compressed working weeks), care provision for children and the elderly, and support measures such as counselling and referral services. The Whitehouse and Zetlin study of Australian workplaces found that the provision of comprehensive work and family policies was uneven, particularly in the private sector. In another study examining the organisational characteristics associated with the provision of work and family polices, Bardoel found that 'large organisations with good track records in human resource management are more likely to provide work–family benefits'.[44]

Despite the increasing interest in and provision of work–family and work–life policies in organisations, there remains concern about the ability of traditional institutions and policies to provide for a better balance between work and family. Changing demographics and social patterns have given rise to some important theoretical debates about women, work and family, which are influencing Australian policy-makers within governments and organisations.

Following extensive focus group research on how employees with families manage the work–family life interaction, Barbara Pocock suggests that Australia has reached a critical stage where, as a result of its traditional employment institutions and organisational values remaining unchanged, they now collide with the changed behaviours and expectations of employees and their families. She argues that work has essentially been designed for those without immediate and direct responsibility in caring for others, which is no longer tenable given the changing involvement of women in paid work. While many Australian organisations profess to be family-friendly, Pocock argues that the reality is more akin to 'the family friendly/unfriendly iceberg': a small tip with good, workable policies; and a large group below the surface that has not as yet addressed the issue or made appropriate changes.[45]

Another theory that has attracted considerable attention is Catherine Hakim's Preference Theory. Hakim, a British sociologist, hypothesises that women fall into three categories: home-centred women, who represent approximately 20 per cent of women; work-centred women, who represent another 20 per cent; and the 'adaptive' group, who represent 60 per cent of women and will move between home and work depending on the policy arrangements in place.[46] It is argued that because women constitute a heterogeneous group with varying preferences like being home-centred, work-centred or adaptive, no single 'one size fits all' public policy is appropriate.[47] Critics of Hakim's theory argue that women's preferences are made within a context of constrained choices and policy contexts and that, furthermore, their preferences will change over the life cycle.[48]

Adopting a broader and integrated approach to work and family, the Dual Agenda theory of Rapoport et al. argues that more is needed than simply the introduction of family-friendly policies to meet organisational goals for efficiency and employee needs to balance work and family.[49] Similarly to Pocock, this theory argues that current working practices are based on gendered assumptions of the male breadwinner models and female domestic care. As discussed, this does not accurately represent the division of labour between women and men in advanced contemporary economies, and consequently a thorough questioning and altering of the assumptions underlying the organisation and allocation of work is required. In particular, questions such as, 'Who is the "ideal worker"?' and 'What is "real work"?' need to be asked. The examination of such questions by organisations is most likely to come under the umbrella of HRM, as it deals with the issues arising from the attention now being focused on work and family.

Maternity, paternity and parental leave in Australia

maternity, paternity and parental leave
Legislated leave provision (paid or unpaid) for workers in some countries to support and retain workers (female and male) when having children

Maternity, paternity and parental leaves have become significant policy matters at national and organisational levels. These forms of leave refer to entitlements at either national or company level that enable a mother or father to be absent from work for a period of time when a child is born or adopted. In some countries, parental leave extends to provide leave for parents in the preschool years, or longer.

Under Australia's National Employment Standards (see Chapter 3), employed parents (male and female) in Australia have a right to 52 weeks' unpaid parental leave with job protection,

and a right to request from their employer an extension of up to 12 months' unpaid parental leave if the other parent does not use their entitlement.

International perspective 2.1 illustrates similar but different approaches to paternity leave around the world.

International perspective 2.1

Fathers and care

As women gain greater educational qualifications and pursue careers, there is increasing attention on the role of fathers in caring for children. Maternity leave is widely acknowledged as a necessary policy to enable women to both work and take time off to have babies and care for infants, yet until relatively recently in Australia and South-East Asia, there has been less attention given to the role of fathers and care. Paternity leave schemes are now well embedded in the Nordic countries and Europe, and their experiences have shown that well remunerated and non-transferrable schemes achieve the best results in terms of fathers' take-up. In 2013, the Australian Government introduced the Dad and Partner Pay paternity leave scheme (see the main text). Change is coming also to countries in South-East Asia. Vietnam introduced two weeks' paternity leave from 2016 to encourage gender equality.[50] Since 2018, men who work in the civil service in Indonesia are entitled to four weeks' paid paternity leave[51] and extensions to paternity leave are being sought in the Philippines.[52]

In Australia, approximately 25 per cent of all eligible fathers use the Dad and Partner Pay scheme.[53] There are a few suggested reasons for this low take-up. One is lack of knowledge about the scheme. Another is that, although it is designed to be used by only fathers or partners on a 'use or lose' basis, it is paid at the national minimum wage for two weeks. This low rate of pay may be a disincentive for many fathers to use the scheme, especially at a time when their household expenses are likely to have increased. Most fathers take some annual leave at the birth of a new child, generally a week or two. A much smaller proportion use flexible working hours and an even smaller proportion swap roles with the mother. A study by the Australian Institute of Family Studies[54] shows that 5 per cent of fathers are stay-at-home dads, and this has increased by just 1 per cent in the past three decades. So, although women are now more educated and have careers, the role of fathers in the care of children has some way to go. A more enabling policy environment is needed from both governments and organisations for significant change to occur.

While Australian employees have had unpaid parental leave entitlement for some time, the absence of a paid parental leave scheme was the focus of considerable debate in Australia in the early 2000s. Although many European countries began introducing paid maternity leave schemes in the early twentieth century, it was not until 2010 that legislation was introduced in Australia to provide for a national paid parental leave scheme. The policy largely followed the recommendations of a Productivity Commission report into the most appropriate scheme for Australia.[55]

Under the scheme, the Australian Government provides 18 weeks' pay at the **national minimum wage** (see Chapter 3) to the mother (or the primary carer), who may be a permanent employee, a casual worker, contractor or self-employed. Uptake figures show that nearly

national minimum wage Set annually by the Fair Work Commission's Expert Panel in its National Minimum Wage Order. It provides the amount for an award-free employee based on a week of 38 ordinary hours

98 per cent of those families receiving the parent leave payment in 2016–17 opted for the full 18-week payment.[56] Employers are the pay administrator and may top-up the scheme in order to extend the paid leave available and/or increase the payment to the level of replacement wages. In 2016–17, 68.5 per cent of the government's payments were made by employers.[57]

The majority (99%) of recipients of the government's parental leave pay are mothers. The Australian Government also introduced Dad and Partner Pay (DaPP) in January 2013.[58] The DaPP scheme provides two weeks' pay at the national minimum wage on a use or lose basis. It is aimed at assisting fathers or same-sex partners to take time off with their newborn or adopted child, to assist with paternal bonding and to shift gender relations by allowing fathers and partners to share in the care responsibilities for children from an early age.

While public policies may encourage fathers and partners to take parental leave, organisational cultures may prevent men utilising the leave. Fear of negative career consequences means that organisations and their human resource policies can play a strong role in mediating the uptake of public policies, and also in supplementing minimum standards. Typically, business case arguments that stress and quantify the value of attracting and retaining valuable and scarce employees are usually employed to help justify such improvements in company policy. The introduction of a new parental leave policy by the gold-mining company KCGM illustrates company rationales to introducing parental leave (see **HRM in practice 2.3**).

HRM in practice 2.3

KCGM ups level of support for new parents

Generous paid parental leave schemes can be an important tool to boost female employment and prevent skilled workers leaving the resources sector and regional towns, according to Women in Mining and Resources WA chairwoman Sabina Shugg.

KCGM, operator of the Super Pit gold mine and Kalgoorlie-Boulder's biggest employer with about 800 full-time staff, moved this week to increase its paid parental leave scheme for employees from six to 14 weeks for parents of babies born or adopted after January 1.

KCGM's scheme is now closer to the levels of industry majors such as BHP and Rio Tinto, which made its 18-week paid parental leave scheme a global standard across its operations around the world last year.

Ms Shugg said better parental leave schemes would encourage women and men with families to stay in the industry, and work in regional locations, longer.

She said 14–18 weeks was the right kind of range for mining companies to offer new parents, both men and women.

'Potentially you're away from your primary family, so to be able to have extra time off and the financial security to do that, you can potentially stay in that job, whereas maybe you might decide to move back to where you've got more family support,' she said.

'I think if we can paint the mining industry as an attractive place for women, men and families to work in, we'll be bringing more women into the sector and by doing things like this we'll be encouraging women to stay in the sector longer.

Source: Chiat, J. (2018), KCGM up level of support for new partners. *Kalgoorlie Miner*, 2 February, https://thewest.com.au/news/kalgoorlie-miner/kcgm-ups-level-of-support-for-new-parents-ng-b88730935z, © West Australian Newspapers Limited.

In addition to the government entitlement, employers may provide paid maternity, paternity or parental leave as part of their work and family policies. The diffusion of paid maternity and paternity leave through enterprise bargaining has fluctuated according to public policy debates, the strategies of unions and the strength of the labour market[59] and is more pronounced in the public sector than the private sector.[60] Apart from such bargaining, some companies decide to introduce policies as part of their own company arrangements. BHP Billiton and RioTinto, for example, have unilaterally introduced improved parental leave arrangements in their own policies rather than through union bargaining. According to the Workplace Gender Equality Agency (WGEA), in a survey of companies with 100 or more employees, 53 per cent provided paid primary carer's leave.[61]

Women in senior management and on boards

Another major debate is about the low proportions of women in leadership positions. Although female workforce participation rates have increased and women are increasingly highly educated and qualified, they still hold a very small percentage of the crucial decision-making roles in organisations. The WGEA, which is the federal government agency responsible for ensuring and assisting Australia's private sector employers (those with more than 100 employees), is monitoring and progressing gender equality in the workplace; see **Figure 2.4**. WGEA data for 2016–17 show that women hold just 38.4 per cent of all management positions in Australian organisations. Of these, 16.5 per cent are CEOs (or heads of organisations) and 29.7 per cent are key management personnel.[62]

FIGURE 2.4 Full-time total remuneration gender pay gap by manager category and non-manager occupation
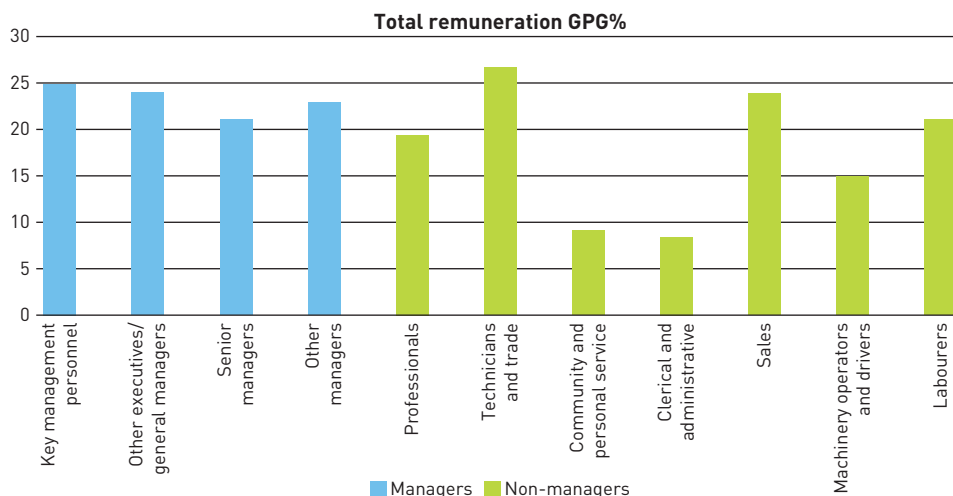
Source: Workplace Gender Equality Agency (2017), *Australia's gender equality scorecard: Key findings from the Workplace Gender Equality Agency's 2016–17 reporting data*, p. 9. November, https://www.wgea.gov.au/sites/default/files/2016-17-gender-equality-scorecard.pdf

These figures highlight the major challenges facing companies if they intend to increase opportunities for women at senior company levels. As a KPMG report on Australian Securities Exchange (ASX) companies also argued, companies need to 'rethink their approach to achieving greater gender diversity at senior executive levels'.[63] Australia lags behind many other countries, including the United Kingdom, Canada and the United States, in the advancement of women in the workplace.

Despite the fact that anti–discrimination legislation, equal opportunity and affirmative action concepts have been prevalent for at least the past 20 years, and every Australian jurisdiction has embraced anti–discrimination legislation, change on the ground has been slow. This would indicate that time and legislation are not the complete answers to problems of women's advancement in the workplace. There is a need also to question underlying assumptions about the division of work within companies and between genders, and to analyse systemic organisational barriers to women's advancement issues. Career planning with a focus on the retention and advancement of women is paramount. Breaking down traditional workplace arrangements and allowing for flexibility are also the keys to assisting the advancement of women to higher levels. Firms such as Deloitte Touche and Tohmatsu have specific HR programs targeted at increasing opportunities for women at higher executive levels.

Targets and quotas are now commonly discussed and advocated as a means to increasing more balance in leadership positions between men and women (see **HRM in practice 2.4**).

HRM in practice 2.4

'Relentless focus' leads Westpac to hit 50% women in leadership target

Westpac has today made an historic announcement: Women now hold 50% of leadership positions across the bank.

The milestone was announced by chief executive Brian Hartzer in Sydney on Tuesday morning, who said that 3000 of the bank's 6000 management positions are now held by women.

He said the achievement should be seen as a 'sign post that our nation is making progress … Particularly for unlocking the potential of women'.

'Our goal is that the only limits that face young women are the limits of their own ambition, talent and dedication.'

In 2010 Westpac's then-chief executive Gail Kelly publicly committed to reaching 40% women in leadership by the year 2014, a target it met in 2012. The bank then aimed for 50% by 2017.

It hasn't happened easily or by chance. It has happened because targets were set, enforced and pursued. Doggedly. It was considered a core business objective, embedded in corporate strategy and had the full support and commitment from the board and executive.

Source: Dent, G. (2017), 'Relentless focus' leads Westpac to hit 50% women in leadership target. *Women's Agenda*, 24 October, https://womensagenda.com.au/latest/westpac-announces-women-hold-50-of-leadership-positions.

Pay equity

The representation of women at the higher levels of organisations is not the only inequity faced by women in the workplace. **Pay equity** is also an issue that should be high on the agenda of firms seeking equality in the workplace. In 2017, the **gender pay gap** (the difference between men's and women's pay) for full-time adult ordinary-time average weekly earnings was 15.3 per cent. The lowest gap, of 6.8 per cent, occurs in the public administration and safety sector, and the highest gap, of 26.1 per cent, is in financial and insurance services.[64] The gap has narrowed slightly over the past few years, but continues to be a matter of significant policy concern. See also Figure 2.4 for the total remuneration gender gap at managerial and non-managerial levels.

The reasons for pay inequity are complex. In the past, Australia's centralised wage fixing system assisted in regulating and diminishing the gap between men's and women's wages. Other factors contributing to the widening pay gap are thought to be job and industry segregation, lack of pay transparency (especially in relation to bonuses), and individually negotiated pay rates and discrimination.

For human resource managers and practitioners, this issue is also specifically related to job evaluation systems (see Chapter 5), which in the past have not adequately recognised the gendered distribution of work and tasks within organisations and society, often resulting in 'women's jobs' being undervalued and paid less than comparable male jobs. It is recommended by WGEA that organisations conduct an organisational gender pay gap analysis, where the gap 'is derived as the difference between women's and men's average weekly full-time equivalent earnings, expressed as a percentage of men's earnings'.[65] This comparing the remuneration data for women and men identifies gaps, allows the causes and remedies to be investigated. **Professional tip 2.1** summarises some strategies for achieving this.

pay equity
The broad principle that employees undertaking work of the same or a closely comparable nature should receive equal remuneration outcomes; includes eliminating sex discrimination from the wage-setting system

gender pay gap
The difference between women's and men's average weekly full-time equivalent earnings, expressed as a percentage of men's earnings

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Professional tip 2.1

Collecting data

To enable more informed workforce planning and policy development, and to respond strategically to demographic trends and social expectations, organisations need to collect accurate and regular organisational data on:

- women and men by employment status (e.g. permanent, part-time, job-share, casual and contract)
- use of available leave policies by gender and age
- numbers of requests for changes in work arrangements, by gender and age
- numbers of rejections to requests for changes in work arrangements, by gender, age and reason
- return to work after maternity leave, carers leave, study leave and compassionate leave
- level of job when returning to work after leave.

The ageing of the workforce

Changing worldwide population profiles – in particular, the ageing of the population – has become an emerging issue of public debate and policy, with significant implications for workforce planning, organisational HR policies and employees' quality of life. The ageing of the workforce is an important issue in all developed countries (e.g. the United States, United Kingdom, Japan, South Korea, Singapore, Australia, New Zealand and most EU countries). It is less of a major issue in countries such as India, Indonesia, Thailand, Papua New Guinea and Timor-Leste, which have considerably younger age profiles.

The proportion of people over 65 (the traditional retirement age) in the labour force tends to be low. However, Australia's past three Censuses show that:

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Ageing workforce

> the proportion of people in the labour force aged 65 years and over has been steadily increasing from 9.4% in 2006 to 14% in 2016. One in every five people (21%) aged 65 to 74 years was in the labour force in 2016. The proportion of 55 to 64 year olds in the labour force has also increased over the same period (58% to 66%), indicating it is likely that the number of older people in the labour force will continue to increase.[66]

As **Table 2.1** shows, over the next 30 to 60 years Australia's working age population is predicted to shrink as a percentage of the total population, while the population aged over 65 years is expected to grow.

TABLE 2.1 Changes in Australia's population

	2013	2033	2061
Total population	23.3 million	31 million	42 million
Population aged over 64	14%	19%	23%
Working age population (aged 15 to 64)	67%	63%	61%
Population aged less than 15	19%	18%	17%
Dependency ratio (dependents for every 100 workers)	50%	59%	65%
Fertility rate (births per woman)	1.9	1.8	1.8
Net overseas migration (migrants per year)	240 000	240 000	240 000
Life expectancy	79.9 years for men 84.3 years for women		85.2 years for men 88.3 years for women

Source: McKenzie, F. (2015), Chapter 1.7: Megatrends and Australia's future: Older and wiser? *Australia's Future Workforce?*, Committee for Economic Development of Australia, Melbourne, p. 89. Data from Australian Bureau of Statistics (2014), Australian Social Trends 2014.4102.0 - Does size matter? Population projections 20 and 50 years from 2013, ABS, Canberra.

One consequence of this ageing of the workforce is that HR professionals and their organisations will need to be more cognisant of the needs of mature-age workers and employees' work and retirement plans. Another anticipated effect is the need for more organisational **elder care policies** and flexible work policies, as the caring responsibilities of mature-age workers are also expected to increase.[67] In addition, increasing life expectancy poses a challenge for workers themselves, who need to think about shaping their careers beyond the traditional retirement age.[68]

The increase in fertility rates – or the 'baby boom' – that occurred after World War II created a substantial increase in Australia's population. Those born during this boom (1946–64) constituted a bulge in the age distribution of the population. As members of this group began to reach employment age during the 1960s, they created a similar bulge in the workforce. However, this generation is now approaching retirement age at a time when both mortality rates and fertility rates are low. These trends signify a dramatic shift in the demographic shape of Australia's population[69] and present policy-makers and HR planners with the complex problem of an ageing and shrinking workforce, if natural replacement alone is relied upon. In Australia, the total fertility rate (i.e. the average number of children a woman would have during her lifetime) is currently around 1.8. This figure is down from 3.6 calculated at the height of Australia's fertility, and is below the rate needed to simply replace the existing population. However, this phenomenon is not restricted to Australia. Recent global evidence suggests that:

> within Europe, the number of workers aged between 50 and 64 (is expected) to increase by 25 per cent over the next 20 years, while those aged between 20 and 29 will decrease by 20 per cent. In the US the number of workers aged 55 to 64 will have increased by more than half by 2012 … [and] in Japan, almost 20 per cent of the population is already over 65, the highest share in the world.[70]

The dual forces of the ageing of the population and declining fertility rates have emerged as significant policy issues, with implications for public policy as well as organisational policy. According to leading Australian demographer, Peter McDonald, 'retention of people in the labour force as they get older – that is, a reversal of the trend to early retirement – is now a commonly recommended strategy to deal with ageing'.[71]

This issue and the related issue of **age discrimination** has been the focus of a number of reports undertaken by governments and various agencies. In 2004, *Australia's demographic challenge* canvassed, among other issues, the need to attract and retain older employees in the workforce and to adjust organisational policies and practices accordingly.[72]

The problem of Australia's, and indeed the developed and much of the emerging world's, ageing workforce is usually expressed as one of labour force dependency; that is, the ratio of

elder care policies
HR policies that recognise the responsibilities employees have for older parents and relatives and which may give them additional leave or flexibility at work to undertake their elder care duties

age discrimination
This occurs when a person is treated less favourably than another person in a similar situation, because of their age

non-workers to workers. This ratio has altered considerably, with expectations being that in the next 20 years there will be a growing proportion of non-workers dependent on workers. In 2001, 12 per cent of Australia's population was over age 65 and it is estimated that by 2020 this figure will rise to 18 per cent.[73] It is predicted that by 2030 at least 25 per cent of the Australian population will be 65 years and older and, according to McDonald, the 'ageing of Australia's population between 1970 and 2030 represents a very fundamental, historical demographic change'.[74]

Age discrimination

In this context, the issue of age discrimination becomes relevant. Age discrimination refers to 'any prejudice or discrimination against or in favour of an age group',[75] or, to as described by the Australian Human Rights Commission, 'age discrimination is when a person is treated less favourably than another person in a similar situation, because of their age'.[76] Age discrimination potentially affects employees at any stage of the HR cycle; that is, in selection for jobs or training, promotion, redeployment and performance appraisal. Legislation prohibiting age discrimination in employment exists in all Australian states and territories. It also exists in the Commonwealth jurisdiction, with the *Age Discrimination Act 2004* making age discrimination unlawful in key areas of public life, including employment and education.

In 2015, the Human Rights Commission released the findings of the *National prevalence survey of age discrimination in the workplace,* which found that 'over a quarter (27%) of Australians aged 50 years and over indicated that they had experienced some form of age discrimination on at least one occasion in the workplace in the last two years'.[77] The highest incidence of age discrimination was observed in the population aged between 55 and 64 years old. The survey also found that both men and women were subject to age discrimination in relatively equal proportions.

The ageing of the Australian workforce suggests that the issue has considerable resonance with the management of older workers. Although it is unlawful in most jurisdictions to discriminate on the basis of age, McDonald argues that there 'will be a need to change existing negative attitudes of many employers to older workers. Older workers must be seen as valuable workers. This means a shift in the psychology of employers but also a shift among older workers in the way they see themselves'.[78] This suggests that 'management must view older workers as a discrete group with needs distinct from those of younger workers and as being integral to organisational productivity and profitability'.[79]

Other commentators suggest that workforce planners and HR professionals will need to face the increasing reality of **intergenerational conflict** in the workplace, due to the coexistence of four different generations; namely, 'veterans, Baby Boomers, Gen X and Gen Y. Each generation has its own values, view of career, learning and development, family, **work–life balance**, sense of loyalty, and expectations of leaders and the work environment'.[80] Consequently, HR policies need to be adjusted to take account of these issues and the requirements of an increasingly diverse workforce.

intergenerational conflict
The potential difficulties posed by the diverse attitudes and work behaviours of employees from different generations (especially the Baby Boomers, Gen X and Gen Y) in the workplace

work–life balance
Recognises that employees have different personal needs (e.g. child care, ageing parents), which need to be accommodated in their work patterns. Also called work–family balance

Carol Kulik and colleagues suggest that ageing workforces present new challenges to management practice. They list a number of organisational challenges; for example, the need to manage more diverse workforces, including greater proportions of older women; and the need to better understand age stereotyping and discrimination to provide different training and retention approaches and to renew emphasis on work redesign.[81] Taking a life span approach and noting that employees' goals change as they age, Kooij and van de Voorde show that creating bundles of HR practices that accommodate, maintain, develop and utilise older employees is a successful strategy for companies to adopt.[82]

Some organisations have adjusted their HR policies and practices. In Singapore and Hong Kong, labour–scarce service operations (e.g. McDonald's and Délifrance) have actively recruited 'seniors' both to fill job vacancies and to use the skills developed through experience. Procter & Gamble has developed a dual career model for different workers and uses YourEncore to source experienced staff on demand; American Express and Deutsche Bank utilise intergenerative teams; and BMW's Leipzig (Germany) production site recruits only staff over 45 years old, using ergonomic design in its production systems.[83] Royle argues that in some instances these organisations may exploit the insecurities of older workers in order to access a more compliant workforce.[84]

This reconfiguring of the age distribution of the workforce has major implications for employers and HR planners, as the interests of a workforce with diverse needs will need to be accommodated within the increasingly competitive environment in which business operates.

Changes in work and employment patterns

Major changes in the working lives of Australian employees occurred during the final two decades of the twentieth century, and these changes were both a cause and consequence of changing HRM. The changes in the patterns of work were concentrated around three areas: jobs, hours of work and wages. The theme underlying each of these areas was flexibility, and flexibility continues to be a major theme in discussion about the changing nature of work and workplaces, whether from the employers' or the employees' perspective.

Flexibility

In order to assist in their change processes towards enhanced productivity, greater efficiency and effectiveness and global competitiveness, the concept of flexibility has become the driving force for the restructuring of many organisations in Australia, New Zealand and throughout Asia. For employers, flexibility refers to the ability to vary employee numbers, hours and place of work in order to meet variations in demand for their organisation's product or service. For employees, flexibility refers to their ability to have flexible hours, times, schedules and place of work, in order to meet their work, family or life demands. The Fair Work Act provides employees with the right to request flexible work arrangements if they are a parent of a school age or younger child, are a carer, have a disability, are experiencing domestic violence or are helping someone who is (or is over) 55.
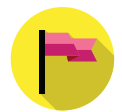
Emerging issue 4
Flexibility

flexibility
Changes in the employment relationship to achieve enhanced productivity, greater efficiency and effectiveness and global competitiveness

Some research has demonstrated that the effective implementation of such policies at an organisational level relies considerably on the availability of clear organisational policies and information for employees and managers, and in line managers' willingness and ability to apply the policies in their own work groups.[85]

The concept of flexible work is now more broadly advocated by HR managers in response to the changed demographic and technological settings discussed earlier in the chapter. A number of prominent Australian companies have adopted an 'all roles flex' approach to jobs and to managing their workforces (see **HRM in practice 2.5**).

HRM in practice 2.5

Job sharing — opportunities and challenges

Politicians, HR directors and teachers are showing that job sharing works. There is also increasing interest in job-sharing from professionals in all areas, both males and females. In the UK, the leadership of the Green Party is job-shared, at Lloyds bank, the HR directors job share, and in the NSW Catholic education system, there are many teachers who job share.

Job sharing involves one job being split between two people. It takes coordination and communication, it may also take some job re-design. According to *HR Monthly* there are benefits to business: 'These include having two people apply their skills, experience and problem solving to one role, and the business having better coverage when one half of the pair is away.'

There can be challenges as well, but ensuring that 'internal and external stakeholders understand the arrangement and by giving sharing employees equal responsibility, remuneration and rewards', the challenges can be managed.

Source: McGeoch, L. (2018), Times two. *HR Monthly*, February, pp. 28–30.

Changes in patterns of employment have included five identifiable components of the workforce: a shrinking proportion of permanent (or 'core') employees supplemented by temporary and casual staff, consultants, contractors and outsourced service providers.[86] The last four groups of employees are often referred to as the 'contingent workforce', or the precarious workforce, as they are usually employed on different terms to permanent employees and have less secure employment contracts. One study estimates that the contingent workforce 'represents approximately 20 per cent of the average company's workforce', and suggests that 'organisations that have determined how to recruit the right people, retain them past retirement age, and keep them engaged, motivated and productive, will realise distinct competitive advantages'.[87]

Australian employers have generally pursued three main forms of flexibility: numerical, functional and hours of working time. *Numerical flexibility* refers to the ability to change the number of employees to suit the peaks and troughs of business. Considerable numerical flexibility has been achieved through the employment of casual and part-time workers, which has become a significant employment trend in Australia. *Functional flexibility* refers to the ability of employees to work across a variety of different tasks and functions as required by the business operations. *Hours or working time flexibility* refers to the ability of employers

to alter the standard working hours of employees, to extend the lengths of shifts and to alter rostering arrangements.

The Cranet-Macquarie Survey reported that 'weekend work, shift work and overtime were the most commonly used flexible working practices used in Australian organisations'.[88] It found that 80 per cent of organisations required some weekend work, 70 per cent used some shift work and 90 per cent had overtime provisions. In addition, 97 per cent employed part-time and 94 per cent temporary or casual staff; 57 per cent used job sharing; and 74 per cent employed staff on fixed-term contracts.[89] These findings perhaps suggest that 'flexibility' is perceived more from the employers' than the employees' perspectives.

Working hours

Another major change that has occurred in the working lives of Australians in the past decade is the hours of work: 'The definition of what counts as the working day, the working week, has been profoundly reshaped during the last decades.'[90] In Australia, the spread of working hours has increased for men so that there are more males working 50 or more hours, and more males working between one and 19 hours. For women, hours at work tend to be concentrated in the 20- to 49-hour range.[91]

While the increasing flexibility of working hours provides managers with greater discretion over the allocation of work, it also impacts on employees. Although for some employees the flexibility of hours increases their ability to combine work and family, there is also growing recognition that this flexibility may favour employers more than employees and is leading to work intensification and increased stress in the home and family.[92]

In a recent study, some 48 per cent of respondents claimed that more and more was expected of them. Sixty-eight per cent indicated that increasing work demands hindered their efforts to maintain a healthy work–life balance. From the organisation's perspective, work–life strategies continue to help the bottom line, with staff turnover down by 4.5 per cent, absenteeism by 3.5 per cent and return from parental leave up by 24 per cent.[93]

Part-time employment is a feature of many economies, but there is no internationally agreed definition of what constitutes part-time work. In many cases, it means less than full-time employment. In Australia, the ABS defines 'part-time' as usually working fewer than 35 hours per week. Despite the overall growth in female workforce engagement in Australia, the split between full-time and part-time work for women has remained largely stable in the past 10 years. A comparison of female work hours in Australia, Sweden and France suggests that the policy framework contributes to the working patterns of women with children under 14 years of age. In Australia, for example, 21 per cent of employed women work one to 19 hours, while the figures for France and Sweden are just 9.1 per cent and 8.2 per cent, respectively for these amounts of hours. At the other end of the spectrum, 47.8 per cent of women in Sweden work 40 hours or more, while the figures for Australia and France are 28.5 per cent and 22.7 per cent, respectively.[94] As at 2017, the majority of men (82.2%) were employed in

part-time employment As defined by the ABS, working fewer than 35 hours per week

full-time employment, and just 17.8 per cent were employed in part-time employment. For women, the distribution is quite different. In 2017, 46.7 per cent of women worked part-time, and 54.3 per cent worked full-time.[95] It would seem that part-time employment has been the way in which women in Australia manage their work and family and domestic roles. Of interest and by way of contrast, in the United States, 74.2 per cent of women are in full-time employment and 25.8 per cent work part-time.[96]

Non-standard employment

One method employers have used to achieve numerical flexibility has been to proportionately increase the number of non-standard or casual employees. Casual jobs typically do not provide access to paid sick or annual leave. Casualisation has become one of the most significant trends in the Australian labour market over the past decade or so. The increasing proportion of casual workers is largely associated with the growth of the service sector, the deregulation of the workplace, an increased number of women in the workforce and the introduction of new technologies. Industries such as retail, cafes and restaurants have traditionally employed casual workers; that is, workers who receive an hourly rate of pay that should include a loading to cover not receiving paid annual or sick leave. More contemporary examples of non-standard workers are Uber (or Grab in South-East Asia) and Deliveroo drivers who are paid by the trip or delivery – work that is more akin to old-fashioned piecework.

According to the ABS, the trend towards part-time and casual employment is a continuation of a longer-term trend. ABS statistics reveal that the number of people employed part-time increased by more than half (51%) in the 10 years since October 1991. Over the same period, full-time employment increased by only 11 per cent. As a result, the proportion of total employment represented by part-time employment increased from 22 per cent in October 1991 to 28 per cent in October 2001.[97] Since 1992, nearly all the net growth in employment has been 'non-standard' in nature, with considerable debate as to whether this is the result of employer or employee preferences.[98]

A report by the Chifley Research Centre investigated this phenomenon and revealed that one in four Australians is now employed on casual terms.[99] The ABS presents a similar picture, reporting that of all employees, 23.5 per cent have no leave entitlements, indicating their casual status. The report also revealed that while casual workers are working for short periods in limited-term jobs, there are many long-term casual employees in ongoing jobs. These employees are missing out on most of the important employment conditions and have limited access to other rights and forms of leave. One of the main problems with having such a heavy reliance on casual workers, apart from the human resource implications, is the inevitability of a deteriorating skills base, lower workforce stability and higher staff turnover costs. The Chifley report states that this is both inefficient and inequitable.

While creating opportunities for increased flexibility in the workforce, the casualisation of labour is yet another challenge for HR professionals in ensuring that the rights of these workers, as well as organisational goals, are met.

SUMMARY

Understanding the social, economic and political contexts of organisations is important for strategic human resource managers if they are to provide accurate input into the business's strategic direction. More recent scholarly attention has also raised the need to be cognisant of the context. It is also critical for HR managers to understand the labour markets from which their human resources are recruited, selected and developed. As the chapter has explained, the economic contexts in which businesses are operating is dynamic and interconnected and the status of the Australian, regional and global economies will have direct repercussions for business in relation to growth or contraction and the size and type of workforce needed. In this context also, the issue of productivity and the means by which it can be improved is an ongoing concern of business and HR managers.

The social context is likewise important, with current concerns about the ageing of the workforce, the feminisation of the workforce and the need to increase the size of the workforce uppermost in the minds of policy-makers and practitioners. For HR managers, understanding the changing demographic profile of workers and their work and care needs and responsibilities influences the type of policies and practices that the business should consider and adopt. For example, elder care leave, parental leave, domestic violence leave and flexible work practices are all current policy areas attracting considerable attention in the HRM field.

The political context remains important in Australia, with issues of labour market restructuring, low wage growth and working conditions and entitlements a concern of the public and policy-makers. Chapter 3 covers the employment relations regulatory system, itself the focus of much political attention.

KEY TERMS

- age discrimination 67
- Australian Bureau of Statistics (ABS) 56
- capital productivity 54
- casualisation 48
- elder care policies 67
- flexibility 69
- full-time employment 72
- gender pay gap 65
- intergenerational conflict 68
- labour force (or workforce) 53
- labour migration 50
- labour productivity 54
- male breadwinner model 58
- maternity, paternity and parental leave 60
- multifactor productivity (MFP) 54
- national minimum wage 61
- neo-liberalism 49
- participation rate 53
- part-time employment 71
- pay equity 65
- productivity 54
- work–life balance 68

EMERGING ISSUES

1 Labour standards and migrant workforce

Globalisation infers an increasing interconnectedness of national economies.
a   What effect might labour standards encoded in free trade agreements have on SHRM?

2 Changing workforce

The feminisation of the Australian workforce represents ongoing challenges for HR managers.
a   Why do governments around the world advocate increasing female workforce participation?
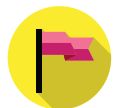
b   What are the main human resource implications of women's increased workforce participation?

c   How are organisations responding?

3 Ageing workforce

The Australian population and workforce are ageing.

a   Why is this an important issue for human resource managers to consider?

b   What are the advantages of an ageing workforce?

c   What changes within workplaces might need to be introduced to accommodate older workers?

4 Flexibility

The increasing flexibility of the employment relationship may suggest positives and negatives for employers and employees.

a   What are the pros and cons of flexible work arrangements for (i) employers and managers, and (ii) employees?

ETHICAL CHALLENGE

Work hours and pay rates

You have been asked to provide advice to a fellow student who works in a restaurant on weekends and feels pressured by their boss to work longer hours than they wish. In discussion with your fellow student, you also realise that the student is possibly not being paid the correct hourly rate. You also suspect the student is already working more hours than their visa allows.

1   How would you advise the student about their initial request to refuse more hours of work?

2   What other issues does the conversation raise?

3   Would you raise these issues with your fellow student, or keep them to yourself? What would you say and do?

CASE STUDY 2.1

HR director's challenge: advancing women to leadership positions

A large (just over 3000 employees) publicly listed company has received bad publicity recently about the low representation of women in leadership positions in the organisation. The company is headed by a male CEO and the current senior executive team has one woman (the HR director) and three men (Marketing director, Operations director and Finance director). The composition of the non-managerial workforce is largely female, with 75 per cent female and 25 per cent male. The profile changes at the managerial level, with 20 per cent of managers being female and 70 per cent being male. As a consultant specialising in women and work, you have been asked to provide advice about the most effective way to advance women to leadership positions in the organisation. The CEO wants change to be introduced quickly so that he can demonstrate to the public and media that the organisation has responded to the bad publicity. The HR director argues that it is not just a structural issue, but also a cultural problem, and it will therefore take a number of years to shift the managerial ratios between men and women.

Questions

1   What do you think the HR director means saying there is 'a cultural problem' as well as a 'structural issue'?
2   What action would most likely bring about quick changes?
3   What cultural issues might need to be addressed?
4   What other structural factors might be slowing the advancement of women to leadership positions?

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CHAPTER

3

Industrial relations: frameworks and practice

Workplace laws written before Uber and before the Global Financial Crisis are not able to do their job of ensuring a fair go for working people today. … These broken rules have created a crisis, causing *record low wage* growth and the spread of insecure work.

Sally McManus, ACTU Secretary, *Change the Rules*, Speech to the National Press Club, 21 March 2018.
See https://www.actu.org.au/media/1033746/180320-national-press-club-speech-sally-mcmanus-march-21-2018.pdf.

The ACTU's … war against employers is a recipe for disaster not supported by the facts. Their hostility toward flexible ways of working will place at risk the jobs and options of the very people they claim to be protecting — Australian workers.

Jenny Lambert, Acting Chief Executive, Australian Chamber of Commerce and Industry, 21 March 2018,
https://www.australianchamber.com.au/news/actu-policy-package-recipe-disaster/.

OBJECTIVES

After reading this chapter, you will be able to:

1 explain the concepts of industrial relations and workplace relations and their relationship to strategic human resource management (SHRM)

2 describe the framework that regulates industrial relations and the major institutions, parties and processes in that framework

3 recognise that each state (except Victoria) has its own workplace relations systems for its public servants

4 identify the range of associated legislation that has an impact on the employment relationship outside the *Fair Work Act 2009*

5 demonstrate an understanding of the implications of the *Fair Work Act 2009* for HR professionals.

Emerging issues

1 Terminology
2 Responsibilities
3 Disputes

INTRODUCTION

An industrial relations system refers to the rules, regulations and institutions that govern the employment relationship and that set the terms and conditions of work and employment.[1] The industrial relations process then includes the negotiating and bargaining procedures which take place between employers (and employer associations) and workers (and their unions, where these exist) in accordance with the industrial relations system in order to achieve outcomes on such issues as wages, salaries, benefits and employment conditions. In Australia, this system tends to be referred to as the *workplace relations system*, indicating the focus on the employment relationship at the enterprise or workplace level, although the terms industrial relations, workplace relations and employment relations have similar meanings and tend to be used interchangeably in practice if not in theory. Until relatively recently, the enterprise focus had been preferred by employers, unions and the federal government, but for reasons related to stalled productivity and wage growth it is now being questioned. The quotes at the opening of the chapter reflect this debate.

This chapter focuses on the rules that govern employers and employees in the Australian national system, which covers workers in the private sector. The Australian states, with the exception of Victoria, have separate systems to cover their own public sector employees.[2]

The major parties or actors involved in workplace relations (or industrial relations) are typically understood to be employers and their associations, employees or workers, and trade unions. In Australia and elsewhere, governments play a significant role through legislation that sets employment standards and regulates the employment relationship. Furthermore, in most countries, governments also play an important role as employers of public sector workers, sometimes acting as pace-setters for the private sector.

The subject of industrial relations is often a contested area of policy and practice. In Australia, for example, there have been significant reviews of the workplace relations system and legislation over the past two decades.

The current Australian legislation, the *Fair Work Act 2009*, was introduced to replace the Howard Government's controversial *WorkChoices* amendments to the *Workplace Relations Act 1996*. In June 2012, a review of the Fair Work Act was presented to the federal government. The evaluation document, *Towards more productive and equitable workplaces*, made 53 recommendations but overall did not suggest radical reform of Australia's industrial relations legislation.

In 2015, the Productivity Commission released a new report on the Australian workplace relations framework. This review had been commissioned by the Federal Treasurer in late 2014.[3] According to the terms of reference, the Productivity Commission Inquiry was to:

> make recommendations about how the laws can be improved
> to maximise outcomes for Australian employers, employees
> and the economy, bearing in mind the need to ensure workers

Emerging issue 1
Terminology

workplace relations
The employment relationship as it is constructed and managed at the workplace (or enterprise or organisation)

union
An organisation that provides a collective voice for employees. It is an institution whose purpose is to represent and defend those who work for someone else

Fair Work Act 2009
The main federal legislation regulating the employment relationship in Australia

are protected, the need for business to be able to grow, prosper and employ, and the need to reduce unnecessary and excessive regulation.[4]

In its findings, the Productivity Commission made a number of recommendations, but overall concluded that:

> Despite some significant problems and an assortment of peculiarities, Australia's workplace relations system is not systemically dysfunctional. Many features work well – or at least well enough – given the requirement in any system for compromises between the competing and sometimes conflicting goals the community implicitly has for the system … The key message of this inquiry is that repair, not replacement, should be the policy imperative.[5]

Despite the Productivity Commission's conclusion, there is now considerable discontent among both labour and business about the Fair Work Act. Since the report was presented to the government in 2015, one of its controversial recommendations, to reduce Sunday penalty rates for hospitality and retail workers, has been implemented. Momentum also is building from the Australian Labor Party (ALP) for a major review of the Fair Work legislation, particularly in relation to protections for workers outside traditional employment relationships.

Workplace relations is a matter of government policy, but it also has practical and symbolic implications at the societal, organisational and individual levels and often engenders strong differences of opinion among people and political parties.

Industrial and employment relations are played out at the workplace or industry levels, and because of this, it is important for human resource (HR) managers to understand the nature of industrial relations. It is the role of employers – in particular through their HR professionals – to implement and comply with industrial and workplace relations legislation, while at the same time endeavouring to create a partnership with employees and their representative bodies within the legislative frameworks that dictate policy.

The specific changes in Australian industrial relations over the past 20 years mean that the options for determining the terms and conditions of employment are more diverse than before, and the role of HR managers potentially more important.[6]

This chapter provides a brief history of industrial relations in Australia and then outlines the current institutional structure, minimum standards and processes of regulation set by the Fair Work Act. The chapter also considers the role and place of HRM in this regulatory environment. Before discussing these issues, the link between strategic human resource management (SHRM) and industrial relations is explored.

INDUSTRIAL RELATIONS AND SHRM

In the shift from personnel management to SHRM discussed in Chapter 1, HRM became closely aligned with the business goals and strategic interests of the organisation. Prior to this, personnel management and industrial relations were often not closely integrated with business strategies. SHRM has sought to change this relationship: first, by bringing the two fields of human resources and industrial relations together in an operational sense and often under the umbrella of the human resources department; and, second, by aligning these fields much more directly and closely to the organisation's business interests and strategies.

The relationship between industrial relations and HRM is often uneasy and contested. Some argue that the rules and regulations of industrial relations, which are often set outside the organisation, interfere with the organisation's internal HR policies and strategies. It is also suggested that where industrial relations has a connection with third parties, such as trade unions and government tribunals, it is at odds with the emphasis of SHRM, which is focused on the development of close and direct relations between the individual employee and employer. Others go further, arguing that SHRM, in both theory and practice, is unitarist, pro-management and anti-union.

Whichever perspective is adopted, understanding industrial relations and the regulatory framework remains important for the effective practice of SHRM as it requires an understanding of all aspects of the employment relationship. For some, 'industrial relations' refers specifically to the management of the employment relationship with a unionised workforce. Nevertheless, if HR managers are to be effective managers of all employees, they need to understand industrial relations and all that it covers; that is, the dynamics, contradictions and tensions of the employment relationship.

In particular, a knowledge and understanding of the various laws relating to employment is required, if not in a fully technical sense, at least in terms of understanding the responsibilities of employers. This knowledge is necessary even if legal specialists are used, because a competent and responsible HR manager is required to brief such specialists properly and efficiently. In dynamic regulatory environments, which typify many countries, it is the responsibility of the HR manager (or delegated HR officers) to stay abreast of these changes. Fluid legislative environments increase the challenges for HR managers as they endeavour to meet the needs of the business and their employees.

Strategic HR managers seek to link the way in which they manage industrial or workplace relations to the HR plans and policies of the organisation. These, in turn, derive from the organisation's HR strategy, as shown in **Figure 3.1**.
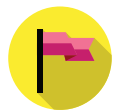
Emerging issue 2
Responsibilities

FIGURE 3.1 SHRM and the industrial relations framework
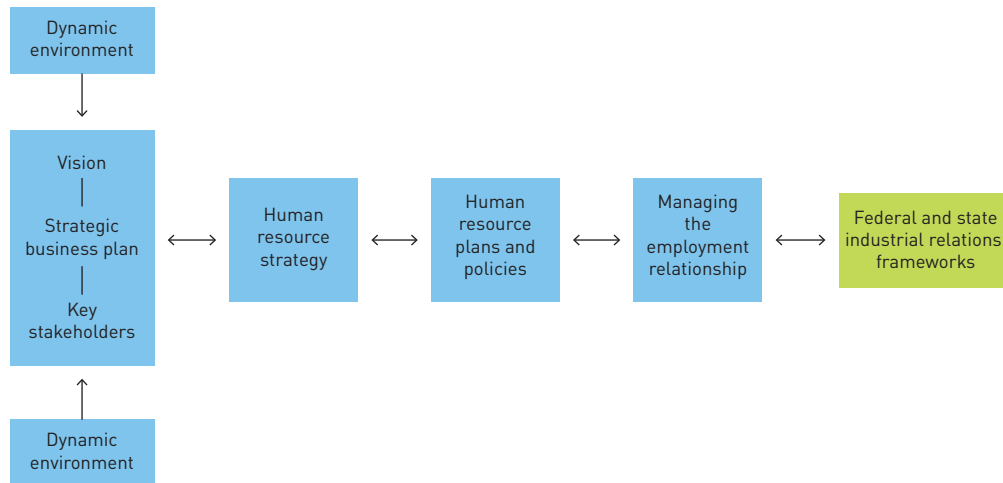
This HR strategy should be cognisant of the business strategy and responsive to the dynamic environment in which organisations operate. This means the responses to industrial relations issues may vary between organisations and over time. Later in the chapter, we examine the differing strategic responses of employers to industrial relations change. To conduct HRM strategically, the legal basis of the employment relationship, and the regulatory framework of industrial relations that overlays this, must be understood.

The Australian Human Resources Institute's (AHRI) Model of Excellence promotes characteristics relevant to understanding the link between good workplace relations and strategic human resource management (see Figure 1.2 in Chapter 1). Key competencies of a HR manager include being able to build and foster relationships and partnerships with key stakeholders, which include employee representative groups, such as unions. Additionally, the HR manager should be a credible activist, which means having the correct information and knowledge about workplace relations in order to make a valid and justified company position and to understand the positions of other parties.

THE INDUSTRIAL RELATIONS FRAMEWORK IN AUSTRALIA

The formal system of industrial relations in Australia has a rich and complex history involving government-sanctioned compulsory conciliation and arbitration from the early 1900s to the 1980s. This was a unique and centralised framework for determining work rules and resolving labour conflicts. Many authors have commented on the transformation of the Australian industrial relations system. Wailes and Lansbury, for instance, identified several phases of

reform that gradually displaced the centralised system of industrial relations: first, a period of coordinated or managed decentralism (1987–90), followed by coordinated flexibility (1991–96) and then a phase of 'fragmented flexibility' (since 1997).[7] Others have argued that throughout the past two decades, industrial relations and the labour market have been re-regulated rather than deregulated, and that this re-regulation has been in favour of business and employers rather than employees and unions.[8] In that time, many of the changes have also favoured individualised and non-union arrangements.

When the Commonwealth of Australia was created in 1901, the Constitution empowered the federal government to settle disputes by means of conciliation and arbitration while giving the government only limited power to directly enact legislation relating to industrial relations and employment matters. Under the 'labour power' in the Constitution, the Commonwealth could only intervene in industrial disputes that extended beyond the boundaries of any one state. As a result, in these interstate matters the Commonwealth Court of Conciliation and Arbitration (the forerunner of the Australian Industrial Relations Commission, now the Fair Work Commission) was established in 1904, with the power to arbitrate the terms and conditions of employment, which were set out in 'awards'. Industrial tribunals were also established for each of the states and territories, and throughout most of the twentieth century these conciliation and arbitration tribunals provided the main institutional framework for determining employment conditions in Australia. Consequently, Australia had separate industrial relations systems in each of the states and territories and also at the federal level, leading to a complex web of employment laws and regulations.

A new era

Until the late 1980s, federal and state awards covered approximately 80 per cent of all wage and salary earners. These awards tended to set minimum rates of pay and conditions and permitted the parties to establish supplementary rates by additional **collective bargaining**.[9] During the 1980s, the perceived need for increased workplace and organisational flexibility, efficiency and competition led unions, employers and the federal government to endorse significant changes in industrial relations legislation and labour market regulation.[10]

These changes resulted in a shift from a national and industry level focus to an enterprise or workplace focus. There has also been a shift in focus from the collective (unions and employer associations) to the individual employer and employee. These shifts in focus were aimed at deregulating the labour market and encouraging more flexible and harmonious relationships between employers and their employees. To achieve these ends, successive governments have introduced substantial legislative changes, commencing with the *Industrial Relations Reform Act 1993* and followed by the *Workplace Relations Act 1996*.

collective bargaining
A method of negotiation between unions and employers, used to resolve the terms and conditions of employment

The Workplace Relations Act was introduced by the Liberal–National Coalition Government, and at the same time the Victorian Government ceded its industrial relations powers to the federal government, leaving the other states and territories with their own legislation. From 1996, the federal government worked towards a unified national system of industrial relations, culminating in the *Workplace Relations Amendment (Work Choices) Act 2005*, which came into effect in March 2006. Australia's **industrial relations framework** was fundamentally altered, as the *WorkChoices* legislation drew on the corporations power of the Australian Constitution to create a unified, national system for private sector employees.[11]

industrial relations framework
Describes the arrangements by which the terms and conditions of work and the employment relationship are determined; includes legislation, bargaining representatives and processes

The legislation was also highly controversial because it was seen to shift influence and power dramatically back to employers and create an unfair imbalance in the employee–employer relationship by stripping award conditions, removing unfair dismissal protections and further restricting the rights and roles of unions.[12] As a result, *WorkChoices* became the target of intense community and union opposition, eventually contributing to the Howard Government's downfall in the 2007 federal election.

The Fair Work Act

In November 2007, a federal Labor Government was elected, with a clear mandate to reform the industrial relations legislation. Following its pre-election policy of 'Forward with Fairness', the government introduced the *Fair Work Act 2009*. Although the Fair Work Act retained the national rather than state-based system, it also introduced some important changes, including a set of 10 national minimum employment standards and new bargaining rules for employers and employees.

While the Fair Work Act endorsed collective bargaining at the enterprise level, it also emphasised individual employment rights. In this respect, the current system is a hybrid of collective and individualised rights and processes. This hybridisation represents an important and significant shift in focus and philosophy.

The Fair Work Act provides for a legislated safety net of minimum National Employment Standards (NES), a revised modern award system, and rules for employer–employee bargaining and union representation. The Act initially had a focus on providing flexibility options for working parents, including a right to request flexible work arrangements and individual flexibility arrangements (IFAs). In 2013, these rights were expanded to include a right for victims of domestic violence and their close supporters to request leave, and to all parents of school-age (and younger) children and carers of adults who need care, as well as to employees with disability and those aged 55 or older.

IFAs provide an option for employees and employers to negotiate to change the terms of the award or enterprise agreement covering them, so long as they do not undercut the overall terms of the award or agreement; that is, they are subject to the 'better off overall test' (BOOT). Flexibility is an area of contemporary interest and sometimes controversy, with employers

seeking more flexibility in employment conditions, and employees often seeking more flexibility and enhanced security to balance work and family. Only 2 per cent of employees made an IFA in the period 2012–15, with most of these employed by large employers, and most in the public sector. Employees who made IFAs were more likely to be female, part-time and aged between 25 and 44.[13]

Overall, the Fair Work Act aimed to rebalance the power in the employment relationship. It also recognised the need for individual as well as collective protections. However, as suggested above, further change may be forthcoming, as discontent with the Act from labour and unions has grown (see also **The future of work 3.1**). The ALP has indicated it favours reviewing the status of casual workers, ending sham contracting, regulating labour hire and increasing penalties for serious worker exploitation; while the Coalition, with pressure from employer groups, prefers further regulatory controls.[14]

The future of work 3.1

Insecurity vs security

Debates and discussion abound about the future of work, technological disruption and globalisation of labour. One area that attracts considerable attention and concern revolves around the issues relating to security versus insecurity of work and income.

The Centre for Future Work at the Australia Institute reports the following:

> Two ideas which have generated much discussion and debate are proposals for a **basic income** (through which all adults would receive an unconditional minimum level of income whether they were employed or not) and a **job guarantee** (whereby government would ensure that every willing worker could be employed in some job, such as public works or public services, thus eliminating involuntary unemployment).[15]

Neither of these concepts are completely new, but they are gathering some momentum as solutions to the perceived threat of many people losing jobs as a consequence of technological change.

In favour of a basic income (also referred to as a universal basic income, or UBI) are those who argue that inequality and group distinctions can be reduced with a universal payment. It would allow more choice for individuals to spend their income as needed and enable people to engage in activities that may be socially constructive but not usually valued by the market, such as care and artisan work. Opposition is based on various reasons, but some of the most prominent are that a UBI excuses government from providing welfare to citizens, that it will cost too much, will result in higher taxation and remove the incentive to work.

A job guarantee is a related concept. One of the greatest fears in the future of work debate is that vast sections of the workforce will lose their jobs. This dystopian future was fuelled by an article by Frey and Osborne suggesting that up to 40 per cent of occupations will be lost.[16] Although this figure has been challenged with a more refined job-task analysis by Arntz, Gregory and Zierahn,[17] the threat still lingers. In this context, having guaranteed work, and therefore income, becomes an attractive solution. Ultimately, these are macro-policy concerns that will be resolved by political means rather than by HR managers. Nevertheless, the debates about the future of occupations, jobs and tasks, income and welfare are relevant to all human resource professionals who seek to inform, influence or guide policy debate.

National Employment Standards (NES)
Ten legislated minimum standards of employment; with the minimum standards set in modern awards, they provide a safety net of terms and conditions for employees

modern awards
An enforceable document containing minimum terms and conditions of employment relating to a particular industry or occupation

Fair Work Commission
The Australian national workplace relations tribunal (formerly Fair Work Australia)

Fair Work Ombudsman
The compliance and enforcement arm of the national workplace system

In Australia, the federal workplace relations framework covers the majority of private sector employees. State public sector employees are covered under the legislation and regulations applicable to each state and territory.

The elements of the Australian industrial relations framework are as follows.

1 *The legislation:* At the federal level the main legislation is the *Fair Work Act 2009*, which commenced on 1 July 2009. The National Employment Standards (NES) and modern awards components commenced on 1 January 2010.

2 *The industrial relations institutions:* The main tribunal is the Fair Work Commission (the Commission; see http://www.fwc.gov.au).[18]

3 *The major participants or the bargaining agents:* employees and employers; collectively, they are unions and employer associations. Employees can also be represented by a bargaining agent.

4 *The industrial relations processes:* The minimum terms and conditions of employment are set by a mix of legislation, modern awards, bargaining and, occasionally, determinations of the Fair Work Commission.

5 *The instruments of regulation:* These are the legal and contractual outcomes of the bargaining process and are referred to as enterprise agreements. There is no legal distinction between union and non-union agreements. The NES and modern awards are also regulatory instruments setting a floor of minimum working conditions. The NES are set by Federal Parliament and modern awards were decided by the Australian Industrial Relations Commission (AIRC).

6 *Enforcement is the domain of the Fair Work Ombudsman:* The Fair Work Ombudsman is an independent office set up under the Fair Work Act with a number of specific functions. These include promoting 'harmonious, productive and cooperative workplace relations' and ensuring compliance with the Act.[19] It provides free advice, education and assistance to employers and workers, but is also the key agency investigating breaches of workplace laws and prosecuting employers who are responsible for these breaches.

A summary of the main parts of the industrial relations framework under the Fair Work Act is provided in Table 3.1, and each is elaborated below.

TABLE 3.1 The Australian (federal) industrial relations framework

1 Legislation	*Fair Work Act 2009*
2 Institutions	Fair Work Commission (the Commission) Fair Work Ombudsman Courts, which hear prosecutions of employers for non-compliance
3 Participants	Employers, employer associations, employees, unions, bargaining agents
4 Processes	Collective bargaining, 'good faith bargaining', determinations for low-paid workers in special circumstances
5 Instruments	National minimum wage National Employment Standards (NES) Modern awards Workplace agreements (union and non-union)

Legislation

Federal legislation is important for setting the framework and underlying philosophy for industrial relations, and whether a country's approach to industrial relations is to be highly regulated or deregulated. With this in mind, changes in legislation will have a direct impact on the manner in which industrial relations (and, by association, human resource management) is conducted. This has been clearly illustrated in Australia over the past decades, as major changes in industrial relations legislation have occurred. Industrial relations policies also generate considerable debate and reveal differences in underlying philosophy – namely, unitarist or pluralist approaches, as discussed in Chapter 1 – to the management and regulation of labour and the employment relationship.

The Fair Work Act

Key aspects of the Fair Work Act are shown in **Table 3.2**.

TABLE 3.2 Key aspects of the *Fair Work Act 2009*

The *Fair Work Act 2009* established the tribunal now called the Fair Work Commission. It is the successor to the Australian Industrial Relations Commission.
Minimum wages are set by the Minimum Wage Panel of the Fair Work Commission.
The Fair Work Act legislates for 10 minimum conditions, known as the National Employment Standards (NES).
Modern industry awards include 10 conditions, as well as the minimum wage for those covered by that award.
The NES and the 122 modern awards together constitute the safety net – or minimum standards – for all employees.
There is a requirement on the negotiating parties to bargain in good faith.
There are three forms of registered agreements between employers and workers: single-enterprise agreements, multi-enterprise agreements and greenfields agreements.
There is an unfair dismissal regime for all employees in organisations of 15 or more employees.
There are 'general protections' for employees focusing on workplace rights, freedom of association, workplace discrimination and unfair treatment.

Coverage

The Fair Work Act covers all employees through some of its provisions and 'national system' employees in other provisions; that is, the Act covers most private sector and Commonwealth public sector employees. State public sector employees and others not covered by the Act (e.g. local government employees) are covered by state/territory legislation.

Definitions: employers and employees

An *employer* is one who is legally recognised as an Australian corporation and an *employee* is defined as a person who works for one of those employers.[20] They are referred to as a 'national system employer' and a 'national system employee'. It is estimated that the Fair Work Act covers 85 per cent of the working population.[21]

The National Employment Standards

The National Employment Standards (NES) provide a floor of minimum conditions with which all employers must comply.

The NES cover the following 10 areas.

1 *Maximum hours of work:* A maximum of 38 ordinary hours of work per week is the Australian standard. These hours may also be averaged over a period specified by the award or agreement and an employer may request reasonable additional hours.

2 *Requests for flexible working arrangements:* Parents of school–aged, or under, children, carers, domestic violence victims and their close supporters, those with disability and those who are aged 55 or more, have the right to make a written request for changes in working arrangements that may include changes in hours, patterns and location of work. The employer may refuse these requests on reasonable business grounds, although the 'reasonableness' of a refusal cannot be challenged by the employee through the Fair Work Commission or the courts.

3 *Parental leave:* Employees with 12 months' continuous service are entitled to 12 months' unpaid parental leave for birth or adoption, or the right to request an additional 12 months' unpaid parental leave if one partner does not use their parental leave. The employee is entitled to return to the same or a similar job. If the employer makes significant changes to the work, there is a requirement to consult with the employee while on unpaid leave. (Note: Australian working parents also have an entitlement to 18 weeks' paid parental leave, funded separately to the workplace relations system.)

4 *Annual leave:* Employees (other than casuals) are entitled to four weeks of paid annual leave (or five weeks if shift workers). On agreement, employees may be able to cash out their annual leave.

5 *Personal/carer's leave:* Employees other than casuals are entitled to 10 days of paid personal/carer's leave (including sick leave and carer's leave) plus two days of compassionate leave.

6 *Community service leave:* This includes paid leave for jury service and unpaid leave for recognised community activities.

7 *Long service leave:* This is defined in state legislation or provided in awards and enterprise agreements.

8 *Public holiday work:* Employers may make a reasonable request to employees to work on public holidays and employees may refuse to work if they have reasonable grounds.

9 *Notice of termination and redundancy pay:* The employer must give the employee written notice of the day of the termination and the employee is entitled to redundancy pay as set out in the legislation.

10 *A Fair Work Information Statement:* This statement, to be published by the Fair Work Ombudsman, must be given to all new employees on starting employment.

The minimum wage

In addition to these 10 minimum employment standards, the minimum wage is separately determined by the Minimum Wage Panel.

For employees covered by modern awards, minimum wages are specified in the modern award. For award-free or agreement-free employees, minimum wages are specified in the national minimum wage order. A national minimum wage order is made annually by the Minimum Wage Panel of the Fair Work Commission. This panel can also conduct annual wage reviews to set or vary minimum wages in modern awards.

Institutions

This section outlines the main industrial relations institutions regulating the employment relationship in Australia.

The independent 'umpire' and main national tribunal is the Fair Work Commission. There are also the Office of the Fair Work Ombudsman and the Fair Work Divisions of the Federal Court of Australia and the Federal Circuit Court of Australia. The main institutions in Australia's industrial relations system are shown in **Figure 3.2**.

FIGURE 3.2 Main institutions in Australia's industrial relations system
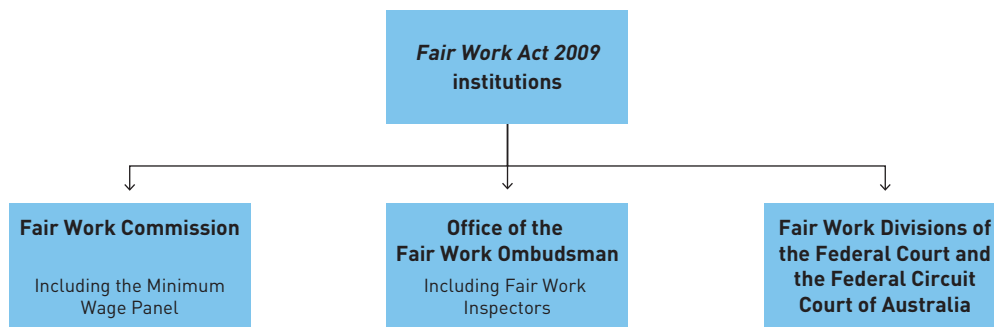
The *Fair Work Commission* is said to be a one-stop shop to assist employers and employees in their employment relationship. The Commission has a President, Deputy Presidents, Commissioners and Minimum Wage Panel members. It also has a General Manager and administrative staff who assist with the running of the tribunal and associated matters.

The main functions of the Commission are to be the standard setter and the problem solver. These functions are outlined below.

- It sets modern awards, which provide a safety net of minimum conditions, including minimum wages, for the industry.
- It facilitates good faith bargaining and the making of enterprise agreements.
- It determines unfair dismissal claims and remedies.
- It deliberates on workplace determinations, equal remuneration, transfer of business, general protections, right of entry for unions and stand downs.
- It regulates the taking of industrial action.
- It assists employees and employers to resolve disputes at the workplace through conciliation and mediation, and in some cases through determinations (that is, arbitration).[22]

Anti-bullying provisions were introduced into the Commission in 2014, giving it jurisdiction to respond to bullying in the workplace.

Within the Commission there is also the Minimum Wage Panel. This panel makes annual national minimum wage orders for award and agreement-free employees.

The *Fair Work Ombudsman* is a separate body to the Fair Work Commission. Its objective is to promote harmonious, productive and cooperative workplace relations. Importantly, the Fair Work Ombudsman also has a compliance and enforcement role (see **HRM in practice 3.1**). Its functions include providing:

- advice and education for employers and employees
- an inspectorate service to ensure that employers, organisations and employees are meeting their obligations under the Fair Work Act and, where necessary, take steps to enforce the laws through the court system
- monitoring of certain temporary skill shortage (TSS) visas.

The functions of the Fair Work Divisions of the Federal Court and the Federal Circuit Court of Australia include:

- hearing matters that arise under workplace relations law
- making appropriate orders to remedy a contravention, including injunctions
- hearing small claims about entitlements; for example, underpayment of wages, up to an amount of $20 000.

HRM in practice 3.1

FWO's Food Precincts campaign returns $471,904 in wages owed to hospitality workers

The Fair Work Ombudsman's audit of three popular food destinations has recovered $471,904 for 616 workers, after the FWO found that 72 per cent of the 243 businesses audited had breached workplace laws.

Fair Work inspectors visited businesses in Victoria Street in the Melbourne suburb of Richmond; Glebe Point Road in Glebe, Sydney; and Fortitude Valley in Brisbane – interviewing staff and checking businesses' employment records.

The FWO deployed a range of compliance and enforcement tools against more than one hundred non-compliant businesses during the audit campaign, including:

- commencing legal action against the Meatball & Wine Bar Pty Ltd for allegedly underpaying 26 employees;
- issuing 71 infringement notices (on-the-spot fines);
- issuing 63 formal cautions; and
- issuing seven compliance notices.

The most common breaches related to underpayment of workers base hourly rates (38%), with inadequate or non-existent employment records and pay slips another common trend (28%). Other common issues included non-provision of meal breaks, incorrectly classified workers and non-payment of overtime.

Source: © Fair Work Ombudsman, www.fairwork.gov.au. Licensed under a Creative Commons Attribution 3.0 licence.

Participants

In its simplest and most direct form, the employment relationship is a relationship between an employer and employee. Employment relations, however, are typically not so simple and are complicated by a number of other factors, including different forms of employment contracts such as employees of labour hire companies and independent contractors.

When it comes to bargaining about the terms and conditions of work, an employer generally has more power than an individual employee. For that reason, employees sometimes prefer to gain strength by acting collectively and being represented by a third party in bargaining. Unions, representing groups of workers in a particular trade, occupation or industry, typically perform this function and engage in collective bargaining with employers. Under the Fair Work system in Australia, an employee does not necessarily have to be represented by a union. The legislation refers to 'representative organisations' rather than unions. The 'bargaining representatives' may be the union or another authorised representative of employees.

Unions and the union movement

In 1894, Sidney and Beatrice Webb began their seminal work on trade unions with the following definition: 'A Trade Union … is a continuous association of wage-earners for the purpose of maintaining or improving the conditions of their employment.'[23] Today, the standard definition used by the Australian Bureau of Statistics (ABS) is very similar: 'A *trade union* is an organisation consisting predominantly of employees and is concerned with negotiating rates of pay and employment conditions for its members.'[24]

On the basis of these definitions, we can see that a union is a work-based organisation, providing a collective voice for employees, and an institution whose purpose is to represent and defend those who work for someone else. The definitions emphasise a union's function as an organisation to defend, maintain and improve wages and working conditions through means such as bargaining, representation before tribunals and lobbying governments.

Early in the twentieth century, H. B. Higgins, one of the founding fathers of Australia's former conciliation and arbitration system, wrote that unionism should be fostered so that employers did not have to deal with the individual complaints of each employee. Instead, he maintained that employee concerns and grievances could and should be represented collectively through their union. He stated that:

> the system of arbitration adopted by the Act [*Conciliation and Arbitration Act 1904*] is based on unionism … It is, of course, better for an employer that he should not be worried by complaints of individual employees and that any complaints should be presented collectively by some responsible union.[25]

In most countries, union membership has been in decline and recognition of unions as necessary and legitimate participants in industrial relations had declined dramatically by the turn of the millennium. In part, this was aided by emerging HRM approaches, which emphasised direct communication with employees, the individualisation of the employment relationship and alternative, management-initiated 'employee voice' and consultative mechanisms within workplaces. The changing view of unions was also fostered by governments that have had a preference for deregulation of the employment relationship and a reduced desire for third-party intervention or external regulation.

Despite the shifting political and economic contexts, Australian unions have been relatively successful in achieving improved wages and working conditions for employees. Apart from ensuring that workers have entitlements such as paid sick leave and holiday leave, estimates show that wages outcomes in union-negotiated enterprise agreements are higher than non-union agreements – in the March 2018 quarter the increases were 2.7 per cent compared with 2.3 per cent.[26] However, the peak for agreements that covered union members was in 2014, with a continuing decline since then.[27] Furthermore, in Australia as in many countries, low wage growth has become a worrying feature of the economy, with concerns expressed by the governor of the Reserve Bank that this is 'diminishing our sense of shared prosperity'.[28]

In order to perform the functions described above, a union must have some degree of legitimacy. Employers and workers must recognise the union as the organisation that should represent employees in the bargaining over wages and conditions. Only when this recognition occurs can unions then proceed to bargain with management and represent the interests of their members. Gaining recognition is therefore a very important aspect of a union's role and the ease with which this recognition is gained can be influenced by legislation. Such legislation varies markedly between countries. Furthermore, some managerial policies and HRM strategies have taken advantage of their power and position to marginalise, avoid or exclude unions.

For unions to continue to represent and defend the interests of employees, they must also have members. This has become a complex and serious problem for unions in many advanced, industrialised nations. In Australia, for example, unionisation rates declined considerably in the latter part of the twentieth century and have continued to decline into the twenty-first century. There are approximately 10.6 million employees in Australia and 15 per cent of them are members of a union.[29] Union membership is usually expressed as union density; that is, the percentage of the paid workforce belonging to a union. In Australia, these figures show union density has fallen over the past 25 years. For example, between 1992 and 2016, union density declined from 43 per cent to 13 per cent for men, and from 35 per cent to 16 per cent for women.[30]

There are variations in union density between different sectors and segments of the labour force. For example, the following patterns in union density exist: unionisation is higher in the public sector than in the private sector and there are higher rates of unionisation among full-time workers compared with part-time workers (see also **HRM in practice 3.2**).

HRM in practice 3.2

Characteristics of employment, Australia, August 2016

From August 1992 to August 2016, the proportion of those who were trade union members in their main job has fallen from 40 per cent to 15 per cent (43% to 13% for males and 35% to 16% for females).

In August 2016, of employees in their main job:

- there were 1.5 million persons who were trade union members
- 16 per cent of full-time workers and 12 per cent of part-time workers were trade union members
- Tasmania had the highest proportion (21%) of employed persons who were trade union members in connection with their main job, while Western Australia had the lowest proportion (12%).

Source: Australian Bureau of Statistics (2017), *Characteristics of employment, Australia, August 2016*. Cat. no. 6333.0. Canberra: ABS.

The decline in union membership presents a challenge for unions – and the union movement as a whole – and a great deal of research has been undertaken into union decline.[31] While there is still debate about the causes of decline in Australia, they may be grouped into two broad categories: causes internal to unions and causes external to unions. The internal causes relate to the unions themselves, such as the strategies undertaken during industrial disputes over the past decade and their ability to attract and retain new members. The causes external to unions include changes in the industry, structure and nature of work, changes in workforce demographics, as well as management and government strategies to reduce union power and presence in the workplace.

The union movement

There are approximately 130 separate unions in Australia. These single unions have often defended their members by building alliances with other unions and forming the union movement. Despite the changed political, economic and social environment, the union movement continues to play an important role in Australian society and at Australian workplaces, and as such remains an important part of the Australian industrial relations landscape.

Australian Council of Trade Unions (ACTU)
Australia's peak national body (inter-union organisation); represents the vast majority of Australian unions and is generally regarded as the 'voice' of the Australian union movement

In Australia, the peak national union body (representing the union movement) is the **Australian Council of Trade Unions (ACTU)**. The ACTU was formed in 1927 and initially represented private sector, blue-collar unions. During the late 1970s and early 1980s, the white-collar and public sector peak union councils merged with the ACTU, so that it came to represent the vast majority of Australian unions. The ACTU is now generally regarded as the voice of the Australian union movement, although there are other peak bodies that operate at regional levels, such as the Bendigo Trades Hall Council in Victoria, dealing with issues of specific relevance to workers in their geographic jurisdiction. In each of the states there are also peak union associations; for example, Unions NSW, the Victorian Trades Hall Council, the Queensland Council of Unions, SA Unions, UnionsWA and Unions Tasmania.

In addition to coordinating industrial campaigns and undertaking research, the ACTU actively lobbies political parties and governments about a range of issues affecting the lives of workers and their families, both in Australia and internationally; for example, the ACTU has taken an active stand on social issues, such as the spread of casual and precarious employment in Australia,[32] the exploitation of workers on TSS visas,[33] and the minimum wage and paid maternity leave; on political causes such as independence for East Timor and the exploitation of child labour by multinationals; and on environmental issues such as atomic testing in the Pacific Ocean.

Emerging issue 1
Terminology

Unions under the Fair Work Act

The terminology 'unions' or 'trade unions' is not specifically referred to in the Fair Work Act and the term 'industrial association' (see **HRM in practice 3.3**) is used to describe the organisations that may represent either of the parties – employees or employers. Employees are free to join

trade unions and the concept of freedom of association refers to the rights of employees to belong or not to belong to a union. Under the *Fair Work Act 2009* (s. 336) employees are '(i) free to become, or not become, members of industrial associations; and (ii) free to be represented, or not represented, by industrial associations'. Employees are also 'free to participate, or not participate, in lawful industrial activities'.[34] Furthermore, under the Fair Work Act, unions are not defined as parties to agreements (with the exception of 'greenfields agreements'). Instead, they are covered by the agreement if they participated in the negotiations. This coverage gives the union the right to enforce the agreement for its members.[35]

HRM in practice 3.3

Fair Work Act 2009, s. 12 – the dictionary

Industrial association means:

(a) an association of employees or independent contractors, or both, or an association of employers, that is registered or recognised as such an association (however described) under a workplace law; or

(b) an association of employees, or independent contractors, or both (whether formed formally or informally), a purpose of which is the protection and promotion of their interests in matters concerning their employment, or their interests as independent contractors (as the case may be); or

(c) an association of employers a principal purpose of which is the protection and promotion of their interests in matters concerning employment and/or independent contractors.

Source: Commonwealth of Australia, *Fair Work Act 2009*.

Australia's industrial relations system was originally based on conciliation and arbitration, and trade unions and employer associations were integral component parties to that system; however, as noted above, the focus on arbitration and collective representation – that is, on unions – has been in decline over the past three decades. The transformation of the legal framework and collective basis of the system gathered pace with the introduction of individual Australian Workplace Agreements (AWAs) in the *Workplace Relations Act 1996*. AWAs are no longer allowed to be made under the Fair Work Act, and while the Fair Work Act has not significantly increased the role or power of unions, nor guaranteed union recognition, there are some changes that provide a slightly less hostile environment for unions.[36]

For example, union officials who have entry permits may enter workplaces where they have members or potential members, whether or not the employees are covered by an award or agreement binding on the union. There are also rights for union officials to enter premises to investigate suspected contraventions in relation to outworkers in the textile, clothing and footwear industry. However, unions must comply with the conditions of entry: they must hold a valid permit, give at least 24 hours' notice and comply with strict requirements for conduct on-site.

Further, under the Fair Work Act, if an employer is refusing to bargain with employees, a representative may apply to the Commission, stating that a majority of an enterprise's employees want to bargain for an agreement. If satisfied that there is a desire to be represented, the Commission can issue a *majority support determination* requiring the employer to enter into bargaining.[37] There are parallels here with notions of union recognition for bargaining in the United States, Canada and the United Kingdom.

While the above aspects of the Fair Work Act provide some support for unions, amendments were made to the Act in 2017 to increase regulation of trade unions in response to perceptions of corruption,[38] with new powers including the ability to undertake criminal prosecutions of officials. A Registered Organisations Commission was set up to oversee unions and employer associations,[39] and in addition the Australian Building and Construction Commission (ABCC) was re-established to regulate industrial relations in the building industry.[40] A key aspect of the ABCC's role is the oversight of enterprise agreements to ensure compliance with the Fair Work Act.

Employers and employer associations

In the past, just as employees formed unions, employers in Australia formed associations to represent them in multi-employer bargaining and before industrial tribunals. Under enterprise bargaining, however, the emphasis is on single employer bargaining, and consequently the role of employer associations as bargaining agents has also diminished. Sheldon and Thornthwaite note that while there are hundreds of employer associations in Australia, very few provide an industrial relations service. Furthermore, membership of employer associations is declining, especially among firms with more than 500 employees.[41]

However, employers and their associations remain a strong pressure group in Australia and are influential in the debates about workplace relations and regulation. Major employer associations include the Business Council of Australia (BCA), the Australian Chamber of Commerce and Industry (ACCI), the Australian Mines and Metals Association (AMMA) and the Ai Group (Australian Industry Group). As Sheldon and Thornthwaite point out, employers and their associations tend to pursue a similar objective, that of 'seeking legislated industrial relations changes to reduce labour market "rigidities" and enhance their freedom to contract'.[42]

Over the past two decades, employers have responded to the changing political and union contexts in a variety of ways. Some employers have taken the initiative to force change on their workforces and unions through limiting the right of entry to unions, using tough bargaining tactics such as the lock-out and favouring various forms of individual contracts over more traditional collective bargaining processes. Other employers have adopted a softer approach and utilised the new industrial relations environment and enterprise bargaining to introduce more flexible work arrangements, family-friendly initiatives and a more satisfactory organisation of work.

Barry and You note that employers have increasingly become reactive to 'forceful union advocacy of their own reform agenda' and 'their capacity to shape the IR regulatory environment remains limited'.[43] In support of this claim, they suggest that in 2017, despite a 'win' with the reduction of penalty rates in the hospitality and retail sectors, employers had to defend strident claims of the unfairness of this decision and then saw the national minimum wage increased to partially counter balance it.[44]

A review of some of the major industrial disputes over recent years suggests that a number of key employers in the mining and maritime industries have deliberately taken a more aggressive or strategic approach to relations with unions while adopting a high-commitment approach with their employees.[45] The result has been an attack on union representation and collective bargaining while moving to individualised employment contracts.[46] In some industries, such as energy and manufacturing, employers have adopted the tactic of dismissing whole sections of their workforces and replacing them with contracted labour.[47] In other industries, such as telecommunications, call centres and warehousing, employers have sought greater compliance from unions or tried to avoid them. Work practices and entitlements are the source of many disputes, yet at times, employers have worked towards greater employee commitment and a degree of union cooperation; for example, Sydney Water, Kimberley Ports, BlueScope Steel and News Limited.[48] These different approaches illustrate the variety of industrial relations and HRM models that exist in Australia.[49]

Processes

In industrial relations, it is important to distinguish between those matters and entitlements that are subject to joint regulation (or union bargaining and negotiation) and those that are determined unilaterally (or solely by managerial discretion or prerogative).

An early text from the United States by Chamberlain stated that collective bargaining involves the 'agreement by employers and unions on the general terms under which employees would consent to work'.[50] Later, Clegg offered a classic definition of collective bargaining as the method used to resolve conflicts of interest between unions and employers, standing in contrast to methods of joint consultation, which are used where interests coincide.[51] In both definitions, collective bargaining is understood to be inseparable from unionism. Since these early studies of collective bargaining, there have been many developments in national systems of industrial relations with consequences for the conduct of collective bargaining.

Collective bargaining with a single employer and the principle of good faith bargaining are the key processes in the Australian industrial relations regime. The traditional practice of arbitration has been supplanted, although, in some exceptional cases, determinations by the Fair Work Commission may be used to resolve disputes.
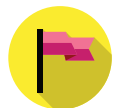
Emerging issue 3
Disputes

Collective bargaining is an important element under the Fair Work Act and can be used to supplement employees' terms and conditions of work to a level above the safety net, as previously outlined under 'Legislation'; that is, above the minimum provisions of the NES plus modern awards.

Such bargaining is generally intended to be on a voluntary basis and with a single employer. Where one party refuses to enter into bargaining, the notion of majority employee support can be used to trigger bargaining, as described above.

enterprise bargaining
Negotiation of the terms and conditions of employment between employers and employees or their respective representatives; a subset of collective bargaining that occurs at enterprise level

Enterprise bargaining is a particular Australian variant of collective bargaining and was formally introduced in 1991. 'Enterprise bargaining' is the term that has come to dominate Australian industrial relations practice and scholarship. It tends to refer to bargaining that occurs at the workplace level and with the concerns of the enterprise in mind. The Fair Work Act explains an enterprise agreement as follows: 'An enterprise agreement is made at the enterprise level and provides terms and conditions for those national system employees to whom it applies. An enterprise agreement can have terms that are ancillary or supplementary to the National Employment Standards.'[52]

Under the Fair Work Act, two types of agreements are the single-enterprise agreement and the multi-enterprise agreement. A third type of agreement is a greenfields agreement for new workplaces where employees are not yet employed. This agreement is between an employer and the unions that are most likely to represent the new employees.

In its 2015 report into the effectiveness of the workplace relations system, the Productivity Commission recommended the introduction of a fourth kind of legal agreement between employers and employees: an enterprise contract.[53] This would allow employers to vary award conditions for their particular enterprise, without the intricacies of an enterprise agreement. However, there has not been any uptake of this recommendation.

Good faith bargaining

An important principle underlying the Fair Work Act concept of collective bargaining is that of good faith bargaining. Versions of good faith bargaining have been practised in the United States, New Zealand and Canada for some time. Good faith bargaining generally expects that the parties will attend meetings as arranged, will provide information and respond to proposals in a timely manner and will also give genuine consideration to the proposals from the parties in negotiation.

good faith bargaining
The principle that parties entering into the bargaining process will participate in a meaningful way and genuinely try to reach an agreement

In Australia, good faith bargaining does not require parties to make concessions or to conclude or reach agreement, but it does require the parties to enter into and participate in the bargaining process in a meaningful way; that is, in a way that suggests they are genuinely trying to reach agreement.

Good faith bargaining encourages parties to communicate openly and to focus their negotiations on key issues. Under the system, the good faith bargaining requirements are:
- attending and participating in meetings at reasonable times
- disclosing relevant information (other than confidential or commercially sensitive information) in a timely manner

- responding to proposals made by other bargaining representatives for the agreement in a timely manner
- giving genuine consideration to the proposals of other bargaining representatives and providing reasons for responses to those proposals
- refraining from capricious or unfair conduct that undermines freedom of association or collective bargaining
- recognising and bargaining with the other bargaining representatives for the agreement.[54]

Research has indicated that despite the requirement for good faith bargaining, both employers and unions often 'work around' the provisions, although this can be a reasonably effective way for one party to indicate to the other that they 'are willing to use the law if necessary'.[55]

The low-paid bargaining stream

A unique aspect of the Fair Work Act is a low-paid bargaining stream in which multi-employer bargaining is permitted.[56] Once the low-paid bargaining stream is activated, negotiations with a single employer or multiple employers are supposed to be conducted under the principles of good faith bargaining or with the assistance of the Commission. The stream was introduced to assist employees in industries such as hospitality, child care, aged care and cleaning who have had little access to collective bargaining in the past and whose weak bargaining position precluded them from sharing in the benefits of increased productivity. However, several attempts to use the low-paid bargaining stream – in 2011 for workers in aged care (many of whom are women), in 2013 for private sector nurses and in 2014 for security employees[57] – were rejected by the Commission.

The low-paid bargaining stream has been seen widely as a failure, with too many 'hurdles that need to be overcome before a low-paid workplace determination will be granted'.[58]

Industrial action

One way that unions and employers enforce their bargaining power is to take industrial action. In the traditional industrial relations and industrial sociology literature, industrial action is conceived of in broad terms. It may refer to collective action such as strikes, go-slows and picket lines, or individual action such as sabotage and turnover.

strikes
One form of industrial action, where groups of employees withdraw their labour

Under Australian legislation, strike action and union activity is tightly regulated. For example, strikes can only be taken in the bargaining period (when a new agreement is being bargained), a secret ballot must be held in order to go on strike, a majority of the employees must vote in the ballot and, of those voters, a majority must vote in favour of the action.

Overall trends show that industrial conflict in the form of overt industrial action such as strikes is declining and that lost time due to industrial conflict, including strikes, is reducing globally. In Australia and elsewhere, this is due to a number of factors, including tighter regulation of

industrial action, the changing nature of work, declining unionisation levels, increasing reliance on subcontracted and casual labour and more sophisticated HRM strategies that subvert or avoid industrial conflict. Additionally, what have been described as the 'cumbersome' processes in the Fair Work Act appear to have contributed to the inability of unions to take industrial action to achieve their aims in enterprise negotiations.[59]

Consequently, the level of strike action in Australia has been consistently declining and is now at historic lows. For example, according to the ABS, 'During the year ended March 2018, there were 153 disputes, 61 fewer than in the year ended March 2017. Over the same period, there were 137,700 working days lost, 13% more than in the year ended March 2017'.[60]

While the number of disputes continues to decline, the number of working days lost has sharply increased; for example, there was an increase of over 50 per cent from December 2015 to March 2016.[61]

Instruments

As discussed earlier, the objective of the federal government's industrial relations agenda is to encourage a harmonious and efficient employment relationship and to provide a safety net of minimum standards that applies to all employees covered by the national system. The 10 NES are complemented by modern awards. In addition to the NES, there are enterprise awards and enterprise agreements. These latter two instruments of regulation are briefly outlined in this section.

Between 1996 and 2007, Australian Workplace Agreements (AWAs) also operated in Australia. These were individually signed agreements between employers and employees and were controversial because they undercut the award system. Under the Fair Work Act, no new AWAs can be made.

The workplace relations system that now operates in Australia recognises that not all employees are represented by unions who negotiate their terms and conditions of work. During the past 30 years, there has been a steady shift in the way in which employment arrangements are set, with fewer employees solely reliant on awards, and an increasing proportion having their terms and conditions set by negotiated agreements or common law contracts. However, the peak of employees being covered by federally registered agreements was in 2012, with an increasing number of employees now being covered solely by modern awards.[62] The floor of conditions codified in the NES and the modern awards is therefore important but can be supplemented by enterprise agreements.

Modern awards

As the Fair Work Commission explains, 'Awards provide pay rates and conditions of employment such as leave entitlements, overtime and shift work, amongst other workplace related conditions'.[63] There are 122 modern awards. They relate to specific occupations

and industries and the Fair Work Commission is responsible for reviewing and maintaining them. The modern award conditions, together with the 10 NES, form the safety net of working conditions for all employees within the national system. Enterprise agreements operate in addition to the NES and the modern awards but must not undercut the minimum conditions. To ensure this, the enterprise agreements must meet the 'better off overall test' (BOOT).

The number of employees who are entirely reliant on awards for their pay and conditions has increased by 8 per cent from 2008 to 2016, to represent 24.5 per cent of all workers.[64]

Awards may include 10 conditions of employment, these being:

1 award minimum wages
2 types of employment
3 arrangements for when work is performed
4 overtime and penalty rates
5 annualised wage or salary arrangements
6 allowances
7 leave-related matters
8 superannuation
9 procedures for consultation, representation and dispute settlement
10 a flexibility clause enabling employers and employees to negotiate arrangements to meet their individual needs.

Enterprise agreements

Enterprise agreements are statutory instruments that relate to a particular enterprise and are tailored to the employer and employees of that enterprise. They are negotiated agreements, usually between unions and the employer or the employer's representative. As noted earlier, enterprise agreements can be single-enterprise agreements, multi-enterprise agreements or greenfields agreements.

Agreements must have a nominal expiry date and the maximum term is four years. Agreements include matters relevant to the particular enterprise, such as:

• rates of pay
• employment conditions; for example, hours of work, meal breaks, overtime
• consultative mechanisms
• dispute resolution procedures
• deductions from wages for any purpose authorised by an employee.

The employer should ensure that their employees see the enterprise agreement. The agreement is voted on by employees and, if approved by a majority, it then goes to the Fair Work Commission for approval. Agreements must not include discriminatory or objectionable terms and must not contravene the NES.

Employees to be covered by the agreement must be deemed 'better off overall' with the enterprise agreement's terms than if they were covered by the relevant award. Enterprise agreements under the Fair Work Act must include a flexibility clause that allows for some variation in specified terms of the agreement for an individual employee, as long as the employer and employee agree. If the enterprise agreement does not specify the terms of its flexibility clause, the model flexibility term is taken to be the form of the agreement.

Unfair dismissal

Increasing job insecurity and excessive managerial prerogative to 'fire at will' were regarded as two of the main problems with *WorkChoices.*[65] Against this background, the Fair Work Act introduced the notion of a fair dismissal system, which came into operation on 1 July 2009. This system reinstated a number of general protections from unfair dismissal that had been removed under *WorkChoices*. The fair dismissal system sets out the steps that an employer should go through before dismissing an employee.

According to s. 385 of the Fair Work Act, an unfair dismissal occurs 'if the person has been dismissed; the dismissal is deemed to be harsh, unjust or unreasonable; the dismissal was not consistent with the small business code; the dismissal was not a case of genuine redundancy'.[66] There is broader access to unfair dismissal complaints in the current system. Employees are protected from unfair dismissal as long as they have satisfied a probationary period of employment (generally six months, or 12 months at a small business) and they are covered by an award or agreement. Employees who are not employed under an award or agreement and who earn more than the high-income threshold are excluded.[67] Eligible employees who want to make a claim of unfair dismissal must lodge their claim with the Commission within 21 days of the date of dismissal. There is also a Small Business Fair Dismissal Code for businesses with fewer than 15 staff members, shown in **Table 3.3**.

TABLE 3.3 Small Business Fair Dismissal Code

Commencement	The Small Business Fair Dismissal Code came into operation on 1 July 2009.
Summary dismissal	It is fair for an employer to dismiss an employee without notice or warning when the employer believes on reasonable grounds that the employee's conduct is sufficiently serious to justify immediate dismissal. Serious misconduct includes theft, fraud, violence and serious breaches of occupational health and safety procedures. For a dismissal to be deemed fair it is sufficient, though not essential, that an allegation of theft, fraud or violence be reported to the police. The employer must have reasonable grounds for making the report.

Other dismissal	In other cases, the small business employer must give the employee a reason why he or she is at risk of being dismissed. The reason must be a valid reason based on the employee's conduct or capacity to do the job.
	The employee must be warned verbally or preferably in writing, that he or she risks being dismissed if there is no improvement.
	The small business employer must provide the employee with an opportunity to respond to the warning and give the employee a reasonable chance to rectify the problem, having regard to the employee's response. Rectifying the problem might involve the employer providing additional training and ensuring the employee knows the employer's job expectations.
Procedural matters	In discussions with an employee in circumstances where dismissal is possible, the employee can have another person present to assist. However, the other person cannot be a lawyer acting in a professional capacity. A small business employer will be required to provide evidence of compliance with the Code if the employee makes a claim for unfair dismissal to the Fair Work Commission, including evidence that a warning has been given (except in cases of summary dismissal). Evidence may include a completed checklist, copies of written warning(s), a statement of termination or signed witness statements.

Source: *Small Business Fair Dismissal Code* © Fair Work Ombudsman, http://www.fairwork.gov.au. Licensed under CC BY 3.0 AU.

Unfair dismissal codes focus on the legitimacy of the dismissal process, so documentation is necessary, and it would generally be the responsibility of the HR manager to defend claims. HR professionals should also be aware that there is a set of general protections for employees against other forms of discriminatory or wrongful treatment at work.

THE STATE INDUSTRIAL RELATIONS SYSTEMS

While the above discussion relates to federal legislation, until recently there have been separate industrial relations systems in each Australian state, except Victoria, which referred its powers to the federal government in 1996. These systems cover, at a minimum, the same areas as federal laws, such as enterprise bargaining, industrial action and awards administered by state industrial relations commissions. The state systems cover, for the most part, public sector employees of that state, as well as police, fire fighters, teachers and nurses. State governments have been proactive in legislating for workplace relations reforms; for example, the Queensland, South Australian and Victorian governments have all introduced legislation to regulate labour hire,[68] and New South Wales was the first jurisdiction to pass legislation attempting to eradicate modern slavery.[69]

State governments can also alter and *reduce* conditions of employment. This is not unique to Australia. In the United States, for example, there are many state legislatures that have removed the right of public servants to bargain. Collective bargaining for public servants was removed by Republican legislatures in 2005 in Indiana and Missouri. Restrictions on public sector collective bargaining gathered pace after the Global Financial Crisis (GFC) in 2008–09, when anti–public sector union and anti–public sector bargaining bills swept through Republican states. By 2012, there were a total of 1707 anti-union bills in 50 states.[70]

ASSOCIATED LEGISLATION

One important role of HRM is to ensure legal compliance. In addition to the principal legislation that regulates workplace relations in federal and state jurisdictions, there is a range of associated legislation that impacts on the employment relationship and with which all employers must comply. These include work health and safety (see Chapter 10), workers' compensation laws, anti-discrimination laws and superannuation law.

Some matters are principally the domain of state law, such as workers' compensation, long service leave, surveillance of employees and the declaration of public holidays. Other matters are regulated concurrently by federal and state laws – for example, in relation to anti-discrimination laws – and yet others are federal laws, such as those pertaining to gender equality in workplaces. The role of the national legislation and national political models is important in defining the features of a country's employment relations system, as illustrated in the **International perspective 3.1**.

International perspective 3.1

Employment relations in China

Industrial relations institutions and employment relations systems are usually understood to be more country specific than HRM policies and practices. The regulation of industrial relations in any one country is typically determined by the laws of that country, which in turn may be influenced by international conventions, agreements or directives. The International Labour Organization (ILO) and the European Union (EU) are examples of international bodies that have influence over employment standards, such as minimum wages, decent working conditions, leave arrangements and occupational health and safety. In relation to HRM, multinational companies (MNCs) are important conduits for the international transfer of other employment related policies and practices, such as performance management and performance pay systems.

There is renewed and growing interest in international and comparative industrial relations due to the world's shifting production and power bases and the increasing interconnectedness of countries' markets – the latter typically referred to as globalisation. China is one country often discussed in this debate about globalisation and the convergence or divergence of industrial relations. Due to its large markets and workforce size, it is an important country, and China's industrial relations system is a result of its political and historical trajectories. The informal and poorly regulated sector is estimated to be 54 per cent of the workforce in China. As a result of this expansive informal and self-employed sector, large numbers of workers are therefore not covered by the labour laws or the human resource practices of major and international employers.

Industrial relations pressures in China include the need for better avenues for the representation of worker interests, the need to protect the significant majority who work

in the informal sectors, the need for enforcement of the labour laws that do exist and the need to manage the relationship between the social security and employment regulation systems.

- *The State* – the Chinese government plays a major role as an employer, a regulator and a legislator. The State provides a legal framework to regulate the formal labour market and conditions of employment. This legal framework is decentralised with enforcement and interpretation undertaken by local governments.

- *Employers* – While the State has been the major employer, there is a growing private sector employer role, especially in the urban areas where the State is no longer the dominant employer.

- *Unions* – Only one union is officially recognised by the Chinese government. This is the All-China Federation of Trade Unions (ACFTU). The workplace trade union represents employees in negotiations and signing a contract. According to official data, unionisation rates are more than 90 per cent.

- *The Process* – 'Collective consultation' is the State's preferred mechanism, a process which leads to a 'collective contract'. It is argued that the process is not genuinely independent and that collective contracts, which are more common in state-owned enterprises, are made without genuine involvement of the employees or union members.

- *Dispute resolution* – The formal process for resolving labour disputes consists of three stages: mediation, arbitration and litigation. The trend over the past decade has been for an increase in the number of disputes and for more to be resolved by arbitration than mediation. The majority of cases are about pay and social insurance and occur more commonly in foreign-owned companies.

Brown and Kai discuss recent developments in industrial relations in China and note an increased emphasis by the government on 'the collective nature of employment', particularly in the private sector. It is re-emphasising its policy that improvements in workers' wages and conditions should be achieved through the union. Other recent trends of note include:

- Employers are pushing back against the government's pressure for them to consult collectively though the use of tactics such as outsourcing, employing agency workers and blacklisting protesters.

- Use is spreading of local sector agreements as the union devolves negotiations to the local level with smaller, local employers who are collectively making 'sectoral agreements' as they compete for scarce workers in the same industries.

- The right to strike has received more support at the local government level, with work stoppages 'no longer automatically classified as threats to social order'. Intervention by local authorities is now more likely to be as mediators, rather than automatically taking the employer's side.

- The development of employer associations is as a response to labour shortages and the increased involvement of government, particularly as lobbyists.

Source: Cooke, F. L. (2012), 'Employment relations in China', in G. Bamber, R. D. Lansbury and N. Wailes (eds), *International and comparative employment relations, globalisation and change*. Crows Nest: Allen and Unwin, pp. 307–29; Brown, W. and Kai, C. (eds) (2017),*The emerging industrial relations of China*. Cambridge: Cambridge University Press, pp. 238–42.

THE *FAIR WORK ACT 2009*: IMPLICATIONS

So far, this chapter has concentrated on the industrial relations framework and legislation in Australia, noting their importance for framing the way in which the employment relationship is regulated and how this impacts the way SHRM is conducted. We will now investigate the implications of the *Fair Work Act 2009*, and the possibility of changes to it, on SHRM itself and HR managers.

Implications for HRM

The Fair Work Act changed the employment relations environment in Australia in two ways. First, it changed the macro-regulatory context; that is, the rules of employment relations. Second, it changed the micro-environment of SHRM by emphasising the rights of employees as individuals and slightly shifting the balance of power in the employment relationship. As a consequence, there are challenges and opportunities for the management of human resources.

The macro-context – or the rules of employment relations – can be summarised as follows.
- The Fair Work Act sets 10 minimum standards of employment, including two new employee rights to request.
- The Fair Work Commission is the main institution.
- Most private sector employees come under one national system.

This means there is potential for change across all aspects of the HR function: in influencing the types of contracts between employers and employees; the selection and management of employees; the resolution of workplace disputes; and the provision of channels for employee voice. Overall, there is also potential for a diverse set of outcomes from SHRM. Some organisations may take the high road of HR investment; others may take the lower road of labour-shedding and cost-cutting. In a political and economic context that allows this to occur, employers have increased opportunity to exercise 'strategic choice'[71] and to determine the parameters of the employment relationship.

At the same time, employers generally, and HR managers in particular, must recognise the changing social and demographic characteristics of the Australian workforce (see Chapter 2). Furthermore, as employees become more familiar with the rules and options, they may request more from their employers, such as more flexible working arrangements.

Factors such as the declining size of the labour force relative to the population, the increasing demand for skills, the increasing role of TSS visa holders in the Australian labour force, changing age demographics, the shifting mix of female and male participation in the paid workforce and the corollary of time and family pressure outside paid work all create a labour market of great diversity and, in some situations, intense competition (see Chapter 2). Whichever the chosen course, HRM has a role to play.

Implications for HR managers

The objective of the Fair Work Act's legal context and framework, as previously mentioned, is to achieve a balanced and harmonious relationship between employers and employees. This is linked to the psychological and social contracts of work (see Chapter 1) and it is the HR manager who needs to be both the conscience and keeper of the workplace – part of this role is to keep the rest of the management team and the organisation as a whole up to date with their legal obligations.

The way in which employers respond to any industrial relations framework depends upon their own strategic orientation. Kochan, Katz and McKersie write of the 'strategic choices' management could make in determining their relationship with unions and employees. They theorise that employers could choose from among the following options:

- With employees, they could choose to build high-trust, high-commitment relations, or they could opt for low-trust, high-control relations.
- With unions, employers could decide between avoidance, engagement or 'arm's length' arrangements.[72]

Professional tip 3.1

Understanding the *Fair Work Act 2009*

Importantly, the Fair Work Act is not just about union rights and union relations – it sets a baseline for all employee rights. HR managers therefore need to ensure that the current policies and provisions of the organisation meet its standards.

It is important in the first instance to understand and be familiar with the legal context and the scope of the legislation. Employment relations strategy must be considered in this setting. For example, HR managers may need to be familiar with approaches to agreement-making, provide training in good faith bargaining and in handling rights to request flexible work.

On induction, all employees must be provided with a Fair Work Information Statement (as required under the NES).

The Statement must contain information about:

1. the National Employment Standards
2. modern awards
3. agreement-making under the Act
4. the right to freedom of association
5. the role of the Fair Work Commission and the Fair Work Ombudsman
6. termination of employment
7. individual flexibility arrangements
8. right of entry (including the protection of personal information by privacy laws).

Source: Commonwealth of Australia, *Fair Work Act 2009*, no. 28, s. 124, http://www8.austlii.edu.au/cgi-bin/viewdb/au/legis/cth/consol_act/fwa2009114.

By 1994, Walton, Cutcher-Gershenfeld and McKersie observed that the choices for employers in their relations with unions were 'containment' or 'avoidance of unions', 'arm's length accommodation of unions' or 'cooperation with unions'.[73] With employees, employers were following strategies that produced relationships based on mutual compliance or mutual trust.

Although the context has changed, the notion of strategic choice for employers and HR managers remains relevant, perhaps more so as employers consider the way in which they wish to frame their relationship and engagement with employees and unions under the Fair Work Act.

The Productivity Commission's 2015 review of Australia's industrial relations system pronounced the Fair Work Act to be operating as intended and more or less effectively.[74] However, both employers and unions have expressed reservations about how effective the Fair Work Act has been in achieving a unified and harmonised industrial relations system. A Change the Rules campaign is under way by the ACTU, seeking reregulation of forms of work and workers. At the same time, there are real concerns about the 'collapse' of enterprise bargaining, with the number of workers covered by federal enterprise agreements falling to just over 30 per cent of employees.[75] Both of these concerns are linked to one larger, overriding concern: the ability of the Fair Work Act's mechanisms to deliver higher wage outcomes for Australian employees, given that wages growth has flatlined.[76]

In this context, HR managers must make decisions about how best to engage with unions and/or employees to negotiate terms and conditions of employment, and how best to help their organisations achieve their business objectives. Some businesses and unions have agreed to work with the Fair Work Commission on a new approach to bargaining, one that seeks **mutual gains** and fosters a collaborative way of resolving disputes and handling organisational change.[77]

mutual gains bargaining
Refers to an approach to bargaining between the employers and unions where the emphasis is on defining the problems and finding solutions that benefit both parties

The Fair Work Act emphasises enterprise-based bargaining but, importantly, this takes place in addition to a strong legislative safety net for employees. The NES provides a safety net that applies to all employees and, arguably, also shifts the social contract (see Chapter 1), or the community's understanding of how work and the employment relationship should operate.

Whether it is general managers, line managers or HR managers (alone or in combination) who make the decisions about how to determine and formalise the terms and conditions of employment for employees, a great range of issues must be considered. These include:

- agreement-making
- relations with unions
- relations with employees
- organisational policies and systems
- legal liability and compliance
- social issues and the workplace.

Agreement-making

The Fair Work Act does not distinguish between union and non-union agreements and the emphasis is still on enterprise-level negotiations. Enterprise agreements work in conjunction with NES and modern awards and there is a requirement to bargain in good faith. The question

then becomes: Do industrial relations/HR practitioners in the organisation understand the implications of this principle (see also **HRM in practice 3.4**)?

A critical point for HR managers is to understand the regulatory context and the opportunities it presents for business and developing employee relations. The current emphasis on building HR practitioners' skills so that they are driven by the present and future needs of business means that a clear understanding of industrial relations is necessary. For instance, a business that is in growth mode will need to be able to look at the use of legislation and the options for flexibility as part of the planning and costing of future business expansion. Understanding the process of negotiating in an evolving collective bargaining environment, and one that is based on a less flexible award structure, takes a lot of planning. Each collective agreement negotiation will need to have a clear and strategic reason for existing.

Strategies that are being used by employers under the Fair Work Act include: applying to the Commission to terminate an enterprise agreement after its nominal expiry date on the basis that bargaining for a new agreement has stalled, with the effect of returning employees to the basic conditions of the relevant modern award; negotiating a new enterprise agreement with a small group of employees who are not representative of the majority of workers who will be covered by the agreement; and adopting a 'take it or leave it' approach when presenting an agreement to employees, leaving no room for genuine bargaining.

HRM in practice 3.4

Union no show at Commission as another agreement terminated

The South Australian branch of the AWU has refused to participate in a hearing into a major grain company's successful agreement termination bid, telling the FWC it has 'no confidence' in a legal process for employer terminations that unfairly bolsters their bargaining position.

Commissioner Peter Hampton this month granted an application by Glencore subsidiary Viterra Operations Pty Ltd to terminate its 2012 Port Lincoln agreement, despite conceding it could lead to a significant reduction in wages and redundancy benefits for some employees. …

Via its lawyers the union advised it had 'no confidence in the s226 process (under prevailing authorities) of determining employer s225 applications brought to bolster employer bargaining positions by inflicting economic harm on employees'.

'The existing regime, when used in support of employers' bargaining agendas (as in this application), works tremendous unfairness on AWU members and workers generally, by unfairly bolstering the bargaining position of employers such as Viterra,' the union said.

'It is extraordinarily corrosive of trust and confidence in the industrial relations system,' it continued, adding that the employer sought termination 'to inflict economic harm on its employees (and consequentially, harm to the families of its employees) to break the deadlock in negotiations for a new enterprise agreement'.

Source: Anon. (2018), Union no-show at Commission, as another agreement terminated. *Workplace Express*, 23 March, http://www.workplaceexpress.com.au.
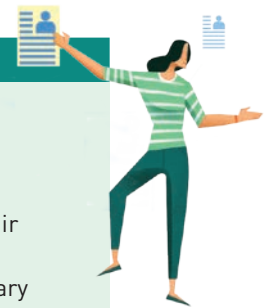
Relations with unions

The Fair Work Act provides right of access to workplaces for unions that represent employees or where there is a request for representation from employees.

Decisions about the direction an organisation takes in relation to unions will impact not only on the union–employer relationship but will also send a signal to all employees about what sort of HRM model is to be followed by the employer and how much genuine consultation is to occur.

Union membership, however, continues to decline: 'by the end of the next decade unions will represent just a few percent of the Australian workforce, with most membership concentrated in fewer industries. It is highly likely that some unions will cease to exist, or merge with other unions to survive'.[78] In such an environment, 'it may be that employers will not need to engage with unions at all.[79]

Relations with employees

The Fair Work Act recognises employees as individuals and also as members of collectives, or unions. In a way not dissimilar to that advocated in much of the HRM literature, there continues to be an opportunity for HR managers to influence relations with employees. But what form is this to take? Are relations to be based on commitment or control?

An example of an area in which commitment or control of employees must be considered is the **right to request** changes in work arrangements and extensions of unpaid parental leave.

The right to request flexible work arrangements is not a guarantee that employees can have flexible work arrangements, but employers must consider all requests and may only reject a request on reasonable business grounds. The reasons for refusal must be in writing and provided to the employee within 21 days of the request. A similar model in the United Kingdom has been successfully implemented and women more than men tend to use their right to request. This may suggest the need for employers to examine their workplace culture for both men and women. Likewise, the right to request an extension of unpaid parental leave is used more by women than men, which means they could be on leave for up to 24 months. This has serious implications for managing 'stay-in-touch' and 'return to work' phases and policies. Are managers skilled and resourced enough to ensure that they can manage employee requests properly and effectively? Are organisational polices in place to support the NES?

Organisational policies and systems

As the Fair Work Act creates obligations for employers to provide a decent safety net and also provides compliance mechanisms, employers must ensure that they are not acting unlawfully and that their policies and procedures comply with the regulatory framework.

right to request
The right to request changes of work arrangements and leave. In Australia, rights to request refer specifically to the right of employees with newborns, pre-school-aged or disabled children to request an extension to unpaid parental leave. Employees aged 55 years or over and employees experiencing family violence or caring for a family or household member who is experiencing family violence may also request a change to working arrangements.

Furthermore, the Fair Work Act includes equal remuneration principles that draw attention to pay inequities and undervaluation of women's work in organisations.[80] As the gender pay gap in Australia currently sits at 15.3 per cent, these are significant areas of concern in pay and reward setting. The Fair Work Commission can make orders to ensure that there is equal remuneration for men and women workers. Requests for these orders can come from an employee, a union or the Sex Discrimination Commissioner. The Commission dismissed an equal remuneration application on behalf of child care workers in early 2018,[81] although it is considering an application by the Independent Education Union on behalf of teachers in child care centres.

Legal liability and compliance

One of the standard HRM functions is to ensure the organisation's compliance with employment relations laws. HR managers must ensure that their organisation complies with the legislated minimum NES and those in modern awards, and that the organisation is not in breach of the legislation in relation to unfair dismissal, or in any other way, including the process of union recognition and agreement-making.

Furthermore, the organisation must comply with federal and state laws relating to anti-discrimination and work health and safety, as well as federal immigration laws – the Fair Work Act does not reduce an organisation's obligations to comply with these laws in any way.

Despite this, compliance with the Fair Work Act has been an ongoing issue, in particular in relation to a series of scandals in the franchising and hospitality sectors, where well-known brand employers – including 7-Eleven, Caltex, Michel's and Domino's[82] – were found to be systematically underpaying workers. There has been much community concern about vulnerable workers, and the Fair Work Act was amended with effect from 15 September 2017 in response to the 'wage theft' scandals, particularly in the franchising sector. Penalties for 'serious contraventions' of the Act were increased to a maximum of $126 000 for individuals and $630 000 for companies for each contravention. The penalties for employers who fail to keep proper records, including payslips, have increased and the onus of proof is now on the employer to refute claims of underpayment. Importantly, franchisors and holding companies have clear responsibility for ensuring their franchisees or subsidiaries follow workplace laws.

wage theft
Refers to the non-payment or underpayment of wages or other employment-related payments lawfully due to workers

In 2016–17, the focus of the Workplace Ombudsman's compliance activities was on five areas: migrant workers, young workers, the hospitality industry, the agriculture industry, and labour procurement and supply chain activities. There is a large overlap between these five areas; for example, vulnerable young workers on international student visas are often employed in the hospitality or agriculture industries and in low skill jobs within supply chains, such as shopping trolley collecting, as illustrated in **HRM in practice 3.5**.[83]

HRM in practice 3.5

Wage theft

When Arturo and his friend and cleaning partner Kelly, a fellow Colombian, were not paid for three months of work in apartment buildings and office foyers around Sydney's north shore, Arturo knew his boss was acting illegally. The early false assurances from his employer, Andrew Nickolls, the owner of Kleen Group, and then Nickolls' refusal to discuss the matter, meant Arturo had to act. Unlike many international students in Australia who are unfamiliar with this country's employment rights and laws, or unsure how to seek redress, Arturo was a graduate student in his mid-20s who had worked in human resources in Colombia, first for a large multinational, and then for a United Nations agency. Arturo figured that with his background he was well-placed to pursue his wages.

But working through the system takes time. It was 2014 when Arturo worked for Kleen Group, and two years later, no money had been returned to him. He was fortunate that a visa extension enabled him to stay long enough, and that he and Kelly had worked within the visa rules. Working more hours than a visa permits, often prompted by low wages, can be a barrier for international students to seek redress, for fear of trouble with the Department of Immigration.

Arturo had found free legal assistance through the Redfern Legal Centre, which was pursuing Mr Nickolls through the courts. Nickolls remained elusive. He had failed to show up in court. A court order that money should be withdrawn from Kleen Group's bank account, and paid to Arturo and Kelly, turned up only $160. They were owed $9000 each, plus court costs.

Arturo and this reporter revisited tenants at some of his old work sites, and also talked to former Kleen Group colleagues; we were told that after Kelly and Arturo left, other cleaners were still being hired, and often not paid. Kleen Group was operating in other states as well, and Andrew Nickolls was pursuing his expensive hobby of racing Holden utes. He drove a Kleen Group ute that had 'Andrew The Intimidator Nickolls' emblazoned on it.

A Redfern Legal Centre spokesman said in late 2017 that Kleen Group eventually filed for bankruptcy, with no assets in the company to pay creditors. 'Sadly, this is not an uncommon occurrence in cases like this,' the spokesman said.

So Arturo and Kelly lost their quest. Arturo said being exploited in part-time jobs was a big topic of conversation among international students at the Sydney college where he was doing a business course. And Australia's reputation was at stake.

'Many people really don't expect a country with such a good reputation as one of the best places to live in the world, they really don't expect to come here and then work and be underpaid, or just not paid at all.'

Source: This case has been supplied by Ann Arnold who is a journalist with ABC Radio National (RN). Arturo's case was originally reported by Ann Arnold for RN's *Background Briefing* program, in a story called 'Taken to the cleaners', http://www.abc.net.au/radionational/programs/backgroundbriefing/2016-06-05/7471218. The full report, both audio and transcripts, are available online.

Social issues and the workplace

As the social context changes and new issues come to the government's attention, new conditions of employment may be introduced, reflecting the dynamic nature of workplace relations legislation. This occurred with the introduction of the bullying jurisdiction of the Fair Work Commission in 2014 and, more recently, with the introduction of domestic and family violence leave as a condition of employment under modern awards. Legislation has also been enacted to protect vulnerable workers and to address modern slavery in supply chains.

Under the Fair Work Act (Part 6-4B) a new jurisdiction dedicated to tackling the issue of bullying at work was established on 1 January 2014 after a House of Representatives inquiry urged that 'more [be done] to prevent and manage bullying, as well as better support those workers who have been bullied'.[84]

bullying
Where one or more people engage in repeated and unreasonable behaviour towards another individual

While the provision does not apply to all workplaces in Australia due to constitutional restrictions, a wide range of workers are covered, including contractors, subcontractors and their employees, labour hire employees and those on work experience or volunteering.[85]

Bullying occurs where one or more people engage in repeated and unreasonable behaviour towards a worker (or a group of workers of which the worker is a member) which also creates a risk to health and safety.[86] This must occur at work and/or while working.[87] However, and importantly, 'reasonable management action carried out in a reasonable manner' is not bullying.[88] For HR managers, this points to the need to be alert to the distinction between good performance management practices and potential bullying behaviours. In an internal investigation – that is, an investigation conducted by the organisation – it is advisable that only the facts are investigated and the same lawyer should not represent both parties.

Someone who reasonably believes they have been bullied at work can apply to the Fair Work Commission for an order to stop the bullying.[89] The worker, who must be in employment, can apply at any time provided they have been bullied and there is risk that this will continue (by the original alleged bully/bullies). The employer must lodge a response with the Commission within seven days and give it also to the applicant and others involved, with the alleged bully being able, but not required, to respond.

The Commission can make a wide range of orders (except money orders) to stop the bullying continuing or reoccurring but advises workers first to try to resolve the issue through the usual procedures for similar grievances. If an order is made (and they are rare) any breach may be enforced through the courts in the same way that NES breaches are dealt with.[90] While the Commission has actually given few bullying orders, the issue of bullying at work has gained far more attention in recent years and Australian organisations are more focused on the causes, costs and implications of bullying in the workplace.

The issue of domestic and family violence and the toll it takes on those affected by it has also received concentrated attention from governments, police, social policy-makers and the media.[91] In response to a submission by the ACTU to the four-yearly review of modern awards

seeking paid leave for victims, the Fair Work Commission established that family and domestic violence was 'a community issue and requires a community response'.[92]

In March 2018, the Commission decided that all 122 modern awards should contain five days' unpaid domestic and family violence (DFV) leave.[93] The leave is available to all employees, including part-time and casual employees, who require leave to deal with the impact of family and domestic violence and it is impractical for them to do so outside their ordinary working hours. The five days of unpaid leave will be available as a block at the beginning of each 12-month period. It does not accumulate from year to year.

For HR managers, it is as yet unknown how many employees will access this new entitlement, which came into effect on 1 August 2018, or what will be the impact on their organisations. In the short-term, they will need to educate employees about the availability of this new form of leave. They may also consider whether to provide additional domestic and family leave benefits to their employees – for example, paid leave – or allow employees to use personal/carer's leave for this purpose.

The Commission announced it will review the model DFV award term in 2021, after it has been operating for three years, in order to assess whether it adequately responds to victims' needs.

SUMMARY

With growing recognition and acceptance that human resources are important assets of the modern organisation, managing the employment relationship has become a critical aspect of SHRM. Influencing and determining the terms and conditions of work and understanding the industrial or workplace relations system and framework are an integral, if not distinct, part of the HRM role.

In the past three decades, there has been a transformation in the regulation of the employment relationship in Australia, with a significant move away from the system of industrial relations introduced at the beginning of the twentieth century. That system was based on compulsory conciliation and arbitration and the collective representation of employees and employers. The context has altered significantly: the work people do, and jobs they hold have changed, fewer employees belong to unions and the rise of platform-based work challenges the traditional employment relationship covered by industrial legislation. The workplace relations system now favours negotiations between individual employers and their employees in addition to collective bargaining, with legislated minimum conditions providing the safety net for the majority of employees.

The role of HRM in such complex and changing environments continues to evolve and become more strategic. This chapter highlights not only the conflicting roles of HR managers as agents of management and as advocates for employees, but also the need to remain alert to changes in the legislative, political, technological and social contexts.

KEY TERMS

- Australian Council of Trade Unions (ACTU) 94
- bullying 113
- collective bargaining 83
- enterprise bargaining 98
- *Fair Work Act 2009* 79
- Fair Work Commission 86
- Fair Work Ombudsman 86
- good faith bargaining 98
- industrial relations framework 84
- modern awards 86
- mutual gains bargaining 108
- National Employment Standards (NES) 86
- right to request 110
- strikes 99
- union 79
- wage theft 111
- workplace relations 79

EMERGING ISSUES

1 **Terminology**

Terminology around industrial relations, employment relations and the naming of HR departments is changing and varied.

a   What do you think are the key terms used in the modern organisation in Australia and other countries? What signals do they send about the intended nature of the employment relationship?

2 **Responsibilities**

The introduction of the *Fair Work Act 2009* represented a significant change in the Australian industrial relations regulatory framework.

a   To what degree are HR managers and their departments responsible for the organisation's knowledge about the Fair Work Act and minimum standards in Australia?

b   How can the HR department of an organisation ensure that labour laws, including paying appropriate wages, are being complied with?

c   How should HR departments alert other managers and their employees to changes in labour laws?
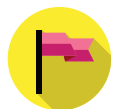
3 **Disputes**

a   Publicity surrounding underpayment of wages, often referred to as wage theft, has highlighted the problem of compliance with the Fair Work Act. Which institution in Australia has responsibility for ensuring compliance, and what actions might be taken?

b   What is or should be the role of HR in cases of underpayment of wages?

ETHICAL CHALLENGE

Business needs vs compliance: Woolworths' cleaning contractors

Cleaning contractors at 90 per cent of Woolworths' Tasmanian supermarket sites were not complying with workplace laws, a Fair Work Ombudsman Inquiry found. It released a report in February 2018, finding 'serious exploitation occurring at multiple levels of its cleaning supply chain'. Contractors were paying cleaners as little as $7 per hour for training and $14 per hour for work, well below their legal entitlements. They were often paid in unrecorded cash-in-hand payments with no payslips provided.

The Inquiry found that Woolworths' approach to procurement and oversight of its cleaning contracts at the time had contributed to a culture of non-compliance within its supply chain. While Woolworths' agreements with its contractors only allowed for one level of subcontracting, the Inquiry found that Woolworths failed to regularly check that this requirement was being followed. In addition, Woolworths failed to monitor its contractors to ensure policies around identification cards, use of visitor books and auditing were being followed, exposing cleaners to potential work health and safety risks and exploitation by subcontractors.

Source: © Fair Work Ombudsman, www.fairwork.gov.au. Licensed under a Creative Commons Attribution 3.0 licence.

1   Should employers at the top of a supply chain be responsible for their contractors' compliance with workplace laws?

2   How difficult is it for employers to monitor their contractors' compliance?

3   Has anyone you know not been paid the correct wages, not received a payslip or been paid in cash?

CASE STUDY 3.1

Working holiday woes

Tamoe (not her real name) was a 23-year-old Japanese visitor, a kindergarten worker who came to Australia for a working holiday in 2015. Apart from a couple of bright spots, it was not a happy employment experience.

Her first job was at a Japanese restaurant in Newtown, in inner Sydney, where she was paid $12 an hour in cash, with no payslip. The national minimum wage was then $17.29 an hour, and the Restaurant Industry Award, which overrides that, adds penalty rates for after 10 p.m. and weekend work.

Tamoe said nothing about Australian employment systems was explained to her when she began at the restaurant. She blamed herself, because she did not speak English. 'Other friends working in Japanese restaurants in Sydney also say that $10 or $12 an hour is normal. So I just accepted it.'

A teacher at Tamoe's English language school in Sydney had set her up with a tax file number, but Tamoe never used it – at the Japanese restaurant or other places where she worked. The owner of the Japanese restaurant, a woman from mainland China, told me she had no record of Tamoe working there, and did not remember her, and that 'with all staff we record their tax file numbers'.

Research by Stephen Clibborn, from the University of Sydney Business School, found that in 2016, 60 per cent of 1433 tertiary students were being paid below the minimum wage.

Much of this black economy is undocumented. But Brien White, the chair of the large catering and hospitality firm the Trippas White Group, estimates that around 80 per cent of restaurants and cafes are paying off the books, at least partly. He abhors the pattern because it puts employers who pay formally and fairly at a competitive disadvantage.

Tamoe later worked in the kitchen at a café in Paddington, also in Sydney. She says she was given the choice of payment without a tax file number, or paying tax. She thought that not being Australian, she would not get her tax back, so she chose cash. The pay rate was around $19 an hour, roughly the entry level award for kitchen staff, but she was forsaking super and workers' compensation.

One day Tamoe dropped a hot pan of caramel popcorn, splashing the molten contents on her arm and leg. The café owner told her not to tell the hospital that it was a work accident; Tamoe was to say it happened at home. The colleague who took her to the hospital was not aware of the instruction and told the reception nurse it was a work accident. Tamoe rang the café owner, who she says told her to leave the hospital immediately.

Some hours later she got medical treatment for her burns at a clinic, which cost $600 and which she paid for herself, although her travel insurance covered a third of it. There would be other work-related dramas: an injury on a farm, and an assault. Just before she went back to Japan, Tamoe was stoic: 'I learnt a lot in my time in Australia'.

Questions

This case highlights a number of employment relations issues and problems relating to vulnerable workers, compliance and enforcement.

1   List all the matters that you identify as needing correction.
2   What should Tamoe's working experience have been like if all the Australian legislation was complied with?
3   Implementation and compliance are major problems in all industrial relations systems. What do you think are the reasons for lack of compliance? Identify the reasons from the point of view of the state (the government), the employer, the unions and the employees.
4   Why are non-compliant employers a problem for employers who 'do the right thing'?

ENDNOTES

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2   Western Australia is the only state which continues to provide coverage to private sector employees.

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4   Productivity Commission (2015), *Workplace relations framework: Productivity Commission inquiry report volume 1, No. 76*. Available at http://www.pc.gov.au/inquiries/completed/workplace-relations/report, 30 November, Commonwealth of Australia, p. vi. Licensed under CC BY 3.0 AU.

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Human resource planning in a changing environment

Trying to predict the future is like trying to drive down a country road at night with no lights while looking out the rear window.

Drucker, P. (2006), *The effective executive: The definitive guide to getting the right things done.* New York: HarperBusiness.

Almost five million jobs face a high probability of being replaced in the next decade or two ... Jobs that involve low levels of social interaction, low levels of creativity, or low levels of mobility and dexterity are more likely to be replaced by automation.

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OBJECTIVES

After reading this chapter, you will be able to:

1 define human resource planning (HRP) and understand its relationships with strategic organisational planning and strategic human resource management (SHRM)

2 demonstrate an understanding of the process of HRP

3 describe the nature and role of human resource information management systems (HRIMS) in HRP and SHRM

4 apply the techniques of HRP and discuss their advantages and disadvantages

5 appreciate that effective HRP is a complex process supported by a range of different techniques.

Emerging issues

1 Strategic HRP

2 Environmental scanning

3 Labour demand forecasting

4 Labour supply analysis

5 Human resource information management systems (HRIMS)

INTRODUCTION

human resource planning (HRP)
The process of estimating future labour demand and supply in order to manage an organisation's human resource requirements, in both quantitative and qualitative terms

human resource information management systems (HRIMS)
Integrated employee databases that enable HR professionals and managers to maintain records, collate relevant information, undertake all HRM activities and plan for the future

In Chapters 1, 2 and 3 we discussed the theory of strategic human resource management (SHRM) and some of its contextual influences. We also explored the fundamental relationships between broad organisational strategies and associated human resource management (HRM) strategies, and their subsequent impacts on all associated functions.

The bridge between HR strategies and HR functions is the formulation of human resource plans. These plans incorporate the desired outcomes of HR strategies, are responsive to continual changes in dynamic national and global industry environments and can be implemented through efficient and effective HR functions (e.g. job design, recruitment and selection, human resource development, performance management, rewards and industrial relations systems).

The purpose of **human resource planning (HRP)** is to ensure that organisational objectives are met through the effective utilisation of the human resources of the organisation, taking into account changing circumstances within and outside the organisation (see **Figure 4.1**). Therefore, HRP is essentially an ongoing process, focused on the long-term, but cognisant of contemporary changes in both the internal and external environments in which organisations operate. In reality, HRP must be a series of processes, with long-, medium- and short-term contingency options, in order to comprehensively reflect HR strategies and to modify associated HR processes.

Such plans are based inevitably upon efficient, effective and user-friendly **human resource information management systems (HRIMS)** that collect, collate and analyse internal and external HR data. These are discussed later in this chapter.

FIGURE 4.1 Strategic alignment
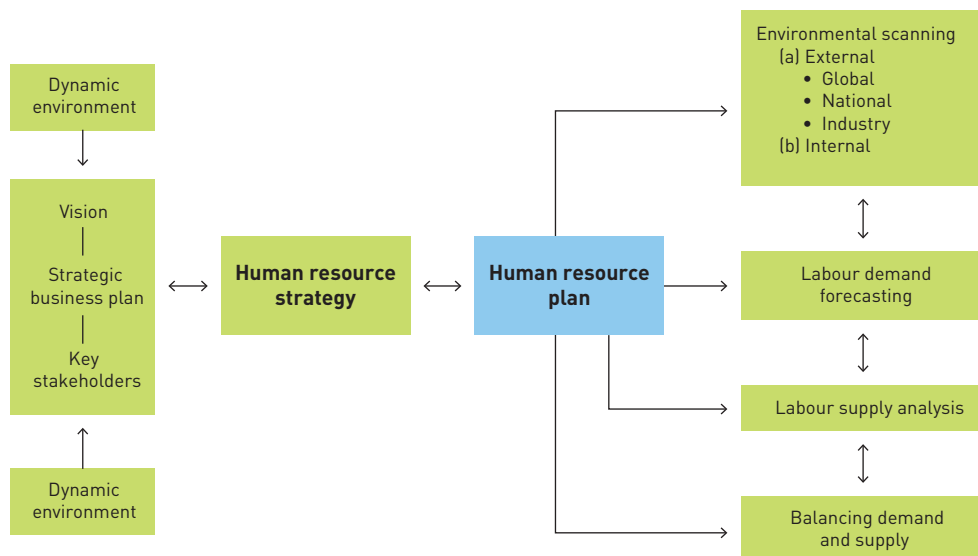
HUMAN RESOURCE PLANNING

Human resource planning (HRP) – sometimes called 'workforce planning' – has been explained in a variety of ways:

- '[HRP] is taking the steps today to ensure that (organisations) have the right people in the right place, with the right skills, at the right time and at the right price.'[1]
- 'Estimating the future supply of and demand for human capital and then figuring out how to close gaps. Such planning allows companies to think through their workforce alternatives to the high fixed costs of full-time employees.'[2]
- '[HRP] consists of translating organisational plans at various levels into HR plans that guide the long-term acquisition, use and development of intellectual capital and knowledge assets.'[3]

All the above explanations contain similar features: a strategic, long-term approach; a comprehensive staffing plan covering all HR activities from recruitment through to learning and development, career management, and the eventual separation of employees by retirement or retrenchment; and a close relationship with organisational strategies and objectives. The second quotation, from the Boston Consulting Group (BCG) and the World Federation of People Management Associations (WFPMA), hints at a key component of contemporary HRP – namely, the need to factor into such planning the volatile local and global labour markets, which demand more flexible and innovative employment conditions, including part-time and casual forms. Its overall purpose is to ensure the effective management of human resources by providing the required quantity and quality of employees where and when necessary.

Therefore, HRP needs to encompass: a systematic process of analysing organisational strategies and goals; external and internal environmental analyses (environmental scanning); and, subsequently, making a strategic choice about the nature of HRM processes appropriate to the identified organisational outcomes. As one research report suggests, HR professionals need to 'add real strategic value to the bottom-line, closely manage the employee-employer relationship and deal with a diminishing workforce'.[4] Some observers have suggested that the staffing priorities of Australian and regional organisations include: the identification, attraction and retention of key talent in an increasingly competitive global (and regional) business environment; the effective integration of more (and less) experienced employees within ageing workplaces; and enhancing the 'work-readiness' (or 'employability') of secondary school, vocational and higher education graduates.

On the first point, Cappelli and Keller argue that 'investment in selection, evaluation and development (of key jobs) [has] the greatest potential to generate a significant return through increased revenue or decreased costs'.[5]

A Committee for Economic Development of Australia (CEDA) report, on the other hand, revealed the staffing challenges posed by ageing workforces in countries such as Australia, Malaysia, Thailand, China, the United States and many European countries, together with the likely reduction of millions of traditional jobs due to the effects of new technologies.[6]

Finally, an exploratory regional study found significant 'work–readiness' (or 'employability') skills gaps between employer needs and job applicant capacities among vocational and higher education graduates in Taiwan, Indonesia, Vietnam, Malaysia, India and Australia. These gaps were attributed to a combination of factors including: changing employer needs due to the application of new technologies; the failure of technical and vocational educational institutions to equip graduates with adequate 'soft' (people) skills; and unrealistic graduate expectations of job requirements.[7]

These changing characteristics of the Australian and regional labour markets and their dynamic industrial relations systems (as discussed in Chapters 2 and 3) will necessitate more focused HR plans and more sophisticated HR modelling competencies. There is, however, some recent evidence that HRP activities have declined in organisations in many countries due to increasing difficulties in predicting either future labour demand or supply. Government and industry labour market studies (such as the CEDA report mentioned above) have illustrated the likely future adverse effects on particular occupations and the (as yet unknown) skills required for new kinds of jobs.

Consequently, some HR professionals in the United States and Australia appear to have found the task too challenging or even too risky.[8] As one observer points out, 'the Australian public sector's (workforce planning) capability and capacity have fallen behind the United Kingdom and worldwide benchmarks after failing to heed 10 years of warnings', citing as evidence a State of the (Public) Service study which found that nearly 70 per cent of government agencies are 'seeking to improve' their workforce planning capabilities.[9]

HRM in practice 4.1 illustrates the key challenges and outcomes faced by many contemporary organisations in their HRP activities.

HRM in practice 4.1

Key HRP challenges

A recent survey of HRM professionals reveals the key challenges they face in practice. These include (but are not restricted to):
- planning for future skills in an uncertain external environment which is heavily influenced by new technologies, and more diverse local and global workforces
- managing a portfolio of different generations of workers, diverse employment conditions (permanent, part-time, contract and casual) and an increasingly contingent workforce
- developing strategies, plans and HRM systems that will build workforce capabilities
- short-term thinking of senior and middle managers
- HRM professionals' lack of workforce modelling, data analysis and scenario planning skills and competencies.

Source: Dana Grgas, Manager, Research & Development Manager, Australian Human Resources Institute (AHRI), 2018.

Essentially, HRP is concerned with matching labour demand and labour supply projections within the internal and external contexts of organisations. Increasingly, astute human resource planners, rather than devising their plans in isolation, are involving organisational managers, employees, customers and suppliers in the formulation of their HR plans.

Importance of human resource planning

Planning is an essential process of management. HRP provides the foundation for establishing an effective HRM program and for coordinating all the HRM functions. It also allows the HRM function to position itself to take the best advantage of fluctuations in the economy or labour market. The likely effects of future economic, social and legislative conditions or organisational changes can be converted from constraints and pressures to challenges and opportunities.

Emerging issue 1
Strategic HRP

Astute human resource planners during the past few years may, for example, have been able to use these principles and skills to optimise the benefits of enhanced flexibility in work and job design, increased maternity leave options (see Chapter 2) or new visa options, in order to redesign their recruitment, training and career management action plans to take advantage of those opportunities. They might also have been better prepared to cope with the adverse effects of the Asian and Global Financial Crises, including those being experienced still in the European Union (EU), through the implementation of complementary long-term HR strategies supporting short-term retrenchment programs. Similarly, the high costs of workers' compensation systems may be converted to benefits by HR plans concerned with health and safety promotion campaigns or accident prevention programs (see Chapter 10).

The failure to adequately plan for an organisation's human resources, on the other hand, can result in losses in efficiency and substantial costs to the organisation, through unstaffed vacancies, expensive replacement training, poor talent attraction or retention (see Chapter 6), or fragmented career management. In such instances, the extensive use of global business process outsourcing (BPO) and offshoring of service functions, linked to local redundancies, could perhaps have been more effectively integrated in strategic human resource planning (SHRP) that focused on retraining, multi-skilling or early retirement campaigns. Such plans may have reduced the high financial costs (e.g. outplacement fees, termination and superannuation payments) and the adverse effects on community and employee morale of poorly planned redundancies or outsourcing programs.

Professional tip 4.1

Key HR roles and competencies

The Australian Human Resources Institute's (AHRI) Model of Excellence (see Chapter 1) suggests that the two key roles of HR professionals with respect to human resource planning are *business-driven* and *strategic architect*. Associated competencies include *future-oriented*, *critical and enquiring thinker* and *solutions-driven*, although some of the other competencies are also relevant.

Human resource planning and strategic organisational planning

In the past, it may have been sufficient for the organisation to rely on a loose relationship between the management of employees and organisational productivity or profitability. However, as noted earlier, competitive national and global industrial conditions demand that HR practitioners undertake SHRP to anticipate, prevent and resolve staffing problems in order to ensure the achievement of organisational objectives.

Strategic organisational planning

Strategic organisational planning is the process of setting major organisational objectives and developing comprehensive plans to achieve them. It involves deciding on the major directions of the organisation, including its structure, strategies, policies and the contributions of its various resources. An important part of the strategic planning process is the determination of necessary labour requirements and the prediction of likely future sources. A strategic corporate planning process usually includes:

- a definition of the corporate philosophy
- scanning of environmental conditions (both internal and external)
- evaluation of the organisation's strengths and weaknesses
- development of objectives and goals
- the formulation of suitable strategies.

  Similar approaches apply to human resource planning.

  Relevant frameworks include SWOT analysis, PEST analysis and strategic capability analysis.

  SWOT analysis techniques explore in detail the present strengths, weaknesses, opportunities and threats facing organisations in the foreseeable future. In this process, strengths may include market position, global exposure, technological superiority, credit–debt ratios and the quality of human resources (e.g. number of employees, skills levels). Weaknesses could include inflexible organisational structures, poor market penetration, outmoded policies, a history of industrial action or untrained and unmotivated employees. Opportunities might include the withdrawal of competitors, likely product or site diversification, or newly discovered labour markets (e.g. university graduates, part-time workers, short-term worker visas and global recruitment, including the opportunities offered by the Association of Southeast Asian Nations (ASEAN) Economic Community – AEC – and the Trans-Pacific Partnership). Threats often include restrictive government legislation or highly competitive labour markets (e.g. chief executive officers, chief knowledge officers, biotechnologists).

  PESTL analysis uses five macro-environmental factors – political, economic, social, technological and legal – to evaluate present and future challenges and opportunities facing organisations, which shape associated business and HRP plans. *Political* factors might include the relative stability of governments, new legislative developments (e.g. green product imperatives,

carbon emissions trading) or funding priorities; *economic* factors encompass taxation, currency fluctuations and comparative regional employment conditions; social aspects include changing employer and employee attitudes to loyalty and commitment, work–life balance and cultural issues; and *technological* factors concern the dynamic interactions between employees, telecommunications and information technology.

Strategic capability analysis is a more proactive technique that explores crucial individual, sectional and organisational capabilities in response to dynamic national, regional and global environments, and assists in the development of both long- and short–term HR plans. Some authors condense the crucial business capabilities into three basic criteria that translate into HR requirements.

1 Business value – do our activities (or the capabilities through which they are delivered) differentiate us from our competitors?
2 Current performance – are our capabilities comparatively excellent, inconsistent or poor?
3 Predictability – are our business outcomes predictable or not?[10]

Linking organisational and HR plans

Effective links between organisational strategic plans and HRP are dependent on many factors, including mutual perceptions of senior management and HR specialists, and the nature and growth stage of the company. As discussed in Chapter 1, links between organisational and HR strategies depend heavily on the perceptions held by senior, middle, line and HR managers about the contributions that SHRM can make to overall business success. Senior managers may adopt a monolithic approach to their organisations, considering that line activities are the central functions, and that all other functions, including HRM, exist merely to service line managers' needs. In this kind of organisation, HR plans are unlikely to be well integrated with overall business plans. Alternatively, some senior managers may regard the HR functions as an important part of the organisation, but secondary to strategic plans. This is often called a functional model.

Ideally, senior managers will see their organisations as pluralist, in which all parts (e.g. production, marketing, sales, HRM) are in constant competition with each other for scarce resources but with legitimate access to formal organisational systems, including strategy formulation and development mechanisms. In this model, access and resources are dependent on the clear contributions of each organisational function and, in the case of HRM, the model requires that HR professionals measure and account meticulously for the costs, benefits and business outcomes of their programs (see Chapter 12).

Figure 4.2 illustrates an ideal relationship between HRP and organisational strategic planning processes. The strategic HRM planning group effectively links all HRM functions with each other, modifies them in view of changing internal and external factors and integrates the results with overall organisational functions and strategies. Production, marketing and financial management areas conduct similar planning activities and compete with each other
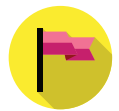
Emerging issue 2
Environmental scanning

for scarce organisational resources and influence. Such a relationship is not common, nor always practicable, but organisations are increasingly moving in this direction.

FIGURE 4.2 Approaches to strategic human resource planning
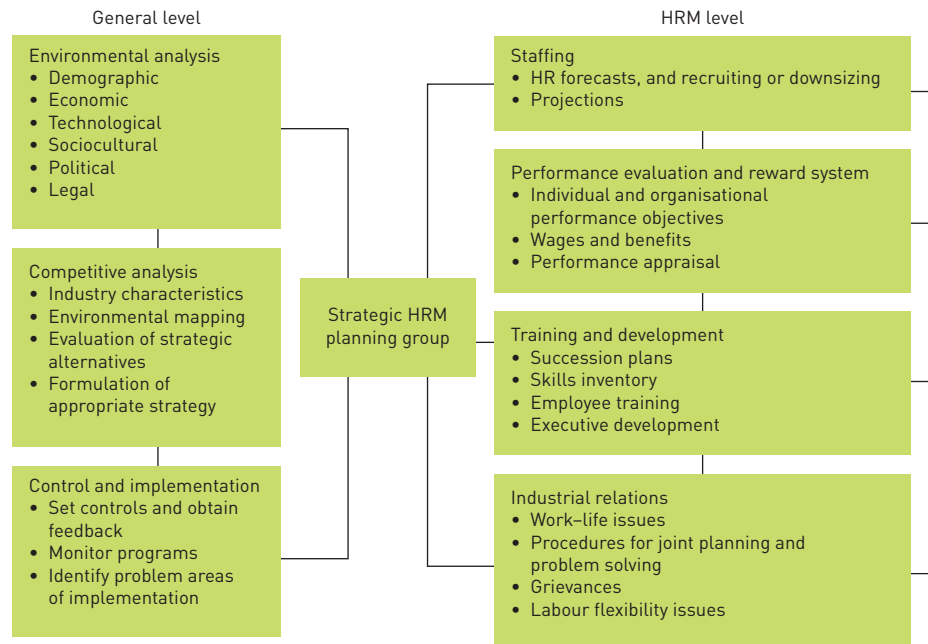
Source: From Lewin / Mitchell, Human Resource Management, 2E. © 1995 Cengage.

HR professionals should also recognise the need for closer integration between their plans and those of their organisations. In the past, lack of confidence, low status in organisations or skills deficiencies often prevented their involvement in effective HR planning. The growth of a more sophisticated HR profession in Australia with a renewed AHRI Model of Excellence (MoE) including specific HR competencies and an associated practitioner certification program (see Chapter 1), economic and social pressures and more enlightened organisational attitudes towards HRM provide substantial opportunities for more mature relationships between HR and business plans.

The nature and stage of organisational development will also influence HRP and corporate strategic plan integration. When an organisation begins operations, it is likely that HR planners will be mainly concerned with attracting sufficient numbers of employees with the right skills and may be prepared to offer them higher than market wage and salary rates. As the organisation grows and prospers, the focus may change towards career management, specialised technical or professional recruitment, appropriate skills mixes and replacement (or succession) planning. If an organisation declines, merges with or acquires another organisation, or is affected by economic recession, emphases may be on identifying likely areas for employee redeployment, retrenchment or retirement.

Figure 4.3 illustrates the ideal relationships between business and HRM strategies and plans.

FIGURE 4.3 Model of SHRM linking a business with HRM strategies and plans
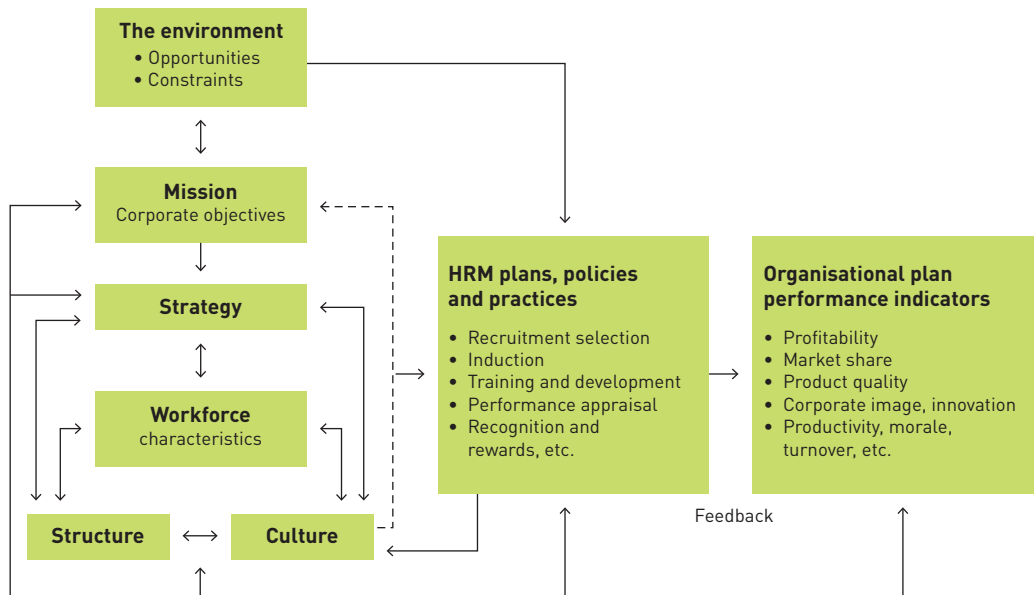
Source: Adapted from Collins, R. R. (1994), 'The strategic contributions of the personnel function' in A. Nankervis and R. Compton (eds), *Readings in strategic human resource management*. Melbourne: Nelson ITP, p. 42.

The factors that appear to influence both senior managers and HR specialists to more closely integrate HR and strategic plans include the following.

- The nature of organisational environments – companies undergoing rapid technological change or operating in competitive environments are most likely to possess integrative linkages.
- Organisational size – larger companies are more likely to use strategic HR plans.
- History, culture and philosophy – companies with dynamic, people-oriented and forward-thinking cultures tend to recognise the need for integration.
- The nature of business strategies – aggressive companies operating in dynamic environments are more likely to recognise the need for proactive HRP.
- Location and level of the HR function – organisations that recognise the importance of human resources to organisational success are more likely to integrate HR and strategic plans.
- Values and skills of senior HR managers – perceptive HR specialists have a considerable, positive impact on integration.

These factors and their implications for organisations and their HRM professionals are discussed in more detail throughout the book. **HRM in practice 4.2** illustrates how an Australian education department's HR plan prioritises its organisational strategies and objectives.

HRM in practice 4.2

NSW Department of Education: business priorities = HR plan

Highest quality staff in all locations

We will attract, manage and retain high performing, committed staff in all locations and support continuous improvement in their capacity to deliver excellent outcomes.

Empowered and capable leaders and managers

We will develop leader capabilities to drive education reform and partner with communities. We will build the capacity of our leaders and managers to demonstrate innovative and efficient leadership and management practices.

New and better ways of doing business

Our organisational effectiveness will be enhanced. We will innovate and improve our ways of doing business through evidence-based workforce planning, flexible recruitment and management practices and streamlined processes.

A high performing inclusive workplace

We will ensure a workplace that is high performing, fair, safe and accountable. The diversity of our leaders and staff will enhance their capacity to engage with and respond to NSW communities.

Source: © State of New South Wales (Department of Education), 2019.

THE PROCESS OF HUMAN RESOURCE PLANNING

HR managers usually employ a systematic process when undertaking HRP, as shown in **Figure 4.4**. The process includes:

- environmental scanning
- labour demand forecasting
- labour supply analysis (including both internal and external sources)
- balancing supply and demand considerations
- the formulation of staffing strategies to meet organisational needs.

The process should be cyclical and ongoing, with the review providing feedback for subsequent forecasts. In practice, some organisations carefully forecast labour demand but neglect to accurately predict labour supply or monitor program effectiveness. Failure to do this will inevitably result in subsequent staffing problems (numbers, skills, HR costs), which will affect organisational effectiveness. We will now consider each step of the HRP process in detail. However, it is important to note here the key role that comprehensive, accurate and flexible HR databases, known as human resource information management systems (HRIMS), play in all aspects of the HRP processes. These issues are discussed later in this chapter.

FIGURE 4.4 The systematic process of HRP
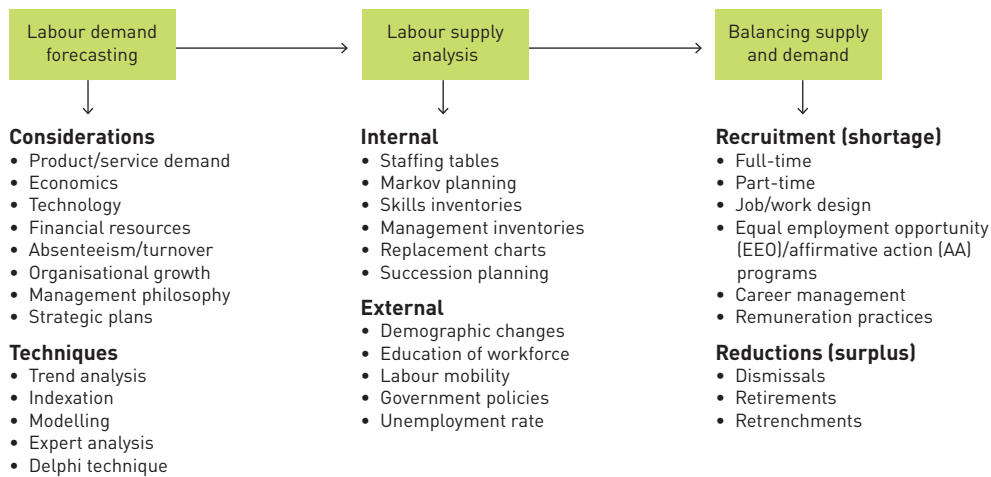
From Sherman/Bohlander/Snell/Shell, Managing Human Resources, 10E. © 1996 Cengage.

Environmental scanning

The first step in any HR planning process is to conduct an analysis of the external environment of the organisation to ascertain the key factors that may influence the demand and supply of future human resources. These factors may include political, economic, social, technological and legal aspects, constituting the PEST analytical framework discussed in Chapter 1 and earlier in this chapter. The objective of environmental scanning is to determine the quantity, quality and likely sources of human resources available to organisations at any point in time, and thus what strategies and techniques organisations might be needed to balance their labour demand and supply requirements into the foreseeable future. The scan will usually include both macro- and micro-level issues. Macro-level issues include global, regional and national developments, while micro-level issues are usually associated with industry or local characteristics. All of these are discussed in more detail throughout the book, but it is worthwhile to consider some of them briefly here.

Macro-level issues

These can include factors such as increasing globalisation, political instability, economic fluctuations, demographic and cross-generational issues, changing social characteristics, technological developments and legal changes. Several studies have highlighted the key issues as domestic growth, global competition, labour productivity, workplace and corporate re-organisation, cost and margin pressures, innovation, rebalancing of outsourcing and insourcing,[11] on the one hand; and technological and communication breakthroughs, skills convergence in multidisciplinary environments, demographic changes, changing business standards (e.g. corporate social responsibility and ethics), on the other.[12] These factors require HR planners

Emerging issue 2
Environmental scanning

environmental scanning
Analysis of the external economic, social and business environments

to 'build high quality performing and resilient workforces'[13] by focusing on talent attraction, employee engagement and adaptability to change, and using 'talent analytics and big data' more strategically.[14]

International perspective 4.1 discusses some of these issues in the global context.

International perspective 4.1

The global context

We all live and work in a global community, with global values, global perspectives and a global marketplace. Whenever the (United States) Dow Jones index rises, the world's stock markets hold their breath; when the Japanese yen falls, ripples spread across the world's finance sector. The 'Asian economic crisis' of the late 1990s and, more recently, the 2008–09 Global Financial Crisis (GFC) radically changed the nature of business relationships and profit expectations that existed beforehand. There has been a general economic shift from high to low inflation economies, with significant decreases in tariffs between countries, and a plethora of bilateral free trade agreements (e.g. NAFTA, US–China, US–Singapore, Singapore–Australia, New Zealand–Australia, China–Australia).[15]

The internet, cable and subscription services (e.g. HBO, Netflix and Foxtel) television, mobile telephones, social media (Facebook, Twitter, Instagram) and email communications ensure that we are reminded daily of our membership of a global community. Accessible international travel enables us to complement virtual reality with actual international experiences and frequent flyer/customer loyalty programs encourage us to do so.

As a consequence, many organisations have chosen to relocate their manufacturing, distribution, marketing and/or operational activities to overseas locations: to be closer to their product or service markets; form joint ventures with local and regional partners; or take advantage of more flexible or less expensive labour markets. Australian companies such as Woodside Petroleum, AXA Asia Pacific, Harvey Norman, Optus, Mars, Pacific Foods, Fortescue Metals and Rio Tinto as well as many Chinese, Korean and Indian companies have taken advantage of these opportunities. Such business decisions have often been based on strategic HRM choices associated with the growing education and skills levels of local employees, their inherent cultural advantages over expatriate staff or, in some cases, simply because they are cheaper than home country employees (especially in manufacturing and support functions). There has also been a growing trend away from the employment of large numbers of expatriate staff (i.e. home country employees who live overseas for long periods) towards more cost-effective approaches, including frequent short-term travel by senior managers and professionals, project assignments and 'virtual teamwork'. All of these choices have their own advantages and disadvantages and need to be factored into HR plans through scenario planning and cost–benefit analyses. Some of these international staffing options may involve ethical issues (e.g. the potential exploitation of low-paid manufacturing employees, possible child labour in some industries and the loss of home country jobs), while others may have unintended workplace health and safety implications (terrorism risks, swine flu, deep vein thrombosis and family stress – see Chapter 10). These aspects of international staffing are discussed in more detail throughout the book.

Following the GFC, earlier predictions about the pressures and opportunities facing organisations in the next few decades have been modified or even abandoned. Apart from

the obvious calls for the re-regulation or closer supervision of organisational governance processes and the need for greater transparency and accountability among middle and senior management, some authors have suggested that external environments have undergone irreversible transformation, requiring managerial mindsets with a focus on 'perpetual innovation and on mixing cultures, perspectives, skills and styles that encourage innovation'.[16]

As an example, Professor Gary Hamel of Harvard Business School cites the rising cost of business capital; the end of low inflation; the continuing dominance of the finance sector; the rise of China and India; massive debt in the United States; the ageing world population; climate change, water scarcity and energy issues; a decline in the costs of communications and technology costs; and the increased bargaining power of consumers facilitated through the internet.[17] All of these factors are likely to have enormous implications for employers and their present and potential labour markets, in terms of the numbers of employees required, their flexibility and innovative capabilities, together with the nature of their jobs, employment conditions and work locations.

Micro-level issues

The combination of cost factors and new technology has resulted in a shift from traditional agricultural and manufacturing industries to automated operations or to countries with less restrictive labour conditions. Countries such as Australia, New Zealand, Singapore, Malaysia and Hong Kong are now firmly service economies competing globally in the same information and telecommunications sectors. The impact of new technology on world economies is enormous and expanding, as is its contribution to productivity and competitiveness. An offshoot of these developments has been the rise of the so-called 'gig' economy whereby many workers run their own small businesses, undertake contracting assignments, work for several employers simultaneously or engage in back-to-back consulting assignments. According to some studies, web, mobile and software developers (44%), designers and 'creatives' (14%) and customer and administration support (13%) make up the majority of the gig workforce, together with Uber (Grab in South–East Asia) drivers and Deliveroo contractors.[18] A study conducted in the United States highlights five major ways that such freelancers will change the workforce:

1   Work will consist of many short–term assignments.
2   There will be more platforms aimed at mitigating risk for workers who lose the protections of traditional jobs.
3   Talent agencies and head–hunting firms will play a bigger role in the lives of everyday professionals.
4   Small business growth will lead to a boost in wages.
5   Everyone will be responsible for their own success.[19]

Likely skills gaps identified in a number of studies include broad managerial, cognitive and interactive abilities ('flexibility, creativity, analytical and problem–solving capabilities and complex communication'),[20] especially in the services and trade sectors. Such skills deficiencies are also reported in emerging regional countries such as China, Vietnam, Malaysia and India.[21]

More specific competencies relevant to 'green' jobs in new industry sectors, such as renewable energy, eco-tourism, sustainable design and carbon farming, emission trading and carbon accounting,[22] together with cross-cultural business skills (especially in the Asian region), were also identified in the reports. There is also a significant demand for employees with 'an appreciation of different political and legal processes', 'local cultural knowledge' and the capacity to establish 'quality (business) partnerships' (see **HRM in practice 4.3**).[23]

HRM in practice 4.3

Michell Wool

Establishing factories overseas provides both significant business opportunities and complex challenges for Australian companies. The latter include difficulties in sourcing staff, high employee turnover, quality assurance and cultural differences.

In 2006 the Australian family business Michell Wool opened its new factory for 'carbonising' (cleaning) wool in Suzhou, China, in order to obtain access to French and South African wool and to move closer to regional textile factories. Running a wholly foreign-owned enterprise (WFOE) can be a problematic exercise, due to the different work ethic in China. For example, production sometimes takes priority over workplace health and safety, 'face-saving' traditions can hide workplace problems, and employee retention in factories can be difficult, especially around holiday periods such as Chinese New Year when workers return to their villages, sometimes never to return.

The company has addressed these issues by sending Australian managers to Suzhou in order to train local staff in workplace health and safety procedures and bringing Chinese senior managers to Australia for training and development programs. Over time, Michell Wool has established good relationships with local officials and the community, enabling it to attract and retain more local Suzhou employees. In addition, it uses its *guānxì* (networks and relationships) with visiting Australian businesspeople by opening the factory to them, mainly to show the Chinese government officials their networks in Australia.

Source: Asialink (2015), *China Country Starter Kit*. Melbourne: Asialink, p. 31.

Future labour supply strategies will need to include: new employment conditions (contracting, outsourcing, short-term work visas, variable work locations); revised work expectations (increased employee autonomy, teamwork, flexible work–life schedules, longer working lives) to cater to the different needs of the 'Millennial' generation; and optimal use of a broader range of labour markets (women, disabled, older employees, migrants on short-term business visas).

The roles of HR professionals in managing these kinds of workers is yet unknown, but the gig economy will provide significant challenges in both enhancing productivity and protecting such employees from exploitation. Thus, it is likely that creative approaches to HRM professionals' roles of *stakeholder mentor and coach*, *workforce and workplace designer* and *cultural and change leader* (see the AHRI Model of Excellence in Chapter 1) will assume more importance in this new world of work.

Labour demand forecasting

Labour demand forecasting is a key component of HRP. It involves estimating in advance the number and types of employees needed to meet organisational objectives. Highly sophisticated computer-based methods or simple 'rule of thumb' models may be used.

The choice of method will depend on the expertise of the HR specialist, the complexity of organisational structures, market factors and the relative turbulence of the external environment. Forecasting, however, needs to take account of factors both within and external to organisations (see Chapter 2).

Labour demand forecasting is frequently more an art than a science, providing informed estimates rather than absolute results. The ever-changing environment in which organisations operate contributes to this problem. The difficulties of labour demand forecasting are illustrated by the experiences of diverse industry sectors in Australia's economy. The resource sector's decline has significantly reduced the demand for labour requirements; according to one practitioner, 'you need three to four times as many people to build a major resource project as to operate it'[24] – and the retail, manufacturing, financial services, tourism and hospitality sectors are either not hiring or streamlining their operations as they face very uncertain futures.

There are two approaches to demand forecasting: quantitative and qualitative, and these are discussed below.

Emerging issue 3
Labour demand forecasting

Quantitative

The quantitative (or top-down) approach involves the use of statistical or mathematical techniques. It is most often used by theoreticians and specialist planners. Methods can be effectively divided into indexation, trend analysis and simulation categories. The complexity of some of these approaches can be seen in **Table 4.1**.

TABLE 4.1 Labour demand forecasting techniques

	INDEXATION	TREND ANALYSIS	SIMULATIONS
Quantitative	• Production function (Leontieff's model) • Refined production (Ghosh's model) • Work study model • Linear regression, linear programming, aggregate forecasting, extrapolative multivariate models	• Same as before (SAB) • Labour wastage analysis • Labour turnover analysis • Job matrix models • Actuarial analysis • Markov models • Cohort analysis	• New venture analysis • Change, optimisation and renewal models • Probability forecasts • Cross-impact analysis • Network analysis • Scenario planning
Qualitative		• Rule of thumb • Delphi technique • Nominal group technique • Managerial judgement	

Indexation

- Forecasts of employment requirements in relation to one or several fixed organisational indices are known as indexation.
- The production function model (Leontieff's model) assumes a continuing relationship between output and employment numbers. Therefore, HR needs can be determined according to a simple equation.

$$\text{New HR} - \frac{\text{New output}}{\text{Former output}} \times \text{Former HR}$$

- Ghosh's refined production function model takes the further factor of productivity into account, producing a slightly more complex equation.

$$\text{New HR} - \text{change in productivity} \left(\text{Old HR} \times \frac{\text{New output}}{\text{Former output}} \right)$$

  - This approach may be suitable for small organisations that can easily measure output and productivity within a relatively stable environment.
- Linear regression, linear programming, aggregate forecasting and extrapolative multivariate models use one or several variables that are closely related to labour needs (e.g. sales, investment). Future needs can therefore be inferred.

Trend analysis

- Forecasts of employment requirements using this method are based on a study of past human resources growth. The simplest form, often used in small organisations or in very stable business environments, is the 'same as before' (SAB) approach, which merely uses past levels of employment to indicate future needs. This is a reactive method and often fails to take account of changing requirements or opportunities for greater employee efficiency.
- Labour wastage analyses establish the trends (rises and falls) in employees leaving organisations, retirements, resignations and dismissals – often by section, job category and level – using the following simple equation.

$$\text{Labour wastage} - \frac{\text{Number of leavers in a period}}{\text{Total number of employees}} \times 100 \text{ per cent}$$

  - A refinement of this approach can be used to determine internal employee turnover (e.g. transfers, promotions) to assess the effectiveness of HR activities in these areas (see Chapter 12).
- Job matrix approaches consider labour movement by departments, job categories and through hierarchical levels.
- Actuarial approaches use statistical methods and models to predict future HR needs on the basis of averages and means.

- Markov models are more complicated statistical techniques that will not be dealt with in detail in this book.
- Cohort analyses single out specialist groups (cohorts) of employees and chart their progress through the organisation. The results of such analyses identify internal human resource movement through the organisation and therefore indicate future recruitment needs.

Simulations

These techniques (see **Table 4.1**) use computer-based systems to develop highly complex scenarios for new HR options based on multiple variables. Examples of these include new venture analyses, change/optimisation or renewal models, probability forecasts and cross-impact and network analyses. Simulations and the more complex forms of trend analyses are usually only conducted by very large organisations with specialist HR departments. However, scenario planning is a useful and relatively simple process.

Scenario planning has been defined as 'a process of positing several informed, plausible and imagined future environments in which decisions may be played out for the purpose of changing current thinking, improving decision-making, enhancing human and organisational learning, and improving performance'.[25] It uses potential workforce scenarios to focus on relevant business outcomes, challenges and opportunities (e.g. sustained industry growth, possible mergers or acquisitions, economic downturns) in order to assess viable options for future staffing of the organisation (such as outsourcing, contracting or downsizing) in response to likely external environmental changes, and can be used by both large and small businesses.

The future of work 4.1 shows the predictions made by an Australian Government agency for future employment growth across many occupations. The study used both quantitative and qualitative methods, together with scenario planning techniques.

scenario planning
A process of positing several informed, plausible and imagined future environments in which decisions may be played out for the purpose of changing current thinking, improving decision making, enhancing human and organisational learning and improving performance

The future of work 4.1

Employment projections for future Australian industry sectors and jobs

Australia's population is changing. The population is getting older, more females are in paid work and the number of school-aged children is growing. Demand is likely to grow for aged care, child care, home-based care and education services. Housing construction, investment in infrastructure (like roads, railways and airports), tourism activity and the international education sector are expected to stay strong. The number and type of job openings available in the future will depend on things like:

- turnover (workers leaving their job to do things like study, move to another job, care for a family member, retire or travel)
- demand for goods and services
- demand for resources
- changes in technology.

Industry outlook

Over the five years to 2022, the department expects the largest jobs growth in:
- health care and social assistance
- professional, scientific and technical services
- construction.
  By 2022, there will probably be fewer jobs in:
- manufacturing
- electricity, gas, water and waste services
- agriculture, forestry and fishing.

Career outlook

The department expects there will be many new jobs for professionals, community and personal service workers. Some of the jobs expected to grow are:
- registered nurses
- aged and disabled carers
- accountants
- electricians.

Source: JobOutlook, http://www.joboutlook.gov.au/FutureOfWork.aspx.

Qualitative

Many small and medium-sized enterprises (SMEs) prefer to rely on qualitative (or bottom-up) approaches to demand forecasting. While quantitative techniques rely on HR data analysed by specialists (including computer experts), qualitative approaches attempt to involve employees and their supervisors and managers in HR forecasting. Organisational experts are consulted to assess anticipated developments and consequent future HR requirements. Three varieties of this forecasting method are the Delphi technique, the managerial judgement model and the nominal group technique (NGT).

The *Delphi technique* uses problem solving and expert consultation methods in a structured manner. First, the forecasting problem is identified and divided into its component parts. Relevant data may be analysed, and different perspectives of the problem sought from interested parties. Second, specialists in each part of the forecasting problem are consulted via a structured and weighted questionnaire. These experts are deliberately kept apart to increase the breadth of forecasts. Finally, all responses are collated and returned to the individual experts for further comment. This process continues until consensus is achieved on all issues and a cohesive demand forecast has been developed.

Managerial judgement is an approach in which supervisors and managers assess their own labour requirements, taking into account turnover and retention, retirement, resignation, promotion and transfer rates, together with the effects of new technologies and work systems. Each section, division and branch of an organisation develops its own labour targets, which are then consolidated

into an overall HR plan. It is essentially a bottom-up approach, useful in organisational restructuring or enterprise agreement negotiations. However, senior management may decide to hand down (top-down) quotas in line with overall budgeting priorities. This latter approach is often used in harsh economic times by the imposition of recruitment freezes or moratoria.

The *NGT*, in contrast, consciously uses 'group process' techniques to compare predictions on the required numbers and skills of employees in the future. Expert participants (including supervisors and employees) are invited to a meeting and are involved in brainstorming (non-judgemental listing of ideas) activities, followed by analyses of each listed idea or prediction. Group decisions are then made on the most realistic, ranked predictions.

Both the NGT and the Delphi technique may include scenario planning processes.

The main advantage of qualitative techniques is the involvement in a part of human resource planning by people affected by subsequent HRM practices. Commitment to policies and practices is more likely to occur, as is better use of grassroots information. On the other hand, both the Delphi technique and the NGT are generally time-consuming and costly. The HR specialist should be the coordinator and consultant in all of these qualitative forecasting activities.

Ideally, HRP should use both quantitative and qualitative approaches. In combination, the two processes complement each other and provide a more complete planning coverage. Organisational restructuring and moves towards increased employee consultation in organisational activity may also be advanced by the inclusion of qualitative HRP forecasting.

Labour supply analysis

Once an organisation has forecast its future labour requirements, it must then conduct a labour supply analysis to determine if the number and types of employees required are available when and where they will be needed. Labour supply can come from either internal or external sources. The process usually begins with an analysis of the existing supply of employees in the organisation. If current employees are not available to fill new job openings, the organisation will need to analyse likely external sources of human resources. There may be conscious decisions to recruit externally based upon the need to free up organisational cultures or because specialist expertise is unavailable within the existing workforce. As an example, some parts of the public sector in several countries in the Asia Pacific region have attempted to change traditional work cultures by consciously recruiting from external sources for jobs above base level. Another interesting employment technique for scarce labour supply conditions in unattractive or remote locations is the use of FIFO or DIDO systems. In these situations, employees work for two weeks on and two weeks off the job, either flying in and flying out (FIFO) or driving in and driving out (DIDO) at the beginning and end of their intensive work shifts.[26]

HRM in practice 4.4 illustrates a practical process for analysing labour supply among public health physicians in Australia. It used a scenario approach that included three different perspectives, which attempt to balance external and internal sectoral labour supply.
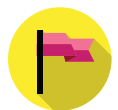
Emerging issue 4
Labour supply analysis

HRM in practice 4.4

Labour supply analysis for public health physicians in Australia

The supply of Public Health Physicians was examined and 10-year supply projections for the workforce provided. Data was analysed to obtain an estimate of new graduates or 'Fellows' of AFPHM [Australasian Faculty of Public Health Medicine], overseas supply, losses to the workforce such as through retirement, and also workforce gains such as 'inactive' Public Health Physicians re-entering the workforce. Findings from the analysis of these data variables provide a description of workforce supply and provide the basis for calculating supply projections.

Three possible projected Public Health Physician workforce supply scenarios were developed:

A 'Best guess' scenario – assumes total trainee position numbers remains at the 2016 level of 68 per year, and that losses of Public Health Physicians from the workforce remain stable at 5% for the duration of the projection period.

An 'Optimistic' scenario – assumes that total trainee numbers increase after 2016 to the high-water mark for the training program identified in the MTRP [Medical Training Review Panel] reports as 81. Public Health Physician workforce losses in the first five years stay at 5% but after 2021 the rate of loss decreases to 3%.

An 'Aspirational' scenario – assumes the number of trainees entering the training program continues to grow each year at the rate of optimistic funding growth in public health (5% per annum). Workforce losses are the same as for the 'optimistic' scenario.

The three supply scenarios all begin with 242 FTE in 2016 and provide a range of supply endpoints in 2016 from a low of 289 FTE to 366 FTE, or compound growth rates of 1.6% per annum to 3.8% per annum. Growth rates in Public Health Physician workforce supply, even the more modest 'best guess' scenario estimates, are driven by increased graduates from the AFPHM Training Program. For the last 10 years (2007 to 2016) the supply of Fellows admitted to AFPHM each year has been relatively stable at an average of 10 per year. But in the years from 2016 to 2026 the average number of new Fellows per year is projected to be closer to 20 for the 'best guess' scenario and more for the other scenarios.

Source: Ridoutt, L., Cowles, C., Madden, L. and Stewart, G. (2017), *Planned and unplanned futures for the public health physician workforce in Australia.* Sydney: AFPHM, p. 62.

Internal supply

An internal supply analysis usually begins with information from staffing establishment charts. These charts, especially in large organisations, indicate actual jobs, their present incumbents and present or likely future vacancies. In conjunction with establishment charts, skills inventories are valuable sources of employee information. Deriving from skills audits, which attempt to systematically establish the current skills levels of employees individually and collectively, and (by inference) future skills requirements, skills inventories represent a comprehensive picture of the level of skills in an organisation. They have assumed greater importance in Australian organisations in recent years due to ongoing learning and development programs, as a component of human capital management systems. As one observer reflected, without effective skills inventories 'it is not possible to be sure that cross-skilling, multi-skilling and career path development … will be effectively designed'.[27]

Skills (or competency) inventories

Skills (or competency) inventories are derived from organisational audits that represent comprehensive analyses of the current level of employee competencies and skills in relation to desired future HR plans. They are often crucial to occupations based on national vocational competencies or as inclusions in enterprise agreements. They usually include information on:

- employee job titles
- prior work experience
- job history
- specific competencies and skills
- educational qualifications
- duties and responsibilities
- assessment centre results
- languages, interests and hobbies (where relevant)
- licences and certificates
- future potential
- strengths and weaknesses
- training courses, seminars, studies
- career paths and job preferences
- geographic preferences
- subordinates
- project work and assignments.

Well-prepared and accurate skills inventories allow organisations to efficiently match likely job vacancies with appropriately prepared employees. From these inventories, management and executive replacement (or succession) charts can be developed, enabling smooth and easy transition to crucial managerial and executive positions.

Figure 4.5 shows how an organisation might develop a replacement chart (or succession plan) for the executives in one of its divisions. Note that this chart provides information on the current job performance and promotability of possible replacements. Replacement charts are useful planning tools for locating hard-to-find employees or key management personnel.

Some of the methods used in demand forecasting can also be useful in predicting future internal labour supply. Employee wastage analyses (see Chapter 12), if broken down into department, section and job categories, can be valuable for indicating high or low wastage levels (i.e. voluntary separations) and therefore whether actions need to be taken in the HRP process to redress them. High wastage (i.e. many employees leaving the organisation) may indicate low morale, lack of appropriate training or career opportunities, or merely the dynamic and competitive nature of the overall industry. Low wastage (i.e. the majority of employees staying with the organisation) can reflect high morale, job satisfaction or, conversely, stagnation and over-concern with job security, or merely the lack of alternative jobs in the external labour market. Such situations provide astute employers with opportunities (and time) to identify
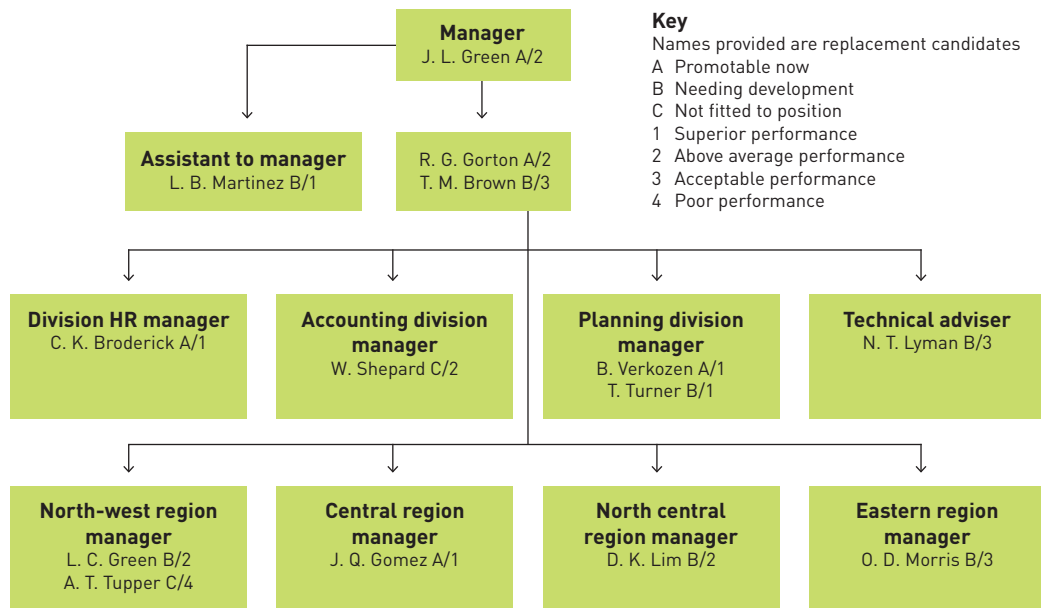
skills (or competency) inventories Databases that include comprehensive information on the current skills, qualifications and competencies of employees

FIGURE 4.5 An executive replacement chart

valued but potentially 'flight risk' employees (i.e. former or future job–hoppers) and to provide them with reasons to stay, as part of their HR plans.

Identification of the reasons for wastage, most effectively conducted by sensitive exit interviewers (see Chapter 12), will yield key information for HR planners. Future strategies may include more competitive remuneration programs, the development of clear career plans, more flexible employment conditions, tighter and more accountable appraisal schemes or more careful recruitment systems. Turnover analysis (i.e. the examination of employee movement within organisations by transfer, promotion or job rotation) can also provide useful information about the likelihood of a future internal labour supply with appropriate skills and experience when required by the organisation. Problem areas can be rectified, or new strategies adopted.

External supply

If an organisation lacks a sufficient internal supply of employees for promotion or when staffing entry-level positions, it will need to consider the external supply of labour. Many factors influence external labour supply, including: demographic changes in the population; national, international and regional economics; the education levels of the workforce; demands for specific employee skills; population mobility and government policies. In these circumstances, the HR planner must gauge the most likely sources of employees within planning periods according to trends in the relevant indicators.

HRP strives for an appropriate balance between labour demand and supply. Supply analyses determine how employees with the required qualifications and personal qualities can be

attracted to fill job vacancies. Due to the difficulty of obtaining employees with advanced job skills and aptitudes, this phase of planning is becoming more crucial. Executive, managerial and technical specialist positions often demand specific job skills and competencies as well as broader qualities of flexibility, innovation and adaptation.

Alternatives to full-time permanent positions can also be considered, including casual and part-time positions, job-sharing and contract positions. In light of the ageing workforce in Australia and throughout the Asia Pacific region, as discussed in Chapter 2, organisations in both the private and public sectors have put in place a number of strategies designed to retain their talented older workers. As Australia's Public Service Commissioner has noted, it is important for all organisations to accommodate the needs of older workers by providing opportunities for work flexibility, part-time options and perhaps even greater amounts of paid (or unpaid) leave.[28]

Appropriate balance needs to be established between hiring new staff and retrenching existing workers, taking account of the effects on productivity, morale, career opportunities and the demands of legislation, such as equal employment opportunity and unfair dismissal laws. The environment of an organisation consists of the conditions, circumstances and influences that affect the organisation's ability to achieve its objectives. Every organisation exists in an environment that is both external and internal in nature, and both the external and the internal environment are composed of five elements – physical (internal only), technological, political, economic and social. A major challenge for employers, and HR managers in particular, is not only to understand and cope with both environments, but also to influence them. HR managers will increasingly become environmental scanners (see above), searching for likely future changes in their internal and external environments, identifying pressures and opportunities and developing HR strategies and plans to address them. **International perspective 4.2** illustrates how some Middle Eastern organisations are attempting to address their labour supply challenges within a difficult sociocultural context.

International perspective 4.2

Employment opportunities in the Middle East

A survey by major Middle East recruitment website GulfTalent indicated that HR pay increases averaged 7.3 per cent in 2014, the highest of any profession, largely due to increased hiring activity. Mercer says high demand and a shortage of experienced HR professionals has driven up salaries, particularly in Saudi Arabia. 'The percentage of HR jobs in Qatar surpass the United Arab Emirates (UAE), but the UAE is a much larger market. The Dubai Chamber of Commerce just announced it has already issued more than 4000 new business licences this year already', reports Bayt.com, the largest regional recruitment website.

Tax-free salaries far in excess of Europe, the US and Australia are, however, less common these days. 'What we tell people is that, if you're on $100 000 in Australia, you come out here and the package will be $100 000, but the upside is that you're not paying tax', according to

recruitment firm Michael Page. The standard expatriate package of salary, accommodation, car and healthcare, plus annual return flights for workers and their families, is still the norm; however, relocation allowances are becoming rarer except in oil and gas companies.

Paid maternity leave is now part of labour law in every Gulf Cooperation Council country. It ranges from 45 days to 10 weeks at either full or half pay, depending on the country and whether the company is in a free zone, private or government. However, there are still challenges for female expatriates in the Gulf, including fluid immigration and labour regulations, rigid employment contracts, perceived gender discrimination and a preference for married women with families.

Source: Hoey, J. (2015), Bridging the gulf. *HRMonthly*, July, pp. 37–8.

HUMAN RESOURCE INFORMATION MANAGEMENT SYSTEMS

The collection of information on all aspects of work life as diverse as salary and payroll, compensation, leave, accidents, superannuation payments and employee benefits has always been part of the human resource manager's function. In the early history of personnel management, administrative aspects, including data collection, took up a great deal of time. Reviews of employee salary and leave entitlements often dominated the activities of earlier personnel officers, reflecting both management priorities and their own clerical backgrounds.

These were early HRIMS. They were manual and mainly used to notify employees of leave entitlements, ensure accurate salary and wage payments, and process workers' compensation and superannuation claims. The data were seldom used to predict trends, identify problem areas and employees, or aid in the longer-term staffing process.

Changing forms of HRIMS

The growing complexity of government legislation regarding employee working conditions reinforced this largely administrative focus of employee information. The clerical (or welfare) backgrounds of early personnel managers, reactive attitudes of management and the difficulty of handling large amounts of information manually often prevented more active uses of the data.

During the 1970s and 1980s, several factors radically changed attitudes towards HRIMS. The increasing complexity of payroll systems in this period demanded more flexibility in and access to information systems. These needs happily coincided with the development of increasingly sophisticated computer hardware and software systems. In large organisations, centralised payroll processing sections began to be separated from other human resource functions. Some organisations contracted their payroll responsibilities to external payroll bureaus with greater technological expertise at reduced costs.

Economic pressures on both small and large organisations during the 1980s and 1990s led to permanent changes in the nature and uses of employee information systems. The need to measure, account for and report on the costs of employee programs has been a strong influence on the development of sophisticated information systems, together with the support of big data from multiple external sources (see later in the chapter).

Government requirements

Perhaps the most powerful influence on the development of flexible and comprehensive information systems has been the growth of government legislation over the past decade. Governments now require not only the collection of new kinds of employee data (e.g. fringe benefits tax, equal employment opportunity, work health and safety) but also proof of contributions to organisational HR programs. Many information systems have been established as a response to government requirements in these areas. The impact of the Australian Government's *Fair Work Act 2009* and the National Disability Insurance Scheme (NDIS), for example, has been to require considerably greater record-keeping functions from organisational information systems.

Experiences in the United States and the United Kingdom in the use of HRIMS encouraged their adoption in Australian HRM departments. Educational institutions and the HR professional bodies, recognising increased pressures for HR accountability and cost containment, began to emphasise the importance of HRIMS in HRM strategies. During the 1980s, HR managers began to see the value of computerised information systems in collecting data, and analysing trends in labour supply and demand. HRIMS was becoming an essential strategic tool for HR planning and cost-effective HRM.

Computerised HRIMS could also store employee data more securely, and allow easy access by HR specialists, senior and line management. Decentralised HR functions in very large organisations reinforced the need for HRIMS during the 1980s. Not only could trends in external labour markets, employee absence, turnover and wastage, and career paths be recorded in computerised information systems, but future costs could also be determined. HRIMS provide a tool for developing closer links between HRM and HRP, between HRM and corporate strategies and, importantly, between HR managers, line managers and senior management because 'organisational members at all levels can get access to HRIS data while the management team can analyse this data to make decisions'.[29] Recent developments in information technology have not only transformed the nature and meaning of work, the numbers of jobs and the ways in which they are performed (as discussed in earlier chapters), but they have also radically transformed the nature and capacities of the HRM function. As some HRM researchers explain, e-HRM is 'a way of implementing HR strategies, policies and practices in organisations through a conscious and directed support of and/or with the full use of web technology–based channels'.[30]

Information technology and HRIMS

Information technology, especially through the increasing use of organisational intranets, has enabled more HR information to be collected and processed more comprehensively and with greater accuracy and speed. The data can be accessed more easily by HR specialists, managers at all organisational levels, employees themselves and sometimes unions and associations. The ability to devolve routine administrative activities to line managers or to the employees benefits HR professionals by freeing them to focus on more strategic processes such as HR planning, knowledge management and career development. As one author suggests, IT is 'an empowering function for HR professionals, providing a medium in which (they) can provide increased value in their work'.[31] For an interesting discussion of the applications of HRIMS in small to medium size organisations, see the article by Nagendra and Deshponde.[32]

Specific HRIMS applications may include basic employee records, applicant search expenditure, risk management, training management, learner experiences, HR financial planning, turnover analyses, succession plans, flexible benefits administration, legislative compliance, attendance reporting and analysis, HRP, accident reporting and prevention, as well as strategic planning initiatives.[33]

Emerging issue 5
Human resource information management systems (HRIMS)

Big data and HRP

Apart from the administrative, operational and (sometimes) strategic data included in an organisation's HRIMS, there have been ongoing calls for HR professionals to become more interested and proficient in the use of **'big data'** systems in order to add value to SHRM. Big data refers to the collection of information from both traditional and more contemporary digital sources both within and outside the organisation, and its careful and ongoing analysis for strategic HR planning purposes, as well as to determine the effectiveness of such HR functions as recruitment, training, talent and performance management, rewards and career development, among others. It usually necessitates the integration of internal HRIMS with external government or industry databases (e.g. Australian Bureau of Statistics, Department of Foreign Affairs and Trade, Business Council of Australia, or their regional counterparts). Big data is characterised by its volume (large amounts of data), velocity (rapid analyses), variety (different levels and kinds of data) and veracity (reliability of the data).[34] Some observers believe that big data will greatly enhance the strategic capabilities of HR planners. Straz, for example, suggests that the benefits of big data in HRP include better insights, better retention, better training and better recruits. Others are more sceptical.[35] Cappelli, for example, suggests that HR data is not 'big' enough and that HRIMS cannot easily be integrated with external databases due to their confidential nature. Angrave et al. conclude that 'many in the HR profession do not understand analytics or big data, while analytics teams do not understand HR,[36] and a report by the United Kingdom's Chartered Institute of Personnel and Development (CIPD) found that many HR professionals lack the interest or skills to effectively use big data.[37]

'big data'
Aggregated data from both internal and external agencies analysed for strategic planning purposes

Only the future will reveal whether big data collection and analysis will become integrated with in-house HR databases.

For senior, middle and line managers, direct access to employee information on both individual and collective bases allows them to better monitor past and present performance (e.g. leave, absences, productivity and cost factors), enhancing their capacity to develop timely and appropriate sectional HR plans in line with broader organisational plans. Employees can check the accuracy of their own HR data, update it where required, and in many systems obtain individual HR advice online.

Applications of HRIMS – internal and external

Employee self-service applications of HRIMS (or 'web kiosks') allow staff to directly access their personal records on their entitlements, make appropriate revisions and organise their annual or long service leave arrangements. These applications are 'a personalised interface to individual employees'[38] and free up HR professionals from such administrative burdens, allowing them to focus on more strategic functions. These systems are now employed in most contemporary Australian organisations, and incorporate information on personal details, staff benefits, awards and enterprise agreements, HR policies, leave entitlements, reports of staff satisfaction surveys, training details and planned organisational changes. Significant cost savings can be achieved through the use of such **employee self-service kiosks**, including reductions in HR time, printing and distribution costs, greater system efficiency and accuracy, and the scaling down of overall benefits transaction costs.

Some organisations choose in-house HRIMS that are linked to their existing email system, while others have consciously developed strategic partnerships with external application service providers (ASPs) to provide some (or all) of their HR information services as part of their outsourcing strategies, as indicated in **Figure 4.6**. Many SMEs have chosen external 'HR shared service/call centres' to reduce costs or to 'buy in' HR expertise on specialist matters such as payroll administration, industrial relations, enterprise agreements or work health and safety (WHS). As an example of the latter, IBM (United Kingdom) has developed AskHR, a HR 'client centre' that provides a broad range of HRM services for 90 000 organisations in 15 countries across Europe, the Middle East and Africa. It employs more than 80 people, and its stated purpose is to 'get the strategic [HR] people much closer to the grassroots than in the past, because they have more "intelligence"'.[39]

Larger organisations have tended to prefer the outsourcing of specific HR information services (e.g. payroll, recruitment, industrial relations) in conjunction with the maintenance of in-house HRM functions such as career development, HR development and HR planning, often cemented through linkages between organisational intranets and ASP extranets. This option serves to maximise the benefits of costs and expertise, while minimising the possible disadvantages of the loss of a strategic HRM presence within the organisation and avoiding the

employee self-service kiosks
Intranet systems that permit employee access to their own HR records, allowing them to make changes to their personal details, freeing HR professionals to focus on more strategic functions

FIGURE 4.6 A model of strategic human resource planning using HRIMS
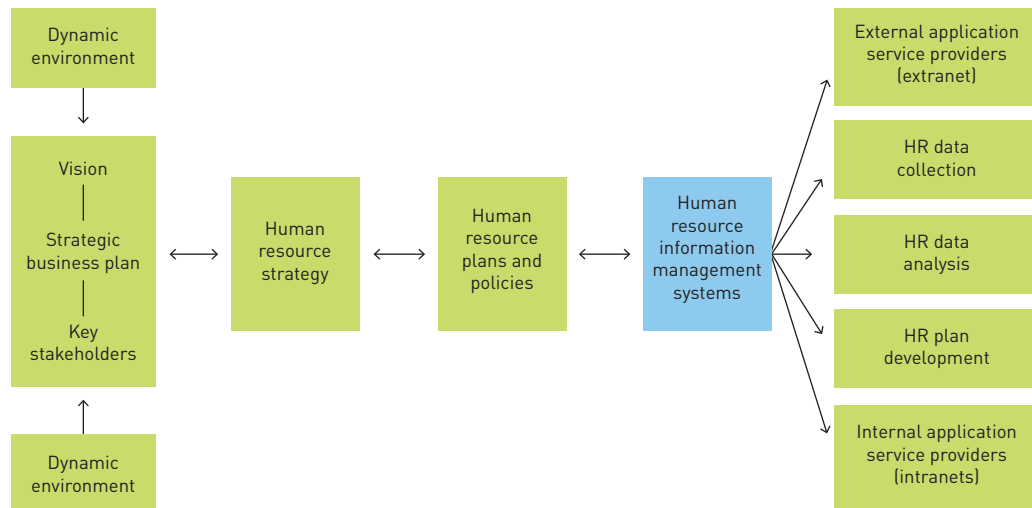
risks to confidentiality. In recent times, many organisations of all sizes have chosen 'software as a service' (SaaS) systems, such as Workday, which allows them to buy in specific IT software and support services for their payroll, recruitment and talent management functions without purchasing actual HRIMS. This is also referred to as 'cloud computing'.[40]

HRM in practice 4.5 illustrates how HR learning and development data can be shared across several organisational databases for both strategic and operational purposes.

HRM in practice 4.5

Using data across HRM functions

A great way the learning department can add value across the organisation is to imagine all the places where learning can take place. Many of the major corporate systems (HRMIS, human capital management – HCM, learning management systems – LMS) are converging – or at least incorporating types of e-learning – and you may find that the content you create has other uses across the organisation. For instance, sharing a small (non-proprietary) portion of a well-produced training course to job applicants can be a powerful draw for prospective employees. This kind of asset may even be used in outreach campaigns to attract more talent. It is becoming increasingly easy to share content and data across systems, and so your ability to impact the organisation's bottom line becomes even stronger, to the degree that you can think about learning in all its possible dimensions.

Source: Rubenstein, J. (2018), Six steps to enlightenment. *HRM*, p. 35, http://hrmonline.com.au, March.

Benefits and features of HRIMS

The specific benefits of HRIMS include:

- improved planning and program development
- more rapid information processing and improved response times
- reduced administrative and HR costs
- enhanced accuracy of information
- more comprehensive communication at all levels
- standardised HR processes
- closer links between HR practices, policies and strategies
- capacity for greater global orientation for multinational companies.[41]

Some practical strategic and operational uses of HRIMS in corporate decision making include: using big data to inform business decision making such as talent management (e.g. 'What makes a successful salesperson?' and 'Where should we be hiring the best talent from?'); implementing more focused data analysis (e.g. 'What are the consistent capabilities of our successful leaders?' and 'How should we improve our selection processes?'); disseminating aggregated data to middle and line managers on a regular basis and then consulting with them in their decision–making processes.[42] **Figure 4.7** illustrates some components of HR information management systems, their interrelationships and the range of applications for which they can be used.

FIGURE 4.7 HRIMS overall scope
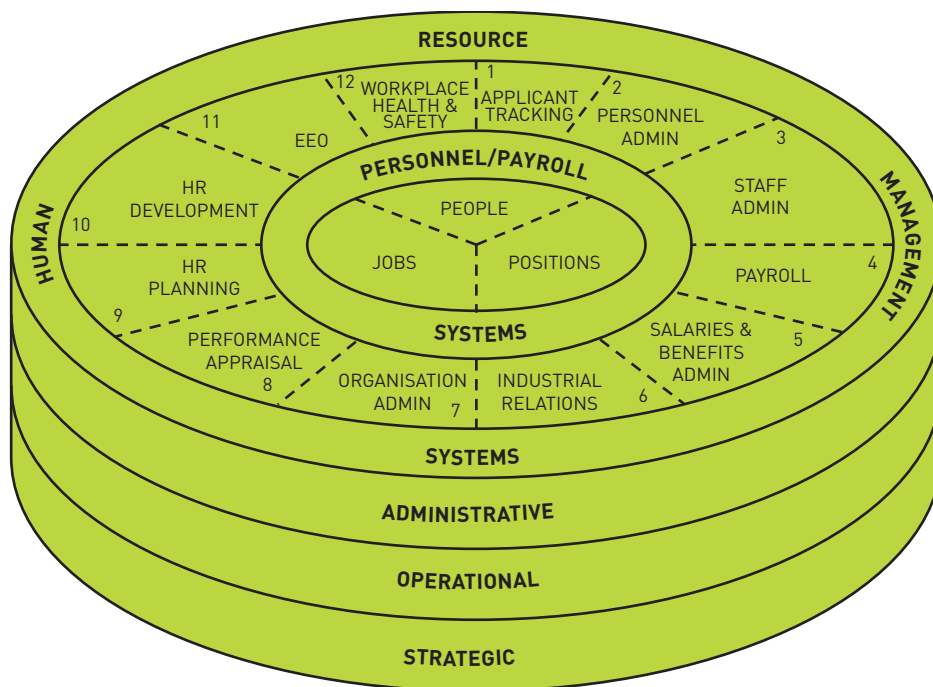
Source: Reprinted with the kind permission of Mr David Proud, Managing Partner, Puntimai Associates, HR Information Consultants.

Types of HRIMS data

As **Figure 4.7** shows, information management systems contain aggregated records on all aspects of the employment relationship, for administrative, operational and strategic purposes. Administrative functions include records of industrial awards and agreements, HR policies, legislative, salary, leave and taxation details, superannuation and employee benefits schemes. Operational data includes personal and job histories and records on recruitment and selection, training and development, performance appraisal, career and succession planning, absenteeism and employee turnover schemes. Strategic planning information includes administrative and operational records, together with data concerning staff positions, wastage, labour market trends, industry salary surveys, developments in education, employment and skills levels. **Table 4.2** shows the scope of employee information that may be included in a HRIMS.

TABLE 4.2 Employee information details

INDIVIDUAL	COLLECTIVE
• Name • Gender* • Date of birth* • Tax file number • Educational level • Academic, trade certificates/degrees • Union membership* • Other skills, e.g. languages spoken, licences, certificates • Work history	• Establishment data (actual and occupied) • Enterprise agreements • Temporary, part-time, casual and contract employees (including immigrant short-term business visa employees) • Ratios of full-time to other employees • Skills inventory • Grading, classification, job evaluation data • Vacancies, e.g. number, department, occupations, reasons for advertising details, unfilled periods
Previous experience • Previous jobs • Date of employment • Initial and subsequent jobs • Salary history • Performance appraisal records • Training courses attended • Career paths • Medical examination • Disciplinary records	**Recruitment and selection** • Recruitment and selection details • Number, ages, sources of recruits • Methods (including cost and evaluation of results) • Test results • Interviewer training courses

Conditions of service	Career paths and succession plans
• Overall conditions of service • Individual employment contracts, immigrant short-term visa employees • Annual leave • Sick leave • Long service leave • Leave without pay/special leave • Workers' compensation records • Accidents and work health and safety incidents • Equipment supplied • Working hours • Employee benefits • Union membership* • Workplace agreement conditions • Legislated pay and conditions inclusions	• Overall career paths and succession plans • Promotions • Replacements • Training and development costs, numbers • Performance appraisal • Salary data/packages • Absenteeism, e.g. days lost, reasons, costs, ages, occupations • Labour turnover • Workplace agreement conditions • Legislated pay and conditions inclusions

*These details may need to be collected and stored separately under equal employment opportunity (EEO) legislation.

Source: Compton, R., Morrissey, W. and Nankervis, A. R. (2014), *Effective recruitment and selection practices*, 6th edn. Sydney: CCH Australia, p. 181.

Strategic HR planning and HRIMS

A recent development in the uses of HRIMS in many Australian organisations has been the linking of benchmarking practices to the design, choice and implementation of such systems as directly strategic initiatives. Integration with organisational strategic objectives is achieved by the subsequent establishment of performance targets and quantitative measures. Many organisations benchmark their overall HRM strategies in areas such as the attraction and retention of talent, performance management, leadership, rewards management and cultural change against their competitors or other industries.[43] **Figure 4.8** illustrates the ways in which national and international benchmarks contribute to strategic HR planning.

As a strategic tool, HRIMS can be used to contribute to the quantitative and qualitative development and modification of HR plans and to feed into specific HRM processes. HR data, if collected effectively and contained within computerised, accessible systems, can compare organisational HR 'bottom line' outcomes by HRM process, between processes and with national or international performance HR benchmarks (see **Table 4.3** and Chapter 12).

HR benchmarks
Criteria or measures used to evaluate employees' productivity and job quality, usually in comparison with those of similar industries or organisations

FIGURE 4.8 The role of HR information in the HR strategic planning process
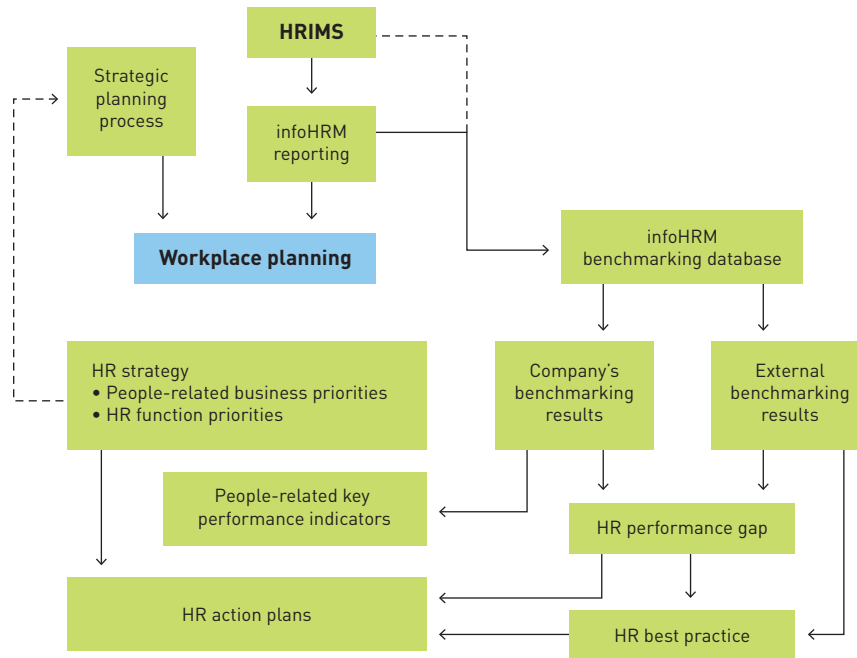
Source: Mr Peter Howes

TABLE 4.3 Key HR benchmarks

BENCHMARK	BENCHMARK
1 Accession rate	17 Advertising cost per hire per cent
2 External accession rate	18 Agency cost per hire per cent
3 Internal accession rate	19 Referral bonus cost per hire per cent
4 Internal hires per cent	20 Relocation cost per hire per cent
5 Advertising hiring per cent	21 HR recruiter cost per hire per cent
6 Agency hiring per cent	22 Time to fill
7 Referral hiring per cent	23 External time to fill
8 Cost per hire (excluding relocation)	24 Internal time to fill
9 Cost per hire	25 Requisitions filled per cent
10 External cost per hire	26 Total requisitions per recruiter
11 Internal cost per hire	27 Filled requisitions per recruiter
12 Advertising cost per hire	28 HR recruiter costs per requisition
13 Agency cost per hire	29 HR recruiter costs per filled requisitions
14 Referral bonus cost per hire	30 Poor quality hire rate
15 Relocation cost per hire	31 New hire voluntary separation rate
16 HR recruiter cost per hire	32 New hire performance rate

These comparisons enable the evaluation of the quantitative features of HR plans and the subsequent promotion of the success of strategies and plans to senior managers. They can also facilitate necessary modifications to HR plans and HRM functions according to movements in these statistics. Underperforming recruitment/selection processes or excessive termination costs (against predetermined benchmarks) can be targeted or modified in order to enable the achievement of HR and organisational objectives.

On the qualitative side, some writers suggest that the outcomes (rather than the activities) of HRM should be evaluated to underline its contributions to broad organisational goals; that is, creating value (versus forecasting), accumulating talent (versus hiring/firing), building capability (versus training), building motivation (versus remuneration) and creating change (versus providing advice).[44] While HRIMS on their own cannot accurately substantiate these claims, the combination of quantitative data and demonstrated qualitative achievements are as persuasive as the marketing or financial plans of organisational colleagues. However, some recent research suggests that HR professionals sometimes lack the interest or skills to fully utilise the data analytics they collect in their HRIMS. While the data can be employed as a tool for continuous improvement or as a means of justifying and promoting the contributions of the HR function, 'there is still a significant gap in our ability as HR professionals to be data-driven and evidence-based in our decisions'.[45]

Ownership, confidentiality, security and privacy of HRIMS data

Manual information systems in locked filing cabinets provided limited confidentiality and security for employee information. Computerised systems provide more effective methods of ensuring employee confidentiality and data security through the use of access keys and codes. All organisations need to consider carefully which employee data are truly confidential and how they can best be protected. These involve ethical issues that should be considered before systems are developed.

As part of their outsourcing activities, some private sector organisations and many federal and state public service authorities have engaged specialist HRIMS providers to conduct their HR systems and supply operational and strategic HR data. These developments raise serious issues with respect to the ownership and security of employee data, which may be held in disparate databases both within and outside particular organisations, and also with respect to the levels and methods of access to specific data by such diverse users as HR professionals, managers, employees and government authorities.

Security issues may include aspects such as the potential accessibility of web-based applications (data 'hacking'), the presence of security countermeasures and contingency plans for the resolution of these security breaches.[46] Some observers suggest that a crucial component of HRIMS is the development of 'trust' between managers and users, including its reliability,

honesty, capability, benevolence, integrity and predictability, all of which are predicated on the perceived security of the data contained in such systems.[47] **HRM in practice 4.6** illustrates the adverse consequences of a serious breach of data security in the US Office of Personnel Management (OPM).

HRM in practice 4.6

OPM-Gate 'biggest cyber-security breach in US history'?

Hackers have reportedly breached the US Office of Personnel Management's (OPM's) huge HR database, stealing the user names, passwords, social security numbers, health histories, criminal records, financial information, residency data and family details of the nearly 20 million employees served by the system. The data was originally obtained from employee applications and background investigation forms.

Many members of Congress called for the OPM Director's resignation for her perceived inadequate response to the disaster. The Director declined to step down, adding that she 'truly understand(s) the impact this has had on our current and former employees, our military personnel and our contractors'. The White House confirmed its continuing support for the OPM Director.

Source: AP, 'US hack puts HR head on the block', 11 July 2015, The Weekend Australia. The use of this work has been licensed by Copyright Agency except as permitted by the Copyright Act, you must not re-use this work without the permission of the copyright owner or Copyright Agency.

As internet and email systems are often connected to 'self-service' HRIMS, employer–employee rights and obligations also require careful consideration. As John Macy cautions, '(service) providers will tell you that there is no issue with data privacy, and the co-existence of multiple clients' data on the same server is totally secure and cannot be accessed by unauthorised parties. But I'm reserving judgement on that one'.[48]

On the issue of the ownership of employee information contained in external HR databases, contracts with ASPs should explicitly ensure that all data during the period of the contract: is the property of the outsourcing organisation; is not to be released to any unauthorised party; and that it is returned to the employer on the expiration or non-renewal of the contract. These requirements would be legally binding.

Legislation and regulations that may be relevant to data ownership, confidentiality and privacy include those concerning crime, privacy, freedom of information and anti-discrimination. Breaches can be dealt with by federal and state courts and by the various privacy and anti-discrimination boards or commissioners.

Successful HRIMS

The most effective HRIMS are those that:
- contain accurate employee and job data
- are sufficiently flexible to adapt to both present and future requirements

- clearly link with and contribute to HR plans
- are modular, but integrated in design, allowing multiple input and access
- allow clear control of human resource costs.

FORMULATING HUMAN RESOURCE PLANS

Once labour demand forecasts and supply analyses have been conducted and compared, a series of integrated staffing plans needs to be developed in line with corporate strategies.

Component parts of the HR plan will include: integrated plans for future work and job design; recruitment; selection; training, development, career management and succession; remuneration; separation and retirement/retrenchment; rewards systems and performance management. An integrated approach is essential, not only for good HRM practice, but also to ensure that organisational objectives, structures and cultures are effectively and efficiently aligned.

Effective HRP also inherently recognises that the best-laid plans are likely to be disrupted by internal or external changes. Market shifts, technological changes, economic downturns, increased competition and industrial relations actions can severely inhibit HR plans. Proactive HR managers will include a series of contingency plans in their overall HR plan. HRP should also be cyclical, involving continuous monitoring and review. Like marketing, financial management or productivity plans, HR plans are seldom exact, but they generally involve a series of informed predictions of the future demand and supply of employees, their likely costs and contributions to organisational effectiveness.

Drawbacks and benefits of human resource plans

As with all future planning, HR plans can have both drawbacks and benefits. Both these aspects are now considered in more detail.

Drawbacks

HR planning is sometimes avoided because it is time-consuming or just too difficult. Certainly, effective HR plans do take time and can be costly, particularly if specialists are required. In many large organisations, the complexity of internal and external factors may require whole sections to develop plans. HRP techniques can be complicated, and strategies may require long lead-in times, during which economic or political conditions may change. Cultures may be immensely difficult to modify and structures seemingly impossible to alter. Adequate HR databases may not be in place or industrial conditions may be inappropriate for the proposed strategies. In many organisations, there are vested interests obstructive to new HR plans and even top management may not recognise the need for change.

Benefits

Despite these drawbacks, a wide variety of benefits can be derived from well-prepared HR plans. Human resources in organisations will be better used, employee and organisational objectives can be more closely matched, labour and total workforce costs will be better managed and substantial improvements can be achieved in both productivity and profitability.

By implementing a plan, employees can be recruited at the best time, for the right cost and in line with future organisational requirements. Idle labour or labour under-supply can be efficiently avoided, and labour surpluses can be used for the development of new markets or new products. These aspects can be enhanced through the identification and resolution of issues raised by an ageing workforce and talent or skills gaps. Future skill requirements can be met by training and development of employees in a timely manner and employee morale can be boosted through career planning. Likely redundancies can be anticipated and managed effectively with minimum disruption to employees, work processes and organisational objectives. Overall, HRP is a means of ensuring that all HRM activities are effectively integrated with business strategies, and that the HR function receives appropriate recognition by clearly contributing to the success of the organisation.

Professional tip 4.2

Community meetings and events

A useful way of maintaining good communication with the local community and being a good corporate citizen, as well as nurturing potential future talent, is for HR professionals to attend appropriate community meetings and events. For minimal time investment, significant benefits may be obtained.

EFFECTIVE HUMAN RESOURCE PLANNING

HR planning is a complex process involving the use of qualitative and quantitative techniques supported by an effective human resource database. It requires the HR manager to be a strategic thinker, with close links to both senior and line managers, and up-to-date with the internal and external environments of their organisation.

Effective HR planning depends on:

- top management understanding of and commitment to the HRP process and its outcomes
- the recognition of the equal importance of human and other resources
- an understanding of the links between external and internal environments and organisational strategies
- effective linkages between HRP and SHRM
- the provision of adequate staff, time and resources for HRP
- effective human resource information systems.

SUMMARY

This chapter examines the nature of human resource planning and its relationship to organisational strategies and human resource management programs. It proposes a systematic approach, blending qualitative and quantitative HR planning techniques, supported by an accurate and comprehensive HRIMS.

The internal and the external environments of organisations increasingly affect the nature and complexity of HR plans in positive and negative ways. HR planners need to act as environmental scanners, providing long-term contingency strategies, to ensure that organisational and employee needs are effectively met. This flexibility is increasingly necessary as Australian and regional work patterns and labour markets undergo dramatic changes. Towards the end of this chapter, the benefits and drawbacks of HRP are considered, emphasising its crucial contribution to organisational success.

KEY TERMS

- 'big data' 146
- employee self-service kiosks 147
- environmental scanning 131
- HR benchmarks 151
- human resource information management systems (HRIMS) 122
- human resource planning (HRP) 122
- scenario planning 137
- skills (or competency) inventories 141

EMERGING ISSUES

1 Strategic HRP

Strategic HRP refers to the long- and short-term planning of all HRM processes (e.g. staffing, human resource development, performance management, remuneration, career progression) in order to ensure that their outcomes reflect and contribute to the overall goals and objectives of the organisation.

a   Consider the likely impact of new artificial intelligence and robotic technologies on current jobs in the (i) health, (ii) retail and (iii) hospitality sectors. What new forms of technology might be introduced? Which jobs will they change, and how? How might HR professionals develop plans to maximise their advantages and minimise the adverse effects on the workforce?

2 Environmental scanning

Environmental scanning is the crucial first step in human resource planning. It entails a comprehensive and ongoing analysis of the factors most likely to affect the labour markets (both internal and external) required for organisations to remain competitive. These factors include legislative, demographic, economic, social and technological changes. PEST and SWOT analytical frameworks are often used for these purposes.

a   Discuss the key issues associated with the rise of the gig economy in Australia (e.g. Uber, Deliveroo, Airbnb). What are the benefits for the gig workers themselves, and their 'employers'? What are the downsides? What roles (if any) do HR professionals have in the gig economy?
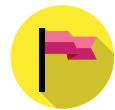
3 Labour demand forecasting

Labour demand forecasting is the process of predicting the numbers, types and characteristics of future employees required by organisations in order to achieve their objectives. Techniques can be simple or quite complex, depending on the nature of the organisation.

a   Consider the labour implications of the ASEAN Economic Community (AEC) for Australian companies. Who will be the 'winners' and 'losers' in the war for talent in the region? What can Australian HR professionals do to enhance their ability to attract talent from the region?

4 Labour supply analysis

Labour supply analysis uses a variety of techniques to determine the most suitable labour markets from which to source future employees. Such labour markets may be: local, regional or global; industry or broader sources; specialist or more general.

a   Consider the relative advantages and disadvantages of global versus local labour markets in relation to an organisation of your choice.

5 Human resource information management systems (HRIMS)

HRIMS are databases that contain comprehensive information on an organisation's human resources to facilitate human resource planning. Argue the cases for:

a   maintaining a HRIMS wholly within the organisation
b   integrated HRIMS, including internal and external service providers
c   an entirely outsourced HRIMS.

ETHICAL CHALLENGE

Deliveroo wins right not to give riders minimum wage or holiday pay

Union accuses food delivery firm of 'gaming the system' as couriers are ruled to be self-employed rather than workers.

Deliveroo won the right not to give its couriers the minimum wage or holiday pay on Tuesday, dealing a blow to campaigners for workers' rights in the gig economy. In a key legal ruling the Central Arbitration Committee, a body that resolves worker disputes, said the food delivery firm's riders were self-employed contractors as they had the right to allocate a substitute to do the work for them. The case, brought by the Independent Workers Union of Great Britain (IWGB) as part of an attempt to gain recognition by the company, relates to couriers in the Camden and Kentish Town districts of north London. But it is seen as a test case for riders across the UK, including those working for other firms similar to Deliveroo. The CAC ruling said: 'The central and insuperable difficulty for the union is that we find that the substitution right to be genuine, in the sense that Deliveroo have decided in the new contract that riders have a right to substitute themselves both before and after they have accepted a particular job; and we have also heard evidence, that we accepted, of it being operated in practice.'

It said that its finding on this particular aspect of the relationship between Deliveroo and its riders was 'fatal to the union's claim.' The union can take the decision to judicial review, but it is still considering its position. Dan Warne, the managing director for Deliveroo in the UK and Ireland, said: 'This is a victory for all riders who have continuously told us that flexibility is what they value most about working with Deliveroo.' He said the company wanted employment law to be changed so Deliveroo could offer injury pay and sick pay while maintaining flexibility. 'We want to work with government to update legislation

and end the trade-off between flexibility and security,' Warne said. The IWGB said the CAC had found that the majority of Deliveroo riders were likely to support union recognition and that the courier firm had found a way to 'game the system'.

At the CAC tribunal in May, it emerged that Deliveroo had recently made a series of changes to its contracts, including allowing riders to bring in someone to cover their work. Being unable to send someone else to do your work is a key definition of a worker, an employment classification that carries the right to the national minimum wage, union recognition and holiday pay. The company also removed performance monitoring and a requirement for riders to wear its branded clothing, both factors seen as central to differentiating between workers, who are service providers closely controlled by an employer, and self-employed contractors.

Jason Moyer-Lee, the IWGB general secretary, said: 'It seems that after a series of defeats, finally a so-called gig economy company has found a way to game the system. On the basis of a new contract introduced by Deliveroo's army of lawyers just weeks before the tribunal hearing, the CAC decided that because a rider can have a mate do a delivery for them, Deliveroo's low-paid workers are not entitled to basic protections.' Crowley Woodford, an employment partner at law firm Ashurst, said: 'This will be a significant blow to the unions who are trying to expand their membership within the gig economy by challenging the basis on which such employers engage and use their labour.'

Source: Butler, S. (2017), Deliveroo wins the right not to give riders minimum wage or holiday benefits. *The Guardian*, 15 November, https://www.theguardian.com/business/2017/nov/14/deliveroo-couriers-minimum-wage-holiday-pay.

This case illustrates a fundamental HR planning issue – the reframing of the nature of organisations, and the consequent re-definition of employees; and their employment contracts, for cost-containment purposes.

1   Is Deliveroo a food distributor or merely an employer of casual and contract employees?
2   Is it ethical to decide not to provide normal (mandated) benefits to contract workers?
3   Are there any alternative ways of saving costs and maximising benefits?

CASE STUDY 4.1

New Zealand customs service: workforce strategy

Introduction

In 2011, the New Zealand Customs Service (Customs), along with a number of other government agencies, was asked to prepare a Workforce Strategy.

The Workforce Strategy needed to provide confidence to government that the Service could deliver on its *Statement of Intent*, within the fiscal constraints of the *Four-year Budget Plan*. The challenge for Customs was to deliver a Workforce Strategy within 12 weeks.

This case study provides an insight into how Customs overcame this challenge and went on to develop a Workforce Strategy that was commended by the State Services Commission. Customs hopes that in sharing its story, other organisations can learn and benefit from its experience.

The New Zealand Customs Service

Customs provides vital border services and infrastructure to advance New Zealand's economy and security. Customs is shifting towards becoming a technology-led organisation working in collaboration with other border agencies to deliver integrated and streamlined border services to manage the movement of all people, goods and craft across the border.

Customs delivers high-quality services to facilitate trade valued at over $100 billion, to process more than 10 million travellers per year, and to collect $14 billion of Crown revenue forecast in 2015/16, enabled by targeted risk management.

The organisation has approximately 1200 staff based in 14 locations across New Zealand, with a small contingent of people overseas. The majority of staff (83 percent) are customs officers including intelligence and other specialists who provide critical support to Customs' operations, and staff who provide input to domestic and international policy settings. The remaining 17 percent of staff develop business systems and provide corporate support to the frontline and senior management. Customs currently has unplanned staff turnover of around 7% which is below the public-sector average.

The operating context for delivery of Customs' core functions is one of increasing expectations from Government and the NZ public for better services in an environment of ongoing fiscal constraint together with growing and more complex service demand. Customs' work programme has a strong modernisation agenda and includes initiatives to enable a more flexible workforce that is able to meet changing service demands and risks.

Customs strives for an organisational culture that supports high integrity, innovation, service, high performance, and security.

Workforce Strategy formulation and sign-off

The approach to developing the Workforce Strategy was geared towards producing a worthwhile and credible result within a relatively short timeframe. The project team followed a 6-step process to develop the Workforce Strategy as follows: Form a dedicated team, develop a plan, agree on a format, do an environmental scan, draft the plan and communicate the plan widely throughout the organisation.

What we learned

The experience of developing a Workforce Strategy has been valuable for Customs. The process of thinking and connecting key strategies with the key people involved has been useful, drawing the strands of business change, technology and financial performance together into a cohesive whole to provide a 'one-document' visibility to the workforce. More specifically:

- Developing the Workforce Strategy involved a tightly led project management approach supported by strong leadership from the Chief Executive and the senior leadership team, engagement with key stakeholders within Customs, and integration with the Four-Year Business Planning process.
- Undertaking a deep analysis of the workforce was critical for determining what trends, if any needed to influence the Workforce Strategy.
- The Workforce Strategy has helped to develop a common view and understanding of the organisation. It connects: people, financial and business change strategies into a single unified organisational picture.
- The Workforce Strategy has informed the content of and priorities for Customs' Human Resource (HR) work programme. As a result of Customs' experience developing the Workforce Strategy it has a new set of HR metrics that will support more effective monitoring of the progress and provide a better information base for the future.

> The Customs' Workforce Strategy is an important enabling strategy for the future. Having now completed the first Workforce Strategy, Customs believes that the real value will be in what happens going forward as they implement and further refine the Workforce Strategy and continue to develop their workforce capability and flexibility.

Source: New Zealand customs service: workforce strategy case study, https://www.ssc.govt.nz/sites/all/files/workforce-strategy-case-study-nzcustoms-oct12.pdf.

Questions

1 What do you think were the key challenges faced in the development of a workforce strategy for NZ Customs; for example, future staffing numbers and skills, service quality, financial aspects?
2 Critique the process adopted – both positive and negative aspects. What other components might have been included?
3 What problems might NZ Customs face in implementing and evaluating the plan?

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HRM STRATEGIES, SYSTEMS AND PROCESSES

5

Work design challenges in a global environment

There's a good chance that what your employees actually do every day has little in common with what's written in their job descriptions.

Meghann Kantke, HR specialist, *Employment Law*, May 2013.

For all the changes in contemporary workplaces, many of the issues that prompted researchers to examine the human aspects of work design decades ago — alienation and dissatisfaction, low work motivation, absenteeism and turnover, sometimes-shoddy products — are still very much alive in work organizations.

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OBJECTIVES

After reading this chapter, you will be able to:

1. identify the linkages between job analysis, competencies, position descriptions and person specifications

2. recognise the changing nature of the role and use of job descriptions and person specifications when using job design strategies

3. understand the trend towards a more creative and innovative workforce

4. explain the idea of diversity management and how this can be achieved.

Emerging issues

1. Job analysis
2. Job competencies
3. Job descriptions and person specifications
4. Alternative workplaces
5. Work−life balance and diversity
6. Creativity and innovation

INTRODUCTION

The design of work to meet the needs of both the employee and the organisation is becoming one of the critical issues for employers operating in a global environment. With the increase in educational standards and a focus on the social and technological aspects of the work environment, employees are demanding more interesting work, with greater opportunities for skill enhancement and promotional opportunities, and employers have increased expectations relating to job flexibility, including multi-tasking, multi-skilling and improved productivity.

Recent global economic crises, together with increased regional competition, have also placed pressure on employers to evaluate the roles of their staff to ensure that they are operating as efficiently and productively as possible. Tightened operating budgets mean that employers need to ensure that all staff members are being fully utilised, as well as trained and performance managed (see Chapters 7 and 8).

Jobs are also being redesigned to meet the social needs of employees, particularly the need for face-to-face interaction to improve communications between teams, with co-workers and peers. The trend towards younger workers communicating via social media also needs to be considered in the design of work. Social isolation at work can lead to increased conflict and tension, along with mental health disorders.

The rate of technological change has significant implications for the design of jobs, with the increasing presence of robotics and new technologies such as wearables (e.g. Fitbit and smart eyewear), augmented reality and artificial intelligence. Such technologies will impact on the number of jobs available in the future, and also the ways in which work is performed.

There are also labour shortages in some industries and oversupply in others as the result of numerous external and internal influences, such as: economic conditions; a fluctuating resources sector; changes to Australian federal industrial relations legislation with each new election; social conditions, such as ageing and the dynamic expectations of younger labour markets; the mobility of labour; and other demographic factors. Many of these influences are also evident in countries within the Asia Pacific region and the Association of Southeast Asian Nations (ASEAN) Economic Community (AEC).

Jobs are also changing on a continual basis, making job analysis a constant and dynamic process. There is a greater emphasis on linking **competencies** with productivity goals as well as on matching competencies to HR development (see Chapter 7) and new and future roles in the organisation. Organisational structures are also becoming increasingly flatter, with an emphasis on self-managed work teams (SMWT) and/or individuals operating as internal consultants and advisers to the organisation. The shift to a 'gig' economy, whereby workers are increasingly employed for short-term contracts or as outsourced contractors, places challenges on the design of jobs and the cohesiveness of work teams. The workplace is also transforming digitally, with technology enabling work to be undertaken remotely. The place in which work gets done is no longer always within the confines of an office within a corporate building to which an employee travels; work can be done anywhere there is an internet connection via a smartphone, tablet, notebook or laptop.

competencies The skills and abilities required by job holders to enable the desired level of performance at work

Professional tip 5.1

Key HR roles and competencies

The AHRI Model of Excellence (MoE; see **Figure 1.2** in Chapter 1) suggests that the key roles of HR professionals with respect to work design are to be a *workforce and workplace designer* and *strategic architect*. Associated competencies include *future oriented, resolver of issues, collaborative* and *credible* – although some of the other competencies are also relevant.

JOB ANALYSIS

Jobs are considered to be the building blocks of organisations, with each job consisting of a number of outcomes, responsibilities, tasks and functions. These responsibilities and outcomes, together with the authority and responsibilities awarded to the job and the competency requirements in order to successfully achieve those outcomes, not only define a particular job, but could also encompass a range, group or cluster of jobs. These then relate to other jobs within the team, section, business unit, department or division. As a total unit, all the jobs in the organisation should, if designed accurately, achieve corporate or strategic objectives. To ensure that this occurs, jobs need to be accurately analysed, designed and implemented. This process is referred to as *job analysis*.

Jobs are constantly changing. This is due to a range of internal and external factors, including economic, technological and market pressures. The trend in developed countries, like Australia, is a growth in higher-level skills for a range of professional and managerial occupations, as well as a reduction in employment opportunities in production and middle-level jobs in favour of high-wage, analytical and non-routine jobs. A recent report on the changing face of work in Australia highlighted the need for young people to be equipped with the work-smart skills they will need to perform increasingly cognitive tasks, hold multiple career portfolios and possess portable enterprise skills.[1] These skills are essential for young people to compete for work in the context of the Fourth Industrial Revolution (as highlighted in Chapters 1 and 2). As such, the job analysis process is also ongoing, with competencies being reviewed regularly to ensure that they remain relevant to the ever-changing needs of the organisation and the job position. This then leads to a review process for the two outcomes of the job analysis process: the job or position description (also known as duty statements) and the person specification. **Figure 5.1** reflects the strategic nature of this process.

Human resource management (HRM) and human resource planning (HRP) activities will determine and be influenced by the nature of present and anticipated jobs in organisations. HR plans that forecast increased or more highly skilled labour requirements to satisfy business strategies concerning product or market diversification result in changes to the number of jobs or the nature of job requirements. Conversely, the downsizing, streamlining or restructuring of organisations requires their rationalisation, phasing out or modification.

FIGURE 5.1 Strategic model for job requirements
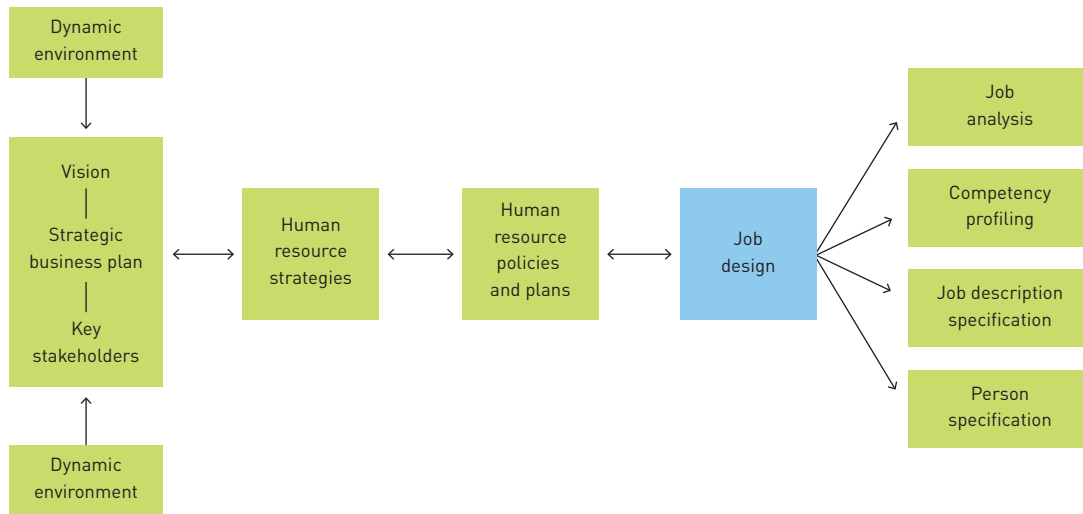
Therefore, there is a mutual relationship between jobs and HRM, necessitating continual review of the nature, scope and components of jobs within organisations. Changing government legislation (see Chapter 3) also emphasises the crucial importance of accurately describing and updating jobs, defining appropriate skills and competencies, and linking these to learning and development activities, career path opportunities and remuneration systems. Workplace agreements will be heavily dependent on the clear identification of job requirements and needs – for the employee as well as the employer.

HR professionals are therefore well advised to maintain comprehensive strategic human resource information management systems (HRIMS; see Chapter 4) that include current data on the numbers, skills and qualifications, functions and performance criteria of all jobs throughout their organisation.

Linking job analysis to HR functions

Job analysis underpins all the critical HR processes and functions involved in managing employees effectively. **Figure 5.2** demonstrates the interrelationship between job analysis and other HRM processes.

If the job analysis process is not carried out or not conducted accurately and comprehensively, the other HR processes will be ineffective and the cost to the organisation high in terms of productivity and the ability to retain valuable staff.

The following sections explain in more detail how job analysis underpins all other HRM processes.
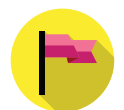
Emerging issue 1

Job analysis

FIGURE 5.2 Interrelationship between job analysis and HRM processes

Job analysis		
Determine recruiting sources and methods		Recruitment
May adjust job requirements according to labour market conditions		
Provide hiring specifications		Selection
Selection process may depend on job requirements		
Determine training needs		Training and development
May adjust job requirements due to need to facilitate training		
Provide performance standards		Performance management
May adjust job requirements according to evaluations made		
Determine pay scale		Compensation management
May adjust job requirements to conform to pay scale		
May determine which union represents employees		Workplace relations
May adjust job requirements by union negotiations		

Recruitment

To find the most suitable employees for jobs and thus for the organisation as a whole, those involved in employee recruitment (see Chapter 6) need to be fully aware of the relevant job description and person specifications, which are derived from comprehensive job analysis. A **job description** (or duty, role or goal statement) accurately details the component duties and activities of a job, the level of the job, the authority and responsibilities awarded to the job, and the conditions under which it is performed. A **person specification** (or personal profile) establishes the specific personal qualities, attributes and competencies (e.g. qualifications and/ or training, work experience, work behaviour, skills, attitudes and abilities) of job holders.

These allow those responsible for recruitment to devise suitable methods of attracting an appropriate pool of applicants, in line with specific job requirements and avoiding possible discrimination on unrelated skills and/or qualities. Therefore, regardless of whether internal (e.g. company email, noticeboards, intranet) or external (e.g. newspaper advertisements, university campus recruitment campaigns, the internet) recruitment methods are used, effective programs should attract suitably qualified applicants and discourage those who are unsuitable.

Emerging issue 2
Job competencies

job description
A statement that describes the job and the conditions under which it will be performed

person specification The skills, knowledge and personality traits that describe the 'best fit' person or ideal candidate for a position to be filled

Accurate and detailed job analysis data should also indicate health and safety criteria and freedom of information legislation requirements. If subsequent recruitment campaigns prove unsuccessful, it may be necessary to review existing job requirements and evaluate the efficacy of existing job descriptions and person specifications.

This data also provides an accurate and realistic job preview to potential applicants, thereby increasing the retention rates within the organisation once the role has been appointed.

Selection

During the selection process (see Chapter 6), it is vital to establish the essential features of job descriptions and person specifications to allow more objective and easier assessment of applicants. Such qualities can be prioritised, and candidates rated using a weighting (e.g. points) system. The result of this process is the formulation of valid selection criteria (skills, abilities, experience and knowledge) to be used in each subsequent stage of the selection process.

Selection criteria must be demonstrably job relevant and equitably applied, to facilitate comparison between candidates and the matching of candidates with jobs. They are invaluable in the initial short-listing of large numbers of applicants, employment testing, interviewing and subsequent referee checking.

The use of valid selection criteria helps to avoid claims of discrimination and assists in the recording of selection decisions, which may be subject to appeal or the lodgement of grievances. The selection of an unsuitable candidate, or a candidate who requires extensive training, may indicate the need for revision of the selection criteria, job descriptions or person specifications.

Without selection criteria derived from the job description and person specification, the selection process is like a game of chance, with applicants being selected on a range of unrelated, and usually unmeasurable, criteria. Certainly, during economic booms, when labour shortages are at critical levels, many organisations are guilty of employing staff without linking their selection decisions to job outcomes or job competencies, resulting in poor productivity and difficult working relationships. It is also clear that during economic recessions these poorly selected employees are often those first retrenched.

Periods of economic recession, like those that have been experienced in the Asia Pacific region and Australia, can also result in poor selection decisions. Ambiguous and non-specific selection criteria can result in an employer being faced with difficult decisions when the majority of the thousands of job applicants who may meet the advertised job requirements do not fit the job role.

Learning and development

Any discrepancies between the experience, knowledge, skills and abilities demonstrated by a job holder and the requirements contained in the job description and specification or list of competencies for that job provide clues to developmental needs. As outlined in **Figure 5.3**, the gap
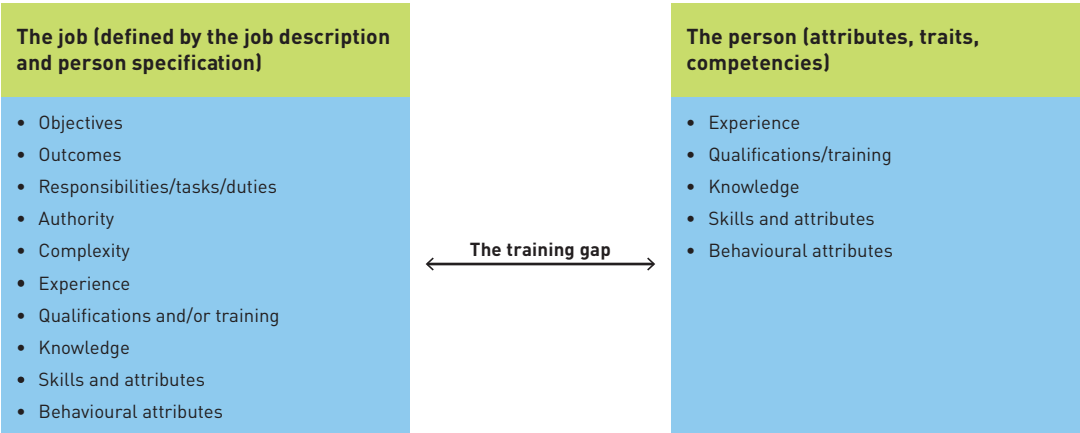
Emerging issue 3

Job descriptions and person specifications

between the needs of the position (job description and person specification) and the potential job holder will result in the need for a HR development plan. Conversely, the results of development efforts can be evaluated on the basis of progress made towards meeting these job requirements.

FIGURE 5.3 The relationship between job analysis and organisational learning

The job (defined by the job description and person specification)		The person (attributes, traits, competencies)
• Objectives • Outcomes • Responsibilities/tasks/duties • Authority • Complexity • Experience • Qualifications and/or training • Knowledge • Skills and attributes • Behavioural attributes	←—— The training gap ——→	• Experience • Qualifications/training • Knowledge • Skills and attributes • Behavioural attributes

An integral component of wage and salary determination in Australia is the clear relationship between identified job skills or competencies and learning and development programs, followed by appropriate career paths. If the remuneration policy adopted is linked with the organisation's strategic direction, this demonstrates a strategic approach to HRM (see Chapter 9).

Career development, as part of the learning and development function, is concerned with preparing employees for advancement to jobs where their capabilities can be fully utilised. Formal qualifications and experience expressed in person specifications or competency profiles can determine how much learning and development is needed for lesser skilled employees to advance to those jobs.

Performance management

The job description and person specification, being the result of the job analysis, provide the criteria for evaluating the performance of the holder of that job. For many jobs, these are often referred to as **key result areas (KRAs)** and key performance indicators (KPIs).

key result areas (KRAs) The job outcomes, accountabilities and responsibilities that are considered to be a key element of the job to be delivered

The results of performance reviews may, however, reveal that some job requirements are not completely valid. Therefore, adjustments to these requirements may be necessary. As already stressed, these criteria must be specific and job-related to avoid claims of discrimination. As an example, many manual labour positions have historically been occupied by males, due to tradition and the need to lift heavy equipment or materials. With the widespread use of hydraulic equipment or robotic technology in industry, there is no longer a need to assess performance on the basis of physical ability – in this case, the ability to lift such weights. It would therefore be unlawful and ineffective to discriminate against females or slightly built males on this basis.

Remuneration management

Many workplace agreements emphasise the close relationship between job requirements, learning and development programs, career progression and appropriate salary and benefits systems. Accordingly, the relative worth (work value) of any job is directly related to its activities, duties and responsibilities. In many organisations, sophisticated systems have been developed to relate payment to actual work requirements, enterprise or workplace negotiations and agreements, prerequisite qualifications and experiences, and the social issue of 'comparable worth' (see Chapter 9). In fact, many industries, particularly in the public sector, still have in place award systems defining classification descriptors that link directly to job descriptions and person specifications, which in turn determine salary classification levels. For senior positions, consultants can implement tailored package systems.

A continuing issue for women in Australia is that of equal pay for equal work. Many women are not paid as well as their male counterparts in similar jobs (see Chapters 2 and 3). According to a recent government report, the wage gap between men and women (gender pay gap) in Australia remains relatively high, with full-time employed women earning 15.3 per cent less than men per week. The report also breaks down the wage gap by industry, with the lowest gap of 5.9 per cent for women employed in public administration and safety and the highest (29.6%) for those employed in the financial and insurance services.[2] While this is both illegal and ineffective HRM practice, some companies continue to pay employees differentially even though they perform similar or the same work.

The same issue is being addressed over the question of equal pay for junior members of staff; that is, where their work is of equal value, so should be their compensation. Objective job data help to ensure appropriate remuneration and consequent employee commitment and performance.

Inappropriate remuneration packages may reflect a need for a change in job requirements or adjusted pay scales, often in consultation with the relevant unions. Workplace bargaining provides substantial opportunities for equitable and flexible approaches to remuneration based on job competencies and skills.

Workplace relations

Accurate job descriptions, especially in written form and established as part of wage and salary negotiation processes, can be invaluable in reducing the level of industrial action. They can also assist in clarifying union representation and resolving subsequent employee grievances. In periods of organisational change, negotiation with unions may be necessary to adjust job requirements (see Chapter 3).

The job analysis process

As discussed, job analysis is the process of determining the requirements of jobs: the job outcomes; responsibilities, duties, tasks and functions; the complexity of the role; the authority awarded to the job; and the personal attributes, in the form of experience, knowledge, education and/or training,
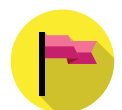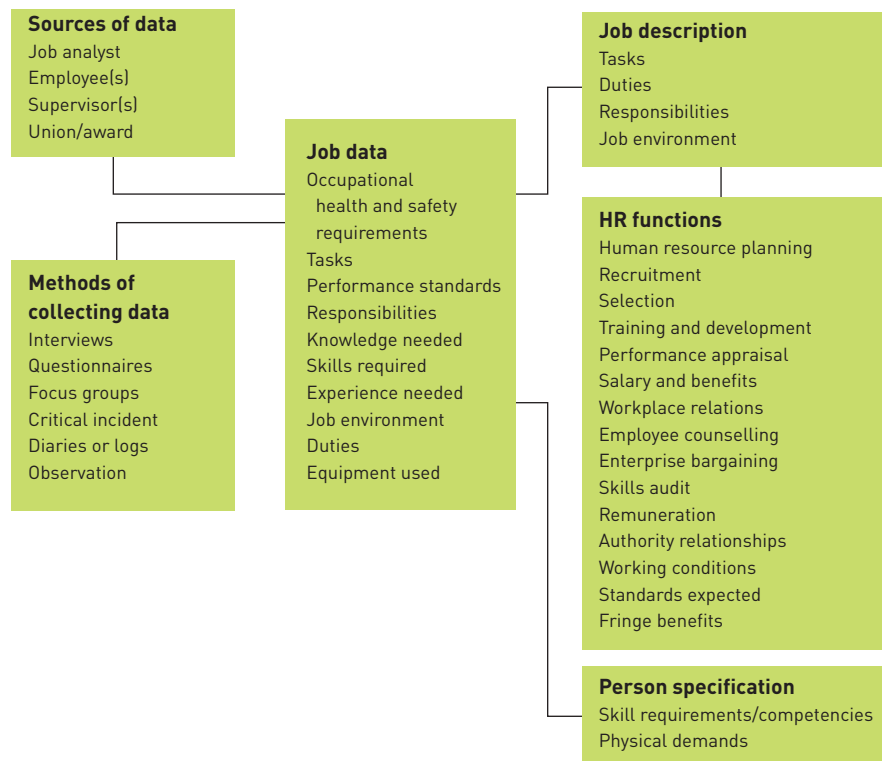
Emerging issue 1
Job analysis

skills, traits and behavioural attributes, required to perform those jobs. Job analysis is integral to HRM because the information provided by this process is vital to the efficient and accurate implementation and subsequent evaluation (see Chapter 12) of all other HRM processes.

HR and line managers use collated job data for the development of job descriptions and person specifications. Comparing the skills or competencies possessed by employees with the results of job analysis can greatly assist the HR manager to plan staffing strategies and restructure jobs (job redesign) to reflect economic, technological or organisational changes. In the shorter term, job analysis facilitates more accurate recruitment and selection practices, sets standards for subsequent performance review, and allows appropriate grading or regrading of jobs and job categories for remuneration programs. Job analysis is crucial to the identification of relevant skills and competencies and subsequent learning and payment systems. **Figure 5.4** illustrates the elements of the job analysis process and the functions for which it is used.

FIGURE 5.4 Elements of the job analysis process and its functions

Sources of data
Job analyst
Employee(s)
Supervisor(s)
Union/award

Methods of collecting data
Interviews
Questionnaires
Focus groups
Critical incident
Diaries or logs
Observation

Job data
Occupational
 health and safety
 requirements
Tasks
Performance standards
Responsibilities
Knowledge needed
Skills required
Experience needed
Job environment
Duties
Equipment used

Job description
Tasks
Duties
Responsibilities
Job environment

HR functions
Human resource planning
Recruitment
Selection
Training and development
Performance appraisal
Salary and benefits
Workplace relations
Employee counselling
Enterprise bargaining
Skills audit
Remuneration
Authority relationships
Working conditions
Standards expected
Fringe benefits

Person specification
Skill requirements/competencies
Physical demands

Job analysis is concerned with objective and verifiable information about the actual requirements of a job (and the person requirements) to meet organisational needs. It is therefore essential that the job being analysed is not considered in isolation to organisational planning strategies. Job analysts, whether they are from inside or outside the organisation, need

to understand the importance of linking the process in which they are engaged to the strategic aims of the entire HRM strategy.

Responsibility for the job analysis process

While the process of job analysis is usually the responsibility of HRM professionals and practitioners, the job holders, line managers and departmental managers play a vital role in ensuring the accuracy and validity of the information provided. Job holders need to provide information on the roles they perform and the frequency with which they perform these roles; line managers need to also verify what is required to be undertaken; and the departmental managers need to verify all information in line with organisational and strategic objectives.

In large organisations, the job analysis process is often performed by specialist job analysts who are either part of the organisation's HR area or outsourced HR consultants who specialise in such activities.

Data collection methods

There are a number of means by which data can be collected. The method selected will be determined by a range of factors, including the size of the organisation, the number of employees, the number of locations involved, the expertise of the HR department and the organisational climate and/or culture. The method(s) selected should also relate to the nature of the job, the number of positions within the job category being analysed and other prevailing circumstances.

- *Interviews:* The job analyst questions individual employees and their supervisors about the job under review. Standard questions regarding activities performed, priorities, time schedules, skills and qualifications required, responsibilities and technology involved (e.g. machines and computers) may be used, or more open-ended topics explored. When time is limited or when large numbers of similar jobs are analysed, it is useful to conduct group interviews with job holders, their managers and possibly internal customers.

- *Questionnaires:* Structured, job-specific questionnaires are useful to job holders and their supervisors, especially where it is important to limit the time and costs of analysis. The results of these questionnaires may subsequently be tested on individuals or groups of job holders. Sometimes, when large numbers of jobs are being analysed, these can be standardised and computer-processed.

- *Job performance:* The analyst actually does the job being studied, to gain first-hand experience of what it demands.

- *Observation:* The job analyst learns about jobs by observing job holder activities and recording them on a standardised form. Time and motion studies, derived from the early work of Frederick Taylor (see Chapter 1), were often used in the past and continue to be used, especially with manual or repetitive jobs, to ascertain specific job duties and the actual time taken for each task, during both busy and slow work periods. In other

kinds of jobs, where quality is as important as quantity, it may be useful to videotape the performance of job holders, with their knowledge and permission, for later study. Customer service areas (e.g. social security counters, airline check-in desks, hotel reception counters) particularly lend themselves to videotaping, as data can be obtained about the difficulties and skills of customer contact. 'Mystery shoppers' (or trained observers who visit organisations specifically to experience, record and evaluate service quality) can also provide objective information relevant to job analysis.

- *Diaries:* Job holders may be asked to keep diaries or daily or weekly logs of their activities during an entire work cycle. Seasonal aspects of jobs need to be reflected in the schedule for such diaries. If peak periods can be effectively determined, non-peak duties can be suitably timed. Diaries or logs are often necessary when analysing relatively unstructured management positions.
- *Critical incidents:* Jobs that require specified behavioural responses to crucial events (e.g. customer complaints, production breakdowns) may be analysed according to requisite skills and personal qualities. Job descriptions can then be developed to reflect these behavioural dimensions.
- *Focus and consultative groups:* After using these methods, it may be useful for both accurate and acceptable analysis to talk with groups of affected job holders, their supervisors and customers about the results. This is particularly valuable for clarifying information, prioritising future duties and obtaining employee and union acceptance of anticipated job changes.
- *Existing HR records:* A review is conducted of the organisation's HR records or HRIMS (e.g. performance appraisal, productivity records) and existing job descriptions compared with similar jobs in other organisations. This could answer questions as to why the job was created, and how it has changed since the last review – essential information for wage and salary reviews.

If conducted by job analyst specialists, many of these data collection methods are computerised, allowing for questionnaires to be completed online and the results collated quickly and efficiently.

Competencies

Emerging issue 2
Job competencies

In order to meet competitive challenges, there is a focus on recognising the core competencies required by the organisation, seeking them out through recruitment and selection strategies and then retaining and developing them once they are in the organisation.

While there are many definitions of what a competency is, ranging from those that focus on personal traits to those reflecting broader work and job-defined concepts, there is a common theme that a competency, once correctly identified, will link directly with the achievement of organisational success. These competencies are instrumental in the delivery of strategic objectives, and while job analysis is focused on measuring job tasks and responsibilities, the analysis of competencies is focused on behavioural traits or themes essential to effective performance.[3]

In today's competitive work environment, organisations tend to either develop a range of generic competencies that fit the organisational culture (such as coaching, mentoring, team building, creativity and innovation) or develop job-specific competencies that meet job outcomes (such as business or technical expertise and strategic planning). These can then vary depending on the level and authority of the position being defined or analysed, particularly for managerial positions.

HRM in practice 5.1 looks at the experiences, skills and competencies Australian employers are looking for from a university graduate.

HRM in practice 5.1

What do Australian employers look for from university graduates?

About 180 000 Australian students graduate each year, so competition for jobs is fierce. Many national employers run annual graduate recruitment and selection programs to find the best. Here is a list of what many of them are looking for.

1   Volunteer work

Many potential employers will shortlist on the basis of voluntary work or community involvement. A major law firm in Western Australia, which recruits up to 50 new graduates a year, will only shortlist those graduates who have volunteered their time to a community-based cause.

2   Team players

Teamwork is essential, so employers will look at those people who can effectively demonstrate an ability to work in groups, either during their studies or extracurricular activities.

3   Time management

How a new recruit has effectively managed their time is critical. Did the graduate balance part-time work, voluntary work and a full study load effectively? What was the impact on their marks?

4   Interpersonal skills

An ability to communicate well and concisely is critical. Can the potential employee think on their feet? Can they articulate answers to questions well?

5   Problem-solving abilities

Problem-solving and critical-thinking abilities are at the top of the list for most employers of new graduates. That is why they will test for these abilities in graduate employment programs.

6   Creativity and innovativeness

Can the graduate demonstrate a creative approach to productivity and problem solving, and can they be innovative in their thinking? Working 'outside of the box' is critical to business success today, so employers will recruit those who can demonstrate this.
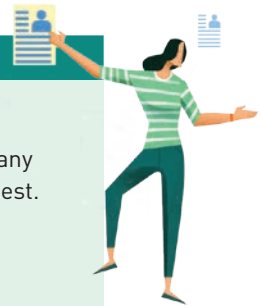
The development of competencies is also integral to the job analysis process. Once the requirements of a job, or group of jobs, are determined, the competencies needed to perform

those functions, outcomes, tasks and responsibilities can be determined. The term 'competency' is more than just a new word for a skill or attribute. A competency also reflects behavioural attributes and a more strategic view of skills and attributes required for successful performance of a role. Once the competencies have been developed, they can be linked to the design of jobs to ensure that the job holder has the capacity to demonstrate and utilise these competencies effectively. It is also vital that these competencies are measurable and achievable in the context of the organisational and strategic goals. In a business setting, competencies are often divided between technical and generic business competencies.

Competency profiling

competency profile
A grouping of competencies that reflect the needs of the position and/or organisation in order to meet organisational outcomes

A **competency profile** is a grouping of competencies that reflect the needs of the position and/or organisation in order to meet organisational outcomes.

The competencies listed in **HRM in practice 5.1** are an example of a competency profile for university graduates. While many would argue that this is simply another term for job analysis, it does take the process further by identifying particular traits and characteristics that would result in improved performance. It is certainly a more personalised and humanistic approach, which recognises the dynamic nature of organisations and future challenges. For most organisations, competency profiling is necessary to ensure that their business outcomes are achieved.

In order for these competencies to be effective in achieving the organisation's strategic objectives, the following steps need to be taken.

1 Identify the mission and key objectives of the organisation.
2 Identify the skills (or competencies) needed by the organisation.
3 Acquire these competencies by way of attraction, retention and learning strategies.
4 Implement strategies that will reinforce those competencies, so that they continue to be displayed by the employees who are already behaving that way and so that other employees will start to model that behaviour.
5 The reward system must reinforce these competencies by rewarding behaviour that the organisation values.

It is also critical that competency modelling is not developed just once and then ignored. If HR managers fail to adapt continuously and do not revisit and review the organisation's competency framework – as well as individual requirements – it will become outdated, resulting in a loss of competitive momentum.[4]

Job descriptions

A job description (as outlined earlier) is simply a written description of the job, the duties performed and the conditions under which they are performed. Traditionally, the following elements were essential in a job description:

- job title
- job identification
- accountability statements (who the job holder is responsible to and responsible for)

- roles and goals
- authority awarded to the role
- work environment.

Figure 5.5 provides an example of this type of job description format.

FIGURE 5.5 A traditional template for a job description

POSITION DESCRIPTION				
1 POSITION IDENTIFICATION				
Title	*Environmental Planner*	**Level**		
Service Unit	Planning	**Agreement/Award**		
Directorate	Planning and Development	**Date effective**	September 2018	
Reporting to	Coordinator, Environment	**Date last updated**	September 2018	
		Position no.	00087	
2 LIST OF DUTIES				
• Develop and review environmental policies and strategies. • Provide advice to consultants and customers on planning policies, strategies, structure plans and capital works projects. • Assist the Coordinator in the preparation of submissions. • Supervise teams. • Supervise contract staff and consultants. • Participate as a member of appropriate committees.				
3 AUTHORITY STATEMENT				
• This position works under the limited direction of the Coordinator, Environment and has the authority to make decisions regarding project costing within budget parameters. • This position also has authority to sign correspondence and to give direction to members of the unit, contract staff and consultants in relation to environmental issues.				
4 WORK ENVIRONMENT				
• Location: Perth.				

However, job descriptions have changed significantly over the past decade or so. This reflects the dynamic and competitive nature of organisations as well as the need to provide a better match between organisational, strategic, business unit and individual position outcomes. As a result, job descriptions now often contain the following elements:

- job title
- job identification
- organisational chart representing accountability processes
- position purpose (or objective) statement
- key outcomes to be achieved
- KPIs
- competency requirements.
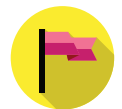
Emerging issue 3
Job descriptions and person specifications

The most critical elements of a job description are a descriptor of why the job exists – its purpose, and its core responsibilities, duties or tasks. An example of the position description in **Figure 5.5** in the changed format is provided in **Figure 5.6**, and the various elements are discussed below.

FIGURE 5.6 An example of a new format for position descriptions

POSITION DESCRIPTION			
1 POSITION IDENTIFICATION			
Title	*Environmental Planner*	**Level**	
Service Unit	Planning	**Agreement/Award**	
Directorate	Planning and Development	**Date effective**	September 2018
Reporting to	Coordinator, Environment	**Date last updated**	September 2018
		Position no.	00087

2   PURPOSE OF POSITION
• To lead the activities of the environmental planning team to ensure environmental policies, strategies and programs are developed and implemented to address the range of strategic environmental issues.
• To participate in a multi-disciplinary team environment to ensure the strategic environmental objectives are achieved.
• To provide specialist environmental information and advice based on applied research and information gathering.

3   WORKING RELATIONSHIPS
Reports to: Coordinator, Environment Responsible for: Contract staff, consultants, three administrative staff

4 BRIEF SUMMARY OF ACCOUNTABILITIES AND RESPONSIBILITIES	
ACCOUNTABILITIES AND RESPONSIBILITIES	**KEY PERFORMANCE INDICATORS**
OUTCOME: Environmental planning and project management	• Policies, strategies, programs are reviewed annually.
• Manage the development, implementation and review of an extensive range of environmental policies, strategies, programs and organisation practices including projects of significant complexity.	• Identified programs are developed. • Advice provided is accurate and timely. • Submissions are timely. • All legislative changes reviewed and advice provided to the organisation.
• Provide specialist environmental advice and support in the development and review of planning policies, strategies, structure plans and capital works projects to ensure best practice environmental outcomes in a growth context.	• Teams are communicated to regularly. • Teams are aware of their outcomes and are equipped with the training to perform their roles.
• Contribute to and prepare submissions on state and federal legislation, policies and programs.	• All legislation, codes of conduct, policies and procedures are complied with.
• Develop partnerships with key stakeholders to assist in delivering strategic environmental objectives.	• Staff are employed in accordance with the competency requirements for the positions.
• Lead, participate in and provide direction to multi-disciplinary teams, workshops and committees both within and outside the organisation.	
• Provide supervision and direction to the Environmental Planning Team, contract staff and consultants.	

ACCOUNTABILITIES AND RESPONSIBILITIES	KEY PERFORMANCE INDICATORS
OUTCOME: Compliance and legislative knowledge	
• Comply with the code of conduct policies and procedures and relevant appropriate legislation. • Workplace health and safety, anti-discrimination, equal employment opportunity and other legislation will be met in accordance with the parameter of this position.	
5 WORK-RELATED REQUIREMENTS/SELECTION CRITERIA	
Essential skills: **1** Tertiary qualifications in Environmental Science or a related field and extensive experience in environmental planning **2** Highly developed knowledge of and demonstrated ability to apply the principles of sustainability and in particular the ability to balance environmental and development interests **3** Highly developed written communication skills, including demonstrated skills in technical and other report writing **4** Highly developed oral communication and interpersonal skills, including the ability to deliver public presentations, facilitate meetings and forums, and liaise and negotiate with stakeholders **5** Extensive project management experience, including the ability to lead project teams and workshops, administer meetings and achieve project outcomes within time and budget constraints **6** Demonstrated ability to work constructively under broad supervision and as part of a multi-disciplinary team **7** Demonstrated ability to develop creative and innovative solutions to achieve environmental best practice out-comes within a growth context	
6 POSITION DIMENSIONS	
NUMBER OF STAFF DIRECTLY REPORTING TO POSITION	• Three permanent positions, plus contract staff and consultants
EXTENT OF DELEGATED AUTHORITY	• Operates with a high level of autonomy under broad direction • Control over projects in accordance with agreed timeframes and budgets
EXTENT OF DELEGATED AUTHORITY	• Required to use a significant level of initiative and judgement to resolve complex issues • Negotiate acceptable outcomes with both internal and external customers

6 POSITION DIMENSIONS (CONT.)	
	• Authority to give direction to members of the unit, other officers and consultants under the supervision of the position in relation to environmental issues • Authority to sign correspondence in accordance with the organisation's policies, delegations or directives • Provide recommendations on environmental matters • Establish priorities and manage own workflow to achieve strategic objectives of the unit
LOCATIONS	Perth, Sydney and Singapore
ALLOWANCES/SPECIAL CONDITIONS	Nil
SPECIALISED EQUIPMENT OPERATED OR SPECIAL LICENCE REQUIREMENTS	'C' Class driver's licence
OTHER IMPORTANT DIMENSIONS	N/A

Job title

The job title provides a clear indication of the status and authority of the position as well as the job functions involved. For example, if the words 'manager', 'supervisor' or 'team leader' appear in the job title, then the applicant or incumbent has a clear indication of the staff management responsibilities of the role as well as the status of the position within the business unit and/or organisation. In some countries, managerial titles are used for status purposes without associated payment, while in other countries such titles are seldom used for cultural reasons. Neither of these practices are recommended, as they detract from the accuracy of job descriptions.

In accordance with equal employment opportunity (EEO) and anti–discrimination legislation, titles containing 'man' or 'woman' should be avoided; for example, change the titles 'salesman' to 'salesperson', 'barman' to 'bartender' and 'airline steward/stewardess' to 'flight attendant'.

Job identification

The job identification section covers administrative aspects for locating positions (with the use of position numbers) for payroll purposes, identifying the area where the position is located, identifying grading and level details, and award or agreement linkage. It also outlines reporting structures, including to whom the position reports and for whom (employee numbers and titles) the position is directly responsible. This is often supported by the use of an organisational chart, providing an immediate visual picture of where the position sits, who it is responsible to and who it is responsible for. This is not essential, but in complex organisational structures, it can provide an overview of the structure within the particular work unit or section.

Position purpose

There is an increasing trend towards including a succinct statement about the position objective or purpose. This generally explains why the position exists, and its primary purpose. It provides a clear understanding of the key outcome for the role. An example of the position purpose is provided in **Figure 5.6**.

Key responsibilities and outcome statements

This is the most important section of the job description, as it covers the responsibilities and outcomes against which the incumbent will be measured. These are normally listed in order of importance and/or time dedicated to that outcome. Some job descriptions also include a percentage allocation of time against each outcome, adding up to a total of 100 per cent, to also give a clear indication of where most of the time is spent. This is becoming increasingly important in ensuring that a realistic job preview (an accurate overview of the position, expectations and challenges) is provided. This can also prove to be problematic where jobs are more dynamic and fluid in nature and the actual time spent on particular functions or outcomes is difficult to quantify or frequently changes. For example, the role of marketing manager may be able to provide an indicator of time spent on administrative versus marketing design and development during one particular month, but if there is a change in the nature of the client or size of the contract this may vary considerably.

The trend towards the use of outcome statements in job descriptions – away from a descriptive list of specific duties – assists in overcoming the problem of job descriptions limiting the type of work employees are involved with. A common problem is the restrictive nature of the list of duties contained within the document and employees being unwilling to work outside this structure. With the use of outcome-based statements, there is less emphasis on the performance of specific tasks and more emphasis on achieving results in line with business unit and/or organisational objectives.

Key performance indicators

Key performance indicators (KPIs) are quantifiable, specific measures of an employee's or an organisation's performance in certain areas of business. Their purpose is to provide quantifiable measurements of what is determined to be important to the organisation's critical success factors and long-term business goals.[5]

The inclusion of KPIs in the job description creates a more seamless linkage to the organisation's performance management system (see Chapter 8). The employee is aware of the performance outcomes for the position when the employment commences, so there is no confusion as to the expectations of the role. These KPIs can then be linked to the induction and learning and development programs.

The KPIs should be measurable and indicate the standard of performance required, as indicated in **Table 5.1**, which shows an example of the KPIs for a specific job responsibility or task. In this example, the preparation of technical reports is not a satisfactory task on its own. The reports have to be accurate, correctly written, in the correct format and prepared in a timely manner.

key performance indicators (KPIs) These are specific and measurable descriptors of performance against specific outcomes, accountabilities and/or goals

TABLE 5.1 Measuring KPIs – an example

KEY RESPONSIBILITY/TASK	KPIs
Preparation of technical reports	1 Reports are completed in a timely manner. 2 Reports are prepared in the required format. 3 Reports contain accurate and up-to-date technical information. 4 Reports are grammatically correct, requiring little amendment by the line manager.

If there is no standard performance management system in place in the organisation, the KPIs can then form the basis of such a system. If one is in place, the criteria against which employees are measured will have a tendency to be generic in nature. The KPIs complement the existing system and provide more meaningful and comprehensive feedback to the employee. These then form an integral link to the performance management system, with the KPIs being used as the primary measures of successful performance. In the example in **Table 5.1**, the inability of the employee to meet the KPIs for the preparation of technical reports should then highlight a need for training in this area.

Professional tip 5.2

Reviewing job descriptions

There will be occasions where job descriptions and selection criteria will be reviewed when there is already an incumbent in the role (e.g. during change management processes or job reclassification/evaluation processes). It is important that the HR professional or manager reviews the role as if the position is vacant so as not to confuse the needs of the role and the attributes of the existing job incumbent. Ask the question: How would I design the job and the necessary selection criteria if the incumbent left tomorrow and I had to advertise the position?

A future challenge for organisations is the development of broad job descriptions that can be applied to diverse, multi-skilled, changing jobs and still provide important data for job evaluation, learning, development and performance management.

Challenges for the future

With work and jobs changing frequently, the task of preparing relevant, up-to-date job descriptions will become more difficult and the need for the descriptions questioned more intently. This will be particularly pertinent in the case of self-managed work teams, discussed later in this chapter. The shift towards alternative workplaces, including remote working and working from home, also has significant implications for the way in which work is designed and managed.

This shift in how work is classified, evaluated and managed poses considerable challenges for HRM, particularly in the way in which outcomes are defined, managers are trained and work

value is compensated. A greater emphasis on competency requirements and the contributions of individuals will play an even greater role in successful organisations of the future, where flexible, adaptable and high-performance job roles will be vital to success and survival.

Competency requirements

There is a general move away from using a separate job description and person specifications documents. The use of one concise document saves time and becomes a more useful tool for potential employees, present incumbents and managers, and allows clear comparisons between the required tasks and employee competencies.

The replacement of selection criteria with competencies also highlights the importance of cultural fit to the organisation and the need to better match job outcomes with necessary competency requirements. The list of the competencies that are required to successfully perform the job in order to meet organisational objectives then becomes the blueprint for recruiting and selecting the best candidate for the job (see Chapter 6).

JOB DESIGN STRATEGIES

While the job analysis process focuses on the business unit's and/or organisation's expectations of the role, **job design** focuses on meeting the needs of both the employee and employer. This is becoming a critical issue in an environment where the nature of work, and the way it is performed, is in a state of flux due to massive, ongoing technological changes.

Figure 5.7 demonstrates how a contemporary approach to job design emphasises the improvement to quality of life rather than industrial engineering concerns. This reflects

job design
Ensuring the way in which a job is developed meets the needs of both the employee and employer

FIGURE 5.7 Basis for job design

Organisational objectives for the job, including tasks, duties and responsibilities to be performed

Industrial engineering concerns centring on efficient production processes and work-method improvements

The job

Human engineering considerations involving human capabilities and limitations

Quality of work–life considerations creating a favourable environment through physical, psychological and social improvements

globalisation and HRP factors as well as new forms of work, individualised career paths and work–family issues.

Industrial engineering

The study of work was an important contribution of Frederick Taylor (Chapter 1) and the Scientific Management movement. Industrial engineering, which evolved with this movement, was concerned with analysing work methods and establishing time standards. Specifically, it involved analysing the elements of the work cycle that comprise a particular job activity. Often called functional specialisation, industrial engineering aimed at faster production, high levels of specialist skills and uniform quality. Today, industrial engineers study work cycles to determine which, if any, of their elements may be modified, combined, rearranged or eliminated in order to reduce the time needed to complete the work cycle. Fast-food outlets such as McDonald's and KFC, together with some hospitality occupations (e.g. room attendants, porters), often use applications of such industrial engineering approaches.

It is now considered that industrial engineering lacks relevance to most of the new forms of work. The introduction of technology, which has replaced human beings in the manufacturing sector, and enables staff to telecommute by utilising technology to work in **virtual teams**, all but removes the need for an industrial engineering approach to job design.

Job adaptation to employees' needs

Early job design work tended to focus on outcomes and performance, while more recent research looks at the impact on the individual. Human engineering aims to identify and respond to workers' needs in the performance of their jobs. Influenced by the studies of pioneers such as Mayo and Herzberg of the Human Relations/Behavioural Science schools (Chapter 1) and the work of Emery, Trist and Bamford of the Tavistock Institute (best known for the introduction of the sociotechnical approach to work design), the human engineering approach attempts to adapt the work, the work environment, technology and equipment to human characteristics; that is, it seeks to fit the machine to the person rather than the person to the machine and is seen by many as a reaction to the dysfunctions of the Scientific Management movement. Perceiving the relationship between the worker and the job as a system, job adaptation to employees' needs seeks to improve the efficiency of the overall system by preventing or minimising harmful effects of poor equipment or work station design on worker performance. Not only can such approaches reduce the levels of defective products and increase output, but they can also create more harmonious, synergistic work environments. Levels of occupational injury may also be reduced by such methods.

Practical applications of this approach have resulted in user-friendly keyboards, desks, work stations and open-plan office configurations. The reduction in the incidence of occupational overuse syndrome (also known as repetitive strain injury – see Chapter 10) among keyboard

virtual teams
Teams that are geographically dispersed within or outside a country. These teams utilise technology to communicate and to meet 'virtually' and interact

operators in Australian industry during the 1980s may be attributable to human engineering job design factors, such as anatomically designed seating and keyboards, and structured rest breaks.

The work of Hackman and Oldham during the 1970s and 1980s culminated in the Job Characteristics Model (JCM), which was considered by many to be the most influential shift in work design theory to encapsulate the satisfaction of human needs.[6] They also developed a measurement tool for identifying job dimensions, the Job Diagnostic Survey, and this has since been modified into a range of job analysis tools.

Work has changed considerably over the past few decades and many organisations now focus on providing a high level of flexibility, creativity and innovation. An ongoing evaluation needs to be undertaken to ensure a match between the workplace and the needs of the user – the employee – and this incorporates the physical needs (ergonomics), functional work needs (working styles and patterns) and psychosocial needs (generational and cultural expectations).[7]

Applications of job design

Managerial uses of job design have evolved from preoccupations with work simplification, standardisation and division of labour to concerns with human needs in job performance. A major challenge confronting employers is that of improving the quality of work life and a demand for work–family balance (see Chapter 2). Increased globalisation, which has raised employee educational standards and consequent worker expectations, and dramatic changes to health, safety and wellness legislation have compelled managers to implement job design strategies aimed at the improvement of both the physical and psychological work life of their employees. The main focus of these activities has been to make work more psychologically rewarding and to reduce anxieties and stress in the work environment. While job design assists in doing this, attention to managerial styles, communication strategies and consultation with employees will also improve the work environment and working relationships. Rapid technological developments, work structures changing to become increasingly casualised, outsourced and mobile, along with an increasingly educated and skilled workforce, have also led to changes in the places in which people work and to the way in which the work is designed. Examples of such changes are outlined in **HRM in practice 5.2**.

HRM in practice 5.2

Australia's casualisation crisis

The Fair Work Commission has ruled that casual workers who work on a long-term regular basis must be provided with the option to convert to permanent employment.

Why? Because 40 per cent of the Australian workforce is in insecure work. There is a generation of young people have never known a job with a paid sick day or other basic entitlements. The rules of work are broken.

The main forms of insecure work include:
- rolling contracts
- labour hire
- casual employment
- forcing employees to get ABNs (a business number, which means they are a subcontractor, not an employee).

Casualisation also contributes to the gender gap in Australian wages, as more women are employed in casual jobs than men.

While this decision deals with one of the new forms of work, the Commission concedes it is unable to deal with the bigger issues such changing work patterns are creating.

Source: Adapted from Anon. (2017), Casual conversion test case: Unions plug small hole in casualisation crisis. *Targeted News Service*, 5 July, Washington, DC, https://search.proquest.com/docview/1916159457?accountid=10382.

Self-managed work teams

self-managed work teams (SMWTs) Teams characterised by a high level of autonomy in how they manage and carry out work

Self-managed work teams (SMWTs) address some of the difficulties of introducing job enrichment programs. In a 'self-managed' team, the person who emerges as team leader is the one who determines the overall purpose or goal and the rest of the team members are at liberty to manage the methods with which the goals are to be achieved.[8]

Modern organisations have increasing levels of complexity and interdependence between workers. In enriching a particular job by adding higher-order responsibilities and autonomy, other jobs are affected. This domino effect means that to successfully address job design needs, the workers in the whole subsystem need to be included in the exercise. This, combined with the need to consider individual differences of workers, leads quite naturally to the adoption of a team-based approach. Therefore, the SMWT (or work group) can be given authority to collectively make decisions concerning their production and work allocation processes. The culture fostered by this concept is one of cooperation and teamwork.

The creation of SMWTs is also a popular strategy incorporated into enterprise bargaining agreements, where organisational structures are flatter, with less of a decision-making hierarchy, and teams are established to meet strategic goals and the needs of significant and complex projects.

cross-functional team A team of people with different functional expertise from across the organisation working together towards common organisational objectives and goals

While SMWTs are still the most common job design strategies that exist and are adopted by many organisations, there is a trend towards utilising the skills and competencies of employees, as well as technology, to create more flexible team orientations in order to achieve greater productivity, efficiency and workplace stability. More and more organisations are introducing cross-functional teams as well as virtual workgroups and work–life balance strategies in their job and work design.

The **cross-functional team** structure, unlike the SMWT, consists of membership from across the organisation – or even outside the organisation – in order to achieve organisational outcomes.

A further challenge to the SMWT model is the need for employees to work across a number of diverse and different work teams at any given time. This requires employees to be highly adaptable and flexible. This also impacts upon on the traditional theories and frameworks of work design, which generally see work as a static mechanism. Clearly the future of work design is to become more aligned with the future of work itself.

Alternative workplaces

As noted throughout this chapter, the world of work is changing dramatically and the use of **alternative workplaces** is becoming more prevalent. Oldham and Hackman revisited their own research and work in job design and acknowledged that 'We are presently in the midst of what we believe are fundamental changes in the relationships among people, the work they do, and the organizations for which they do it'.[9]

Much has been said about the way in work will change in the future, but what of the workplace itself? Some of the changes already occurring include:

- automated reception desks
- buttonless elevators that already know where you are going based on your automated diary
- bots that will undertake the research components of work; for example, searching for historical information, tax audits
- virtual meeting spaces
- wearables that will track employee health and stress levels
- hot desks instead of offices, as most employees will be working remotely or telecommuting.[10]

Home-based work

There is an increasing shift towards **telecommuting** (working from the home, car or anywhere other than the office) or home-based work.

There are a growing number of people, globally, who value and take the opportunity to work as individuals from a home environment. With the increasing likelihood of big business downsizing or shifting to cheaper, less city-based locations, the idea of working from home becomes either an employer's decision or an individual's desire for a lifestyle change. It is estimated that approximately 3.5 million Australians now work from home, with many making regular appearances at work, with laptop in hand, to a hot desk – not an office.[11] In a number of European cities, the shift from office- to home-based work involves environmental decisions to reduce traffic congestion and pollution. A number of women are also choosing to balance their work and child-rearing responsibilities by establishing home-based businesses. This allows them to stay at home to raise their family, and also gain the freedom of running a business from home.

However, apart from the advantages that home-based work presents to the individual, there are also a range of disadvantages. In reality, telecommuting can be used to expand normal office working hours into the home environment, blurring the boundary between work and home life, and thereby impacting negatively on family and leisure time. Recent research in

alternative workplaces Places of work other than the traditional office setting with access to internet and email
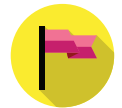
Emerging issue 4
Alternative workplaces

telecommuting Working from home, the car or anywhere other than a 'permanent' physical office space

Australia indicates that women and men who usually work 55 hours or more per week are estimated to be up to nine times more likely to work from home.[12]

Virtual work teams

A natural progression for the SMWT in today's technological and global environment is to the virtual work team. Similar to traditional teams within organisations, virtual work teams have goals, responsibilities and/or projects to coordinate or manage, but they do this by using technology to communicate across national boundaries or even countries. More and more companies are beginning to organise projects over distance, with teams increasingly consisting of people who are based in dispersed geographical locations, come from different cultural backgrounds, speak different languages and were raised in different countries with different value systems.[13]

Virtual work teams provide a number of benefits, but do also incur certain costs. Companies need to consider and balance these benefits and costs when designing such teams, as shown in **HRM in practice 5.3**.

HRM in practice 5.3

How to have great virtual teams

OURTEL Solutions is an Australian employer whose workforce is 100 per cent virtual. The CEO, Ruth MacKay, believes that being a virtual organisation holds the key to workplace flexibility and diversity for most small to medium businesses. She has been able to employ talented people who live in remote locations, people with disability and mobility issues, and the mature aged who do not necessarily want long commuting journeys to and from work. Retention rates are high in OURTEL: 60 per cent of employees have been with them since they started eight years ago.

However, running a company based on virtual teams requires a strong commitment to ensure employees feel supported, included and on a defined career path. This takes sound HR processes and excellent technology. OURTEL holds daily catch ups in virtual rooms; makes clear the KPIs required and measures them; rewards high performers; and provides further support and training to those who feel lost or overwhelmed in such an organisational structure. The key competencies held by every employee are the ability to build proactive relationships, self-discipline; results oriented; and an ability to set clear work–life boundaries.

Source: Adapted from MacKay, R. (2017), How to have great HR in a virtual workplace. *HRM*, 20 October, http://www.hrmonline.com.au.

Flexible work

The design of any knowledge- or skill-based professional, technical or leadership role needs to accommodate work–life balance strategies in order to attract and retain high-calibre staff. This is particularly the case with Gen Y and up-and-coming Gen Z workers (see Chapter 6). Flexible work strategies provide opportunities for work–life balance and family-friendly practices and work environments. Organisations adopting these practices range from local government and

small business to large corporations such as Google, NAB and KPMG. Flexible work practices not only help organisations to retain employees, but they are also a way of dealing with structural underemployment and economic factors. Even the federal government is getting involved, with an amendment to public service legislation in Australia to include telecommuting as one of the employment principles to support decentralisation and flexibility in job offerings.[14] The number of employees holding multiple jobs, due to the prevalence of part-time and casual work in the gig economy, is increasing, along with underemployment issues. In 2001, 53 per cent of the Australian labour force were part-time in their main job, increasing to 61 per cent in 2015. As a result, multiple job–holding in order to provide full-time equivalent employment also increased from 18 per cent in 2001 to 26 per cent in 2015.[15] There is increased pressure on employers to provide greater flexibility in working structures to accommodate these major structural labour force changes. **Table 5.2** provides an overview of what flexible self-managed organisations will look like in the future.

TABLE 5.2 The self-managed organisation

ORGANISATIONAL CHARACTERISTICS	WHAT IT MEANS
Teams are the structure	Individual roles are collectively designed and assigned to accomplish work; teams come and go as the organisation's needs change.
Teams design and govern themselves	Teams determine their own rules about how they should form and operate, as well as how they should identify and assign roles; terms are renegotiated when needed, at least once per year.
Leadership is contextual	Leadership is distributed among roles — not individuals; it continually shifts as the work changes and new teams are created.
Roles match individual capabilities	Individuals have portfolios of several specific roles which they craft and revise to fit shifting organisational and individual needs; employees negotiate with one another to allocate tasks and responsibilities.
Hierarchy no longer exists	Leadership belongs to roles, not positions. Authority may be contextual, but it does not exist in a formal sense.
Closer to work decision-making	Everyone can see who does what, so individuals go directly to those who are affected by decisions to discuss.

Source: Adapted from Bernstein, E., Bunch, J., Canner, N. and Lee, M. (2016), The big idea beyond the holacracy hype. *Harvard Business Review*, 94(7–8), pp. 38–49.

HRM in practice 5.4 demonstrates how companies are taking these strategies seriously and reaping the rewards.

HRM in practice 5.4

Hilton named one of Australia's best companies for which to work

Hilton has been recognised as one of Australia's best companies to work for, an accolade dedicated to companies with exceptional workplace cultures. Australia isn't the only country the company has recently received recognition in. It was also ranked third in Asia's Best Multinational Workplaces 2017, third in Best Companies to Work For in Greater China and 25th in the top 100 Great Places to Work for India.

Placed third on the Top 50 list in Australia, Hilton has been distinguished not only for creating a high trust and high performance organisational culture, but also for its leading flexible work practices.

So what does it do?

For a start, its flexible work practices are individualised. They allow for customisation and personalisation in order to meet the distinct needs of each team member's lifestyle, their location and their role. There is no one size fits all approach at Hilton. The practices have been designed to encourage work–life balance.

Examples of the various options team members have include:

- work from home
- flexible scheduling
- compressed work week
- flexitime
- job sharing
- part-time work.

Hilton employs more than 1300 people each year in Australia, across its 12 hotels and corporate office.

Source: Adapted from PR NewsWire (2017), Hilton named one of Australia's best companies to work for in 2017 by Great Place to Work Institute. *PRNewswire Asia*, 5 September, New York. https://en.prnasia.com/releases/apac/Hilton_Named_One_of_Australia_s_Best_Companies_to_Work_For_in_2017_by_Great_Place_to_Work_R_Institute-187069.shtml.

Emerging issue 5
Work–life balance and diversity

job crafting
Provides employees with the opportunity and the authority to customise their own work and tasks.

Job crafting

The shift in the design of work to become more individualised, flexible and responsive to changes in the external environment has led to the concept of job crafting, where there is an emphasis on the critical role of the employee in shaping and adapting their own jobs.[16] Apart from empowering the employees involved, the process of actively involving them in the design of their own work has the capacity to ensure a better fit between the job, the job holder and the organisation. However, employees will need to be equipped with appropriate knowledge and skills, including creativity and innovation, to ensure the job meets current and future organisational needs.

CREATIVITY AND INNOVATION

Not only in Australia, but globally, organisations are striving for a more creative and innovative workforce. It is universally acknowledged that a key to organisational sustainability, and indeed competitive advantage, is to become more creative and innovative. To do this, employees need

to become more creative and innovative. Creativity leads to innovation. In order to harness such creativity and innovation, work needs to be designed to be more autonomous and flexible, with greater skill variety and opportunities for high levels of interaction, feedback and autonomy.

Creativity is often defined as ideas about products, practices or services that are unique, original and useful or add value to the organisation.[17] Innovation can be defined as a strategic process involving the generation, or regeneration, of a product, process, service and/or strategy.[18]

A recent CSIRO report suggests that creative work is expected to become increasingly important to the national economy and the job market, and that existing and new jobs will require a creative approach to perform non-routine tasks and solve problems.[19] The future of work 5.1 outlines how jobs will change in the future and the role of creativity and innovation in leading to a successful transition to the future of work.

creativity To have ideas that are unique and original; often it is intangible but innovative.

Emerging issue 6
Creativity and innovation

The future of work 5.1

A day in the life of 2035

In 2015, Sally worked as a truck driver, the sixth largest occupation in Australia at the time. Over the next decade, the profession was subject to significant disruption and change. Advancements in technology meant large mining and agricultural companies shifted to the use of fully automated vehicles. This resulted in a declining number of traditional truck driving jobs, with many dropping out of the workforce entirely.

Today, in 2035, only urban routes remain open to truck drivers, with automation now taking up all long-distance haul jobs. While technology allows for automation of trucks in built-up, urban areas, communities were not that comfortable with the idea.

Sally still works as a truck driver but spends very little time manually operating a truck. Instead, she starts her day at an interchange on the outskirts of an urban area. Her day is planned down to every minute detail via automated scheduling. Trucks required to make deliveries in city centres and heavily populated areas have to stop at the interchange first. Sally monitors the vehicles' systems during the trip, scans the road for unpredictable hazards, and remains prepared to take the wheel in the event of a systems malfunction – much like a commercial airline pilot.

In addition to physically supervising the operation of the vehicle, Sally is expected to deal with customers. A proportion of her deliveries are to individuals, so she is tasked with ensuring that deliveries meet their high expectations, which reflects on her company's brand.

Sally is aware that her profession is in decline. With typical retirement not occurring until a person is well into their late 60s, Sally has to prepare for a transition into another career. Support for this transition is limited; she has to do her own research, source her own education loans and hopefully navigate her way successfully into a new industry.

Source: Adapted from Hajkowicz, S., Reeson, A., Rudd, L., Bratanova, A., Hodgers, L., Mason, C. and Boughen, N. (2016), *Tomorrow's digitally enabled workforce: Megatrends and scenarios for jobs and employment in Australia over the coming twenty years.* Brisbane: CSIRO, p. 64.

DIVERSITY MANAGEMENT

diversity management
Creating an environment where individual differences are valued, respected, acknowledged and included

Implicit in all changes to the nature of jobs, competency requirements and job design strategies is the need to effectively manage diversity. Diversity management has been called everything from 'just another HR fad' to 'just another name for EEO'. In its widest form, diversity refers to inclusion, whereby people, irrespective of their differences (e.g. age, cultural background, gender, political views) feel respected and valued. A diverse workplace is one where everyone has access to opportunities and resources as well as having their contributions, views and talents acknowledged.

All workplaces are diverse, but not all workplaces recognise the extent of their diversity. Nor do all workplaces have strategies in place to allow for the effective management of this diversity. It is a question of true inclusion rather than simply writing up tokenistic policies on equal opportunity simply because these are legally required.

In reality, diversity management is no more than a strategy to create opportunities to attract the brightest talent from the entire HR pool and then develop and retain that talent in order to maintain a competitive position in the market. If organisations are to compete successfully in a turbulent global market, they will need all the flexibility and agility they can muster (see International perspective 5.1).

International perspective 5.1

When diversity wins over inequality: the experience of the Indian IT industry

In a country where gender, caste and race/ethnicity historically provided the basis for social categorisation, the Indian IT service sector has been able to successfully harness workplace diversity among its workforce.

India's IT industry is a force to be reckoned with in the global market, and accounts for approximately 10 per cent of the country's GDP. It is India's largest private sector employer, employing about 3.5 million workers. It is also a champion of workplace diversity.

Hiring practices are completely on the basis of merit, and 34 per cent of its workforce are women. The industry is also a strong advocate in the employment of the socially and economically disadvantaged – without government intervention. A number of large IT companies have also funded and led diversity awareness raising and training in the primary education sector.

Training, development, job design and career succession strategies champion diversity. Research has also indicated that these IT companies acknowledge that organisational support for diversity is critical to influencing positive employee attitudes and behaviours, which in turn lead to higher levels of organisational performance.

Source: Adapted from Kunda, S. C. and Mor, A. (2016), Workforce diversity and organizational performance: A study of IT industry in India. *Employee Relations*, 39(2), pp.160–83, http://www.emeraldinsight.com/0142-5455.htm.

Diversity management is also a management philosophy that recognises and accepts that the external and internal workforces are changing along with the community – indeed, the total environment – in which they operate. Managing diversity is therefore the creation and maintenance of an environment in which each person is respected because of their results.

SUMMARY

The design of work to meet the needs of employees and employers is one of the emerging issues facing organisations operating in a global environment. Jobs are changing on an ongoing basis, making the job analysis process a constant and dynamic one. These changes are further exacerbated by issues associated with shortages of labour in a number of areas, as discussed in Chapters 2 and 3.

Jobs are the building blocks of organisations and, as such, need to be analysed, designed and implemented in an accurate and efficient manner. This is achieved through job analysis, which also remains a constant process due to a range of internal and external pressures as well as the changing nature of competencies demanded by organisations to remain competitive and viable. The job analysis process also underpins all other core HR activities and functions within the organisation.

There are a number of means by which data is collected as part of the job analysis process and the method selected will be determined by a range of factors, including the organisational culture, size, expertise and the nature of the job(s). The two tools produced through the job analysis process are job (or position) descriptions and person specifications. These two tools then form the basis of job evaluation, recruitment, selection, HR development and performance management.

In order to meet competitive challenges, there is a focus on the development of competencies and competency profiling in organisations. The development of competencies, both generic and those tailored to individual and organisational needs, is becoming a critical focus for most HR professionals today – for their own positions as well as others.

Job descriptions and person specifications are also changing, with many organisations combining the two tools into one meaningful and relevant document, inclusive of measurable outcomes and KPIs. However, the changing nature of work towards more multi-skilled and fluid roles has made it difficult for these documents to remain accurate and workable. Work has changed considerably over the past few decades and many organisations now focus on providing a high level of flexibility, creativity and innovation.

While the job analysis process focuses on the business units and/or organisation's expectations of the role, job design focuses on meeting the needs of the employee as well as the organisation. This is an emerging issue in the retention of employees in today's market, particularly with positions in limited supply. The move from industrial engineering to job adaptation to meet employees' needs reflects this and the focus is now on new forms of work, individualised career paths, virtual and cross-functional teams, and work–family issues. The shift in the design of work to become more individualised, flexible and responsive to changes in the external environment has led to the concept of job crafting, where employees shape their own jobs.

There is also a focus on diversity management, which in today's competitive organisations is embedded in job descriptions and person specifications, competency requirements, recruitment and selection strategies, and career development plans. In reality, diversity management is a strategy to create opportunities to attract the brightest talent from the entire HR pool and then develop and retain that talent in order to maintain a competitive position in the marketplace.

KEY TERMS

- alternative workplaces 187
- competencies 165
- competency profile 176
- creativity 191
- cross-functional team 186
- diversity management 192
- job crafting 190
- job description 168

- job design 183
- key performance indicators (KPIs) 181
- key result areas (KRAs) 170
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- virtual teams 184

EMERGING ISSUES

1 Job analysis

Job analysis is the process of determining the requirements of jobs: the job outcomes; responsibilities, duties, tasks and functions; the complexity of the role; the authority awarded to the job; and the personal attributes, in the form of experience, knowledge, education and/or training, skills, traits and behavioural attributes required to perform those jobs. Job analysis is integral to HRM because the information provided by this process is vital to efficient and accurate implementation and subsequent evaluation.

a 'Job analysis is now redundant due to the impact of technology on the workplace.' Do you agree or disagree with this statement? Justify your answer.

b Should job analysis be outsourced to ensure that it remains an objective exercise?

2 Job competencies

The concept of a competency lies at the heart of HRM, providing the basis for integrating key HR activities such as selection and assessment, performance management, training, development and reward management.

a 'What is important in determining competencies for jobs is related to personality traits and attributes. Qualifications, information technology and manual skills can be acquired and are not essential to job performance – whereas an ability to get on with people, or to be innovative and creative is essential and cannot be taught.' How accurate is this statement?

3 Job descriptions and person specifications

A job description accurately details the component duties and activities of a job, the level of the job, the authority and responsibilities awarded to the job, and the conditions under which it is performed. Person specification establishes the specific personal qualities, attributes and competencies (e.g. qualifications and/or training, work experience, work behaviour, skills, attitudes and abilities) of job holders. Job descriptions and person specifications need to be reviewed regularly in order to ensure that they accurately meet the job – and incumbents' – requirements. It is also vital that the job is reviewed to ensure that it is designed in such a way as to motivate and retain the job holder.

a 'The use of position descriptions to define jobs is limiting and acts as a disincentive for performance. They should be thrown away to allow roles to be more fluid.' Debate this statement.

b Think of a high-performance person you know – they may either be someone you work/worked with or an acquaintance. Translate their strengths into a person specification.

4 Alternative workplaces

Rapid technological developments have had significant implications not only for the way in which work is performed, but also for where work is conducted. Increasing numbers of employees are either working from home or in remote or isolated locations.

a 'Performance management of staff working remotely or from home is the biggest challenge facing the future of work.' Debate this statement.

5 Work–life balance and diversity

The design of any knowledge- or skill-based professional, technical or leadership role needs to accommodate work–life balance strategies in order to attract and retain high-calibre staff. This is particularly the case with Gen Y and upcoming Gen Z workers.

a Explain your understanding of generational differences in work design expectations.
b Discuss the impact of multigenerational workforces on work–life balance strategies.

6 Creativity and innovation

Creativity and innovation are the keys to organisational sustainability. Employees need to demonstrate creativity in all aspects of their work in order to be innovative. To harness such creativity and innovation, work needs to be designed to be more autonomous and flexible, with greater skill variety and opportunities for high levels of interaction, feedback and autonomy.

a Provide examples of how jobs can be redesigned to harness employee creativity.

ETHICAL CHALLENGE

Humanising technology or digitising humanity?

In the past, we separated work and home – our work lives from our personal lives. Now, technology tracks our locations, preferences and behaviour to the point that it can predict where we are going next, what we will want and who we will like.

The workplace is much safer now, it's more engaging, more stimulating and more collaborative. But there are tradeoffs. Our working days are longer, technology has blurred the separation between work and home life and we are expected to be more self-sufficient and productive than ever.

How do we feel about the smart devices that are recording and reporting a continuous stream of data on what we do at work, our whereabouts at every moment of the working day, our health and mood to our manager, HR and the organisation?

One of the most strategic challenges HR and business leaders need to confront in the future of work is how they will continue to use technology to enable and support performance and unleash potential in a manner that engages human workers rather than alienating them.

As we continue to build apps and platforms that enhance the user experience, design robots that look and act increasingly human and augment our bodies and brains with high-performance parts and nanotechnologies, what will it mean to our jobs and the workplace? Who will decide?

Source: From Forbes.com © 2018 Forbes. All rights reserved. Used under licence.

1 What are some of the challenges the article poses regarding the way in which jobs will be designed in the future?
2 What will be the role of HR in managing these challenges?

CASE STUDY 5.1

The ties are off

It wasn't a snap decision. In fact, Reid Johnson had thought about it on and off for the past decade. His home was 'noisy and busy' with four kids, the youngest in primary school and the eldest in their final year of high school. Work was busy too. As Telstra's director of customer service, Johnson had nine direct reports and a 250-strong customer service team to manage.

An opportunity at work changed everything. Telstra was about to launch a program giving men the chance to change the way they worked. The program included working a four-day week and taking Fridays off. Basically, moving from full-time to part-time work.

Johnson found that he was now able to take a more active role in parenting and sharing in taking the kids to school, sports and social activities. He was also able to create more space to support his wife, who was currently studying.

Although his boss was a big supporter of the arrangement, Johnson admits there was an undercurrent of resentment in the workplace, the odd joke about men working part-time and the occasional 'Oh, thanks for turning up' comment.

He also had to overcome self-doubt, and believe that it was not going to impact his career and that he could make it work.

Transitioning was important, so for three months he had someone in his team acting in his role on Fridays who would only ring him when absolutely necessary. Johnson only received four calls in 14 months.

Source: Adapted from McGeoch, L. (2017), The ties are off. *HRM*, 29, pp. 22–5.

Questions

1   Discuss the benefits and problems this arrangement for senior employees has for a) the organisation, and b) the employee.
2   Why is this arrangement considered to be more unusual and less acceptable for men than women?

CASE STUDY 5.2

TK Ceramics: an Indonesian opportunity

Tim Bortolli, Kate Johnson and Renee Nguyen were approaching exhaustion at their second straight 12-hour day of meetings. Tim and Kate were joint owners of TK Ceramics, a small business they started together after leaving university. TK Ceramics had grown to become Victoria's largest importer of European ceramic tiles, now operating from a 4500-sq-m warehouse in Port Melbourne, with 70 staff. Renee holds the newly created title of General Manager of HR; the title reflecting the impending growth of the company.

The long days of meetings were due to the immense amount of planning required to put in place the next phase of the company's growth. TK Ceramics had enjoyed a lot of success in importing

tiles from Italy; the European styles, designs and colours translating well to the culturally diverse Melbourne market. Rather than sell to the public, TK Ceramics sold wholesale to bathroom stores all over Victoria, and collaborated with a few exclusive architects who worked with high-end renovations. Twenty-two field sales representatives continuously worked their large retail customer base, and a further 28 staff worked in the warehouse – unpacking, checking and shelving incoming stock, as well as preparing shipments for the company's delivery fleet four times a day. Another 20 staff worked in the office, in roles such as customer service, finance, accounts and administration.

However, a year ago, Kate had been on a sabbatical in Jakarta Raya, Indonesia, taking a motorcycle tour with her partner. While taking a 'back-roads' tour one day, she had come across a small tile factory that produced plain 'standard' tiles, and, not being able to fully disengage from work, asked to meet the owner.

Kate spoke with the owner, Alatas, all afternoon, toured his facilities and made a promise to be in touch as soon as she returned home. She was very excited about the opportunity to develop a new supplier. While sales of European tiles were still strong, they were expensive, and they had to carry a lot of stock to cater to the wide variety of tastes in Melbourne.

Alatas' factory represented a chance to supply tiles to the mass market – new home building companies, commercial installers, hospitals, shopping centres and so on, where design was less important than price and functionality.

Tim and Kate decided to go for it, and met with their bank and business advisers to plan the expansion, and hired Renee to develop and execute the HRM strategies. They decided to launch the new business stream through a new, wholly owned retail network, a radical departure from their existing business model. In addition, they were going to create a new brand for their shops. They had decided to maintain their current business and its relationships under the identity of TK Ceramics. They had, however, adopted the strategy of 'multiple presences' and were determined that their new business stream wouldn't dilute their existing one.

Renee was now immersed in the HRP to execute this strategy. She needed to design a structure which clearly separated both supplier and customer-facing staff into the separate streams, but could also make use of the existing warehouse infrastructure for both.

Further, she had a mission-critical task to complete before anything else.

All ceramic tiles sold in Australia must meet strict Australian Standards – ISO 13006: 1998 for Definitions, Classification, Characteristics and Marking (the product standard), and ISO 10545 Test Methods.

Preliminary investigations of the product produced by Alatas' factory showed that while the tiles were generally good, there was too much variation in size, surface finish and strength to consistently meet the standards. Testing each batch in Australia and rejecting non-compliant tiles was too expensive and wasteful. The quality control had to take place in Jakarta Raya. Alatas was very happy to do this, as the new deal with Tim and Kate would result in a near-doubling of his output.

However, Tim, Kate and Renee had concerns that the expert human capital required to design, implement and monitor the quality procedures in Alatas' factory weren't available in Indonesia. They had just decided to recruit and send an Australian expert to Indonesia to embed into the factory for a year, to ensure that there were no problems with standards compliance and wastage at the Australian end.

> Tim hadn't needed to do this before. Most of the Italian tiles they imported were already tested and compliant with the strict EU standards, and Tim's Italian heritage and language skills made communicating their needs to suppliers in Italy with phone calls and an occasional visit very effective.

Renee's list of jobs was growing rapidly. Not only did she have to prepare to staff the seven launch stores, she had to redesign the workflow of existing staff to support the 'multiple presence' strategy. She also needed to find just the right person to send to Jakarta Raya.

Source: Prepared by Stephen Turner, Murdoch University, Perth.

Questions

1   What is the best process to redesign the internally facing and customer-facing jobs?
2   What are the advantages and disadvantages of drawing at least some of the shop workers from existing staff?
3   How would you create job descriptions and person specifications for jobs in the shops that do not yet exist?
4   Do the field sales representatives have similar key skills and abilities requirements to those that may be needed by the shop staff? Discuss.

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Talent attraction and selection

Choose a job that you love and you will never have to work a day in your life.

Confucius, 551–479 BCE.

With an ageing population, businesses will be severely limiting their talent pool if they shy away from employing older workers or fail to capitalise on the skills of their existing older workers.

Chartered Accountants Australia and New Zealand/Future Inc. (2017), *The future of talent: Opportunities unlimited, chartered*, p. 43, https://www.charteredaccountantsanz.com/news-and-analysis/insights/future-inc/the-future-of-talent.

OBJECTIVES

After reading this chapter, you will be able to:

1 recognise the strategic nature of the employee attraction and selection processes, and their relationship to the vision, mission and strategic planning processes of the organisation

2 identify the advantages and disadvantages of internal and external employee attraction strategies

3 identify the principal recruitment sources and techniques, and appreciate when these might best be utilised

4 identify and evaluate the appropriate information sources on job candidates

5 critically evaluate the interview as a selection process

6 identify and demonstrate an understanding of the different employment tests that can be utilised to select appropriate candidates

7 demonstrate an understanding of how to reach a selection decision.

Emerging issues

1 Talent management
2 Expatriates
3 Internal talent attraction
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INTRODUCTION

The most significant human resource (HR) challenge facing employers is the attraction and retention of skilled talent, more recently defined as 'talent management'. The emergence of new markets and technologies as well as increasing demands in existing industries, particularly in the resources, health care and educational sectors, has meant an increased need for highly educated and skilled human resources. Recent declines in the resources sector in Western Australia and Queensland have been predominantly in the unskilled and semi-skilled labour pools. These declines have been exacerbated by the impact of technology, with full automation of trucks and trains on mining sites being one example. The increasing demand for 'soft' or employability skills is also challenging the ways in which recruiters and HR professionals alike recruit and select staff against these complex skill sets.

Issues such as an ageing population, declining birth rates and higher educational qualification requirements have meant that the availability of skilled employees has declined. Once employed, these younger and often highly qualified and skilled employees are demanding greater work flexibility, improved training and career development opportunities, and more flexible remuneration packages to stay with their employers. Returns on investment are becoming increasingly difficult for employers to achieve, with younger employees' retention rates averaging little more than 12 months in a job, with many leaving to seek improved opportunities elsewhere.

recruitment
The sum of activities and processes that aim to provide a pool of qualified persons from which the successful candidate may be chosen

Employee attraction, or as it is more traditionally called, **recruitment**, is the process of attempting to locate and attract a pool of suitably qualified and experienced people to apply for existing or anticipated positions within an organisation. In essence, the process is to attract the right people, at the right time, in the right place and at the right cost. In many cases, the process will be straightforward, while in other cases it can become quite complex. The attraction process typically yields a number of applicants whose qualifications must be assessed against the requirements of the job; that is, the selection criteria. The **selection** of applicants from within or outside an organisation to fill existing or projected job openings is a major HR process that has far-reaching effects on company branding, performance, productivity and even the continued viability of the organisation.

selection
A process that analyses and compares the applicants for a position against the selection criteria for the position

Greater attention is being given to the selection process than ever before, with technological advances impacting the way in which staff are selected. Typically, effective selection processes will begin with an examination of the organisation's strategic direction together with the accompanying HR plan (see Chapter 4). Where a change in corporate direction or simply a refocusing of the organisation's mission or purpose is indicated, it is incumbent upon HR professionals to ensure that all attraction and selection processes link directly to such plans.

A more fundamental question might be: 'Do we know what the key competencies are for the position to be performed successfully?' It is also vital to ask: 'What competencies will we

build on in the future and which activities will we move away from, having decided previously that the organisation has no core competence in the area?' In essence, what we must ask is: 'Which activities will we retain as a business and which will we outsource?' Until these questions are posed and answered, strategic selection will at best be ad hoc, and success difficult to achieve.

Skills shortages faced by organisations in a number of countries have impacted on the attraction and selection processes, with organisations having to be more creative in order to attract the necessary talent. For example, the growth of social networking sites (SNS) also has significant implications for the ways in which employers locate and attract potential labour.

While the selection process is typically the responsibility of the HR professional, the business unit managers and line managers in an organisation also have important roles in the selection process. The final selection decision will usually rest with them. It is important, therefore, that they understand not only the objectives and policies relating to selection but also the overall strategic direction of the organisation. They must be thoroughly trained in the most effective and acceptable techniques for evaluating applicants and must be motivated to use these techniques. The challenges and increased complexities in assessing the new skill sets required for the future of work also impact the need for training both in assessing candidates and in the development of appropriate and reliable selection tools.

social networking sites (SNS)
Websites that enable users to build social networks or social relationships with other users of those websites

THE STRATEGIC PERSPECTIVE

Before further meaningful discussion of relevant labour sources is undertaken, it is important to adopt a strategic orientation to the employee attraction and selection processes. Whether or not a particular job vacancy is filled by someone from within the organisation or from outside, will depend upon the organisation's business strategy, HR policies, the requirements of the job to be filled (the job description – see Chapter 5), the talent to be found within the organisation, the selection tools utilised and, often, the organisational politics surrounding the decision. Organisations can draw up elaborate attraction and selection processes, but these can only minimise – not diminish – the many influences that will surround this critical aspect of human resource management (HRM).

This text has argued consistently that HR managers must take on a much more strategic mindset than the operational one that may have served them well in the past. HR managers must come to an awareness that the business environment calls for a situational approach to attracting and selecting employees. Those organisations adopting an organic, dynamic form of business strategy will seek out a different type of employee to those that adopt more mechanistic or bureaucratic organisational strategies. The direction that a business takes, now and in the future, the culture that is being created or shifted and the competencies required all lead to an emphasis on *the type of attraction process undertaken (internal or external) and the selection tools and methods utilised at any particular time.*

Professional tip 6.1

Key HR roles and competencies

The Australian Human Resources Institute's (AHRI) Model of Excellence (MoE; see **Figure 1.2**) suggests that the key roles of HR professionals with respect to attracting and selecting employees are to be a *strategic architect*, *expert practitioner* and *culture and change leader*. Associated competencies include *future oriented*, *critical and enquiring thinker* and *professional*, although some of the other competencies are also relevant.

Organisational leaders also need to think about the generational mix of employees that the organisation has or wishes to attract. Different attraction and selection strategies will be required to target the desired audience. Leaders need to focus far more on their diverse workforce, which will include not only generational differences, but also differences relating to gender, culture and family responsibility. **HRM in practice 6.1** highlights the innovative ways in which not-for-profit organisations ensure workforce diversity with staff recruitment and selection.

HRM in practice 6.1

Outside the box

There are thousands of organisations in Australia's not-for-profit sector, making them significant players in the recruitment and selection game. They employ more than 900 000 paid employees, constituting about 8 per cent of the Australian workforce.

In recent times, the pressures on their capabilities have been increased by factors such as declining government funding, rising costs associated with regulatory and compliance requirements, the global economic downturn impacting on fundraising activities, and a general shortage in skilled staff (as highlighted earlier in this chapter).

Staffing is central to everything that not-for-profit agencies achieve as they strive to improve the lives of an estimated 12 million people that they help: the aged, those with disabilities, the homeless, and those living with special needs and/or significant disadvantages.

Comparatively low remuneration rates and a lack of clear career progression make the task of attracting and retaining the best employees a difficult one. However, innovative and carefully targeted programs to fill specific roles helps to ensure that not-for-profits are well staffed to meet their business goals.

The Red Cross had 67 Aboriginal and Torres Strait Islander employees in 2009, which comprised only 3 per cent of its total staff. It wanted to at least double this number, but struggled to adequately engage with Aboriginal and Torres Strait Islander communities. Feedback also suggested the organisation lacked cultural recognition and acknowledgement of existing skills and qualifications among the Aboriginal and Torres Strait Islander population.

The solution was in the development of an Aboriginal and Torres Strait Islander Employment Strategy. The Red Cross Victorian state office was used in a pilot program to help build the capability for recruitment and retention of Aboriginal and Torres Strait Islander staff. The program included building the leadership team's capability for recruitment and retention of Aboriginal and Torres Strait Islander staff and to develop appropriate support structures

to achieve this. Procedures were developed, networks with community organisations were established and training was provided. In addition to this, about 30 leaders were also mentored through the Australian Indigenous Leadership Centre.

These initiatives increased the office's Aboriginal and Torres Strait Islander staff from 0.4 to 3.1 per cent in just 12 months. To date, the level is now at 4.8 per cent, which is well on the way to achieving the desired target of 6 per cent.

Source: Adapted from Muldowney, S. (2014), Outside the box. *HRMonthly*, September, pp. 24–5.

The key point here is that strategies must be dynamic in nature and flow ultimately from the organisation's mission statement and strategic objectives. Employee attraction and selection strategies and processes must be compatible with business strategies.

After a decade of attempting to achieve some form of 'corporate anorexia' (i.e. significant downsizing and outsourcing) and then discovering that this approach did not work, organisations have returned their focus to a recognition that people may well be their only source of sustainable competitive advantage. People are no longer seen as expenses and overheads, but as strategic assets. Along with globalisation and downsizing, the past decade has seen a very tight labour market, along with the advent and subsequent dismantling of the Australian *WorkChoices* legislation and its replacement with the *Fair Work Act 2009* (see Chapter 3). Employers across the world have felt the impact of the 2008–09 Global Financial Crisis (GFC), when the sudden increase in available employees came at the same time as pressure to downsize. More recently, the European Union (EU) economic crisis with the fiscal collapse of Greece, and the economic decline of China, have also impacted on the resourcing decisions of many Australian organisations operating and/or trading internationally. Hence, the need for the attraction and selection of talent to be strategic and dynamic in nature, and tied to business decision making.

Finally, it is also important for employers to realise that employee attraction and selection are dual decision-making processes made by both organisations and applicants. Both will be seeking the best match between the organisation, its culture and values, and those of the potential employees. This is the 'organisational fit'. Employers seek people who appear to fit their company image, while potential employees will seek out employers who appear to match what they seek (i.e. their **employer of choice**). There is also evidence that shows the better the organisational fit, the higher the level of employee satisfaction.[1]

employer of choice
A concept that describes the strategies and processes put in place to attract, retain and motivate key talent

Employers of choice

The renewed interest in the so-called war for talent has spawned a push by organisations to be known as employers of choice and in this way attract the best talent possible. Those recognised as employers of choice invariably possess, and indeed promote, workplace strategies such as work flexibility, diversity management, and innovative leadership and development

opportunities. Such views will vary between the attitudes and values held by **Baby Boomers** and those of **Gen X** and **Gen Y**, as well as people of different cultural backgrounds – all of which have to be managed by senior leaders.

Best employers

Over the past 10 years a number of national awards (e.g. AHRI awards) have been used to identify and celebrate employers of choice. One theme that has emerged is that each successful organisation was aware that getting its credentials right would result in higher rates of attraction and retention of valued people.

The emergence of such awards reflects both the need to recognise organisations' outstanding HR achievements and, in turn, their attractiveness as employers of choice for potential recruits. These companies, among others, have become the preferred 'brands' for prospective applicants.

Company branding

The rush to become an employer of choice has seen a novel approach to employer branding, which has long been the domain of the marketing profession. The best employers can potentially attract almost twice as many job applications compared with those organisations not recognised for their reputation and status, with many of those wanting to work for them being the best in their field.[2]

If an organisation's people are indeed its only sustainable source of competitive advantage, then it follows that becoming an employer of choice will help to attract and retain the best people available. This is the role of employer branding – to build a positive image that will attract the best talent. As a result, more and more organisations are investing in creating their 'brand image' to appeal to prospective employees. In order to attract the best, these companies are promoting a range of benefits, from the salary package offered to the promotion of their positive psychological and family-friendly cultures. Wellness programs, child care resources, work–life balance working arrangements and individualised salary packaging are all offered in order to attract the 'best'.

Matching people, jobs, organisations and environments

Emerging issue 1
Talent management

best fit
A term used to describe the best candidate for the position. Also used when describing 'best fit' HRM strategies

Those who are responsible for making employee attraction and selection decisions should have adequate and accurate information upon which to make those decisions. It is essential that decision makers have information about the jobs to be filled, knowledge of the ratio of job openings to the number of applicants, and as much relevant information as possible about the applicants themselves. In the past, much has been written about the concept of **best fit** – in particular the person–job fit. More recently, the focus has broadened to include not only person–organisation fit but also the fit between the person and the workplace culture: the person–environment fit. This is becoming increasingly difficult to achieve in a

multigenerational workforce, where the diversity in generational attitudes, values and beliefs make it harder to satisfy a diverse range of employees as well as potential job candidates. A recent study of Polish undergraduates and graduates studying hospitality and tourism revealed that their potential employers needed to be perceived as attractive to work for in order for them to apply, emphasising the need for employers to provide sufficient information about their organisation so as to effectively recruit and select the right candidates.[3]

The way in which a person fits into the culture of the existing team, department and organisation is often more important than the fit to the job. Often, problems with the new employee are the result of a poor organisational fit rather than problems with undertaking the job. Where international assignments will form part of the job, the total environment becomes paramount, as a key competency will be the ability to work across different cultures. This aspect is covered in **International perspective 6.1**.

expatriate
Someone from the parent (home) country who is working for a period of time (usually more than a year) in an overseas (host) country

Emerging issue 2
Expatriates

International perspective 6.1

A global workplace

One of the pervading threads throughout this book is that businesses operate in a global environment, with technological innovation in the workplace enabling seamless linkage to virtual teamwork and communication. It is also clear that Australia needs to work more closely with its Asian counterparts in order to remain competitive globally.

A report by Diversity Council Australia, *Leading in the Asian century*, points out that Asia accounts for two thirds of Australia's export markets.[4] It is now commonplace for Australian businesses to extend into overseas markets, with divisions, joint ventures or strategic alliances.

The reduction of some traditional Australian export markets and the expansion of others (e.g. Vietnam, the People's Republic of China), new regional trading groups (e.g. the EU, ASEAN), new tariff agreements (e.g. Asia-Pacific Economic Cooperation – APEC), and an overall focus on East and South-East Asian countries, have encouraged organisations to develop international business strategies that necessarily require accompanying international recruitment and retention strategies.

Multicultural workforces, both at home and abroad, require innovative HRM practices, and the management of Australian expatriates can demand quite diverse strategies.

The three possible sources of multinational enterprise (MNE) managers are home country nationals (or expatriates), host country (or local) nationals or third country nationals.

Home country nationals are managers from the organisation's headquarters, host country nationals are employees from the particular overseas country involved, and third country nationals may be natives of any country other than the home or host country. For example, a German national who is assigned as the manager of an Australian subsidiary or hotel chain in Malaysia is a third country national.

Using each of the three sources of overseas managers presents advantages and disadvantages. The following are some of the more important advantages.

- Home country nationals: talent available within company; greater control; company experience; mobility; experience provided to corporate executives.
- Host country nationals: less cost; preference of host country governments; intimate knowledge of environment; language facility.
- Third country nationals: broad experience; international outlook; multilingualism.

home country nationals
Managers from the organisation's headquarters sent overseas as expatriates

host country nationals
Employees employed from within the overseas country where the company is being established

third country nationals
Employees from any country other than the home or host country where the company is being established

Most MNEs use all three sources for staffing their international operations, although some companies and countries exhibit a distinct bias for one or other of the three sources. Policy decisions regarding the way in which labour is used and located can be ethnocentric, polycentric, regiocentric or geocentric.

Ethnocentric approaches are 'headquarters centred', with all key jobs being held by home country personnel. Thus many US and Japanese MNEs may recruit local employees at lower levels, but key managers come from the United States or Japan. This is also usually the case for Australian organisations in their first overseas ventures.

Polycentric strategies treat subsidiaries as distinct national entities, employing host country nationals at senior management level.

Regiocentric policies are also locally based, but within broad regions or geographic areas. Some American hotel chains, for example, have regional offices for the Asia Pacific region, with Australian managers based in Australia.

Geocentric approaches generally focus on competencies and ability rather than nationality. German organisations may employ Hong Kong managers (third country nationals) in Africa, Europe and Australasia. This option is likely to be the strategic choice of committed multinational organisations in mature stages of development. Operational decisions regarding the appropriate source of manager will consider their technical competence, functional area of expertise, career plans, personal preferences, health status and personality attributes.

The international selection process

The first step in the selection process is to identify the job. If the job involves extensive contacts with the local community, as with a general manager, this factor should be given appropriate weight. A second set of factors relates to environmental variables. The differences between the political, legal, socioeconomic and cultural systems of the host country and those of the home country should be assessed and rank-ordered.

If a candidate is willing to live and work in a foreign environment, an indication of their tolerance of cultural differences should be obtained. If local nationals have the technical competence to carry out the job successfully, they should be carefully considered for the job before the organisation launches a search (at home) for a candidate.

However, it should not be assumed from the above that most organisations take such a logical, rational approach to the selection of expatriate managers.

Emphasis must be given to different factors, depending on the extent of contact that the employee will have with the culture, and the degree to which the foreign environment differs from the home environment. In essence, the competencies required for a successful overseas assignment will vary from one cultural setting to another. Several authors have attempted to develop such a set of competencies, with the following commonly found to be valid:

- cultural sensitivity
- ability to manage ethical and cultural differences
- linguistic ability
- building and maintaining international teams
- adaptability
- resilience
- self-motivation
- managing work and family.[5]

One writer claims that there is 'very often no apparent correlation between traditional methods of selection and actual performance . . . more emphasis must be placed on selection methods that attempt to assess ability to live harmoniously in a multinational, multicultural environment'.[6] Once an individual is selected, the amount of orientation required will vary. The nature of the orientation usually provided will be discussed in Chapter 7.

Selection methods

The most common methods of selection used by MNEs are interviews, assessment centres and tests.

While some MNEs interview only the candidate, some will interview both the candidate and their partner, suggesting that MNEs are becoming increasingly aware of the significance of the partner's adjustment to a foreign environment and its contribution to managerial performance abroad. Interviews are best conducted by senior executives who have had managerial experience in foreign countries. Emphasis is placed on the culture and the adaptability demands made on the candidate and their partner.

Assessment centres typically use individual and group exercises, individual interviews with managers or psychologists, and some personality and mental ability tests to evaluate candidates. Exercises that reflect situations characteristic of the potential host culture are usually included. The use of assessment centres has been shown to have high face validity and to be an effective tool for selecting from a large pool of international managerial candidates. A variety of psychometric devices, including personality inventories, are available to determine an individual's ability to adapt to a different cultural environment. Such inventories as the Minnesota Multiphasic Personality Inventory, the Guilford–Zimmerman Temperament Survey and the California Test (the Indirect Scale for Ethnocentrism) are among those frequently used. As with all such psychological tests, they should be assessed for their reliability, validity and appropriateness to the designated overseas assignment, as many will be of limited value for screening purposes due to low coefficients of reliability and validity. Many such tests also will predominantly be designed for the North American or Western European market and therefore may be culturally biased.

Managing HR programs for international assignments

Effective management of overseas staff, especially those at management levels, requires a strategic, integrated and cost-effective series of HR programs before and after selection.

This initial HR strategy must be supplemented by an ongoing support program appropriate to the various phases of adaptation by new managers to their overseas cultural and geographic environment. It has been suggested that all overseas managers progress through a series of developmental phases, including an initial contact phase, disintegration, reintegration, autonomy and re-entry. HR activities should aim to both prepare the overseas manager for their likely occurrence, and provide ongoing support systems to reduce negative effects on performance and motivation.

The family should be helped to make a 'game plan' for their new lifestyle. Portable skills and interests should be assessed and new directions planned. At the same time, training in cultural adaptation should be made available. It is the rebuilding of the family lifestyle and the integration into a new community that completes the relocation process.

A significant issue for HR specialists, at both selection and subsequent stages of expatriation, is the consideration of family attitudes to the overseas assignment. Partners of

the prospective expatriates may be unwilling to relocate overseas due to the potential harm to their own careers and lifestyles. In an era of 'dual careers', a two- or three-year break in a partner's career can be disastrous, especially where it is not possible to pursue a similar occupation in the overseas location. In this situation, the 'trailing spouse' syndrome needs to be comprehensively discussed with the potential expatriates, their partners and children. Support is difficult to provide in some overseas environments, but should be actively sought (e.g. assistance with obtaining a similar position for the partner, discussions with the partner about the implications of the assignment, help to join social clubs in the host country, etc.). Similarly, children should be included in such pre-departure negotiations.

If Australian industry is to be successful in an increasingly global marketplace, HR managers in joint ventures or multinational organisations will require highly sophisticated strategies to ensure the success of their overseas operations. Selection of appropriate managers is only the first step. Adequate training and development, ongoing career plans, specialised performance management and remuneration programs are also essential for international effectiveness.

HR processes tend not to vary greatly between domestic and overseas appointments. The process itself can be said to be universal. The vital distinction is the cultural context. Overseas managers must be selected not only on technical ability but on a whole range of competencies around their ability to cope with a new job in a new country surrounded by a new culture.

In considering the issues surrounding the degree of fit between the individual, the organisation and the total environment, it becomes clear that attention must also be given to the psychological contract that will exist between the individual and the employing organisation. As discussed in Chapter 1, the psychological contract is the sum of beliefs, perceptions and expectations held by both parties. This system of beliefs may vary greatly from the legal contract signed by both the individual and the organisation. A heightened focus on both domestic and international competencies required of employees must be translated into essential requirements or person specifications (see Chapter 5). Perceptions and expectations that form the psychological contract will be far more difficult to document, if at all. However, an understanding of the concept of fit will allow HR professionals to create more effective attraction and selection strategies.

ATTRACTING TALENT FROM WITHIN
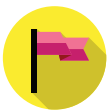
Emerging issue 3
Internal talent attraction

While organisations may focus great attention on branding in order to attract external candidates, this same branding process will also assist in the retention of existing employees. Organisations and the work they do are fluid and ever-changing, and thus 'growing your own' is an essential strategy in cost-effectively ensuring that employees are available at the right time in the right role. As such, an organisation will often try to follow a policy of filling job vacancies above the entry-level position through internal promotions and transfers, allowing it to capitalise on the costs it has invested in recruiting, selecting and training its current employees. Where much time and effort have been put into succession and career planning strategies, it will not

make sense to continually recruit from external sources. Rather, promotions and transfers will be common outcomes of succession and career planning strategies. This is also an essential component of workforce planning, whereby existing staff can be trained and developed for emergent or changing roles in the organisation. This reduces the need for making employees redundant from the roles that are no longer required and also allows for the reshaping of the organisation utilising the people it already has on board. Promotion serves to reward the employee receiving the promotion for their past performance and, it is hoped, will result in continuing efforts by that individual. It also sends a positive signal to others that similar efforts by them will lead to promotion, thereby possibly helping to improve morale within the organisation. This is particularly true for members of targeted minority groups who have encountered difficulties in gaining employment and will often have faced even greater difficulty in achieving advancement within an organisation. A non-discriminatory promotion policy is an essential part of the equal employment opportunity (EEO) programs that most Australian organisations have now adopted.

To have maximum motivation value, however, employees must be made aware of the organisation's promotion policy and reward systems. Recruitment from within must be seen to be an inclusive approach, whereby all employees in the organisation are seen as possessing strengths that can potentially add value.[7] Such awareness can be facilitated through the preparation and dissemination of written statements covering these policies together with specific mention in any career workshops or induction and orientation sessions that might be conducted.

Furthermore, the transferred employee's familiarity with the organisation and its operations can eliminate certain orientation and training costs that recruitment from the outside would entail. Most importantly, management has knowledge of the employee's performance record. This knowledge is likely to be a more accurate predictor of the candidate's success than the data gained about outside applicants during the selection process. Moreover, transfer between jobs facilitates current restructuring strategies such as multi-skilling and 'career pathing'.

In larger organisations, a common problem faced is that of 'silo mentality'. The separate business units or divisions can create artificial physical and psychological barriers to people mobility, thus working against what should be a seamless organisation. Transfers and cross-business promotions can help to break down these barriers and at the same time send out a powerful signal that this is one organisation. Such strategies will be even more relevant as organisations set up operations in other countries.

Limitations of attracting talent from within

Sometimes, specific positions will require specialised competencies and experience that cannot be obtained within the organisation and must be filled from outside. This situation is especially common in small organisations. For certain openings, it may be necessary to hire individuals

from the external environment who have gained from another employer the knowledge and expertise required. It should also be acknowledged that while individuals may perform extremely well in their roles within the organisation, and have been assessed as high performers, performance management literature (see Chapter 8) suggests that past performance is unlikely to predict future success in a different role.

Even though HR policy may encourage vacancies to be filled from within the organisation, potential external candidates should also be considered to prevent the stagnation of ideas and attitudes. Applicants hired from the outside, particularly for 'rare category' positions, can be a source of new ideas and may bring with them the latest knowledge. Indeed, excessive reliance upon internal sources can create the risks of 'employee cloning' or 'inbreeding'. Furthermore, in the competitive field of high technology, for example, it is not uncommon for firms to attempt to gain secrets from competitors by poaching their employees.

Where an organisation has engaged in competency profiling (see Chapter 5), it may well find that those competencies required to meet the organisation's strategic objectives are not evident within the organisation. In such cases, external recruitment will be essential. At the same time, developmental strategies must be put in place to allow internal people to be more competitive on future occasions where such competencies are sought.

In line with a change in strategic direction, an organisation may attempt to shift its workforce culture through an emphasis on external talent attraction. In times of dynamic change, management may well decide that this strategy will bring the fastest results. There may not be sufficient time to shift existing paradigms in any other way. Above all, the aim should be to create a diverse workforce but, more importantly, to use the talents of that diversity.

Methods of locating qualified job candidates

The effective use of internal sources requires a system for locating qualified job candidates and for enabling those who consider themselves qualified to apply for the opening. This is essential in ensuring equity in access to these vacancies across the organisation. Qualified job candidates within an organisation can be located by electronic record systems, by vacancy bulletins or by recall of those who have been laid off. They can also be identified through the use of effective performance management and development plans (see Chapter 8).

Electronic record systems

With the global reach and structure of many organisations, the establishment of comprehensive databanks of employees' employment and training history, skills and competencies is an essential tool in knowing who the organisation has and how to utilise them effectively. Computerised human resource information management systems (HRIMS; see Chapter 4) are becoming an important tool in facilitating this knowledge. Specific HRIMS packages allow an organisation to screen its entire workforce in a matter of minutes to locate suitable candidates to fill an

internal opening. It is merely a process of entering the selection criteria for the role to be filled and allowing the system to match those within the organisation who possess these skills and attributes. Artificial intelligence technologies are already being used by some organisations for more complex attraction and selection decision-making processes; for example, chatbots (SAP Resume Matching, Entelo and Jobaline); virtual competitions and game-based selection techniques (hackathons); and networking events.

These data can also be used to predict the career paths of employees and anticipate when and where promotion opportunities for them may occur. Since the value of the data is contingent upon details being current, the HRIMS must include provisions for recording changes in employee qualifications, career movements and development programs completed as they occur. The HRIMS should also have the capacity to allow employees themselves to update these changes and have them subsequently endorsed by their business manager.

The intranet

Information concerning job openings may be communicated through the intranet in the organisation's e-newsletter, blog or regular communications pages. The company intranet system will often include a link to specific internal job posts. Other and more traditional forms of internal communication include designated posting centres, employee publications, special announcement handouts and direct mail.

Furthermore, job-posting functions more effectively when it is part of a career development program in which employees are made aware of the opportunities within the organisation. Overall satisfaction with the intranet is also dependent upon the adequacy of the education provided to system users and the visibility of the vacancies.

Performance and development management

As will be discussed in Chapter 8, a well-designed and implemented performance and/or development management system will identify not only high performers, but also the competencies, skills and career goals of individuals. These employees can be 'matched' to future positions within the organisation, with a career development plan to assist them. Again, the inclusion of such information within an HRIMS proves invaluable and time-effective in the succession planning for these valuable human resources.

ATTRACTING TALENT FROM OUTSIDE THE ORGANISATION

Unless there is to be a reduction in the workforce, any vacancy occurring within an organisation must eventually be filled with a replacement from the outside. Therefore, when the organisation's chief executive officer (CEO) retires – or is retired – a chain reaction of
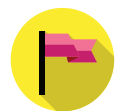
Emerging issue 4
External talent attraction

promotions may subsequently occur. This creates other managerial, supervisory and staff openings. The question to be resolved, therefore, is not one of determining whether or not to bring people into the organisation, but rather one of determining the level at which they are brought in.

The labour market

The labour market includes the internal and external sources from which applicants are recruited. The labour market will vary with the type of job to be filled, the remuneration for the job and, more recently, the state of the global economy. Talent attraction strategies for executive, specialist or technical jobs requiring a high level of competence may be national and, increasingly, global in scope.

The ease with which employees are able to commute to work will also influence the boundaries of the labour market. The lack of suitable public transport or extreme congestion on streets and freeways can limit the distance employees are willing to travel to work, particularly to jobs of low pay. Climate change issues may also impact on commuting habits as people decide to leave their cars at home and take public transport. This, in turn, will impact on the flexibility of the labour market. Population migration from the inner city to the suburbs has had its effect on labour markets. If suitable employment can be obtained near where they live, many people are less likely to accept or remain in jobs located in a central business district. The opposite is often the case in many Asian countries, with mass migration from villages to large cities where work is more readily available. Management will need to keep these factors in mind when deciding on the appropriate attraction strategy.

External sources of talent

At any given time, an employer will find it necessary to use several talent attraction sources. The external sources from which employees are to be recruited will vary with the type of job to be filled. A web designer, for example, is not likely to be sourced from the same avenues as a shop assistant. The condition of the labour market may also help to determine how productive a particular source will be. A tight labour market may force the employer to advertise heavily or to seek assistance from local recruitment consultancies. The Australian Bureau of Statistics (ABS) reported an increase in total job vacancies of 4 per cent from November 2017 to February 2018. Of these, 201 600 were in the private sector (an increase of 4.4%) and 19 100 were in the public sector (a decrease of 0.1%).[8] While this is good news for the Australian economy, it also indicates that the external job vacancy market is buoyant and busy.

HR practitioners also need to be aware of 'hot' areas within the labour market where there is a shortage in the supply of skilled people in a specific occupation. Industries experiencing shortages of supply are the medical, health care, education and a range of resource sector occupations, particularly highly qualified and skilled positions such as engineers and geologists,

and a range of trade occupations. However, once the global demand for oil and gas subsides, or significant resources are found elsewhere in the world, the demand for these types of positions is likely to diminish. This is highlighted by the recent slump in iron ore prices in China, resulting in significant job losses in the iron ore mining sector in Western Australia, with the jobless rate jumping from 5.1 to 5.8 per cent in May 2015.[9]

Advertisements

One of the most traditional methods for contacting applicants is through advertisements. In the past, these advertisements were placed in the print media, but now they are more commonly listed online with a range of **e-cruitment** (e.g. Seek, Indeed) providers. Advertising has the advantage of reaching a large audience of possible applicants. Some degree of selectivity can be achieved by using newspapers and journals that are directed towards a particular group of readers.

e-cruitment
Online recruitment processes via the internet as contrasted to newspaper advertising

The preparation of advertising copy for advertisements is not only time-consuming, but also requires creativity when developing design and message content. Well-written advertisements highlight the major assets of the position, while being responsive to the job and career needs, and concerns of the desired applicants. The aim of this form of advertising is to make people aware that a vacancy exists and to persuade them to apply for the position. It is also an opportunity for the organisation to promote a specific corporate image or brand.

Advertising can place a severe burden on the HR staff within an organisation, especially in large organisations, as highlighted in **HRM in practice 6.2**. Even if the specifications for the openings are described thoroughly in the advertisement, many applicants who know they do not meet the job requirements may still be attracted. They may apply in the hope that the employer will not be able to obtain applicants who meet the specifications.

HRM in practice 6.2

Indian Railways gears up for the world's largest recruitment drive

For the next couple of months, Satyam Gupta, a 21-year-old science graduate, will spend his evenings in front of his mobile devices researching questions and answers for an entry exam he hopes to be selected to take. This exam is the first stage in a recruitment drive for the Indian Railways. Gupta is one of 25 million people who have applied for in excess of 90 000 jobs on offer with the public sector giant. Public sector work is coveted in India, with entry-level jobs offering higher wages, benefits and job security than their private sector counterparts.

This is a challenging recruitment process. The first sort of the 25 million applications is conducted by a computer program to filter out actual candidates from fake ones. The rest are then sorted manually. Many of those applying to take the entry exam are apparently not serious contenders, but are merely attracted to the offer of a free train ticket to get to one of the many exam venues. It's seen as a free way to travel and see new places, according to Amitabh Khare, executive director of the Railway Recruitment Board. In fact, it is such a prevalent problem that
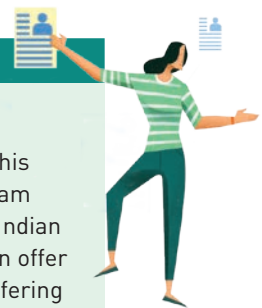
the recruitment department invests most of its energy in staying ahead of the cheaters. This includes posting advertisements advising potential applicants not to fall for advertisements offering exam entry for a fee or those purporting to have copies of the examination papers.

Satyam Gupta isn't leaving any aspect of his application to sit the exam to chance. He's bought the right books, joined the right Facebook groups and subscribed to the right YouTube videos to practise exam questions. This isn't even his dream job. Given his bachelor degree in science, he would ideally liked to become an income tax inspector, but for now he just wants to be one of the final 90 000.

Source: Adapted from Poonam, S. and Haider, F. (2018), Indian Railways readies for world's largest recruitment drive; 25 million applications for 90,000 jobs. *Hindustan Times*, 22 April, http://www.hindustantimes.com.

While there is increasing use of e-cruitment advertising, the daily print media is still a well-utilised method of recruitment advertising in Australia, albeit now second to online mediums. Nationwide and local metropolitan dailies are also used for a more geocentric approach to recruitment. Whereas newspapers reach a mass market with a 'shotgun' approach, trade and professional journals reach a specific target group. Those reading *The Australian Accountant*, for example, will generally be accountants or those employed in related jobs. The major problem with journals may be the time involved between the placement of the advertisement and its publication.

Recruitment agencies

recruitment agencies
Include government sponsored networks, private consultants and executive search firms, each of which will provide assistance in employing qualified staff

Recruitment agencies provide assistance in employing qualified staff. Such agencies may include government-sponsored networks, private consultants and **executive search** firms.

Private consultants

As they charge quite substantial fees, private employment consultants are able to tailor their services to the specific needs of their corporate clients. It is common for some agencies to specialise in serving a specific occupational area or professional field. Other agencies will cater only for temporary, short-term staff.

executive search
A process used by a private consultancy that aims at sourcing talent at the senior management layer of an organisation, usually by direct approach rather than advertising

Private employment consultancies differ in terms of services offered, professionalism and the calibre of their consultants. Consultants are particularly valuable where organisations do not have specialist recruitment staff or where the labour market is particularly tight for a given position. Senior managerial and professional roles will often be referred to a consultant as a matter of policy.

Where private agency consultants are paid on commission, a real or apparent conflict of interest may sometimes arise. It some cases, the consultant's need to provide professional services and earn a fee may encourage them to put forward applicants unsuited to the role or the client's needs. Any conflicts in the service relationship must be managed appropriately by both parties.

HRM in practice 6.3 shows some of the potential problems associated with using consultants in recruitment processes.

HRM in practice 6.3

Outsourced recruitment: bad apples?

Recruitment of employees is one of the most critical HR functions in any organisation. However, competition for talent means that there are times when external expertise may be considered to provide that 'edge' on a competitor organisation in attracting the best person for the job.

However, are there risks with divesting such an important function to others, and how do we know if we are getting value for money?

A [2013] *Business Review Weekly* article suggests that 'the recruitment industry is particularly prone to "bad apples" because of the fly-by-night nature of so many of the people who work there and the short-term focus of monthly targets'.

However, the article cites in-house recruiter, Dan Nuroo, who suggests that while he would not use agencies for his day-to-day hiring, because that is his job, he sees their value in recruiting for specialist and 'different' roles where talent is hard to come by or where the company doesn't possess the expertise of the network to source them.

Employers should also listen to feedback from the candidates to get a better idea of the quality of service from the recruitment agency or consultant.

Nuroo cited a particular example of being lied to by an agent who promised him he had candidates for him to see – then found the same agent advertising the job on LinkedIn. He warned that 'good recruiters are worth their weight in gold, but bad ones are a nightmare'.

Source: Anon. (2013), How to avoid the recruitment agency horror stories. *Business Review Weekly*, 4 April. The use of this work has been licensed by Copyright Agency except as permitted by the Copyright Act, you must not re-use this work without the permission of the copyright owner or Copyright Agency.
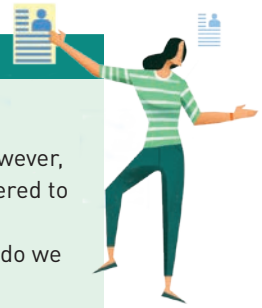
Executive search firms

In contrast to public and private employment agencies, the function of executive search firms (often called 'head-hunters') is not to find positions for job-seekers. Their role is to seek out candidates with the qualifications that match the requirements of the positions that their client firm is seeking to fill, and possibly 'cherry-pick' the candidate from another employer. Executive search firms generally do not advertise in the public media for job candidates, nor do they accept a fee from the individual being placed.

The fees charged by search firms may be about one-third of the annual remuneration package for the position to be filled. In the United States this fee, or a major percentage of it, is paid by the client firm whether or not the recruiting efforts result in an individual being hired. In Australia and the Asia Pacific region, however, few, if any, costs are paid unless an effective placement is made. In addition, most reputable search firms will guarantee their selection, although the extent of this guarantee varies among companies. It is claimed that the majority of positions with packages in excess of $100 000 are filled by search strategies, but this is supported more by anecdotal evidence than academic research. Since high-calibre executives are in short supply, a significant number of Australia's largest corporations use search firms to obtain such executives.

Educational institutions

Educational institutions are typically a source of young applicants with formal training, but with relatively little full-time work experience. Secondary schools are usually a source of employees for trainee professional and managerial jobs. Grocery giant Woolworths and fast-food company McDonald's are examples of companies that use school-based recruitment. TAFE colleges, with their various types of specialised training, can provide candidates for technical jobs. These institutions can also be a source of applicants for a variety of white-collar jobs, including those in the sales and retail fields. Management trainee jobs are also staffed from this source. Some organisations target the part-time evening student, who may be older and have up to 20 years' experience.

University graduates are a further source of talent; however, the supply of applicants with undergraduate and even higher degrees is increasingly exceeding the available job openings. Particular difficulty is experienced by graduates with degrees in the liberal arts, although some executives claim to prefer graduates with a broad background. The recruiters who represent these employers, however, tend to seek out people with specialised training who can make an immediate contribution in the jobs where they are placed. Some liberal arts majors have also made themselves more attractive to employers by including business courses in their study programs or by gaining work experience through part-time or temporary work.

The campus interview (or career days/nights/fairs) is one of the main strategies used to recruit college and university students. Major employer representatives (e.g. KPMG, PwC, HSBC, Westpac, ANZ) attend each participating campus over several days, with final-semester students making appointments with them for interviews. Often, graduate recruitment programs are also advertised through college and university advertising mediums, with subsequent interviews being conducted at company headquarters, and short-listed candidates frequently travelling interstate to attend them.

Employee referrals

Traditional talent attraction sources such as newspapers and the internet have the potential to attract numerous applications, many of which may be unsuitable yet take great amounts of time to assess.

employee referrals
Applicants are referred to the organisation by internal employees; often a reward system applies when the referral is successful

A more effective method may be to use a process of **employee referrals**. HR managers have found that the quality of employee-referred applicants is usually quite high, as employees are generally hesitant to refer people who will not perform well once employed. Negative factors associated with the use of employee referrals include the possibility of 'inbreeding' and violation of EEO policies. Since employees and their referrals tend to have similar backgrounds, employers who rely heavily on employee referrals to fill job openings may intentionally or unintentionally screen out, and thereby discriminate against, target group members. Stated simply, the status quo is maintained. Furthermore, organisations may choose

not to employ relatives of current employees. The hiring of relatives, referred to as nepotism, can create charges of favouritism, especially in appointments to desirable positions. One creative approach encourages all employees to act as de facto recruitment consultants with effective (i.e. successful) referrals rewarded by monetary payments. State Street and JP Morgan pay their employees $500 per successful referral on the basis that the new employee satisfies probationary criteria. Coca-Cola Amatil has a formal program that pays $1000 after the new employee completes a three-month probation period. **HRM in practice 6.4** highlights some issues with this approach.

HRM in practice 6.4

Employee referral programs need to be supported by employers

Employee referral programs are a great way to fill jobs, but to be successful they must be managed properly.

John Sullivan, a professor of management at San Francisco State University, suggested that employee referral programs are actually becoming more effective – not less – due to the growth in the use of technology, particularly social networking, by employees to promote jobs. To make them even more effective, employee referral should be made part of everyone's responsibility.

Sullivan suggests, 'Routinely, employee referrals produce the highest quality hires' and the highest retention rates, 'so making every employee a 24/7 talent scout is a common approach'.

Offering incentives is common practice in many firms, as is making it part of the company culture to boost participation. However, employers should not pay the referral reward until after the new hires make it through the probationary period.

Source: Reproduced with permission. Published Mar. 1, 2014. Copyright 2014 by The Bureau of National Affairs, Inc. (800-372-1033) http://www.bna.com.

Executive leasing and contracting

In the past, temporary help has been restricted to office duties such as secretarial services. Over the past decade or so, however, this field has expanded to executive-level employees who come into an organisation on a short-term basis, often with a specific project in mind. This is known as executive leasing. Several large consulting firms, including Manpower, Drake, Mercer Cullen Egan Dell and Lee Hecht Harrison, have moved into this field in recent years. While the concept has advantages insofar as the arrangement can save money and recruiting time, and is extremely flexible in terms of what the leased executive is able to do, there may be problems concerning loyalty and commitment to the organisation.

executive leasing
A senior employee is contracted for a set period of time or to undertake a specific project. Usually contracted from a private consultancy

With the dramatic increase in the number of organisations using outsourcing strategies, the use of contractors will add a new dimension to the flexible and mobile workforces that so many companies are attempting to build. As a case in point, in more recent times a number of public and private organisations have outsourced their entire HR function to contracting organisations such as those mentioned above.

Online talent attraction

After a slow start in Australia and other regional countries, online talent attraction (e-cruitment) has become a significant option. Only a few years ago the ANZ Series was the benchmark in terms of the number of jobs advertised in daily newspapers, but today measures such as the Olivier Job Index are given greater attention. This index measures the volume of jobs advertised on the internet, on sites such as seek.com, CareerOne and MyCareer.

The future of e-cruitment seems assured, with players such as seek.com offering a range of new tools and services to both recruiters and job-seekers. For HR practitioners, seek.com offers discrete zones in much the same way that newspapers segment the labour market, with sections devoted to specific job and occupation groups. A profile section is also available, where an organisation's detailed profile can be accessed, which also links to current vacancies and role statements. For the job-seeker, there is the benefit of having their **résumé** available online to corporate recruiters and consultants, as well as the speed of job listing by email on a daily basis.

In the past, organisations would usually advise the potential applicant to fill out an application and these would often be held on file for a period of up to 12 months. However, the internet has enabled this process to be handled electronically, with applications being completed and submitted online. Applicants should note that company websites will often state that these applications will only be maintained within the system for a particular period of time. The majority of larger potential employers now use this medium as it is quicker, reduces the need for paper applications to be physically filed and makes access to potential employees easier, particularly when a range of filters are in place on the database. Organisations using this electronic database process range from government departments to retail giants like Woolworths, Target and Coles.

résumé
A personal document prepared by a job applicant that outlines information such as personal details, work history, educational qualifications, competencies, professional memberships, interests and details of referees

Social networking sites

Emerging issue 5
Social networking sites

Social networking sites (SNS) cannot be ignored as a potential source of employees, and they are now one of the most widely used platforms through which jobs are advertised. While much has been written on the legitimacy of these sites as a source of potential job candidates (such as LinkedIn), they are worth further discussion. Social media usage growth is staggering; with close to 1 billion users in 2010, this figure had grown to 2.62 million in 2018, and is predicted to top the 3 million mark in 2021.[10] Individuals use SNS primarily to broadcast information about themselves on the internet. This information may also be visible (particularly on LinkedIn, which allows users to connect to professionals, market their skills and plan career progression) to organisations. HRM practices and policies have not kept pace with the rapid growth and use of such SNS for job searches, background checks and employee surveillance, and care needs to be taken, on behalf of both the employers and potential employee, to ensure that the legal and ethical implications of the use of such sites is considered.[11] A study from the

Aberdeen Group reported that 73 per cent of people aged 18 to 34 found their last job through a social media platform, and that 93 per cent of companies use LinkedIn to connect with and hire new talent.[12] It is not just Gen Y and **Gen Z** who are using social media and the internet; businesses today rely heavily on it for a range of business practices, and it is the best way to connect with all staff, across all branches, across all states and all countries, with the click of a button.

HRM in practice 6.5 highlights the growing use of SNS for recruitment, and the need for businesses to be cautious with its use.

Gen Z
Those persons born between 1996 and 2010. Described as the 'net generation' or 'digital natives', this generation were exposed to the internet and mobile technologies as young children

HRM in practice 6.5

Recruiters again urged to use social media cautiously

Recruiters have been warned to tread carefully when vetting candidates using social media because of potential discrimination claims.

Employment lawyers warn that while using social media to vet potential candidates in the recruitment process is not illegal, it could create unconscious bias. Social media sites contain significant demographic information about candidates not usually available in traditional résumés: candidates' age, gender, family status, political views and even sexual orientation.

If the recruitment process does not include clear selection criteria, then there is the potential for discrimination claims by unsuccessful candidates.

Material used by permission of Recruiter Magazine, recruiter.co.uk.

An overview of what has been covered so far in this chapter on the potential advantages and disadvantages of internal and external talent attraction is shown in **Table 6.1**.

TABLE 6.1 Internal versus external talent attraction strategies

INTERNAL TALENT ATTRACTION STRATEGIES	
POTENTIAL ADVANTAGES	POTENTIAL DISADVANTAGES
• May aid morale of employees	• Danger of inbreeding
• Easier to assess applicant's ability	• Discontent among those not promoted
• Good performance is rewarded	• Political infighting for promotion
• A succession for promotion developed	• Effective appraisal program required
• Necessary only to hire at base level	• Criticism from those outside the organisation who cannot get in
• Avoids 'leak plugging' strategy	• Old culture maintained
• Less costs involved in attracting a pool of applicants	• Cloning by those doing the selecting

EXTERNAL TALENT ATTRACTION STRATEGIES	
POTENTIAL ADVANTAGES	POTENTIAL DISADVANTAGES
• New ideas brought into the organisation	• Outsider may not fit in to organisation's culture
• No claims of favouritism from inside leading to resentment	• Morale of those passed over declines
• Forces insiders to compete – keep skills and education up to date	• More training and development required of new recruits
• More compatible with concepts of EEO/ affirmative action strategies	• A longer orientation period necessary
• Can be very effective in changing corporate culture quickly	• Can be a very expensive exercise, particularly where interstate or overseas recruits are involved
• Can provide for a more diverse workforce	• Evaluation of past work history more difficult

Outsourcing talent attraction

Over the past few years, there has been a move towards outsourcing the attraction of potential organisational talent altogether. This allows for the freeing up of internal HR people to get on with developing corporate strategy and policy, and letting the experts do what they do best.

This trend has continued within both the public and private sectors and shows no signs of reversal as organisations come to realise that recruitment is not their core business, nor do they necessarily have the expertise to cope with the demands of a volatile labour market. The success or otherwise of such ventures will depend most often on the effectiveness of the strategic partnerships that are put in place.

THE SELECTION PROCESS

In most organisations, selection is a continuous process. Turnover inevitably occurs, leaving vacancies to be filled by applicants from inside or outside the organisation or by individuals whose qualifications have been previously assessed. It is common to have a waiting list of applicants who can be called on when there are permanent or temporary positions vacant.

The number of steps in the selection process and their sequence will vary, not only with the organisation, but also with the type and level of jobs to be filled. Each step should be evaluated in terms of its contribution. The steps that typically make up the selection process are shown in **Figure 6.1**. Not all applicants go through all of these steps; for example, some may be rejected after the preliminary interview, others after taking tests. In many cases, organisations will not use tests, either because of lack of knowledge or because of suspicion about such tests. When a panel interview is used, several interviews may be reduced to one interview.

FIGURE 6.1 SHRM and strategic selection
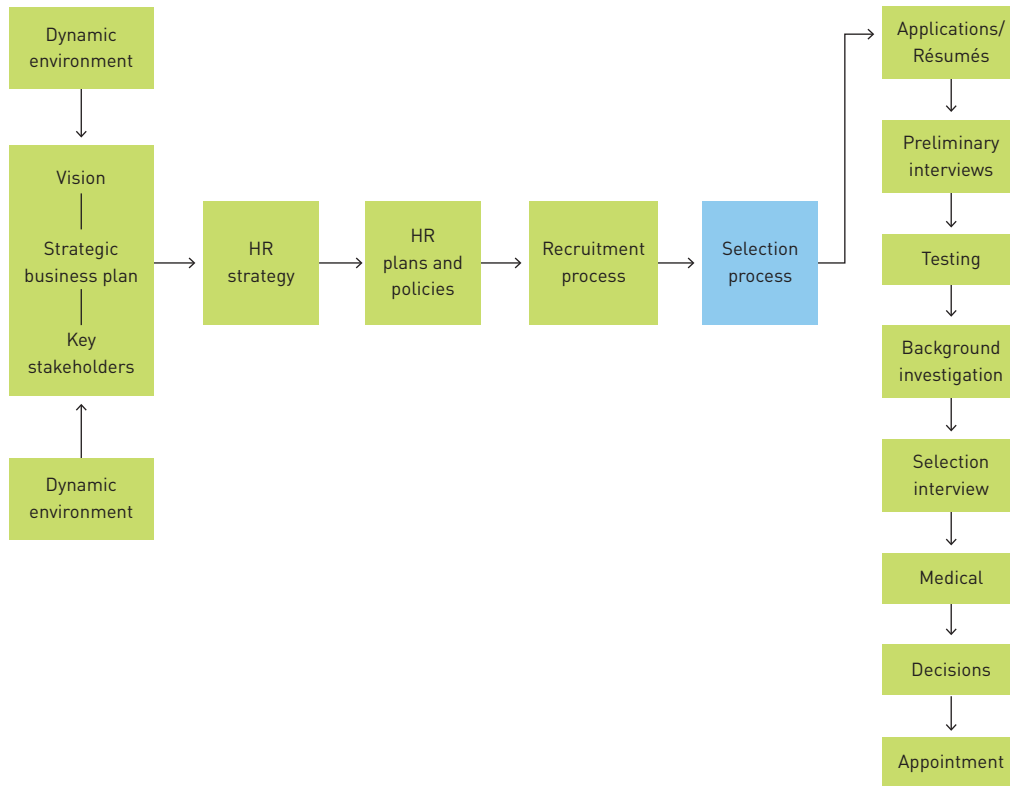
As shown in **Figure 6.1**, several different processes are used to obtain information about applicants. However, the main tool used by most organisations includes conducting an interview, whether it be an informal or formal approach. Also included will be the use of application forms and résumés, medical examinations and specific background investigations. Regardless of the procedures used, it is essential that their use conforms to accepted ethical standards, including privacy and confidentiality, as well as legal requirements. Above all, it is essential to obtain information that has proved to be sufficiently reliable, valid and verifiable. In essence, selection is a negative process as its aim is to eliminate all but the successful applicants.

Use of person specifications

In Chapter 5, the process of analysing and developing specifications for jobs was discussed, as was the newer process of competency profiling. Such requirements as skills, knowledge, attitudes, responsibilities and job conditions provide the basis for determining what types of information should be obtained from the applicant, from previous employers or from other sources. These requirements are usually referred to as selection criteria, but can also include core

medical examination
Often given in the latter stages of the selection process to ensure that the applicant is medically fit to carry out the range of duties and responsibilities set out in the job description

background investigation
A check by the employer into the background of an applicant for a position. Usually in the form of a check of written or telephone referees' reports. A method of verifying the details provided by the applicant

competency requirements of the incumbent to perform the job. These person specifications also form the basis for the administration of any applicable tests. Complete and unambiguous job information will help to reduce the influence of racial and gender stereotypes and helps the interviewer to differentiate between qualified and unqualified applicants.

Ordinarily, the managers and supervisors in an organisation are well acquainted with the requirements pertaining to skills, physical demands and other factors for jobs in their respective departments. Interviewers and other members of the HR department who participate in selection should maintain a close liaison with the various business units in order to become thoroughly familiar with the jobs and to be very aware of the strategic direction and needs of that business unit.

Pre-employment screening

It is usually assumed that individuals who are thoroughly screened against carefully developed position specifications (see Chapter 5) learn their job tasks readily, are productive and generally adjust to their jobs with a minimum of difficulty. As a result, the individual, the organisation and society as a whole benefit from a careful selection process. In addition, new recruit turnover will often be minimised. Currently, there is great concern within the HR profession that the massive increase in internet talent attraction is placing even more pressure on recruiters to ensure that claims made in a potential employee's résumé are accurate.

Obtaining reliable and valid information

reliability
Refers to the degree to which two or more selection processes yield a consistent result; for example, consistency of results across a battery of psychological tests

validity
Refers to what a selection process claims to measure and how well it is measured; for example, does a psychological test measure what it claims to measure and to what extent is this trait measured?

The degree to which interviews, tests and other selection procedures yield comparable data over a period of time is known as **reliability**. For example, unless interviewers are able to use a test or process multiple times over any given period *and* guarantee exactly the same results regarding a candidate's ability, the level of reliability is deemed to be questionable. Likewise, a test that gives widely different scores when administered to an individual a few days apart is unreliable. Consistency is the aim.

When several interviewers are involved separately in the selection process, it is likely that different results may be obtained. Unless the data upon which selection decisions are made are reliable, in terms of both stability and consistency, they cannot be used as predictors of future job success, which is what the strategic selection process is all about.

In addition to having reliable information pertaining to a person's suitability for a job, it is essential that the information be as valid as possible. **Validity** refers to what a test or other selection procedure measures and how well it measures this. In the context of personnel selection, validity is essentially an indicator of the extent to which data from a procedure (e.g. interview, test) are related to or predictive of job performance or some other relevant criterion. Like a new medicine, a selection procedure must be validated before it is used operationally.

There are two reasons for validating a procedure. First, validity is directly related to increases in employee productivity, as we will demonstrate later in this chapter. The other reason is that EEO regulations emphasise the importance of validity in selection procedures. While we commonly refer to validating a test or interview procedure, validity in the technical sense refers to the inferences made from the use of a procedure and not the procedure itself.

Many organisations will use psychological tests on the basis that this seems to be good practice. Others may have been convinced by consultants that testing is essential for effective selection. Astute HR professionals will be well aware that any test is only as good as it is reliable and valid.

SOURCES OF INFORMATION ABOUT JOB CANDIDATES

Many sources of information are used to provide information about an applicant's potential success on the job. In this section, the potential contributions of application forms, résumés, background investigations and medical examinations are studied. Because interviewing plays such a major role in selection and testing presents unique challenges, there is expanded discussion of these sources of information later in the chapter.

Of importance is the view that there is no perfect selection tool. From a strategic perspective, employers must ascertain the ideal applicant in terms of the organisation's strategic direction and then choose a range of devices that will hopefully reduce the number of candidates so a final decision can be made.

More recently, the realisation that major cultural and attitudinal differences exist between generations has made the selection process even more interesting and complex. Gen Y has been presented in the popular press as disloyal and job-hoppers; and Gen Z described as 'digital natives' who use texting as their main form of communication and have built a whole new digital language, including emojis, around this. Unlike those before them, they are considered as conservative, craving job security as a result of growing up in tougher times, and looking for fun, fulfilment and professional development.[13]

At the other end of the organisation's food chain are those Baby Boomers who are currently reaching retirement age, and the first generation to retire having had access to superannuation for a large part of their working lives. This has brought forward a different phenomenon: **downshifting** – a voluntary scaling down of one's career so as to enjoy a fuller life outside work.

The need to consider a new range of talent attraction and retention tools, especially when seeking candidates from Gen Z, is well expressed in **HRM in practice 6.6**.

downshifting
A voluntary scaling back of one's career so as to enjoy a better mix of family/work priorities

HRM in practice 6.6

So, you want to hire a digital native?

They're called digital natives; the first generation that will not know a world without the Internet. Most of them grew up with smartphones attached to their hands and they came of age in a time of the greatest economic stability since the Great Depression.

So what do they expect in the workplace?

They expect rapid upward mobility, with a large proportion of them wanting to be managing or supervising employees in a corporation within five years of starting work. They have a clear vision of where they want to be and when.

They expect to work hard and want exposure to training and development opportunities.

Whilst Gen Z have strong listening skills, their writing ability is lacking due to growing up in a world of texting shorthand and emojis. They also lack the capacity for rigorous self-evaluation, maintaining a positive attitude, time management and initiative. In order to overcome these skill shortfalls, employers will need to establish mentoring relationships for these young workers, offering them career advice and honing their soft skills.

They expect honesty and integrity from their managers and they thrive on establishing genuine relationships. They prefer collaborating with small groups to working independently.

Successfully managed, they will be an ambitious and eager group of workers.

Source: McDonald, P. (2016), Tips for hiring, managing and retaining Gen Z workers. *CPA Practice Advisor*, 26(2), p. 5, http://www.CPAPracticeAdvisor.com.

Emerging issue 6
Managing diversity

It is also important that those involved in the short-listing process focus on the job requirements and not introduce bias in their decision making. In reality, the workplace is a global one, representing vast diversity in language, culture and talent. It is important that such diversity is accepted and that cross-cultural awareness exists. Such issues in managing diversity at this stage in the attraction and selection process are highlighted in **HRM in practice 6.7**.

HRM in practice 6.7

Playing for keeps

Whatever the code and whoever the coach, there are critical HR lessons to be learnt from Australian sport's road to heightened inclusion and diversity.

Sport is etched deep into the Australian psyche. We play it, we watch it, argue about it, spend money on it and socialise because of it. It is also big business, with high emotional stakes, giving it the power to polarise, as well as unite and influence people. Sport is important 'social capital' because it develops connections and respect between different groups.

Sporting codes have made great strides in the past 20 years with anti-vilification policies and diversity programs, but there can be no denying that an ugly underbelly of racism and homophobia exists. From a HR point of view, the best athletes are the ones who should be recruited to play football. However, history tells us that this hasn't always been the case.

Jason Mifsud, the AFL's head of diversity, says the glare of the media spotlight on sports give rise to many 'teachable moments'. 'There is more talent in Aboriginal Australians than opportunity, in business and in sport. Sometimes Indigenous skill sets don't fit the generic organisational cultures and structures, but in some respects they bring a different dimension. The better HR practices are more adaptive of the skill sets and characteristics of their employees.'

While progress is being made in the acceptance of Aboriginal and Torres Strait Islander people in sport, the issue for those identifying as lesbian, gay, bisexual, transgender and intersex is still in its infancy.

Our most celebrated sports perpetuate hyper-masculine stereotypes where brutality and toughness are revered, injuries are worn as a badge of honour, and award nights glorify handsome sports stars and their sexy female partners.

This is changing: there is a national framework for anti-homophobia and inclusion policies in four major football codes as well as Cricket Australia; 'Play By the Rules' is a national campaign promoting safe, fair and inclusive sport; and Netball Australia has made inclusivity a strategic priority.

Source: Adapted from Parkes, B. (2014), Playing for keeps. *HRMonthly*, October, pp. 18–22.

Application forms

Most organisations require application forms to be completed because they provide a fairly quick and systematic means of obtaining a variety of information about the applicant. As with interviews, the various EEO tribunals and privacy committees have found that many questions asked on application forms disproportionately reject females and minorities and are often not job-related. Application forms should, therefore, be developed with great care and revised as necessary. Because of differences between state and international laws, organisations operating in more than one state or globally may find it necessary to develop one form that can be used overall.

As mentioned earlier, online application forms are becoming the most common form utilised by organisations. These forms provide employers with sources of job-relevant data as well as a useful means of eliminating unsuitable applicants. Most of the computer programs managing these forms will also automatically discard applications after a particular period of time.

The information on the application form is generally used as a basis for further exploration of the applicant's background. It should also be used to provide as much information as possible that is predictive of job success. While application form data are usually evaluated subjectively, they can be scored in much the same manner as tests, with certain items weighted in terms of the most sought-after **selection criteria**.

Even though applicants come armed with elaborate résumés, it is important to recognise that an applicant's résumé will tell the interviewer what the applicant wants them to know, not necessarily what they need to know. Many applicants engage the services of employment consultants to help them design elaborate, attractive résumés that extol their alleged virtues and abilities. These résumés are often little more than tributes to the writing skills of the people preparing them.

selection criteria
Those essential and desirable criteria that will be sought and measured in applications for positions

There has also been an increase in the number of consulting firms providing services such as writing and/or editing résumés for applicants. In reality, the consultant is merely rewriting, usually in glowing terms, what the applicant has already provided. **The future of work 6.1** presents an alternative, and possibly more objective, approach to the analysis of applicants' résumés.

The future of work 6.1

A résumé tracking bot

Applicant tracking systems (APS) or 'chatbots' are set to automate about 75 per cent of the recruitment process. They can assess over a hundred résumés in a matter of an hour or two by using artificial intelligence and language processing, answer potential candidate questions online and keep them up-to-date with their application process.

The benefits of using such a system is that they are relatively cheap, or free, in comparison with the cost of an HR person spending days reading through applications and résumés. They can also match applicants to roles without bias, assess all information presented and allow HR professionals the time to deal with the important work. However, privacy and confidentiality does become an issue as these bots can also scan a candidate's social media pages to obtain additional information. Also, HR professionals and managers need to ensure a human makes the final decision.

Checking references

Former employers, school principals, university officials and personal referees – and in specific cases, police records – may be checked for verification of pertinent information, such as length of time on job, type of job, highest wages earned, academic degrees earned or credit rating.

It is not safe to assume that the information provided by the applicant is all true. The most common ruse, according to employers, involves an exaggeration of one's educational background. **HRM in practice 6.8** highlights how important it is to verify information provided by applicants.

HRM in practice 6.8

Public servant convicted of fraud for lying on résumé

The Australian Taxation Office (ATO) has apparently advised its staff that false claims on their résumés could lead to prosecution after a tax official was convicted of fraud.

According to *The Canberra Times*, the ATO has recently advised all employees that one of their own was found to have lied on their résumé to obtain a job with the office.

It was discovered that the employee's qualifications and work history were false. When confronted with the finding, the employee resigned and evidence was forwarded to the Commonwealth Director of Public Prosecutions.

> Even though the employee resigned, this did not protect them from the legal consequences of such false representations. The employee was convicted of knowingly using a false document and dishonestly deceiving a public official. Each count incurred a fine of $1000.
>
> The Commissioner for Taxation made it clear that exaggerating the information contained in a résumé would not simply be tolerated as white lies, but is actually a fraudulent act.
>
> Source: Adapted from Australian Payroll Association (2015), Public servant convicted of fraud for lying on CV. 19 April, http://www.austpayroll.com.au/announcements/pubilc-servant-convicted-of-fraud-for-lying-on-cv.

Most organisations use both mail and telephone to check references. Generally, telephone checks are preferable because they save time and provide for greater candour. The most reliable information usually comes from supervisors, who are ordinarily in the best position to report on an applicant's work habits and performance.

The notion of reference checking is based on the assumption that a person's future performance is linked closely to past performance. Reference audits therefore are processes that attempt to gather relevant applicant data (education and employment histories, skills, character and interpersonal abilities) from people with whom the applicant has previously been closely associated. Often, sources can include school or university referees along with character references from local identities. Some employers will also go to the extent of a full security and credit check. Although this may seem warranted in some cases, care should be taken not to infringe human rights or privacy legislation. Requirements will vary from state to state, so those persons performing such checks should be conversant not only with federal legislation, but also the legislation of each state or territory within which the organisation operates.

Of increasing concern to employers is the issue of potential security issues with new employees. A number of jobs have access to sensitive and confidential information. They may also require the employee to work with children, young people or other groups considered vulnerable or 'at risk'. It is important that such issues and risks are assessed prior to advertising and that the requirements for security screening or the provision of criminal checks are determined.

Applicants will quite naturally provide the names of referees who will be favourable to themselves. While it has been suggested that supervisors are a reliable source of information regarding potential employee performance, it is generally useful to approach 'second generation' referees with the agreement of the applicant. Such referees are persons who have worked with the applicant, but are not those who have been nominated by the applicant.

Importantly, referees' reports should be requested in such a way that they address the specified selection criteria. Rather than have applicants produce reports, referees can be approached directly by employers, who will provide as much information as possible about the position and the person sought, thus making possible a far more specific response from the referee. Once a reference is given, the law recognises a general duty, owed by the referee, to take reasonable care to ensure the report is accurate, true and fair.

The timing of reference checking in the selection process is often dependent upon organisational policy. Reference checking can take place prior to the selection interview or after, and the purpose of the reference-checking process will determine the stage at which it takes place. If conducted prior to the interview, it will often be used to verify employment details and duration of employment. If conducted after, it can be used to question referees about candidate strengths and weaknesses demonstrated in the interview. In either case, the purpose is still to verify candidate potential against the specified selection criteria (**see HRM in practice 6.9**).

HRM in practice 6.9

Beware the humble reference check

While the vast majority of employers take the provision of references seriously and provide fair and beneficial documents, a misleading or erroneous reference can be costly. A candidate may require more training than their reference suggests, or may be entirely unsuited to the position. On the other hand, a derogatory reference can considerably harm an individual's job prospects.

If an employer is reluctant to provide a positive reference, they may be tempted to not give one at all. Sometimes this will be the best option as the employer does not openly criticise the former employee and the candidate is not exposed to a poor report. Prospective employers, however, can draw their own conclusions.

Once a reference is given, employers may be liable under defamation law if it is inaccurate and damaging. An aggrieved worker might seek damages, or seek an injunction preventing the employer from making further defamatory statements. While a prospective employer has no protection under defamation law for damage caused to them by a false reference, they may be able to sue for negligence. Employers might owe a duty of care to anyone who is likely to suffer damage as a consequence of misstatements in an employment reference. In Britain, an ex-employee successfully sued a company for negligence following the provision of a damagingly inaccurate reference.

Employers would be well advised to ensure they are fair, honest and take reasonable care when providing employment references.

Source: Adapted from Wilson, J. (2017), A false positive. *HRM*, 35, August, p. 46.

Medical examination

The medical examination is one of the later steps in the selection process because it can be costly. A medical examination is generally used to ensure that the health of applicants is adequate for the job requirements. It also provides a baseline against which subsequent medical examinations may be compared and interpreted. The last objective is particularly important in determination of work-caused disabilities under workers' compensation law or in the placement of disabled persons (see Chapters 3 and 10).

In the past, requirements for such physical characteristics as strength, agility, height and weight were often determined by someone's invalidated notion of what should be required.

Many such requirements tend to discriminate against women and some races, and have been questioned and modified so as to be more realistic in terms of typical job demands.

A growing number of companies in the United States, including 125 of the Fortune 500 companies, are trying to curb the cost of drug abuse in the workplace by requiring urine tests of job applicants. There are reports that sophisticated tests can detect marijuana up to 30 days after it has been used, and cocaine up to three or four days after use. Drug testing is not widespread in Australia, but this is changing with growing concern about drug and alcohol issues, especially in the resources sector, and police, paramedical and defence forces. Heavy transport, including bus and rail, is also employing random drug testing.

THE EMPLOYMENT INTERVIEW

Traditionally, the **employment interview** has had a very important role in the selection process and it remains one of the most popular methods used to assess job candidates. At the same time, the interview, despite more than 100 years of research and education, is also considered to be not only an essential process but one that is fraught with potential traps and legal pitfalls. A number of researchers claim that the interview has been more widely researched than any other HR process – the structure, reliability, validity and predictive power of the interview have been analysed and reanalysed by myriad researchers and scholars and the same themes appear to be repeated in the outcomes of such studies.[14]

Writers have argued that, despite the obvious problems with the interview process, the interview remains popular because of the social skills that may be displayed at the interview, and acceptability of the interview to managers and to applicants alike. Depending on the type of job and the attitude of the organisation, applicants may be interviewed by one person, by several members of the organisation or by an external consultant. There is also a growth in the use of group interviews, when a number of job vacancies (of similar work value and competency requirement) exist, teleconference interviews or computer-based interviews. The use of technology is particularly useful when interviewing candidates internationally or for those located in remote or isolated areas.

Interviewing methods

Employment or selection interviews differ according to the methods that are used to obtain information and to elicit attitudes and feelings from an applicant. The most significant difference lies in the amount of structure, or control, that is exercised by the interviewer. In the highly structured (or directive) interview, the interviewer determines the course that the interview will follow as each question is asked. In the less structured (or non-directive) interview, the applicant plays a larger role in determining the way in which the discussion will go. An examination of the different types of interviews will reveal the differences. An overview

employment interview
Usually, a face-to-face meeting between the candidate and a representative or a number of representatives of the employing organisation. Can also be conducted by tele / video conference or via the internet. Methods range from structured to unstructured
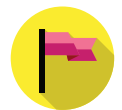
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of these is shown in **Table 6.2**. They are by no means mutually exclusive, and a number of interview styles can be used in the one interview.

TABLE 6.2 Types of interviews

TYPE OF INTERVIEW	FOR	AGAINST
Directive or structured	• Consistent – all applicants treated equally • Usually reliable • Time-efficient • All areas covered • Easy to compare applicants	• Can lack flexibility • Some areas ignored which should be followed up • Interviewer may dominate • Applicant may be overwhelmed by questions
Non-directive or non-structured	• Easy to explore leads and different areas • Applicant may be more relaxed than when using other methods • Can be tailored to individual situation	• Hard to control interview • May miss important areas • Hard to compare different applicants
Panel	• Impartial – it is a group decision • Applicant closely observed • One panel member may notice or think of something missed by others • Suited to higher-level appointments	• Cost • Applicant may feel outnumbered or intimidated • Panel members may talk or argue among themselves • Less chance of establishing rapport
Stress	• Shows applicant's behaviour under conditions causing emotional strain • Can be suited to some high-pressure or unpleasant jobs	• Requires very skilled interviewer • May alienate and lose a suitable applicant • May affect company's public relations image • Relevant to only a few positions
Group	• Easy to compare applicants • Provides representative work situation • Suited to positions requiring managerial, verbal or interpersonal skills	• Expensive • Hard to assess • May not always relate to the job in question • Not much personal contact
Technology-based (Skype/teleconference)	• Reduced travel/airfare costs associated with bringing applicant to a physical interview • Improved timeliness as not waiting for applicant to arrange times to travel • Allows for interviewers to assess applicant behaviour and interpersonal skills	• Can only be used if technology available • Verbal lag times due to distance • Unsociable interview times to coincide with international time zones • Stressful for applicant sitting in a room by themselves (in the case of a teleconference interview)

Source: Adapted from Compton, R. L., Morrissey, W. and Nankervis, A. R. (2014), *Effective recruitment and selection practices*, 6th edn. Sydney: CCH Australia, p. 136.

Non-directive interview

In the non-directive interview, the interviewer carefully refrains from influencing the applicant's remarks. The applicant is allowed the maximum amount of freedom in determining the course of the discussion. This is achieved by the interviewer asking broad, open questions, such as 'Can you tell me more about your experience on your last job?', and permitting the applicant to talk freely with minimum interruption. In general, the non-directive approach is characterised by such interviewer behaviour as listening carefully and not arguing, interrupting or changing the subject abruptly. It also involves using questions sparingly, phrasing responses briefly and allowing pauses in the conversation. This latter technique is the most difficult for the beginning interviewer to master. The greater freedom afforded the applicant in the non-directive interview is particularly valuable in bringing to the interviewer's attention any information, attitudes or feelings that may often be concealed by more rapid questioning. This method is more likely to be used in interviewing candidates for high-level positions, as well as in counselling and grievance situations.

open questions
Often used to commence an interview. Questions ask 'what', 'why', 'how', 'when'

Directive interview

The most highly structured type of interview is the directive interview, which adheres closely to a detailed set of questions on specially prepared forms. The training required for the directive interview, as well as the fact that the procedure is standardised, has probably contributed to its moderate to highly valid results.

Note that the interview form is based on competencies decided on through an earlier competency profiling exercise (see Chapter 5). By developing such competencies initially, other HR functions such as training, appraisal and compensation are facilitated.

Increasing use of highly structured interviews

More attention is being given to the highly structured type of interview due to its high level of reliability and validity. For example, a structured interviewing process:

1 is based exclusively on job duties and competencies that are critical to job performance; that is, valid selection criteria
2 makes use of a range of question types
3 has sample answers to each question determined in advance. Interviewee responses are rated on a scale defined explicitly in advance
4 will often use an interview committee or panel so that interviewee responses are evaluated by multiple raters
5 is consistently applied to each applicant. All processes are consistently followed to ensure that each applicant has exactly the same chance as every other applicant
6 is documented fully for future reference and also where there is a need to defend the selection decision.

The use of a highly structured interview is more likely to provide the type of information that is needed for making sound decisions. It also helps to reduce the possibility of legal charges of unfair discrimination. One must be aware that the interview is highly vulnerable to legal attack and that more litigation in this area can be expected. There is research evidence to support the argument that structured interviews are far more predictive of future job success than are unstructured approaches.[15]

Behavioural interviewing

The behaviourally based interview (sometimes referred to as the situational interview or competency-based interview) is based on a thorough position analysis or competency profile. With a set of core competencies or selection criteria determined beforehand, the interviewer uses a critical incident approach to ask each candidate to relate, from their total lifetime experiences, situations that they have managed in the past that indicate the extent to which a specific competency has been attained.[16] These scenarios or questions are known as **behavioural questions**. Consider for the moment that 'managing change' is a key competency for the position. The **interview questions** will be something like the following: 'A key competency for this position is the effective management of change. Can you relate to me from your personal experience a time when you have had to demonstrate this specific competency? What were the circumstances? What was the result?'

In this way, interviewers begin to obtain a picture of past success, or otherwise, rather than a series of claims as to what the candidate might do at some time in the future. The results can be verified through specific background checks. The behavioural approach seems to rest very much on the assumption that future performance can be predicted by analysing past performance.

However, as highlighted in **Table 6.3**, this type of interview can be complex to structure and there are a number of considerations involved.

behavioural questions
Sometimes referred to as situation questions, as they seek information from the candidate about what they would do in a specific situation. Each question is normally based on at least one competency for the position

interview questions
A range of questions put to the candidates for a position. May range from open to closed depending on the rationale for a particular question and/or the skill of the interviewer/s

TABLE 6.3 Protocol and directions and considerations for the interviewer

BEHAVIOURAL INTERVIEWING PROTOCOL	DIRECTIONS AND CONSIDERATIONS
Step 1 – Eliciting a success story Address your interviewee with the following statement: *'I am sure that you have had both negative and positive experiences at work. Today, I would like to focus only on the positive aspects of your experiences.'*	Sit face to face, preferably without a barrier between you, and without any papers, pens or pencils in your hands, so that you will be able to concentrate entirely on the interview process.

BEHAVIOURAL INTERVIEWING PROTOCOL	DIRECTIONS AND CONSIDERATIONS
Ask your interviewee the following questions. 1 'Could you please tell me a story about an experience at work during which you felt at your best, full of life and in flow, and you were content even before the results of your actions became known?'	The story elicited at this point is the basis of the intervention. Therefore, it is important to make sure you hear a specific story (i.e. specific details such as time, space and action), rather than a summary of an event or a generalisation (i.e. 'I usually enjoy…'). *Active listening:* Reflect the story back to the interviewee by summarising the story in your own words. Then ask: 'Did I miss anything in the story?' and 'Do you want to add anything else?' (If there are corrections or additions reflect them as well.)
2 'Would you be happy to experience a similar process again?'	If the interviewee answers YES, continue to the next question, as the story most likely holds information that is worthwhile inquiring into and learning from. However, if the interviewee answers NO, ask for another story that the interviewee would be happy to experience once again.
3 'What was the peak moment of this story? What did you think at that moment?'	Make sure you hear the details of a single peak or two at most. The question about thoughts is designed to help some interviewees relate to the next questions.
4 'How did you feel at that moment (including your emotional and physiological reaction)?'	If the interviewee describes positive emotions, reflect the emotions back and proceed. However, if the interviewee describes negative emotions, or mixed feelings, ask for another story, and start over with Question 1. When people are asked to describe how they felt in a certain situation, they sometimes report a thought they had rather than an emotion. If this is the case with your interviewee, simply acknowledge their thought and ask again about the emotions they experienced. Some interviewees describe the emotions in general terms (e.g. 'I felt good'); if so, ask for the details of the feeling including how the interviewee felt these emotions in the body. *Active listening:* Reflect the emotions back to the interviewee.
Step 2 – Discovering your personal success code Ask your interviewee the following questions. 1 'What were the conditions in you, such as things you did, your capabilities and your strengths that made this story possible?'	To elicit the underlying conditions that facilitated the interviewee's best performance – his or her personal code of success – it is important to reveal as many diverse conditions as possible.

BEHAVIOURAL INTERVIEWING PROTOCOL	DIRECTIONS AND CONSIDERATIONS
2 'What did others do that enabled this story?'	Therefore, make sure the interviewee recognises and describes facilitating conditions in themselves, in others and in the organisation.
3 'What were the conditions facilitated by the organisation (even physical or temporal) that enabled this story?'	*Active listening:* Reflect the conditions back to the interviewee. For a full and rich description of facilitating conditions, encourage your interviewee to reveal more conditions by asking '… and what else?' until you have confirmed that all the conditions in the mind of the interviewee are accounted for.
Step 3 – Follow-up questions on responses to determine organisational/ position fit State the following to your interviewee: *'The conditions you have just described seem to be your personal code for reaching [insert the key achievement in the story, e.g. happiness at work, optimal performance or outstanding leadership].'* Add the question: *'If this is so, think of your current actions, priorities and plans for the near future (e.g. next quarter), and consider to what extent they incorporate all of these conditions.'*	Depending on the situation, the answer to this question may either be elaborated on and discussed in detail or left as a question for the interviewee to ponder privately.

Speed interviews

Speed interviewing techniques are becoming commonplace at university career fairs but are also being increasingly used by some of the more cutting-edge workplaces globally. Speed interviews are, as indicated by their title, a quick way to gauge a workplace fit with a large number of candidates.

The process usually lasts between five and 15 minutes, making it achievable to interview as many as 100 individual job candidates in a day. It can be conducted by one interviewer, but more commonly a number of interviewers are involved enabling the exploration of a range of criteria for the job. The candidates move from one desk to another, with questions being fired at them within the short timeframe.

The types of questions asked are open and exploratory, with examples including:

1 How has your job hunting being going up until now?
2 How would you describe your behaviour in the workplace?
3 What type of organisational culture are you looking for?
4 What are the main aspects of a job that would give you the greatest satisfaction?
5 What do you least like in a job?

6 Describe your working relationship with your current boss?

7 Have you met the other candidates here today? Who do you think is the strongest one here, and why?

These questions will often be split between the team of interviewers. The interviewing team will then meet up several times throughout the day to compare notes on the strongest candidates. These will be shortlisted and invited for a further, more traditional, structured, face-to-face interview.

This type of interviewing technique tends to favour extroverted candidates who take little time to settle and are able to answer questions quickly. The key to preparing for this type of interview is to practice.

Technology-based interviews

The use of Skype, Zoom or video conferencing to interview candidates living and/or working remotely or overseas is becoming commonplace. It is cost- and time-effective, with candidates not having to take time away from their current work and home commitments to travel to an interview, and organisations not having to bear the cost of travel and accommodation to interview the candidate.

However, ensuring there are no interruptions and the interview is conducted in an appropriate setting are important considerations for the candidate, along with allowing for the inevitable time lag that may occur between when the questions are asked and the interviewee answers. Recruiters also need to ensure the technology used, the bandwidth and connections are all operational prior to the interview time.

Another development in the use of technology to conduct interviews is the video recording of interviews. This format allows the candidates to record their answers to predetermined questions for viewing by the recruiter at another date. This provides a less stressful platform for the candidate, enabling them to display their attributes and traits more effectively. It also allows the recruiters to review both the verbal and non-verbal language displayed by the candidate more comprehensively. **HRM in practice 6.10** demonstrates the way in which the global firm PwC utilises this type of interview technique.

HRM in practice 6.10

Preparing for the virtual interview

In February 2017, PricewaterhouseCoopers (PwC) started using video interviewing for their recruiting strategy in Latvia in a unique way: they used the platform to allow job candidates to record questions and answers.

Powered by HireVue, PwC decided to use recorded videos as an interviewing technique, not only to cast a wider net for applicants and to speed up their decision making process, but also to form a better idea of each applicant's personality, potential and compatibility with the corporate culture.
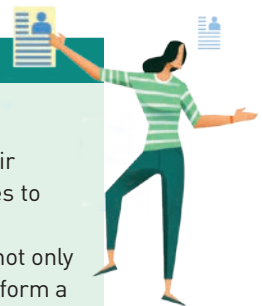
Applicants invited for virtual interview were sent a link to the platform where they were asked to record their answers to PwC's questions using a smartphone, tablet or laptop. The device needed to have camera and recording capabilities – built into any mobile device these days. PwC's recruitment team then viewed the recording and logged it into their system. This way, applicants were not restricted to a particular time or place to conduct the interview.

Source: PwC (2017), PwC job interviews at a place and time suitable for the applicant. 27 February, http://www.pwc.com/lv/en/news/PwC-job-interviews-at-a-place-and-time-suitable-for-the-applicant.html.

What is wrong with the interview?

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Considerable caution should be exercised in the selection of employment interviewers. Qualities that are desirable are: humility; an ability to think objectively; freedom from over-talkativeness, extreme opinions and biases; maturity and poise. Most important is the ability and willingness to listen to what is being said and how it is being said. Experience in associating with people from a variety of backgrounds is also desirable.

A training program should be provided on a continuing basis for employment interviewers and, at least periodically, for managers and supervisors in other departments. This is essential when assessing candidates against 'soft' or employability skills, which are more complex to assess and there is a need for appropriate and comprehensive interview questions to be developed.

Essentially, the interview is an artificial situation with the players acting out the role expected of them. Applicants for engineering jobs are rarely asked to engineer, counsellors are not asked to provide therapy and accountants are not asked to account. They just talk about it. Furthermore, those who do best at interviews may just be those who have had the most practice at interviews!

The other problem with the employment interview is that it involves human beings, who are subject to bias and subjectivity. There has been some research into the use of 'intuition' in the interview scenario, which while it may be justified by being based on years of experience and knowledge, is merely a 'gut' feeling lacking in objectivity and validity. Managers who used intuition in an interview situation further justified its use when assessing applicant potential in unique areas, particularly when 'hard' data was lacking.[17]

One has to ask why the interview remains popular, despite such findings. The most likely reason is that it is due to a belief among employers that the interview is the best way to assess the fit between the individual and the organisation.

Further and more recent research can be found at the end of this chapter.

Professional tip 6.2

Is there any hope for the interview?

A few ground rules for employment interviews that are commonly accepted and supported by research findings follow. Their apparent simplicity should not lead us to underestimate their importance.

- Establish the objectives and scope of each interview.
- Examine the purposes of the interview, and determine the areas and specific questions to be covered.
- Review job requirements, application form data, test scores and other available information before seeing the applicant.
- Establish and maintain rapport. This is accomplished by greeting the applicant pleasantly, by displaying sincere interest in the applicant and by listening carefully.
- Be an active listener. Strive to understand, comprehend and gain insight into what is only suggested or implied. A good listener's mind is alert, and one's face and posture usually reflect this fact.
- Pay attention to body language. An applicant's facial expressions, gestures, body position and movements often provide clues to that person's attitudes and feelings. Interviewers should be aware of what they are communicating non-verbally. Research has shown that up to 90 per cent of meaning is reflected through one's body language.
- Provide information as freely and honestly as possible. Answer fully, frankly and honestly the applicant's questions.
- Use questions effectively. In order to elicit a truthful answer, questions should be phrased as objectively as possible with no indication of a desired response.
- Separate facts from inferences. During the interview, record factual information. Later, record your inferences or interpretations of the facts. Compare your inferences with those of other interviewers.
- Recognise biases and stereotypes. One typical bias is for interviewers to consider strangers who have interests, experiences and backgrounds similar to their own to be more acceptable. Stereotyping involves forming generalised opinions of how people of a given gender or race appear, think, feel and act. The influence of sex role stereotyping is central to sex discrimination in employment.
- Avoid the influence of 'beautyism'. Discrimination against unattractive persons is a persistent and pervasive form of employment discrimination.
- Avoid the halo error; that is, judging an individual favourably or unfavourably on the basis of one strong point (or weak point) on which you place high value.
- Control the course of the interview. Provide the applicant with ample opportunity to talk, but maintain control of the situation so that the interview objectives may be reached.
- Standardise the types of questions asked. Avoid discrimination by asking the same questions of applicants for a particular job. Additional probing questions may be used to draw out more information or to deal with an evasive interviewee.
- Keep careful notes. Record facts, impressions and any relevant information, including what was told to the applicant.

Questioning

Choosing the types of questions to ask during an interview can be difficult. Some examples of types of interview questions are provided in **Table 6.4**.

TABLE 6.4 Types of interview questions

TYPE OF QUESTION	PURPOSE
Open	Useful in commencing the interview. These allow the applicant to do most of the talking. Aim at an 80:20 time ratio. Begin question with why, how, where, when, etc.
Closed	These are direct questions that usually result in a yes/no response. They are not a suitable choice when you want the applicant to talk. Can be used as part of a 'funnel' approach. Begin with open questions, then narrow down the applicant's response with closed questions. Can assist in keeping the interview under control. Also useful if you feel the interviewee is being deceptive.
Probing	A question or series of follow-up questions that aim to elicit further response. Can be most valuable where the applicant does not answer fully.
Hypothetical	A hypothetical situation might be presented to the applicant, followed by questions as to how he or she would respond to such a situation.
Fantasy	Of limited use, due to the impossibility of verifying answers: 'What would you do if you won Lotto next week?'
Behavioural	Based on the assumption that future performance will reflect past performance, questions can be asked that require the applicant to demonstrate, with actual examples, his or her knowledge or skills in a specific situation: 'Tell me of an incident in your present or past job where . . .'
Leading	These lead the applicant to the desired answer and as such are not recommended: 'You do not discriminate against women, do you?'
Loaded	These are generally not allowed in the courtroom and have no place in the interview room. These questions trap the applicant: 'Have you stopped malingering yet?'

closed questions
Require only a 'yes' or 'no' answer. Should be used sparingly to bring an issue to closure

Appropriate questioning

The entire subject of employment questioning is complex. There are differing and sometimes contradictory interpretations by EEO tribunals and state privacy committees about what is lawful and unlawful. There are no questions that are expressly prohibited. However, the tribunals look with disfavour on direct or indirect questions related to race, colour, religion, sex, national origin or sexual preference (see Chapter 2). Some of the questions that interviewers once felt free to ask can be potentially hazardous in modern times. As a general rule, it is not unlawful to ask certain questions, but the action that follows may well be unlawful.

Several Australian states have fair or EEO practice laws that are more restrictive than federal legislation. In general, if a question is job-relevant, is asked of everyone and does not discriminate against a certain class of applicants, it is likely to be acceptable. Particular care has to be given to questions asked of applicants about their family responsibilities. It is inappropriate, for example, to ask 'Who will take care of your children while you are at work?', 'Are you single or married?' or 'Are you considering children at this stage?' It is inappropriate to ask applicants, of either gender, questions about personal matters that have no relevance to job performance. Such questions are no longer gender-specific, as many men as well as women now take on home and child care responsibilities. Not only may employers be breaking the law by asking these questions, but their attitudes towards the answers may mean they miss out on hiring the best applicant. If these situations arise, it is important to review interviewing techniques.

Employers have found it advisable to provide those people conducting interviews with instructions on how to avoid potentially discriminating questions in their interviews. Complete guidelines may be developed from current information available from state anti–discrimination boards or the Australian Human Rights Commission. Once the individual has been hired, the information needed but not asked for in the interview may be obtained if there is a valid need for it and if it does not lead to discrimination. As an example, asking a person if they have a partner will be acceptable after appointment so that superannuation details can be recorded.

One could speculate that this result is in response to widespread criticism of the unstructured interview method as a valid selection process, together with pressure from the EEO movement to remove discriminatory practices from employee selection. Even now, after some 30 years of anti–discrimination legislation and education, stories such as that in **HRM in practice 6.11** continue to be reported.

HRM in practice 6.11

Lorna Jane receptionist job requires physical measurements

In July 2015, Lorna Jane, a popular women's active wear brand in Australia, advertised for a receptionist position with duties split between reception work and assisting the design team with fitting of new garments.

Applicants were encouraged to join the 'Lorna Jane Sisterhood' and were required to possess previous reception experience, strong communication and administrative skills. So far so good.

However, the advertisement went on to state that, 'Applicants must fit the measurements listed in order to accurately provide feedback on Lorna Jane products in a size small.' Applicants were also required to be 165 cm or more in height.

After the advertisement went live on seek.com.au, it received unfavourable media coverage, including national news headlines. The advertisement was then removed from the site.

In many states of Australia, it is unlawful to discriminate against someone on the basis of their physical appearance. It could also be argued that the body measurements required could only be met by a woman.

Source: Sullivan, R. (2015), Lorna Jane receptionist and model job ad includes physical measurements. *news.com.au*, 8 July.
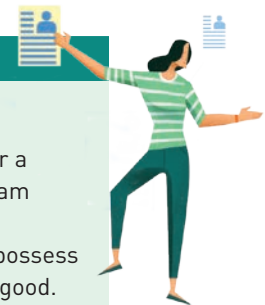
EMPLOYMENT TESTS

employment testing
A test that attempts to measure a person's ability against predetermined selection criteria. Examples are: personality tests, intelligence tests, achievement tests and aptitude tests. Reliability and validity of such tests are a concern

Employment testing can be traced to the late nineteenth century, when early management pioneer Frederick Taylor advocated the scientific selection of workers using observation and time and motion studies to test workers and work methods.

However, the key issue in testing is determining the test's validity and reliability. Tests must be able to predict to a reasonably high level of future job success. If this is not the case, the test is worthless.

Another of the HR practitioner's great challenges is successfully navigating the myriad tests now available on the market while at the same time lacking the expertise and background in psychology to make a valid evaluation of the various tests employed by consultants and test vendors. The availability of a range of psychological, psychometric and job simulation tests online further complicates decision making regarding the selection of a valid tool. Irrespective of the source of the tool being used in a selection decision, the HR staff themselves should have a basic understanding of the technical aspects of testing and the contributions that tests can make to the HR program.

artificial intelligence
The intelligence displayed by machines, robots or technology. They mimic functions ordinarily displayed by humans, such as asking questions, analysing or problem solving

With the growth in the development of **artificial intelligence**, the gamification of employment testing, via the use of virtual job testing and simulations, is on the rise. While many of these tools are quite expensive for smaller companies to justify using, larger firms like Unilever are embracing such technological advances in the field of recruitment and selection (see **The future of work 6.2** on page 242).

HR professionals must be able to define exactly what selection criteria the tests they are utilising are assessing. Using tests because they are popular is fraught with problems and makes the selection decision more difficult, rather than easier. It may also impact the job candidate's impression of the organisation, thus negatively impacting the company brand.

The nature of employment tests

An employment test is an objective and standardised measure of a sample of behaviour that is used to measure a person's abilities, aptitudes, interests or personality in relation to other individuals. The basic assumption behind such testing is that differences between individuals can be measured and related to future job success. The proper sampling of behaviour, whether it be verbal, manipulative or some other type of behaviour, is the responsibility of the test author. It is also the responsibility of the test author to develop tests that meet accepted standards of reliability.

Other considerations are cost, time, ease of administration and scoring, and the apparent relevance of the test to the individuals being tested, commonly referred to as *face validity*. Adopting a test just because it appears reasonable is likely to prove invalid, with poor correlation between test results and future performance.

Types of employment tests

Employment tests may be classified in different ways. Most of them are group tests, in contrast to individual tests, which usually require one examiner for each person being tested. Another type of test relates to the manner in which the individual responds to the test items. For example, paper and pencil tests require the examinee to respond by writing or marking answers on a booklet or answer sheets. On the other hand, performance tests or instrumental tests require the examinee to manipulate objects or equipment. Paper and pencil tests are the most commonly used, as they can be administered easily to groups as well as to individuals, with minimal cost.

Commercially available tests

In addition to the classifications mentioned above, there is a more fundamental breakdown of tests according to the characteristics that are measured. The types of tests accessible from commercial sources are openly available, showing what they are designed to measure and the types of jobs for which they may be used. The publishers of tests in these various categories provide descriptions in their catalogues that are useful when selecting tests.

HR managers may obtain sample sets of many paper and pencil tests for examination before adopting the test. These sets include a test manual, a copy of the test, an answer sheet and a scoring key. A test manual provides the essential information about the construction of the test, its recommended use, and instructions for administering, scoring and interpreting the test. Other tests are available only to registered psychologists; these tests are primarily those that purport to measure personality and intelligence.

Psychological tests

Psychological testing grew in popularity when it was used as a selection tool in recruiting soldiers during World War II. Since that time, it has continued to be refined and used as a tool in the selection and placement of staff. While **psychological tests** broadly measure personality traits and behaviours of individuals, **psychometric tests** identify both personality traits and cognitive abilities to measure organisational and job suitability.[18]

Initially, due to the cost of such test processes, they were used primarily in recruiting for professional and executive positions. However, the growth in online testing platforms has made them a more time- and cost-effective option, with many organisations now utilising some form of psychological testing in their recruitment and selection process. This is because the research indicates that specific personality traits can predict job success. For example, conscientiousness is an indicator that the job candidate will be hard working and achievement oriented, while the level of neuroticism displayed will determine the candidate's ability to cope with stress.[19]

Job knowledge tests

Some organisations develop job knowledge tests, which are a type of achievement test designed to measure a person's level of understanding about a particular job. They are used to determine

psychological tests
Attempt to objectively assess human behaviour and emotions. While historically these were in the form of paper questionnaires, such tests are now predominantly conducted via computer technology

psychometric tests
Types of psychological tests, but focus on measuring particular human attributes; for example, skills and/or knowledge, traits or abilities
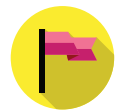
Emerging issue 8
Psychological testing

whether an applicant possesses the knowledge and understanding that permits placement on the job without further training. Some hospitals have developed such tests for nursing staff. A number of paramedical agencies have done likewise. People appointed to such positions must be able to respond accurately to test questions as they will find themselves in sudden, life-and-death work situations.

Job sample tests

Job sample tests, or work sample tests, require the examinee to perform tasks that are actually a part of the work to be performed on the job. They also have been devised for many diverse jobs: a map-reading test for traffic control officers; a coffee making test for baristas; a complex coordination test for pilots; an in-basket test for managers; a group discussion test for supervisors; or a judgement and decision-making test for administrators.

Individual managers will have to make up their own minds about the potential advantages or disadvantages of using tests. Managers must realise that the psychological test is but one of the tools available in the selection process and should be treated as such. The objective is to obtain the right fit between the organisation and the individual. If psychological testing can be shown to assist in this process then it has a valid place alongside tools such as interviewing and background checking.

The growth in the use of technology in the development of job sample tests is evidenced by the number of journal and newspaper articles discussing such use, as shown in **The future of work 6.2**.

The future of work 6.2

Unilever

Unilever, the global consumer goods giant, uses artificial intelligence to hire entry-level employees and uses neuroscience-based games to measure candidate traits.

Instead of running career fairs at universities, collecting résumés and conducting phone interviews, Unilever uses artificial intelligence to screen all candidates. Jobs are advertised using social media (Facebook or LinkedIn) and potential candidates submit their profile – not a résumé. They are then required to spend about 20 minutes playing a number of neuroscience-based games and answering preset questions, where responses are recorded. The technology analyses key words, speech and body language and makes notes on them for the hiring manager. Only then will preferred candidates be invited to participate in a 'day-in-the-life' scenario at Unilever.

This revolution in its recruitment and selection practices took effect in 68 countries, was conducted in 15 languages and involved a total of 250 000 applicants.

The benefits were clear:
- Applicants for jobs doubled.
- Unilever employed the most diverse group of candidates to date.
- Average time for hire went from four months to four weeks.

- Recruiter time spent on applications decreased by 75 per cent.
- Rate of final offers increased from 63 to 80 per cent.
- Acceptance rate increased from 64 to 82 per cent.

Source: Adapted from Feloni, R. (2017), Consumer goods giant Unilever has been hiring employees using brain games and artificial intelligence – and it's a huge success. *Business Insider Australia*, 29 June, http://www.businessinsider.com.au.

A word of caution: An employment test should never be used as a selection decision-making tool in isolation from other selection tools discussed in this chapter; that is the application and résumé, background checks and interviews. It is important that the important information from all the tools utilised is assessed as a whole, matching against the selection criteria, prior to making the decision on the successful applicant.

REACHING A SELECTION DECISION

While each step in the selection process is important, the most critical one is the decision to accept or reject applicants. Because of the cost of placing new employees on the payroll, the short probationary period in many organisations, and EEO and affirmative action considerations, the final decision must be as valid as possible. This requires systematic consideration of all the relevant information about applicants. It is common to use summary forms and checklists to ensure that all the pertinent information has been included in the evaluation of applicants. A rating form based on valid selection criteria will assist the decision-making process.

Many employers have introduced a step in the selection process for determining more carefully how well the applicant understands what the job entails. A realistic job preview, covering in detail the nature of the work, working conditions, and the desirable and undesirable aspects of the job, may be included prior to final selection by the supervisor. However, such previews of the role, including current and future challenges, should also be addressed in the position advertisement and during the interview process. In selecting candidates for an overseas assignment, a realistic job preview may actually involve the prospective employee, and where appropriate their partner, being taken on a trip to the country concerned. The ability of an employee and their family to adapt to a new culture is critical to an expatriate's success.

Summary of information about applicants

Fundamentally, an employer is interested in what an applicant can and will do. An evaluation of candidates on the basis of assembled information should focus on the two factors shown in **Figure 6.2**. The 'can do' factors include knowledge and skills, as well as the aptitude (the potential) for acquiring new knowledge and skills. The 'will do' factors include motivation, interests and other personality characteristics. Both factors are essential to successful performance on the job. The individual who has the ability ('can do'), but is not motivated to use it ('will not do'), is little better than the employee who lacks the necessary ability.

FIGURE 6.2 Employers should consider 'can do' and 'will do' factors in selecting personnel

| **'CAN DO' FACTORS**
Knowledge
Skills
Aptitudes | **×** | **'WILL DO' FACTORS**
Motivation
Interests
Personality characteristics | **=** | **JOB PERFORMANCE** |
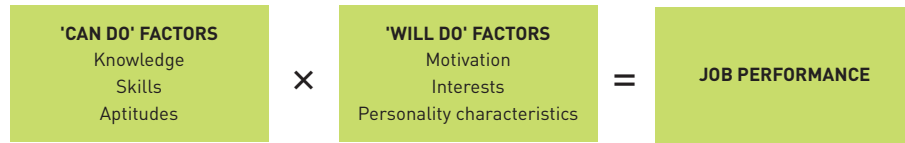
Decision strategy

The strategy used for making personnel decisions for one category of job may differ from that used for another category. For example, the strategy for selecting managerial and executive personnel will differ from that used in selecting clerical and technical personnel.

While many factors have to be considered in selection decisions, the following are some of the questions that HR and business unit staff must consider.

1   How close is the job fit; the organisation fit; the environmental fit?
2   Should the individuals be hired according to their highest potential or according to the needs of the organisation?
3   At what grade or wage level should the individual be started?
4   Should initial selection be concerned primarily with an ideal match of the employee to the job, or should potential for advancement in the organisation be considered?
5   To what extent should those who are not qualified but are 'qualifiable' be considered?
6   Should overqualified individuals be considered?

The answer to these and other questions will depend largely on the organisation's current strategies.

Those making the selection decision will then review all the data on applicants. Then, on the basis of their understanding of the job and the individuals who have been successful in that job, they make a decision. Different individuals often arrive at different decisions about an applicant as each interviewer assigns different weighting to the applicant's strengths and weaknesses. Furthermore, personal biases and stereotypes are frequently covered up by what appear to be rational bases for acceptance or rejection – hence, the need for clear, job-related selection criteria that can be assessed using one or more of the processes discussed earlier.

The final decision

In many organisations, after a preliminary interview has been performed by the HR administrators or recruitment coordinators, those applicants who appear most promising are then referred to the business units where they are interviewed by the business unit managers, often alongside the HR manager or recruitment coordinator. Because of the weight that is usually given to their choices, business managers should be trained so that their role in the selection process does not negate what should be the more informed efforts of the HR people.

Figure 6.3 shows how correct or erroneous selections can be made.

FIGURE 6.3 Correct and erroneous selection decisions
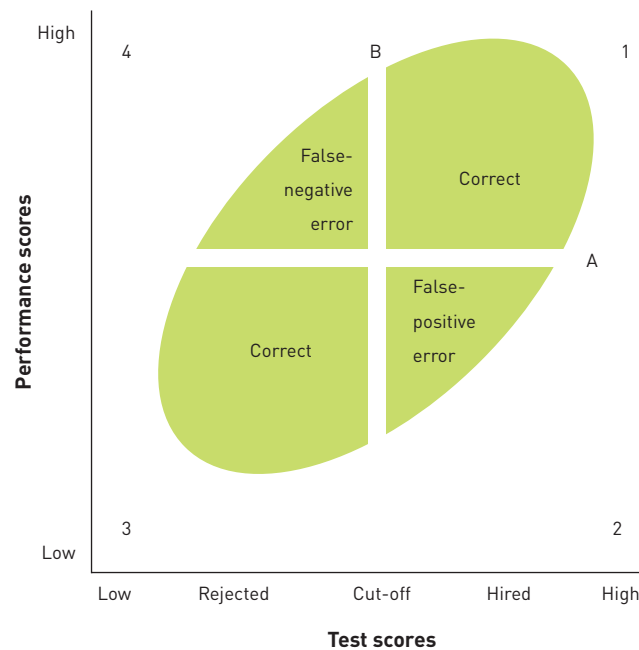
Notifying applicants of the decision and making job offers is generally the responsibility of the HR department. This department should confirm the details of the job, working arrangements, wages and so on, and specify a time limit by which the applicant must reach a decision. If, at this point, findings from the medical examination are not yet available, an offer is often made contingent upon the applicant passing the medical examination.

The costs of getting it wrong

The important consideration in costing out selection errors is to calculate not only the direct costs, but also the indirect costs. Poor decisions can incur:

1 further recruitment and selection costs
2 additional development and orientation costs
3 opportunity costs
4 loss of competitive advantage
5 damage to company brand
6 loss of employer of choice status
7 reduced internal status
8 impaired recruitment opportunity
9 threatened company viability
10 loss of other key staff.

Some of these costs may seem intangible, but when the decision relates to a senior executive, the claims seem much more realistic.

SUMMARY

Effective employment strategies require effective planning to determine the specific HR needs of the organisation when filling vacant positions. The specific outside sources and methods utilised in recruiting depend on the recruitment goals of the organisation, the conditions of the labour market and the specifications of the position to be filled. The selection process should provide as much reliable and valid information as possible about applicants so that their qualifications may be carefully matched with person specifications. The information that is obtained should be clearly job-related or predictive of success on the job and free from potential discrimination.

The legal requirements governing EEO make it mandatory that employers make a positive effort to attract and promote members of target groups so that their representation at all levels within the organisation approximates their proportionate numbers in the labour market. These efforts include recruiting not only those people who are qualified, but also those who can become qualified with reasonable training and assistance. Interviews and tests are customarily used in conjunction with application forms, background investigations, medical examinations and other sources of information. The interview is an important source of information about job applicants. Those who conduct interviews should receive special training that acquaints them with interviewing methods and EEO considerations. The training should also provide for them to become more aware of the major findings from research studies on the interview and to apply these findings. While the popularity of tests has declined since the passage of EEO laws, their value should not be overlooked. Tests are more objective than interviews, and can provide a broader sampling of behaviour. The increased use of technology, including artificial intelligence platforms and applications, in the recruitment and selection process also ensures the decision-making process is free from bias. The use of such technology has also been shown to increase efficiency as well as freeing up the time of HR practitioners to concentrate on the more important strategic organisational activities.

In the process of making decisions, all 'can do' and 'will do' factors should be assembled and weighted systematically so that the final decision can be based on a composite of the most reliable and valid information. While the clinical approach in decision making is used more than the statistical approach, it lacks the accuracy of the latter approach. Whichever approach is used, the goal is to select a greater proportion of individuals who will be successful on the job.

HR managers will need to develop new and more appropriate programs to ensure that overseas divisions of organisations are effectively staffed at both senior management and professional or technical levels. Relevant expatriate programs should include specialised recruitment, promotion, retention and repatriation schemes that are strategic, integrated, cost-effective and culturally appropriate. HR and senior managers are well advised to study the employment relations conditions and practices of countries in their trading region, and to adapt their programs accordingly.

KEY TERMS

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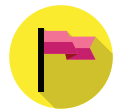
① Talent management

The term 'talent management' is more recently being used to describe the challenge of getting the right person in the right job at the right time.

a   What factors impact the organisation's ability to manage its talent effectively?

② Expatriates

The selection of expatriates will involve a greater emphasis on competencies that will be required for success in an offshore location. Specific contextual competencies will be essential.

a   What specific competencies might be required in an expatriate manager over and above those required of a domestic manager?

③ Internal talent attraction

Attracting talent from within can be very simple and cost-effective, as well as creating a positive learning and development culture.

a   Describe the key problems that recruiting internally can create for an organisation.

④ External talent attraction

Attracting talent from external sources can be the fastest and quickest way of changing an organisation's culture. It is a matter of benchmarking against the best and then attracting the right talent to be competitive.

a   What factors lead to making a decision to recruit externally?

b   Consider recommending one of your best friends for a job where you work. Think of a job currently vacant and/or being advertised. Would your friend have the required competencies? Explain your answer.

⑤ Social networking sites

Social networking sites (SNS) are emerging as one of the most used forms of communication among younger generations, and are also increasingly used for employee recruitment and selection.

a   What are the legal and ethical implications of recruiting externally using SNS?

6 Managing diversity

Today's workplace is far more diverse than ever before. Leaders must manage the pressures and opportunities associated with gender, generational, ethical and cultural issues – each group will have a different perspective and values on the role of work and life generally.

a   Describe the recruitment and selection tools that will lead to a more diverse workforce. How will these tools accomplish this?

7 Interviewing

Over 100 years of research has shown the selection interview to be flawed, yet employers persist in their efforts to make it work. Newer approaches such as behavioural and situational interviews may hold the answer.

a   Explain how behavioural and situational questioning work. In what ways might these techniques increase both the reliability and validity of the interview?

8 Psychological testing

Popular psychological tests such as MBTI, DISC and 16PF may encourage applicants to respond with what they feel is the right answer rather than the answer they actually believe to be correct. This will affect both the validity and reliability of such tests and limit their usefulness in the selection process.

a   Why are psychological tests still used in the recruitment and selection process?

ETHICAL CHALLENGE

The Facebook dilemma

Adam works in the HR department of a credit union and was preparing an interview file for each of the candidates who had progressed to the last round of selections for an intake of trainee financial advisers. He had recently heard on talkback radio that some recruiters were now searching for candidate's names online to see if there had been any mention of them in the media that might embarrass future employers.

Adam decides this is a great idea and would assist in ensuring the right fit with the company. Besides, this is an important professional role he is recruiting for and he needs to make sure the company brand remains intact. Adam opens up his own Facebook page, types in the first candidate's name and selects the one he believes to be a match based on location and occupation information listed in the profile. There are a number of links to YouTube pages and quotations. Nothing particularly offensive is listed.

Adam then goes to the photos link on the page. Scrolling through the pages he finds a photograph of the candidate at what appears to be a party with what appears to be a lit smoking implement at his lips, smiling at the camera. Adam was horrified and considered what to do. After a few minutes, he placed the candidate's application in the 'reject' pile. Pleased with his decision, Adam then starting typing the name of the next candidate into his Facebook page.

1   Did Adam break the law by searching for the candidates on Facebook? Explain your answer.
2   Are there any ethical implications for the way in which Adam sought out additional information on the candidates?

CASE STUDY 6.1

Coal India's recruitment binge

The global economy has created a complex and dynamic environment in which organisations must learn to compete effectively in order to achieve sustainable growth. The global environment has not only changed the way business is conducted, but has also created the need for organisations to manage their talent within the global context.

India has its challenges: it will increase its working age population by an additional 200 million, and it is estimated that 70 per cent of Indians will be of working age by 2025. However, this could easily become a disaster if the substantial government initiatives aimed at enhancing the employability of these workers do not succeed. One major challenge for India is the currently limited employment options for its massive cohort of unskilled contract workers. India also has a problem with only a quarter of university graduates being considered, by industry, to be suitable for employment.

Coal India may be set to change these trends. The state-run mining company has decided to hire 4500 fresh graduates and 40000 labourers over the next three years. At the same time, the company estimates that around 45000 employees are set to retire over the next three years. About 15000 have been retiring each year for the past few years and the trend is expected to continue.

By the end of 2018, each of these employees who is retiring would have accumulated approximately 42 years of service.

The single largest cost to Coal India is wages and salaries. A few years ago, they represented 44 per cent of all costs, but with recent wage increases, this has now increased to 50 per cent.

The vast majority of staff within the company have been coal filers and coal cutters with no formal education. In fact, anyone who had their name registered with a private mining firm before nationalisation automatically became an employee of Coal India without any qualification or age certificate.

Source: Adapted from Sengupta, D. (2016), Coal India to hire 4,500 fresh graduates from IITs and NITs in the next three years. *The Economic Times*, New Delhi, 8 August.

Questions

1. What are the recruitment and selection challenges for Coal India presented in this case study?
2. What recruitment and selection strategies should be implemented by Coal India to successfully employ the large number of employees needed?

CASE STUDY 6.2

The creative spark

Imagine a future where it's possible to objectively measure whether an individual possesses some of the key traits associated with innovation – creativity, intuition, imagination and adaptability.

Joel Pearson, professor of cognitive neuroscience at the University of NSW and founder of the Science of Innovation Lab, says this future is not so far away. 'It's not here yet, but we're seeing developments in cognitive psychology and applied neuroscience which will completely revolutionise the way people are matched to jobs,' says Pearson.

Historically, things like imagination and creativity have been too difficult to measure objectively, and questionnaires based on candidates' subjective opinions of themselves have had to do. The problem, as Pearson notes, is that most smart people can figure out what is being asked of them and will then tailor their answers accordingly.

Instead, Pearson uses technology such as encephalogram (EEG) tests to track brain wave patterns to measure innovation potential. For example, a candidate may be asked to imagine the colour green and have their brain response measured. Apparently, someone who has a stronger imagination will see a stronger green.

This type of research may also assist in isolating behavioural markers that are highly predictive of innovation potential. The five identifiers are: results seeker, customer empathiser, idea integrator, influencer and risk taker. From a recruitment and selection point of view, this means HR professionals will be able to use tools that will assess the markers they want, rather than the current focus on technical expertise. This will also have a positive impact on organisational culture and performance.

Source: Adapted from Schmidt, L. (2018), The creative spark. *Human Resource Monthly*, 39, Dec/Jan, pp. 16–20.

Questions

1   What are the key talent attraction and selection benefits presented by this case study?
2   What are the limitations and disadvantages?
3   Would there be training requirements for those delivering the test?

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Talent retention and development

The objective of a strategy of human resource development is to build the skills and knowledge required for economic, social, cultural and political growth and to provide avenues of participation in the creation of a better society for all who seek them.

Harbison, F. and Myers, C. A. (1964), *Education, manpower and economic growth.*
New York: McGraw-Hill, p. 15.

By 2030, automation, globalisation and flexibility will change what we do in every job. We urgently need to prepare young people with the work smart skills they will need the most.

Foundation for Young Australians (2017), *The new work smarts.*
Thriving in the new work order, p. 3.

OBJECTIVES

After reading this chapter, you will be able to:

1 demonstrate an understanding of the challenges of supply and demand in the workforce

2 recognise the importance of the retention of key people

3 describe the reasons for induction and orientation procedures and processes

4 identify the nature and scope of organisational learning and development programs, and describe the systems approach to learning and development

5 explain the challenges for the future development of human capital

6 describe the methods used for identifying and developing management and leadership talent

7 identify and analyse career management strategies

8 explain the factors that should be considered in strategically choosing and developing a career

9 critically analyse the relationship between ethics and human resource development.

Emerging issues

1 The challenges of supply and demand
2 Talent retention
3 Induction follow-up and evaluation
4 A systems approach
5 Mentoring
6 Technology-based learning
7 Talent management
8 Ethics

INTRODUCTION

The processes of attracting and selecting human resources are only the initial stages in building an effective workforce. Once employed, the critical challenge is how to retain them. All employees, whether they hold leadership, team management, professional, technical or unskilled roles within the company, require continual learning and development if their potential is to be utilised effectively. The development of human resources should commence from the time employees enter the organisation with their induction and orientation, and continue throughout their employment and career with the organisation. This is the essence of strategic human resource management (SHRM), as human resource development is the foundation for building human capital.

Organisations must continually invest in the learning and development of their staff in order to remain viable and competitive in a fast-paced, global business environment. In recent times, there has been a great deal written about the concepts of knowledge management, intellectual capital, emotional intelligence, the psychological contract, and the role of electronic and virtual technologies as a training medium. Increasingly, lifelong (or continuous) learning has become vital to the success of modern organisations, as rapidly changing technology and global environments require employees to demonstrate the capabilities necessary to cope with new environmental impacts, processes and production techniques. The growth of organisations into large, complex operations whose structures are continually changing makes it necessary for managers, as well as employees, to be prepared for new and more demanding assignments. As organisational strategies are renewed, human resources must also be renewed. Recent research suggests that the learning and development of employees has to be more strategic and flexible than ever before, due to the need to adapt to environmental uncertainties.[1] In addition, there has been a distinct trend for organisations to take a broader view of human resources by creating career development and career succession programs. Such programs involve attempts to develop an employee's career in a way that will benefit both the organisation and the individual. Career development programs have moved away from the traditional 'climbing the ladder' vertical process, to one in which multiple career pathways for advancement and development exist, both vertically and horizontally, among a range of jobs within an organisation.[2] Career succession programs facilitate the development of staff for future promotional opportunities as well as identifying those who are the key valuable resources. Special attention is given to these programs at the end of this chapter. Initially, our emphasis is on such processes as the induction and orientation of employees, the design and evaluation of learning and development programs, and the application of learning theory. A major dilemma for organisations will be to what extent they expend resources on learning, development and career management programs while accepting the contemporary reality of mobile, short-term and casual employees.

lifelong (or continuous) learning
The concept that learning should be a constant and ongoing experience at any stage of (employee and organisational) life

Some initial definitions

Many terms are used to describe the strategies and activities undertaken within organisations to add value to their employees' capabilities, in order for them to contribute more effectively to overall organisational goals and imperatives. These include the broad umbrella term, human resource development (HRD), which encompasses all such activities and provides a conscious alignment between an organisation's business and human resource management (HRM) strategies and plans: training, learning, development and education, among others.

HRD can be defined as 'a set of systematic and planned activities designed by an organisation to provide its members with the opportunities to learn necessary skills to meet current and future job demands'.[3] This definition encapsulates the strategic purpose of HRD as the integration of all learning and development activities for both organisational and employee benefit.

Training is a more specific term used to describe generally short-term formal and semi-formal methods of transferring basic knowledge and skills to employees. Employees may be trained to operate machinery, to understand the implications of new legal or administrative procedures and processes, or to use particular computer software.

Development, on the other hand, is usually a longer-term process focused on the acquisition of more complex and deeper competencies, which may involve both formal training programs and on-the-job practical experience, mentoring and coaching. Employees may be developed into supervisors or managers by means of a structured series of on- and off-the-job activities, or cross-cultural skills may be developed through initial classroom training, supplemented with overseas assignments and mentoring from more experienced colleagues.

Learning is an ongoing process that applies to entire organisations (learning organisations) and their employees, and usually requires positive attitudes towards change complemented with structured learning programs.

Traditionally, *education* referred to formal courses provided in primary, secondary and tertiary institutions, but the term has now come to encompass any broad learning systems that encourage the acquisition of conceptual, analytical and evaluative competencies within or outside organisations. Some organisations encourage or sponsor their potential leaders to undertake university degrees, in order to nurture their innovative and creative talents, for future benefit. As mentioned earlier, career development and career succession programs facilitate the identification of these potential leaders in the organisation.

In this chapter, our focus is primarily on the learning and development components of HRD, as these are the most common characteristics of contemporary organisational development. We begin with a discussion on the challenges of supply and demand, the importance of retaining an organisation's human resources, and how they impact on employee learning and development. We then discuss employee induction and orientation (sometimes called 'socialisation' or 'onboarding'), as this is the crucial foundation upon which all subsequent HRD activities are built.

learning organisations
Organisations that value and proactively facilitate employee learning and development; they are then in a position to respond to internal and external environmental changes more readily by having in place the human capital required to respond to such change

THE CHALLENGES OF SUPPLY AND DEMAND

As outlined in Chapters 2 and 3, the context for HRM in Australia is increasingly complex and demanding. Over the past decade, we have seen the impact of a reduced supply of skilled labour in Australian organisations, particularly in the mineral and resource, small business and public sectors. The global competition for skilled labour has been fierce, with world governments relaxing visa restrictions to allow for the movement of labour into countries and industries in need, particularly in the engineering, mining, education, health, scientific and medical fields. The need for labour mobility, particularly in areas of skill deficit, has also been recognised across the Asian region, with the Association of Southeast Asian Nations (ASEAN) Economic Community (AEC) being formed in 2015 to facilitate talent mobility across countries in ASEAN. While the AEC will alleviate skill shortages across the region, it will increase competition for skilled employees.

The future of work will create supply and demand issues for organisations globally, and also poses a challenge for learning and development. Future demand will be for more non-cognitive skills and abilities, with a focus on the 'soft' or 'employability' skills. These skills include emotional intelligence, critical thinking, adaptability, teamwork, creativity and problem solving. The challenge for organisations is to provide the appropriate learning and development tools to develop and enhance this complex set of skills.

This crisis for labour supply also means that high on the agenda is the need to 'grow our own' and provide our workforce with the necessary skills and training to fill jobs now and in the future. Many businesses have realised that with limited labour available outside the organisation, the best option is to focus inward and to develop their own human resources – for current and future jobs. While this has often been mooted by HR practitioners and academics alike as a strategic and necessary approach, many organisations have tended to focus more on immediate training needs rather than on long-term development strategies.

Another more recent challenge for many countries has been economic volatility, where staff lay-offs and recruitment freezes have become part of the short-term HR planning landscape – more so for small businesses – in order to help them to survive. Such scenarios also provide challenges for the skill enhancement of labour. During periods of recession and economic hardship, organisations need to focus on ensuring their human resources are equipped with the necessary skills to perform their jobs and to be as productive as possible. After all, human capital is the most significant cost to an organisation and has a major impact on a company's ability to survive, thrive or go bust!

It is also vital that learning and development strategies and action plans are applied to all employees in the organisation. Globally, organisations are adopting a range of flexible employment mechanisms, including the casualisation of labour and the use of short-term migrant visa employees. Increasingly, employment contracts are either part-time,

fixed-term or casual in nature. These employees are still vital to the organisation and incur significant costs. It is vital that casual, fixed-term and part-time contract employees are equipped with the necessary skills to perform their roles. In addition, they need to be incorporated into organisational succession plans and provided with career development strategies where possible.

These challenges for staff skill enhancement and development – in either booming or recessionary economies – will continue to be part of the global landscape. Even during periods of economic constraint, there will be occupations experiencing supply shortages, further emphasising the need for ongoing learning and development. Occupations in teaching, nursing, medicine and the resource sector are constantly represented in the media in relation to ongoing labour shortages.

The Australian Human Resources Institute's (AHRI) Model of Excellence has *organisational capability* sitting at the very core. Such capability is demonstrated in the organisation's employees possessing the required skill sets in order to meet strategic missions and goals. As can be seen in **Figure 1.2** (see page 29 in Chapter 1), the model sets out 10 behaviours and seven capabilities that are considered to be essential for HR practitioners to work within their organisations to ensure a globally competitive and responsive workforce.

Professional tip 7.1

Key HR roles and competencies

The AHRI Model of Excellence (MoE) suggests that the key roles of HR professionals with respect to talent retention and development are to be an *expert practitioner* and *business driven*. Associated competencies include *credible*, *future oriented*, *critical and enquiring thinker* and *resolver of issues*, although some of the other competencies are also relevant.

TALENT RETENTION

With the increasingly competitive global market, along with high levels of employee mobility, talent retention has become one of the most pressing issues facing organisations today. The costs of any learning and development investment cannot be sustained when employee turnover is high or when employees leave an organisation within the first 12 months, at a time when the learning investment is often significant.

This is particularly true when attempting to attract and retain a generational mix among employees, from Baby Boomers to Gen Y. As highlighted in **Table 7.1**, the work values, expectations, training and leadership styles of each generation are quite different, providing challenges for an organisation's HR practitioners and managers alike.

talent retention
A critical HR strategy to retain the required skilled employees within the organisation. This retention is important for not only keeping employee costs down, but also for ensuring the organisation is equipped to deal with current and future challenges

TABLE 7.1 Work characteristics across generations

	BABY BOOMERS (BORN 1946–64)	GEN X (BORN 1965–79)	GEN Y (BORN 1980–94)
Values at work	Work ethic Industry focus	Achievement Company centric	Ownership Individuality
Motivations for work	Financial security Responsibility	Career progression Opportunity	Job variety Creativity
Influences over career choice	Parents Authorities	Careers advisers Experts	Internet Peer groups
Shapers of career perception and views	Tradition Reputation	Observation Recommendation	Perception Experience
Key management tools	Recruiting Supervising	Training Promoting	Innovating Empowering
Key communication tools	Technical data Evidence	Visual examples Demonstration	Participation Hands-on learning
Typical training style	Formal Monologue	Programmed Dialogue	Interactive Multi-modal
Typical leadership style	Control Thinkers	Doers Coordination	Consensus Feelers
Influencers and values	Local Long-term needs	Regional Medium-term goals	Global Short-term wants
Management approach	Telling 'Yes boss'	Selling 'What's in it for me?'	Involving 'Here's what I think'

Source: *Bridging the gap: An employer's guide to managing and retaining the new generation of employees*, by Mark McCrindle. Reproduced with permission of McCrindle Research.

What are the retention levers?

Emerging issue 2
Talent retention

There are numerous strategies that employers can use to retain their key people, but possibly the most effective is to simply sit down to a one-on-one session with them and ask what it will take to keep them. Given the costs, both direct and indirect, of first losing and then replacing key staff, this concept seems all too simple, but it is also a far better approach than conducting the traditional exit interview after the employee has decided to leave!

Another concept that may well lead to an employee's intention to stay is the perception and expectation they have of the job and of the organisation. This perception of the beliefs held by the individual and the organisation, and the exchange relationship that exists between them, can be referred to as the psychological contract (see Chapters 1 and 2). These may be quite different from the conditions set out in the legal contract of employment signed prior to

taking up a job. Where there is disparity between the two belief systems, or a breakdown of the exchange relationship, an employee's intention to stay will, in many cases at least, be affected.

It is critical that employers understand the key factors leading to increased employee retention. **International perspective 7.1** provides an insight into what makes employees stay in India.

International perspective 7.1

What makes Indian employees stay?

A recent study in the Asia Pacific region has shown just how important intrinsic factors are to the retention of employees. The study surveyed over a million employees from various companies across the region and found the following were key to keeping valued employees:

1   recognising good work
2   encouraging suggestions from staff
3   management credibility
4   trust
5   respectful treatment of employees.

The survey covered large multinational as well as small to medium workplaces. The workplaces were also across a range of industries, from information technology and financial management to education and training.

Clearly, trust, respect and recognition are important no matter where one works.

Source: Adapted from Brinda, D. (2016), Respect key element in employee retention: Survey. *The Economic Times*, New Delhi, 9 March.

There are also future challenges associated with the retention of the next cohort to enter the workforce: Gen Z. In an Australian study into the career aspirations and expectations of young people, Coffey found support for a strong linkage between intrinsic factors and the choice and sustainability of a career. Factors impacting on career retention were job satisfaction, passion for the work performed and feedback on performance. It was also found that young people are more likely to change their careers to achieve a better work–life balance, which challenges employers to ensure that the significant investment they make in their young employees is returned.[4]

Those organisations that wish to be known as employers of choice and establish a positive brand will need to take a hard look at these findings or miss out on the best and brightest new talent. A flexible and agile recruitment and retention program is essential if organisations are to engage the key talent they need to sustain their competitive advantage.

INDUCTION AND ORIENTATION

The first step in the development process is to make sure new employees are given a good start. Induction is defined as the formal process of familiarising (or 'orienting') new employees with the organisation, their job and the work unit. The first few weeks are critical and provide the

new employee with an overall picture of the organisation and an idea of whether they will fit into its culture and systems. Induction should provide new employees with an understanding of how their job performance contributes to the success of the organisation and how the services or products of the organisation can contribute to society. Well-designed induction programs help in the reduction of anxiety in new employees, and can lead to the early development of positive attitudes, job satisfaction and long-term commitment to organisations. **Figure 7.1** demonstrates the linkages, as well as the progressive implementation, of induction, training and development programs with the human resource strategy for the organisation.

FIGURE 7.1 SHRM model of learning and employee development
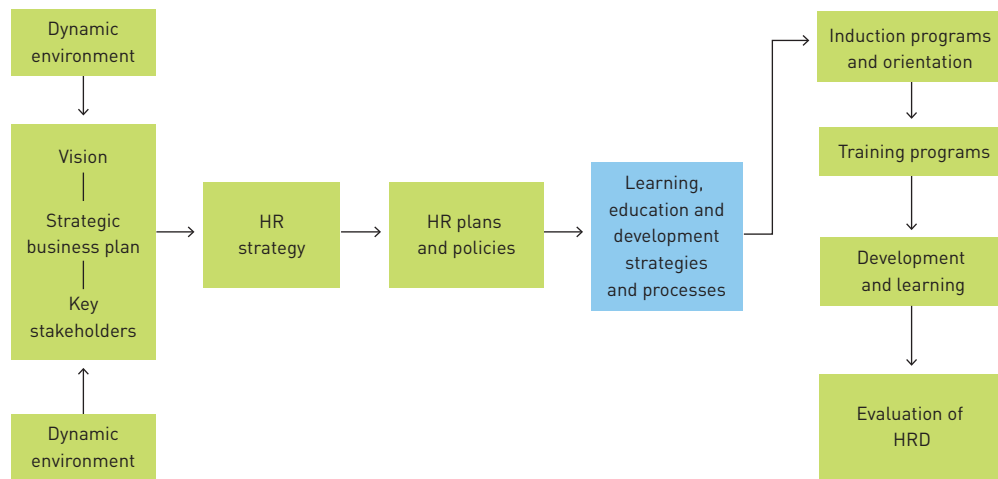
Induction provides the means by which new employees become 'socialised' to their organisations, and through which they acquire the knowledge, skills, attitudes and values that make them successful organisational members.

Reasons for induction

In some organisations, a formal employee induction program is almost nonexistent or, when conducted, is performed in a haphazard manner. Often, once the new employee is appointed, an employer will think the 'work' is done and fails to invest further in the induction process. This is unfortunate, since there are a number of very practical and cost-effective implications for conducting a well-run program. Some of the benefits include:
- increased employee retention
- enhanced productivity
- positive employee morale
- lower recruiting and training costs

- the facilitation of subsequent learning
- a reduction in the new employee's anxiety.

Therefore, the more time and effort spent in helping new employees feel welcome, the more likely it is that they will become loyal and better-adjusted employees. It also means they are more likely to be work-ready and productive sooner. Of course, there can never be any guarantee that this will be the case; however, the input of this time and effort does reap its rewards. An effective induction program should be characterised by a continuous process, a cooperative endeavour, careful planning, and a follow-up and evaluation. This reflects a strategic 'investment' in an organisation's HR.

Continuous process

Organisations are faced with ever-changing conditions, so their plans, policies and procedures must change with these conditions. Unless current employees are kept up to date on these changes, they may find themselves embarrassingly unaware of activities about which new employees are being advised. While the discussion that follows focuses primarily on the needs of new employees, it is important that all employees are continually informed about changing conditions and that all efforts are directly focused on the vision, mission and imperatives of the organisation.

Induction is an ongoing endeavour – it is more than information provided on the first day, or in the first week or month of a new job. It needs commitment by the new employee, the manager and the team of employees within the work area. Often there is too much haste to get the induction 'over and done with' so that the employee can 'get on with the job'. However, it is important that the new employee is equipped with all the competencies and behaviours necessary to do the job effectively and, more importantly, that they be made to feel as if they are a valued asset to the company in whom the managers are willing to invest time, effort and energy.

Cooperative endeavour

Cooperation between the HR team and the various business managers is essential in achieving a well-integrated induction program. The HR professional or HR team is usually responsible for coordinating induction activities and for providing new employees with information about organisational directions, conditions of employment, pay, benefits and other areas that are not directly under a manager's direction. However, the manager has the most important role in the induction program. The new employee is primarily interested in what the manager says and does and what their co-workers and peers are like. Before the arrival of the new employee, it is desirable for the manager to inform the work group that a new member is joining the work team. It is also recommended that a brief background on the person is provided so that the

work team has an idea of who is joining them. This may also reduce the team's own sense of apprehension about the new staff member.

The importance of the manager in the induction process cannot be over-emphasised. Since induction practices will have lasting effects on employee job performance, the manager plays a key role in reducing the 'first-day jitters' of employees while channelling their enthusiasm into productive activities. Managers should consider the orientation of all employees (new and old) to be one of their primary job responsibilities. It is also important to involve any appropriate team leaders or supervisors in the process. Essentially, whomever the new employee is reporting to should be an essential partner in the induction process.

Professional tip 7.2

Use a checklist

To avoid overlooking items that are important to employees, many organisations devise checklists for use by those responsible for conducting some phase of induction. The use of a checklist compels the manager and the HR manager to pay more attention to each new employee at a time when personal attentiveness is critical to building a long-term relationship. However, as mentioned earlier, it is important that the checklist does not become the only element, or the focus, of the induction program. The checklist is a helpful tool to assist in ensuring that all items are covered and to keep the induction focused.

The key to successful induction is to plan and organise the induction in advance as well as ensure staff are trained in the importance of staff induction and how to conduct the program.

Those who plan induction programs often expect new employees to immediately familiarise themselves with all types of detailed and assorted facts about the organisation. However, while there are many things that a new employee should know, most of them can be learnt over a period of time and in a series of meetings. It is customary to initially provide information about matters of immediate concern, and then to ensure that a structured program follows, conducted over days or weeks.

New employees should have a clear understanding of the job, organisational requirements and any other important matters. The initial emphasis should be on the one-to-one or team relationship necessary to give a new person a sense of belonging. During this initial period, the new employee is provided with a significant amount of information in order for them to understand their role and the organisation. Many Australian firms now have this information readily available on their intranet system. Induction sessions should be supplemented with a kit of materials that new employees can read at their leisure. The induction program does not have to be based on endless supplies of policies and checklists. It can also be interactive and exciting, making use of digital technology. For example, Bajaj Finserv, voted as one of the best companies to work for in India, uses a gaming induction program, based on Formula One racing, to teach new employees about the organisation.[5]

A further example of how technology can be used to enhance the induction program is illustrated in **HRM in practice 7.1**.

HRM in practice 7.1

Gamified induction

SightLife is not your normal 'run of the mill' organisation. It is an eye bank working to eliminate corneal blindness worldwide by 2040. Its previous, traditional orientation program was considered by some managers to be like a firehouse, because it flooded new staff with extensive, complex information. After researching game design principles, the company's Learning & Development team began redesigning the new employee orientation.

First, new employees are exposed to a three-minute video overview of the company and its departments. This is then followed by a series of challenges based on actual tasks that are performed. In line with SightLife's core business, the game scores results with 'corneas' that participants earn for completing the challenges. Players then use their winnings to make decisions on how to strategically eliminate corneal blindness worldwide, linking the game to the company's mission.

Apart from being fun and engaging, this new approach to induction has saved the company a combined 1300 hours a year away from its work. It has also improved each new employees' knowledge about the company operations overall.

Source: Adapted from Game-based orientation, ATD Staff, TD Magazine, 71(6), 2017; Republished with permission of American Society for Training and Development; permission conveyed through Copyright Clearance Center, Inc.
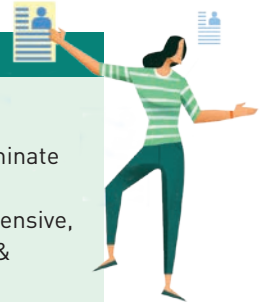
In addition to the induction program, many organisations conduct a longer orientation program for all employees who have been with them for three to six months. This is an opportunity for management to ensure that all new employees have been inducted effectively and, a short time later, given the opportunity to sit with their peers and hear from a number of key employees within the organisation. Clearly, this is becoming a trend – employers realise the value of skilled employees as well as the cost associated with early leavers.

Reduce employee anxiety

The planning of an induction program should take into account the anxiety that employees feel on their first day on the job. Time spent at the beginning of an induction period to reduce the anxiety level of the new employee will result in greater productivity and reduced HR costs. When a checklist approach is used, it is helpful to divide the checklist into logical sections. Each section should include the name of the person responsible for covering that topic.

A possible problem with allowing employees to be inducted by their peers is the perpetuation of codes of conduct (e.g. use of the internet, timing of work breaks, dress codes) that do not conform to the organisation's policies. It is important that the peers or buddy providing this initial induction reflect the correct policies of the organisation.
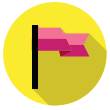
Follow-up and evaluation

Induction follow-up and evaluation

The manager should consult with the new employee after the first day and frequently throughout the first week on the job. When all the items on the induction checklist for the employee have been completed, both the supervisor and the employee should sign it. This record should then be placed in the employee's personnel file. After the employee has been on the job for a month, and again at the end of a year, a HR staff member should follow up to determine the current effectiveness of the induction. Evaluations can then be conducted through in-depth interviews, unsigned questionnaires and surveys, and discussion groups. It is also vital to evaluate the induction and orientation program to ensure continuous improvement.

LEARNING AND DEVELOPMENT PROGRAMS

Many new employees will commence their jobs with a number of the required competencies, skills and attributes. However, others may require extensive training and development before they are ready to make a significant contribution to the organisation. In addition, many employees will at some time require training, learning or development in order to maintain an effective level of job performance, particularly when jobs evolve or change over a period of time. While this may be accomplished on an informal basis, better results are usually attained through a well-organised, formal training program or a comprehensive on-the-job development program.

As discussed earlier, training may be defined as a procedure initiated by an organisation to foster skill or knowledge development among organisational members. The primary purpose of such programs is to help achieve the overall organisational objectives. At the same time, effective training, learning or development programs must demonstrably contribute to the satisfaction of the employee's personal goals.

Scope of training programs

KSAs
The knowledge, skills and abilities required for effective performance

The primary purpose of training at the beginning of an individual's employment is to bring up to a satisfactory level the knowledge, skills and abilities (commonly referred to as KSAs) required for effective performance. As the individual continues on the job, training, learning and development provide opportunities to acquire new knowledge, skills and competencies. As a result, the individual may then be more effective on the job and may qualify for jobs at a higher level.

Workplace changes – including organisational restructuring, new workplace agreements and technological innovation – have had significant impacts on the requirements for training, learning and development programs. They recognise that:
- many jobs will be changed or enlarged, thereby requiring additional skills and knowledge
- other jobs will require a narrower range of skills and become highly specialised
- many jobs will be replaced entirely by newly created jobs.

A key element of all such programs will be the need to develop a capacity for ongoing change and especially knowledge management, much of which will flow from forces in the external environment. These forces are likely to increase as competition – both global and domestic – accelerates the need to update and modernise an organisation's operations. In addition, the challenges presented by the expectations of younger workers (Gen Y), either at entry-level or in **graduate programs**, place a greater emphasis on ensuring learning and development programs are planned, ready and relevant. Gen Y employees typically look for accelerated progression/promotional opportunities and training that clearly link to their individual output.

graduate programs
Entry-level job opportunities for university graduates. These programs are often for a fixed term and many such positions articulate directly into other positions within the employing organisation

A systems approach to HRD

Since the primary goals of HRD are to contribute to the organisation's overall imperatives, as well as to employees' career aims, such programs should be developed systematically. Too often one concept becomes the main focus of a program, or the objectives may not be clear.

A recommended approach is the systems approach, which emphasises:

- HRD needs analysis (assessment)
- formulating instructional objectives
- developing learning experiences to achieve these objectives
- developing comprehensive instructional/session plans ensuring learning outcomes are met
- obtaining evaluative information to measure learning acquisition and effectiveness.

Emerging issue 4
A systems approach

Needs analysis

All business managers and HR professionals should be alert for indicators of HRD and performance needs. The failure of employees to achieve production or sales standards, for example, may indicate training requirements. Excessive turnover in a business unit may reflect a need for management/supervisory training in interpersonal relations; a review of competency requirements for changed/changing jobs (as discussed in Chapter 5); or the need for a cultural or attitude survey conducted with employees. Whether the organisation has its own internal professionals or uses the services of external consultants, there is a danger that the HRD conducted will reflect the instructor's preconceptions of the job, which may not be accurate.

In order to approach learning and development needs more systematically, three different analyses are recommended for the assessment phase: organisational analysis, task analysis and person analysis.

Organisational analysis

An examination of the goals, resources and environment of the organisation to determine where HRD emphasis should be placed is called *organisational analysis*. The resources that are available to meet objectives, such as equipment, financial and HR, must also be considered. Of particular importance in the organisational analysis is studying the impact of the organisational

strategic plan on such activities. Typically, there are more HRD needs in organisations than there is budgetary capability. To avoid priorities for such decisions being made on an ad hoc basis, they can be set according to the degree to which the needs identified are consistent with the organisational strategic direction. As with other HRM activities, it is most important that the HRD function is integrated with the organisation's strategic plan. **HRM in practice 7.2** provides an example of strategically aligned training and development.

HRM in practice 7.2

The 'only at Deloitte' learning experience

Deloitte Australia demonstrates its commitment to learning and development through having an individual focused strategy that is aligned to its corporate culture and mission.

Deloitte explains its strategy and commitment as: 'A focus on helping individuals build the right capabilities to execute against our strategy. We do this by aligning the right learning experiences (both technical and non-technical) and formal development opportunities from graduate through to partner, providing learning solutions accessible anytime, anywhere on multiple levels'.

This includes the provision of 24/7 access to digital learning focused on sales, client advocacy, industry awareness, leadership and people management. This is further supported by technical curriculum aligned to each individual's area of specialisation.

These initiatives have been designed to address the challenges and opportunities the employee will face at higher levels of responsibility in the organisation and are therefore designed to accelerate the potential for the individual to succeed in roles requiring next-level critical thinking, confidence and drive to succeed, despite complexity, ambiguity or competing demands.

Directors and line managers are also supported to build national networks with mentors and peer groups to support action learning on issues of strategic relevance.

This approach ensures that learning is not only relevant to the individuals but also to the strategic goals of the company.

Source: Adapted from https://www2.deloitte.com.

HRM policies and the organisational climate have an impact on the goals and methods of the learning and development program. Similarly, external factors – such as public policy as reflected in laws, regulations and court decisions – have important implications for such programs in determining where the emphasis will be placed. In their HR planning activities, organisations typically collect information, such as direct and indirect labour costs, quality of goods or services, absenteeism, turnover and accidents, for use in the analytical process (see Chapter 12). Availability of potential replacements (see Chapter 6) and the time required for training them are also important factors when analysing organisational needs.

Task analysis

Organisational analysis utilises a macro perspective on the learning and development needs analysis. *Task analysis* is the micro perspective. Designing a specific learning and development program requires a review of the job description in which the activities performed on the job, and the conditions under which they are performed, are indicated. This review is followed by a task analysis that involves determining the content of the program based on a study of the duties involved in the job.

The first step in the task analysis is to list all the tasks or duties that are included in the job. The second is to list the steps involved in performing each of the tasks on the list. Once a thorough understanding of the job has been obtained, the type of performance (i.e. speech, recall or manipulation), along with the skills and knowledge necessary for job performance, can be defined. Often the best and most efficient way of determining the skills and knowledge necessary is by reviewing the position description with the employee, either in a dedicated discussion or as part of the performance management process. With this information, the selection of program content and learning methods is facilitated.

Person analysis

The third step in the process is *person analysis*, used to identify 'gaps' between the level of required skills and knowledge for the position as identified in the task analysis, and those already possessed by the person. This is represented in **Figure 7.2**. Assistance in identifying these gaps (i.e. learning or development needs) can also be provided by information recorded during the recruitment and selection system at the time of initial appointment and, later, from data gathered during the performance review process. The needs identified can then be incorporated into training provided to the employee to increase their job proficiency.

FIGURE 7.2 The performance gap
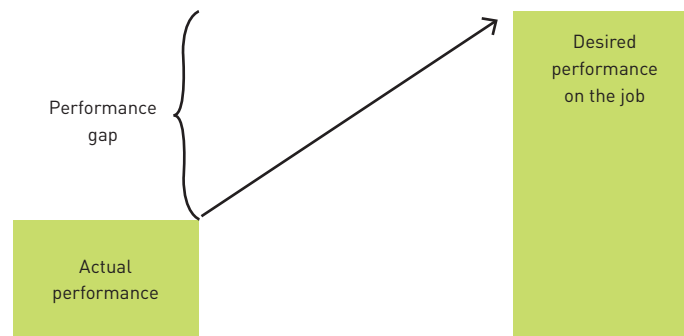
Source: Originally based on an illustration from Tovey, M. (2007). Training in Australia, 3rd edn, Melbourne: Pearson Education Australia, p. 107.

The organisational, task and personal training needs can all be identified by a well-designed and conducted **training needs analysis (TNA)**. Most TNAs are characterised by the following four steps:

1   Identify the KSAs the organisation needs to succeed.
2   Conduct a skills inventory, or skills audit, of employees. This is usually undertaken with the use of a survey to identify current and desired KSAs.
3   Review current, approved job descriptions and job specifications to determine expected outcomes of positions.
4   Document the desired performance required by line managers.

This process will highlight any gaps between the organisational needs, task or job needs and what the employee currently possesses. It will also identify career development needs through the analysis of desired KSAs, identified by both the line managers and employees. Learning and development plans can then be developed, prioritising the most immediate employee–job/task gaps.

training needs analysis (TNA)
A process by which the gap between the skills and/or competencies required for the job and those possessed by the employee are identified

Professional tip 7.3

Needs analysis

Conducting a needs assessment or analysis need not be an arduous or costly stand-alone process. By including learning and development needs and goals in performance appraisals, an organisation can simply use the information included here to develop the needs analysis and learning and development plan. This is then reviewed annually along with the performance appraisal.

Program objectives

After all the analyses have been made, a learning and development program can be developed. The desired outcomes of such programs should then be stated formally in behavioural–based objectives that map back to the job and organisational requirements. These should be articulated in the position description and person specifications (see Chapter 5) in outcomes statements and/or key performance indicators (KPIs).

The delivery phase

Once the learning and development needs have been determined and the program objectives specified, the next step is to develop the type of environment necessary for achieving these objectives. This includes preparing the accompanying instructional/session plans and resources as well as selecting an appropriate delivery environment or venue. These plans are a vital step in ensuring that the learning and development program meets the learning objectives, utilises the appropriate processes to deliver the learning, lists the resources to be used and establishes a

timeline for each program component. Not only is it an important checklist for the instructor or trainer, but it also provides a comprehensive overview of the program for the organisation and/or learners. Often these instructional plans form part of the accompanying documentation utilised by consultant trainers in their bid for work.

Evaluation phase

HRD, like any other HR function, should be evaluated to determine its effectiveness (see Chapter 12). Unfortunately, information about the achievement of objectives and the most effective methods to reach them are obtained in only a few instances, and often anecdotally rather than by a comprehensive assessment of improvements in performance.

While efforts at evaluation are evolving, too many decisions about HRD effectiveness are based on employee feedback regarding the course or training attended. Subjective comments from employees are often 'glowing' and are easily gathered, but this information may not be very useful to the organisation because learning and development is not provided simply for its entertainment value. The real issue is whether the knowledge gained through HRD will be reflected in an assessment of improved job performance or job outputs or, in other words, whether there has been knowledge transfer. It is vital that employees are provided with the opportunity to implement and practise the new skills or competencies upon returning to the workplace. Not only should employees be tested before and after participating in learning and development activities, but also the same tests or evaluations should be applied to individuals in a control group that has not received the HRD, and whose members reflect relevant variables such as experience, past training and job level. Some of the criteria that are used in evaluating overall HRD effectiveness are increased productivity, greater total sales, decreased costs and waste and, in recent years, the **return on (organisational) investment (ROI)**. If a development program is designed to change the behaviour of supervisors, the evaluation should be in terms of observable (and observed) supervisory behaviours rather than acquired knowledge.

return on (organisational) investment (ROI)
The calculated financial benefit gained from an investment. In HR terms, ROI more specifically refers to calculating and measuring the value of investment in human resources to the organisation, including cost savings

Cost–benefit considerations

The ability to measure the benefits derived from HRD varies according to the type of job. Where employees are performing relatively simple tasks, the effects of learning and development may show up quite dramatically. For more complex jobs, such as those at the managerial and professional levels, the benefits are more difficult to measure. It is generally found, however, that the benefits will far exceed the costs when the objectives to be met by a HRD program are clearly defined, when the most suitable instructional techniques are used and when employee motivation is high.

The benefits that are experienced by an organisation are similar to those found through a carefully developed selection program. Increased productivity and the ability of competent

employees to assume more responsible roles in the organisation are the major benefits. Reduction of waste, accidents and similar problems may also result from HRD programs.

Principles of learning

The success of a HRD program depends on more than the identification of employee needs and the preparation of the program. In order to maximise learning, careful consideration needs to be given to the relevant principles of learning.

Preconditions for learning

Two preconditions for learning will increase the success of those who are to participate in such programs: employee readiness and motivation. The condition known as employee 'work-readiness' refers to both maturational and experiential factors in the employee's background. Prospective employees should be screened to determine whether they have the background knowledge or the skills necessary for learning what will be presented to them. Recognition of individual differences in work-readiness is important and it is often desirable to group individuals according to their capacity to learn, as determined by scores from tests, or to provide a different or extended type of instruction for those who need it.

The other precondition for learning is that the employee be properly motivated; that is, for optimum learning, the employee must recognise the need for acquiring new information or for having new skills, and a desire to learn as learning progresses must also be maintained. While people at work are motivated by certain common needs, they differ from one another in the relative importance of these needs at any given time; for example, new recruits often have an intense desire for advancement, and have established specific goals for career progression. Objectives that are clearly defined will produce increased motivation in the learning process when instructional objectives are related to individual needs. It is also important to align the learning objectives with the characteristics, needs and motivations of the group and/or individuals participating.

DEVELOPING EMPLOYEES

Once the learning need is clear, the learning and development objectives have been determined, and the principles of learning relevant to the situation have been identified, the most appropriate training method may be chosen.

A wide variety of such methods is available, some of which have a long history of usage. Newer methods have developed over the years from a greater understanding of human behaviour, particularly in the areas of learning, motivation and interpersonal relationships. More

recently, technological advances, especially in electronics and social media applications, have resulted in development strategies and techniques that in many instances are more effective and economical than traditional training methods.

On-the-job learning

The most commonly used method in the development of non-managerial employees is on-the-job learning, where instruction is given to employees by a supervisor, line manager or a senior employee. This type of learning can also be provided by appropriately experienced and skilled peers and co-workers. It has the advantage of providing hands-on experience under normal working conditions and is an opportunity for the instructor or mentor to build good relationships with new employees.

Off-the-job learning

In addition to on-the-job learning, it is often necessary to provide employees with development opportunities in settings away from their usual workplace. Various methods are available for use within the organisation's facilities. Other methods involve having the employee travel to locations outside the organisation. In some cases, external training is obligatory; for example, apprentice training.

Classroom and laboratory training methods

The maximum number of trainees may be handled by a minimum number of instructors in classroom or laboratory training. These methods lend themselves particularly to learning areas where information and instructions can be given by way of lectures, demonstrations, films and other types of audiovisual media. In some cases, such training may be complemented with the supervised use of computers or other equipment to enable employees to learn job-relevant skills, such as software programs, ticketing procedures, retail scanning systems or production processes.

Simulation method

For some jobs, it is either impractical or unsafe to train the worker on the equipment that is used on the job. Examples include disaster management training and safety training.

State-of-the-art computer simulation is also used to train airline pilots, and emergency services personnel in the United States also play simulation disaster games as a result of the terrorist attacks on 11 September 2001. Medical students in Australia, as highlighted in **HRM in practice 7.3**, are increasingly exposed to simulated patients as part of their clinical training.

simulation
The replication of a real-world process, activity or situation, often without the risk of the real-world environment, to provide training to employees on actual work-related outcomes or activities

HRM in practice 7.3

Simulations in clinical teaching and learning

Simulation-based education (SBE) is a rapidly developing method of supplementing and enhancing the clinical education of medical students.

Changes in healthcare delivery and medical education in Australia have presented medical schools with considerable challenges in providing suitable clinical experiences in medical curricula. An almost doubling in student numbers, combined with pressure to increase tertiary hospital productivity, has reduced students' access to hospital patients. The tertiary hospital clinical experience therefore no longer meets the needs of the curriculum.

Another important influence on the use of SBE is the patient safety agenda. Adverse events and resultant patient harm are often attributed to failures in communication and teamwork. Practice in simulated learning environments can reduce some of the underlying causes of adverse events.

Clinical situations and events can be scheduled, observed and then repeated so learning can be consolidated. SBE can also ensure that students have a degree of clinical competence before exposure to real patients.

Types of simulations used include:

- Full body mannequins: these are physical representations of patients which incorporate complex electronic equipment for generating physiological responses. Responses can be controlled manually by an operator or programmed into the simulator to model the effects of pathological states and pharmacological interventions.
- Part-task trainers: models used for repeated practice of the technical components of a clinical tasks. Examples include 'arms' for practising intravenous cannulation, head and thorax models for practising airway skills and synthetic skin pads for practising suturing.
- Simulated patients: individuals trained to behave in a particular way for clinical interactions. Used extensively for teaching and assessment, especially for communication skill acquisition.
- Computer-generated simulators: representations of tasks or environments, from something as simple as demonstrating the operation of a piece of equipment, like an anaesthetic machine, through to a detailed virtual reality with virtual patients and health professionals.
- Hybrid simulators: combination of simulated patients with part-task trainers to contextualise learning. For example, a model wound can be attached to a simulated patient so students can learn both the procedural technique and the associated communication skills and professional behaviours.

Source: Weller, J. M. et al. (2012), Simulation in clinical teaching and learning. *The Medical Journal of Australia*, 196(9), pp. 594–9. © Copyright 2012 The Medical Journal of Australia.

Simulation can also be used for more generic skill training, including cross–cultural awareness and cultural adaptability. Studies have shown that simulations do not just provide knowledge to individuals, but they transform that knowledge into a life experience.[6]

The major benefit of such training simulators is that, while the experiences and conditions appear real, wrong decisions will not have the same dire consequences as they would if made on the actual job.

Gamification

The gamification of learning (see **HRM in practice 7.1** earlier) is one of the most significant recent changes in learning and development. Gamification is generally associated with using technology (e-learning platforms, artificial intelligence and wearables) to implement game design elements into a training or development program. This approach has the capacity to engage the learner while at the same time achieving learning outcomes. It also has the advantage of the trainer being able to log the progress and/or completion of learners in the training.

While gamification is not likely to be an appropriate replacement for all traditional training methods, it can be used to augment and/or improve upon such methods through the use of specific redesign choices built upon technological innovations and psychological research.[7]

Wearables

Many people working and living in an industrialised economy are familiar with smart watches, which link to mobile phones and provide a range of data regarding daily physical activities. These are also known as wearables, and the term has been extended to the use of smart eyewear and camera technology, which can be used to support training and development. These have the benefit of hands-free use and providing live access to experts and/or resources. They can also assist with the monitoring of training transfer as well as assessing training needs, and provide instant access and real-time support, which is extremely beneficial when training someone in a remote location or working on an offshore rig, for example. The use of such technology in the oil and gas industry is seen in **HRM in practice 7.4**.

HRM in practice 7.4

Energy workers get wearables for training

The energy industry can be challenging due to remote and potentially dangerous locations, increasing production costs. There is also a lack of knowledge and expertise among young workers because of a retiring skilled workforce.

Wearable technology, in particular the use of smart glasses and augmented reality (AR) together with data analytics, is proving to be the answer to a number of these challenges.

Wearables can cut down on response time and total working hours by improving the communication between control staff and the on-site workers. They also provide workers with the key information they need when they need it – whether it be data, schematics, maps, guidelines or instructions. For example, via the smart glasses, a worker can have ready access to interactive equipment manuals while repairing an oil rig or bridge cable, or even receive specific directions such as emergency procedures at a point of impact.

For training, these wearables can provide step-by-step instructions and illustrations to new or inexperienced workers, as well as allowing a worker to show a remote colleague first-person perspective footage from the field – in real time – to diagnose and fix problems more quickly and efficiently.

This gives energy workers access to real-time information along with the insight and guidance of outside talent and expertise from around the world – all without a trainer having to physically be there. Apart from substantial cost savings, it also enables greater efficiency and faster decision making.

Source: Adapted from Ferguson, A. (2015), Oil & gas: Wearable tech by industry series, vol. 7. *Industry Series Blog*, 6 May, http://www.linkedin.com/pulse/oil-gas-wearable-tech-industry-series-vol-7-andrew-ferguson.

Apprenticeship training and internships

A system of training in which the new worker is given thorough instruction and experience (both on and off the job) in the practical and theoretical aspects of the work in a skilled trade is known as apprenticeship training. Apprenticeship programs are based on cooperation between management and labour, between industry and government, and between the company and the vocational education provider. Although apprenticeship wages are less than those of fully qualified workers, this method does provide training with pay for individuals who are interested in qualifying for jobs such as machinists, electricians, plumbers, panel beaters and motor mechanics, among others. Such training systems for apprentices have recently been 'streamlined' (e.g. shorter mandatory training periods and mixes of vocational training and workplace-based development).

Internship programs, jointly sponsored by colleges, universities and different organisations, offer students the opportunity to gain 'real-life' experiences while allowing them to find out how they will perform in work organisations. Organisations benefit by obtaining student employees who possess new ideas, energy and a desire to accomplish a given assignment. Many Australian universities allow students to earn credit points based on successful job performance and established program requirements and, in recent years, these have been supplemented by in-house, tailored undergraduate and postgraduate education programs conducted by universities in cooperation with industry.

DEVELOPING LEADERS

Many of the methods discussed in the preceding section may also be used in developing managers and supervisors. However, because of the broader knowledge and skills required of managers and those leading others, a range of different approaches to learning and development are needed.

In today's globally competitive economy, those in positions of authority, as well as those responsible for leading the performance of others, need to ensure that they possess adequate knowledge, skills and competencies to do so. Unfortunately, once employees are successful enough to take on leadership positions within an organisation, they can develop a mindset that they do not require further training and development.[8]

Management competencies, skills and abilities cannot be acquired just by listening and observing or by reading about them. They must be acquired through actual practice and experience, where a person has opportunities to perform under pressure and learn from mistakes. Such experiences must be well planned and supervised, and meaningful and challenging to the participant. While a number of skills can be acquired through attendance at off-the-job conferences, workshops and tertiary education provider courses, the most effective way in which skills and competencies can be developed is through the use of **mentoring** and/or **coaching** (see later in the chapter). Irrespective of the mode of delivery of such programs, there are a number of best practice principles that should be used as a benchmark against which leadership development programs should be measured:

- assess learner and organisational needs
- learn through 'doing'
- measure returns on investment
- review development outcomes
- hire excellent specialist leadership development trainers
- involve senior leaders
- align and integrate leadership development activities with organisational needs
- facilitate flexibility of learning
- ensure open communications
- ensure implementation of new learning
- provide a global framework in development curriculum
- reward desirable behaviours and attitudes
- use technology
- allocate sufficient funds.[9]

mentoring
A development relationship whereby a more experienced employee provides guidance, over a period of time, to a less experienced employee

coaching
A development relationship with a more experienced person from outside the organisation. It is generally more focused than a mentoring relationship in that the employee and the coach work towards specific goals, objectives or development needs of the employee

Conferences, seminars and workshops

While on–the-job experiences constitute core management development activities, certain methods of development away from the job can be used to supplement work experiences. These experiences may be provided on either an individual or a group basis and may be developed by means of special conferences, seminars or webinars.

A number of organisations specialise in the provision of management seminars covering all aspects of organisational life, but in some cases these have questionable practical relevance. While this type of management development can be very useful in terms of updating knowledge, networking or acquiring new knowledge, its effectiveness will depend on the quality of the presenters, and organisations need to consider carefully the associated costs and benefits. In addition, it is quite common for the major professions to hold annual conferences for their members. These often will be complemented by monthly seminars or special-interest group meetings. Apart from the value of the content of such forums, the networking and engagement

opportunities from others attending is also considered an important and useful development opportunity.

Many of the seminars and workshops conducted incorporate a range of other off-the-job learning tools, such as the use of case studies, leaderless group discussions and role playing.

Case studies

Case studies may be particularly useful in classroom learning situations, which are often incorporated into structured workshop and seminar sessions. These cases, which have usually been developed from actual experiences within organisations, can help managers learn how to obtain and interpret facts, become conscious of the many variables upon which a management decision may be based, and generally improve their decision-making skills.

The case study approach, made famous by the Harvard Business School, will often attempt to project the manager or supervisor into the case itself, and then ask them to analyse the facts and generate a number of possible solutions, as well as the consequences of each. The advantage of this method is that mistakes may be made without the consequences that might accompany the wrong decision if it were made in a real-life situation.

In most applications, the syndicate or small-group discussion method will accompany the case study method. In this way, a number of skills, such as decision making, interpersonal, communication and leadership, may be assessed.

The use of case studies, however, should not be used as a primary learning and development tool; rather, it should be used as to supplement a range of other methods.

University and TAFE education

The Technical and Further Education (TAFE) network in Australia has offered business education for the past 50 years. Initially conducted at the certificate level, TAFE has expanded its courses into Diploma and Advanced Diploma qualifications. In addition, most universities offer undergraduate degrees in commerce or economics, postgraduate degrees in business and commerce, and Masters of Business Administration (MBAs).

A management education provides a broad treatment of skills and concepts, resulting in the exposure of employees, supervisors and managers to a wide variety of business issues. In recent years, university and corporate consortia have developed hybrid programs that blend university coursework with practical business applications. Many universities provide online, distance graduate courses (or, more recently, free Massive Open Online Courses – MOOCs) that provide greater opportunities for more flexible learning, as well as a range of accredited corporate, executive education programs. Some courses also target public sector agencies as well as the private sector (e.g. Departments of Premier and Cabinet, Ministries of Education). These courses offer an important and alternative segue for those already in leadership roles, or for those with career aspirations to work in such a role, to develop the necessary broader competencies and skills.

Mentoring

When talking with employees about their employment experiences, it is common to hear them mention individuals at work who influenced them. They frequently refer to immediate superiors who were especially helpful as career developers. But they also mention others at higher levels in the organisation who provided guidance and support to them in the development of their careers. These executives and managers who advise and encourage employees of lesser rank are called mentors. Mentoring is usually a relationship between two people for the purposes of developing a career, or skills in a particular workplace or field, with the mentor assisting the mentee in reflecting on, planning and managing their career.[10]

Mentoring dates back to 800 BCE when Mentor served as an adviser to the son of King Odysseus.[11] It flourished in the feudal system of the Renaissance period when young men served as apprentices to gain membership in guilds, and throughout history it was rare to study a highly successful individual and not find the presence of a mentor: Aristotle mentored Alexander the Great, Gertrude Stein mentored Ernest Hemingway and master salesman John Patterson mentored IBM founder Thomas Watson.[12]

Mentoring programs can be informal or formal, depending upon the organisational culture, size of the company or the availability of appropriate resources. Informal mentoring goes on daily within every type of organisation. Generally, the mentor initiates the relationship, but sometimes an employee will approach a potential mentor for advice. Most mentoring relationships develop over time on an informal basis. There has been a rapid growth of formal mentoring plans where mentors are assigned to those employees considered for upward movement in the organisation. Formal mentoring is where appropriate staff are targeted and developed to be mentors, or already have the necessary experience and expertise, and are assigned to a less experienced employee.

Under a good mentor, learning focuses on goals, opportunities, expectations, standards and assistance in fulfilling one's potential. The mentoring approach is used extensively by organisations such as Westpac, Australia Post and Qantas. With this approach, a trained senior manager is selected by a person to act as their mentor. His or her role is to act as a sounding board for ideas and support when confronting new and demanding tasks. AHRI also has in place a mentoring program in most states across Australia, whereby senior, experienced HR practitioners volunteer to mentor those newer to the profession.

The days are over where employees progress simply by working long and hard. Today, both management and employees have a role to play in ensuring that the organisation's resources have the necessary competencies and expertise to compete within an increasingly complex economic landscape.

The characteristics of successful, formal workplace mentoring have been identified as:
- learning is located in a given context, time and place
- macro knowledge can be assimilated into learning at the local level

Emerging issue 5
Mentoring

reverse mentoring
Generational or cultural mentor pairing, in order to provide both members of the developmental relationship a deeper understanding of generational and cultural experiences

- technology is used for improved efficiency and effectiveness
- it accommodates the needs of multigenerational workforces and diverse cultures
- it responds to episodic, individualised and self-directed learning
- it helps people to cope with the pressures of employment
- it accommodates innovative ideas and new thinking
- it draws knowledge and insight from multiple disciplines and theories
- it enables mindful and spiritual experiences to aid employee wellbeing.[13]

The need for mentoring to accommodate multigenerational and culturally diverse workforces is vital. **Reverse mentoring**, a concept made famous by Jack Welch, then CEO of General Electric Co., emphasises the two-way nature of mentoring, and creates a win–win situation by pairing multigenerational or culturally diverse employees in a two-way developmental relationship.[14] **HRM in practice 7.5** demonstrates how reverse mentoring has been used to successfully mentor Aboriginal and Torres Strait Islander employees in Australian workplaces.

HRM in practice 7.5

Aboriginal and Torres Strait Islander mentoring programs

Increasingly, mentoring is being used in large corporate organisations and in the public sector to open up career opportunities and to assist the transition to management roles for Aboriginal and Torres Strait Islander employees.

Most commonly, the mentors in these programs are experienced senior staff who are non-Aboriginal and Torres Strait Islander. For these programs to have the best chance of success, the most critical aspect of the process is careful consultation with each of the Aboriginal and Torres Strait Islander participants about their expectations, then matching the pairs. Non-Aboriginal and Torres Strait Islander mentors also undertake some cultural awareness training prior to the mentoring program.

Cultural mentoring works on the same principles as 'reverse mentoring'. Reverse mentoring is seen as a way to engage older employees in areas that are often second nature to 20-something employees, whose lives have been more deeply integrated with computers and the internet. In the case of cultural mentoring, organisations might engage Aboriginal and Torres Strait Islander elders and community leaders to mentor executives about Aboriginal and Torres Strait Islander culture. They share first-hand cultural experiences and knowledge, as it relates to organisational and community engagement with Aboriginal and Torres Strait Islander peoples. It can also work slightly differently in an organisation where suitable Aboriginal and Torres Strait Islander employees are used to mentor executives along the same lines.

Conventional approaches to career development via mentoring and coaching may not yield the best results for Aboriginal and Torres Strait Islander people. The challenge is to find openings where these techniques can support other learning opportunities.

Unlocking the narrative that is at the core of all of us can be the entry point that bridges cultures and builds trust between the coach or mentor and the Aboriginal and Torres Strait Islander counterpart.

Source: O'Toole, S. (2015), Indigenous mentoring and coaching. *Training and Development*, 42(5), October, p. 10. Published by the Australian Institute of Training and Development.

Coaching

As outlined earlier, coaching differs from mentoring in that it is geared more towards the provision of advice and support on more specific issues or for achieving particular goals and objectives. As with mentoring, it is a relationship between a more experienced person (the coach) and the employee. Often, the coach is someone in a senior, specialist or professional role outside the organisation.

Coaching is more common as a form of leadership development in the private and commercial sectors; however, it is also being adopted as a way of developing leaders in the public sector. **HRM in practice 7.6** provides an example of how coaching was used to assist leaders in an Australian public health agency to implement large-scale strategic change.

HRM in practice 7.6

The special relationship

Much like other public health systems around the world, the Australian public health system operates under considerable stress and pressure. It is expected to provide excellent health services while at the same time deal with financial pressures, limited resources and increasing demands in a range of areas. The public health system is also subject to incredible public scrutiny, whereby clinical errors or mismanagement become front page news in the press and on social media.

To be a leader in this context requires an impressive skill set, including the need to be highly adaptive, resilient and able to work collaboratively with others. They are also required to work within tight budgetary constraints and achieve a range of operational and strategic goals – which are often established by those outside the particular health service.

In order to deal with such pressures, coaching has been introduced as a mechanism to assist these leaders in building their capacity. An example of this is a program jointly run by the NSW Agency for Clinical Innovation (ACI), Ministry for Health and Health Education Training Institute to develop the capacity of those in the NSW public health system.

The NSW public health system operates more than 230 public hospitals as well as an extensive network of local and community health services. It covers a geographical area of 800 000 sq km, employs more than 100 000 people and had a budget of approximately AU$22 billion in 2016.

The coach program focused on assisting the employees to set and attain work-relevant goals, gain insights about themselves and their environment and learn how to deliver results. A panel of 11 professional, external leadership coaches were appointed to coach 31 participants.

The program resulted in significantly increased goal attainment, improved focus and thinking styles, resilience, improved ability to deal with stress and more confidence in their leadership ability.

Source: Adapted from Grant, A. M., Studholme, I., Verma, R., Kirkwood, L., Paton, B. and O'Connor, S. (2017), The impact of leadership coaching in an Australian healthcare setting. *Journal of Health Organization and Management*, 31(2), pp. 237–52.
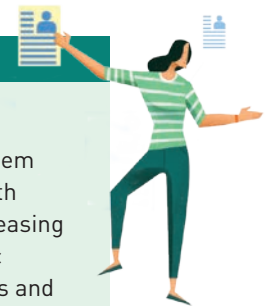
e-learning

Emerging issue 6
Technology-based learning

e-learning (electronic learning)
Learning provided, conducted and/or facilitated via the use of electronic media and technology

As more and more employees connect to the internet and/or the company intranet, organisations are increasingly discovering the power of the computer as a learning and development medium – otherwise known as **e-learning (electronic learning)**. E-learning can be used as a training and development medium across a range of occupations and countries, and the changing nature of technology has radically transformed a whole range of training programs as well as methods of delivery (as discussed earlier). Universities and other tertiary education providers also provide courses and degrees online utilising e-learning technologies. In Australia, the biggest online tertiary consortium is Open Universities (OUA). It has more than 126 000 annual unit enrolments and over 45 000 online students taught across 10 universities.[15]

There has also been a significant increase in the number of MOOCs. These are provided free of charge by many universities around the world, and have the advantage of being offered anytime, anywhere and on a range of mobile platforms. The growth in the availability of MOOCs is set to transform learning, as identified in **The future of work 7.1**.

The future of work 7.1

The new MOOCs: the Netflix way

In 2012, MOOCs promised a revolution in education. Silicon Valley entrepreneur Sebastian Thrun led the charge by starting an online course, free of charge, on artificial intelligence. Within two weeks, he had 56 000 students enrolled and ended up with more than 160 000. Clearly, the demand was there.

Universities sat up and took notice. There was clearly a thirst for education to be delivered in this way. It was cheap to produce, inexpensive to scale up and generated a wealth of data about the most effective ways to learn.

The MOOCs that were first delivered were like free-to-air television. They cost nothing but operated on a schedule.

The new MOOCs are more like Netflix: learning is available on demand and you can start whenever you want and watch a series of lessons at any speed you want. You can even have a binge weekend of education. Alternatively, you can slow it down to fit around other things in your life or even shelve it when the unexpected happens.

Instead of accumulating degrees, young people can now gather what are called 'micro credentials' – qualifications made up of several MOOCs which they can earn in a few months in online education. They can be strung together into an attractive CV.

edX offers micro credentials which it calls 'MicroMasters'®. They come from a high-reputation university and give students the equivalent of at least 25 per cent credit towards a Masters degree. edX now has more than one million enrolments in MicroMasters® since they were launched in September 2017.

Source: Adapted from Dodd, T. (2017), Facing the empty class: Tertiary. *The Australian Financial Review*, 13 April, p. 26. The use of this work has been licensed by Copyright Agency except as permitted by the Copyright Act, you must not re-use this work without the permission of the copyright owner or Copyright Agency.

CAREER MANAGEMENT

The processes of HRD discussed so far have a fairly long history. Typically, they have been carried out with organisational needs as the primary concern. However, increasing attention has been given to the employee's need to have a satisfying career. The term 'career', as it is often used by professionals in HRM and related fields, refers to the sequence of jobs that individuals hold during their work histories regardless of their occupation or organisational level. In the past, a career has generally been seen as a clear, linear climb up the organisation's structure – one which gathers more line management responsibility and salary on the way up. In recent years, the career progression model emerged into the 'boundaryless career', one in which the employee moved across work roles, occupations and even employers in order to progress their experience. In order to successfully do this, the employee needs to be flexible and adaptable, with much of the career change being self-driven rather than reliant on the organisation's own workforce planning and career management strategies.

Increased competition for promotion, constant innovation in technology, more competitive and sometimes scarce labour markets, corporate rightsizing and restructuring and the consequent implications for employee commitment and loyalty are all major forces pushing organisations to offer career development programs. As a result, career planning and development for employees needs to not only reflect the skills and competencies industry now requires, but also needs to be adaptive and flexible to employee needs. **Figure 7.3** demonstrates the changing nature of career support that employees most demand.

FIGURE 7.3 Career support employees want
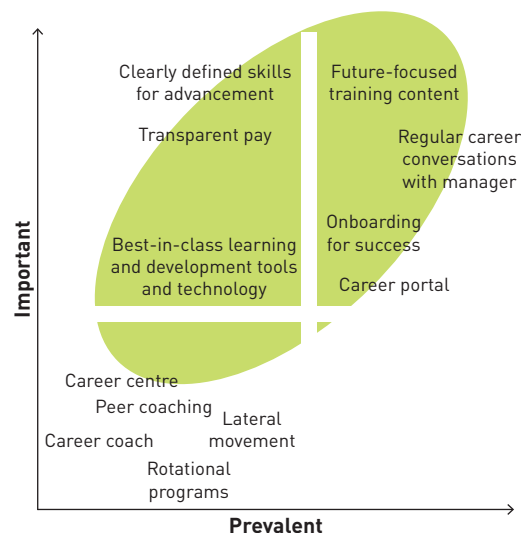
Source: Mercer (2017), *Mercer talent trends 2017 global study: Empowerment in a disrupted world*, p. 18.

In order for a career management program to be successful, it needs to be multifaceted, involving managers, the organisation and employees, ensuring that employees have access to resources to assist them in understanding where the opportunities are for career progression, both vertically and horizontally. While flexibility is the key, it is also vital that there is alignment between individual values and aspirations, as well as the requirements and possible constraints of the organisation. A recent survey by Mercer on global talent trends suggested that employers also consider providing career development opportunities to a more diverse group of individuals in a variety of different ways. These are:

1   Provide leadership roles to younger employees.
2   Move talent from developing markets to mature markets and vice versa.
3   Develop shadowing or reverse mentoring programs.
4   Provide accelerator roles or opportunities to diverse groups and/or those with high potential.
5   Rotate employees into functional roles early in their career.
6   Provide opportunities for functional managers to gain business exposure.[17]

The key is to be creative and innovative in career planning strategies, rather than adopting a more traditional, and somewhat dated, linear approach.

Talent management

Emerging issue 7
Talent management

In focusing on career management, there is also the vital need to retain key employees. The desire of employers to make better use of their employees' knowledge and skills and to retain those who are valuable to the organisation, its corporate memory and intellectual capital is now recognised as an essential and strategic imperative (see Chapters 4 to 6). This strategy is often referred to as 'talent management', and reflects the shifts in industry from manufacturing to the service- and knowledge-based sectors. This shift makes the retention of highly skilled and knowledgeable employees increasingly important in order for organisations to survive and succeed in a competitive global environment.

A STRATEGIC PERSPECTIVE TO CAREER DEVELOPMENT

Career development, as with each component of the HR 'package', must take on a strategic emphasis. The management of careers in times of demand for more innovative, creative and competitive organisations is one of HR's greatest strategic challenges. Many observers have suggested that the primary concern of all organisations is to attract and retain the best 'talent' in what is increasingly being seen as a global 'war for talent'; therefore, career development is one of the important weapons in this 'war'.

Phases of a career development program

Organisations have traditionally engaged in HR planning and development. Historically, this activity has involved charting the moves of large numbers of employees through various positions in an organisation and identifying future staffing needs. Contemporary career development programs, with their greater emphasis on the individual, introduce a personalised aspect to the process.

A common approach to establishing a career development program is to integrate it with the existing HR processes and structures in the organisation. Integrating the career development program with the overall HR program reinforces both programs. **Figure 7.4** illustrates how HR structures relate to some of the essential aspects of the career development process. For example, in planning careers, employees need the organisational information that strategic planning, forecasting, succession planning and skills inventories can provide.

FIGURE 7.4 Two-way support: career development/human resources
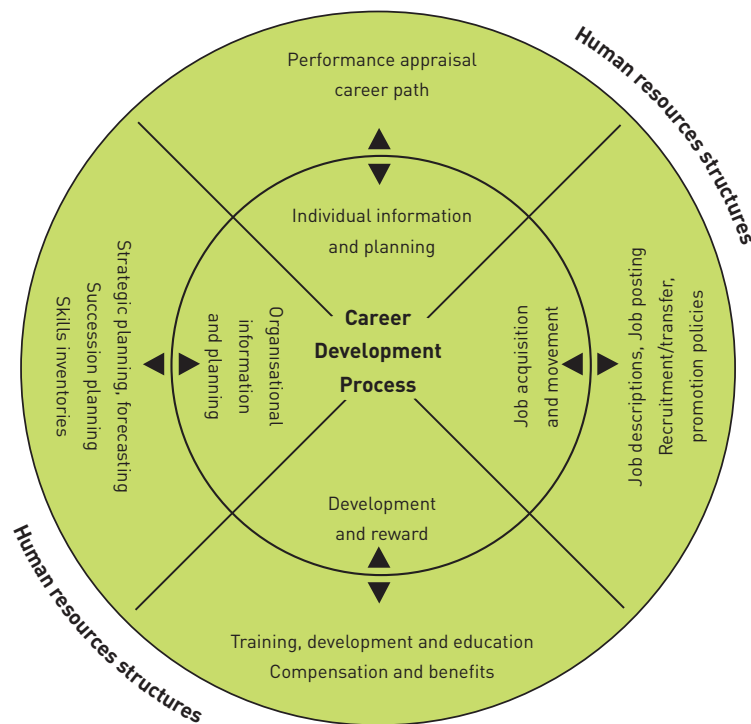
Source: Farren, C., Kaye, B. L. and Leibowitz, Z. B. (1986), *Designing career development systems.* San Francisco, CA: Jossey-Bass, p. 41. Reproduced with permission of John Wiley & Sons Incorporated; permission conveyed through Copyright Clearance Center, Inc.

Determining individual and organisational needs

A career development program should be viewed as a proactive and dynamic process that attempts to meet the needs of managers, their people and the organisation. Individual employees are responsible for initiating and developing their own career plans. It is up to them to identify their knowledge, skills, abilities, interests and values, and to seek out information about career options so that they can set goals and develop career plans. Managers are expected to encourage their subordinates to take responsibility for their own careers, while offering continuing assistance in the form of feedback on individual performance, information about the organisation, and job and career opportunities that might be of interest. In turn, managers are similarly responsible for their own career development.

As with other HR programs, the formulation of a career development program must be based on the organisation's strategic needs. Assessment of needs should take a variety of approaches (surveys, focus groups and interviews) and involve people from different groups, such as new employees, managers, employees in a **career plateau**, and technical and professional employees. Identifying the needs and problems of these groups provides the starting point for the organisation's career development efforts.

For a program to be effective, leaders at all levels must be trained in the fundamentals of job design, performance appraisal, career planning, mentoring and career counselling. Line managers must be the heart and soul of a career development program. Most managers, however, need guidance and a defined structure. Managers also need to receive feedback on how well they are performing in their career development role. This might be one of the leadership competencies on which managers' overall performance is assessed.

Goal-setting

Before individuals can engage in meaningful career planning, they must have an awareness of the organisation's philosophy and mission as well as a clear understanding of the organisation's strategic direction and immediate goals. Otherwise, they may plan for personal change and growth without knowing if or how their own goals match those of the organisation. For example, if the technology of a business is changing and new skills are needed, will the organisation retrain to meet this need or hire new talent? Is there growth, stability or decline in the number of employees needed? Will outsourcing affect their business unit? Clearly, an organisational plan that answers these kinds of questions is essential to support individual career planning.

Changes in HRM policies

To ensure the effectiveness of its career development program, an organisation may need to either establish or rewrite its current HR policies. A corporate policy dealing with career development needs to be supported by other policies covering the many facets of performance management and employee development. Strategies relating to transfers and

career plateau
A stage of an employee's career in which few future opportunities appear to exist

promotions require policy decisions, as they impact on career development. These strategies may be used to move people out of their comfort zones into positions that will enhance their personal development.

A transfer is the placement of an employee in another job for which the duties, responsibilities, status and remuneration are approximately equal to those of the previous job. A transfer may require the employee to change work group, workplace, work shift or organisational unit and may even necessitate moving to another geographic area. Transfers make it possible for an organisation to place its employees in jobs where there is a greater need for their services and where they can acquire new knowledge and skills. A career downshift moves an individual into a lower-level job that can provide developmental opportunities and/or a better quality of work life, or possibly an alternative to retrenchment. Policy decisions relating to relocation and salary maintenance may be required.

A promotion is a change of assignment to a job at a higher level in the organisation. The new job normally provides an increase in pay and status, and demands more skill or carries more responsibility. Promotions enable an organisation to utilise the skills and abilities of its personnel more effectively, and the opportunity to gain a promotion serves as an incentive for good performance. In the past, the principal criteria for determining promotions were merit and seniority. The organisation determined how much consideration was given to each factor. Even when not restricted by a workplace agreement, management often found itself giving considerable weight to seniority because of the difficulties of measuring merit effectively and communicating to employees that the measurement was fair. Today there is no choice. Promotion and other forms of career moves must be based on merit.

Gauging employee potential

The most important objective of any career development program is to provide the tools and techniques that will enable employees to gauge their potential for a successful career path. This objective may be achieved in ways that naturally involve the active participation of the employees themselves. Informal counselling by HR staff and supervisors is used widely. Many organisations give their employees information on educational assistance, equal employment opportunity (EEO) and affirmative action programs and policies, salary administration and job requirements. Career planning, work books and workshops are also popular means for helping employees identify their potential and the strength of their interests. Workshops have the advantage of providing a chance to compare and discuss attitudes, concerns and plans with others in similar situations. They can focus on current job performance and development plans. Others deal with broader life and career plans and values. These are supplemented by management training programs in mentoring and coaching skills. As highlighted in **Figure 7.3**, it is important to use a range of methods and opportunities to develop employees.

Career counselling

Career counselling involves talking with employees about their current job activities and performance, personal and career interests and goals, personal skills and suitable career development objectives. Employees usually participate voluntarily, although some organisations make counselling a part of the annual performance review. As employees approach retirement, they may be encouraged to participate in pre-retirement programs, which often include counselling along with other helping activities. Career counselling may be provided by the HR staff, superiors, managers, specialised staff counsellors or outside professionals.

Organisations differ widely in the types of career development programs they offer. Some organisations have formal programs for all levels of employees covering a broad array of topics. Others are limited to career counselling that is incorporated into annual performance reviews. The more extensive career development programs also frequently include programs geared to special groups, such as management development programs, or programs for women, minorities or **dual-career couples**.

dual-career couples
A personal relationship where both individuals are either seeking work or are in work. Dual-career couples face many choices in terms of relocating due to careers and dealing with family responsibilities

The role of managers

Identifying and developing talent in individuals is a role that all managers should take seriously, and it is clear from **HRM in practice 7.7** that more organisations are taking a proactive role in doing this. As they conduct formal performance reviews, managers should be concerned with the individual's potential for managerial jobs and encourage their growth in that direction. There should also be others in the organisation who have the power to evaluate, nominate and sponsor promising employees. Those companies that emphasise developing human assets as well as making a profit usually have the talent they need, and more. Some companies have become 'academy' companies that unintentionally provide a source of talented managers to organisations that lack good management development programs.

HRM in practice 7.7

Inside the new talent war

The war for talent continues to rage but the terms of engagement have shifted. With flatter organisational structures and fewer management rungs on the corporate ladder, keeping ambitious employees satisfied and motivated is a bigger challenge than ever.

It is an urgency not lost on the director of human resources at Wesfarmers Insurance, Sam Sheppard, who recognises that employers must provide staff with satisfying careers at a time when the very notion of career is undergoing transformation.

'The old concept of a single, dominant career no longer exists. It's generally accepted that people will not only change companies during their working life but careers as well,' she said. 'People need to be a lot more flexible and adaptive in thinking about careers.'

> Career management has become more complex for employers and employees alike. Companies must keep their employees 'fresh and excited', maintaining their 'status and reward' in the organisation, without necessarily having an enticing promotion on offer.
>
> Wesfarmers Insurance has responded to this by seeking to enhance existing roles rather than creating career paths based on promotions. Enabling employees to broaden their skills and experience by completing projects with partner charities is an example of a successful strategy they use to retain talented employees, while also satisfying their desire to 'make a difference'.
>
> Sheppard says, 'career management is much more about a partnership and a dialogue between employer and employee'.
>
> Source: D'Angelo Fisher, L. (2013), Inside the new talent war. *Business Review Weekly*, 8 August, pp. 15–16. The use of this work has been licensed by Copyright Agency except as permitted by the Copyright Act, you must not re-use this work without the permission of the copyright owner or Copyright Agency.

Determining individual development needs

The requirements of each management position and the qualifications of the person performing it are different, so no two managers will have identical developmental needs. For one individual, self-development may consist of developing the ability to write reports, give talks or lead conferences. For another, it may require learning to communicate and relate more effectively with others in the organisation. Periodic performance appraisals can provide a basis for determining each manager's progress. Meetings at which these appraisals are discussed are an essential part of self-improvement efforts.

In helping individuals plan their careers, it is important for organisations to recognise that younger managers today seek meaningful development assignments that are interesting and involve challenge, responsibility and a 'piece of the action'. Younger managers also have a greater concern for the contribution that their work in the organisation will make to society, yet they are frequently given responsibilities they view as rudimentary, boring and composed of too many 'make work' activities. Some organisations are attempting to retain young managers with high potential by offering a fast-track program that enables them to advance more rapidly than those with less potential. A fast-track program may provide for a relatively rapid progression – lateral transfers or promotions through a number of managerial positions requiring exposure to different organisational functions – as well as providing opportunities to make decisions, preferably in profit centres. Access to the 'fast track' must be seen as fair.

However, it is not all about the contribution of younger employees. Given that by 2020 about 85 per cent of Australia's labour market growth is expected to come from workers aged over 45, a critical strategy for organisations is to also retain older workers for as long as possible and to ensure that their individual development needs are met.[18]

Jobs for the future

As discussed earlier, the traditional career is disappearing. Young people no longer start work with the expectation that they will stay in the same job for life; rather, they see their career

as their personal responsibility and actively market themselves as a product to be sold on a short–term, contractual basis. Employment security is not considered essential to their lifestyle; instead, they cherish the concept of employability.

HRM in practice 7.8 shows that the jobs and careers of the future emphasise the new work smarts: learning, thinking and doing. The key is for employees to constantly be aware of the nature of change, how it affects their own jobs and the competency requirements of those changing roles and careers.

HRM in practice 7.8

The new work order

Today's 15 year olds will likely navigate 17 changes in employer across five different careers. They will sometimes be self-employed, at other times working with and for others. The skills required for early-career jobs have already changed.

By 2030 it is predicted that:
- we will spend 30 per cent more time per week learning skills on the job;
- spend double the time at work solving problems;
- 41 per cent more time on critical thinking and judgement;
- 77 per cent more time using science and mathematics skills;
- utilise verbal communication and interpersonal skills 7 hours a week each;
- develop an entrepreneurial mindset due to having less management; and
- will have less organisational coordination.

To navigate this changing world of work our understanding of what it means to be 'smart' needs to shift. Young Australians will need to not only acquire foundation and technical skills, but be able to use these in increasingly enterprising and creative ways, and apply them in diverse environments.

The new smarts in 2030 will involve smart thinking, smart doing and smart learning.

Source: Foundation for Young Australians (2017), *The new work smarts: Thriving in the new work order.*

ETHICS AND HRD
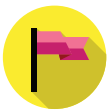
Emerging issue 8
Ethics

As outlined in Chapter 1, the linkage between HRM and ethical issues is based on the premise that organisations have a moral responsibility to their employees and that there are concerns regarding how these employees are managed and treated.

More often than not, ethical issues arise in industrial relations, recruitment, selection and performance management functions, but little attention has been drawn to the HRD function within an organisation. As previously outlined, a more strategic approach to learning and development programs is required in order for organisations to meet their goals and objectives, but the danger is that they may fail to meet the more pressing individual competency requirements of employees who occupy ever-changing roles. This results

in high levels of stress among employees struggling with new demands, responsibilities and skill requirements, as well as a whole raft of employees being ignored in succession planning strategies.

There is also the risk that employees occupying the significant number of part-time and casual positions across the globe will become marginalised as many learning and development opportunities are directed towards the full-time positions within organisations. The fortunate employees who are appointed, nurtured and mentored through 'talent spotting' exercises can enjoy fast-track developmental opportunities. Such opportunities may be denied to equally capable employees who are in a casual, short-term contract role or those who are not as readily 'visible', by nature of the roles they perform, to managers. A report that examined employee perceptions of the changing nature of work since the Global Financial Crisis found that participants not only reported diminishing personal control over the workplace and their own jobs, but also that learning and development opportunities were almost absent and associated solely with low-cost e-learning rather than acting in a strategic way to support sustainable business objectives.[19] It is vital that employee development programs are not compromised within a tighter fiscal environment. If required, management can offer less, but still maintain quality. **Table 7.2** demonstrates the range of ethical and social issues that arise from HRD programs, and the policy responses that can be developed to minimise them. This becomes a case for corporate social responsibility on behalf of organisations.

TABLE 7.2 Possible HRD policy responses to social issues

SOCIAL ISSUE	HRD POLICY RESPONSE
Entry-level skill deficits, vulnerability to job loss	The redesign of junior jobs to allow exposure to a variety of tasks of differing complexity
Skill differential for women, older workers and minority groups	Equity, access and affirmative action programs
Social exclusion for marginalised workers	Regular training and lifelong learning opportunities for low-skilled employees and junior, older and contingent workers
Differential access to career and succession planning	Regular review of training needs, linked to employee development plans; clear and transparent career progression paths
Uneven distribution of benefits of flexibility, access to career opportunities for part-time employees	Two-way flexibility of working time, and progression available to part-time employees
Lack of access to developmental opportunities for workers with carer responsibilities	Family-friendly policies available to all grades of employees

Source: Wilcox, T. (2006), Human resource development as an element of corporate social responsibility. *Asia Pacific Journal of Human Resources*, 44, p. 193 (adapted from Webster, Wickham and Collins, 2002, pp. 150–1).

SUMMARY

All employees, whether they hold leadership, team management, professional, technical or unskilled roles within the company, require continual learning and development if their potential is to be utilised effectively. Over the past decade, we have seen the impact of reduced supply of skilled labour in Australian organisations, particularly in the health, medical, small business and public sectors. This crisis for labour supply has meant that high on the agenda are the needs to 'grow our own' and provide our workforce with the necessary skills and training to fill jobs now and in the future.

The future of work will also create not only supply and demand issues for organisations globally, but also poses a challenge for learning and development. The future demand will emphasise non-cognitive skills and abilities, with a greater focus on the 'soft' or 'employability' skills. These skills include emotional intelligence, critical thinking, adaptability, teamwork, creativity and problem solving. The challenge for organisations is to provide the appropriate learning and development tools to develop and enhance this complex set of skills.

In designing HRD programs, a systems approach should be followed. This involves three phases: the assessment phase, the learning and development phase, and the evaluation phase. From the wide variety of methods available for developing employees, methods should be selected that best meet the learning objectives and that utilise as many of the principles of learning as possible. While new methods must always be explored, including the ever evolving e-learning environment, the focus should be on the personal and strategic objectives to be attained.

Increased competition for promotion and advancement, the desire to get the most out of a career, better employee utilisation and other demands have resulted in the growth of career development and talent management programs. To succeed, such programs require management support, well-defined goals, effective communication and compatible HRM policies.

The career progression model has transitioned into the boundary-less career, one in which the employee may move across work roles, occupations and even employers in order to progress their experience. In order to successfully do this, the employee needs to be flexible and adaptable with much of the career change being self-driven rather than reliant on the organisation's own workforce planning and career management strategies.

Ethical considerations also need to be incorporated into HRD strategies, with special programs for women and minorities to help overcome the barriers to advancement that individuals in these groups have traditionally encountered. The special needs of dual-career couples must also be addressed in a manner that is satisfactory to both the couple and the employer.

To help employees achieve their career objectives, HR professionals should understand the process by which individuals typically make career choices and be aware of some of the more scientific approaches to career selection that may be used. Importantly, corporate leaders need to understand that today's younger employees tend to hold a different set of values from their older counterparts and their career aspirations will be very different. This will require a radical shift in mindset for not only the organisation's leaders but also for its HR professionals.

KEY TERMS

- career plateau 282
- coaching 273
- dual-career couples 284
- e-learning (electronic learning) 278
- graduate programs 263
- KSAs 262
- learning organisations 253

- lifelong (or continuous) learning 252
- mentoring 273
- return on (organisational) investment (ROI) 267
- reverse mentoring 276
- simulation 269
- talent retention 255
- training needs analysis (TNA) 266

EMERGING ISSUES

1 The challenges of supply and demand

Global shifts in the supply and demand for labour mean that organisations need to focus more heavily on 'growing their own' in order to meet these challenges.

a   What does 'growing their own' refer to?

b   What career development strategies can an organisation effectively implement during a time of labour shortages?

2 Talent retention

Talent retention is one of the key challenges facing organisations. A highly skilled and diverse workforce is required to deal with the increasingly competitive and changing global environment.

a   How important are career development and management in the retention of a diverse workforce? Explain.

b   What skills do managers and leaders need to retain a diverse, skilled, yet flexible, workforce?

3 Induction follow-up and evaluation

Managers should consult with new employees after the first day and frequently throughout the first week on the job. It is also vital to evaluate the induction and orientation program to ensure continuous improvement.

a   What is the difference between orientation and induction?

b   What is the linkage between induction and employee retention?

4 A systems approach

Since the primary goals of HRD are to contribute to the organisation's overall imperatives, as well as to employees' career aims, such programs should be developed systematically.

a   What is a training needs analysis (TNA)?

b   Who should conduct the TNA for the organisation?

c   Explain how HRD programs should be planned and developed.

5 Mentoring

When talking with employees about their employment experiences, it is common to hear them mention individuals at work who influenced them. They frequently refer to immediate superiors who were especially helpful as career developers. But they also mention others at higher levels in the organisation who provided guidance and support to them in the development of their careers. Reverse mentoring acknowledges the existence of cultural and generational diversity that exists within organisations, and assists in two-way developmental opportunities between employees and organisational leaders.

a   Should a mentoring scheme be one in which the mentors are selected by the organisation or should they self-select? Justify your answer.

b   What is the difference between mentoring and coaching?

6 Technology-based learning

The technological revolution has meant that learning can be accessed from any mobile device, anytime, anywhere.

a   What are the advantages and disadvantages of the use of technology in the development of employees?

b   What is 'gamification' of learning? What types of jobs would it be useful for?

7 Talent management

There is a vital need to retain key employees. The desire of employers to make better use of their employees' knowledge and skills, and to retain those who are valuable to the organisation, its corporate memory and intellectual capital, is now recognised as an essential and strategic imperative.

a   'It is not an organisational responsibility to develop and implement strategies to retain employees. It's all about loyalty – if they want to stay they will.' Debate this statement.

8 Ethics

The linkage between HRM and ethical issues is based on the premise that organisations have a moral responsibility to their employees and that there are concerns regarding how these employees are managed and treated.

a   'The incorporation of ethical considerations into HRD strategies exists merely to meet EEO requirements – it will always be difficult to cater to the developmental needs of all sectors of the workforce.' Debate this statement.

ETHICAL CHALLENGE

Is the concept of 'best fit' in employee selection discriminatory?

A recent study of international graduates from an Australian university cites the difficulties they experienced in attempting to find meaningful work in Australia after the completion of their university studies. The study outlines the perceived discrimination experienced in looking for work, with respondents indicating that employers lacked cultural awareness and understanding of the need for workplace diversity. It was also suggested that employers used lack of Australian citizenship as a key factor in making non-hiring decisions.

The concept of 'best fit' as used by recruiters in deciding if candidates were a good fit for organisational cultural norms also had the capacity to discriminate against those from non-English-speaking backgrounds, irrespective of the qualifications they held. In addition, the cultural norms and values of the recruiters themselves also had an impact on recruitment decision making.

1 How does the concept of 'best fit' potentially discriminate against those from non-English-speaking backgrounds?
2 How does a lack of cultural awareness impact on recruitment and selection decision making?
3 Does a culturally diverse organisation mean that there will be less potential for discriminatory recruitment and selection practices? Why, or why not?

CASE STUDY 7.1

The emerging talent crisis in India and China

China and India have re-emerged as the two must crucial economic growth engines within the much-discussed 'Asian Century'. Between them, they account for approximately 40 per cent of the world's population, as the second and fourth largest economies respectively in terms of purchasing power.

While much of their economic success can be attributed to their abundance of labour, it is the nature and quality of this labour that has become a significant challenge for both nations.

China faces an ageing population and a shrinking labour market. It is estimated that by 2050, one in three Chinese will be over the age of 60, creating a population of older people that is larger than the entire population of the United States. So dire is their situation, the Chinese government announced in October 2015, an amendment to their famous and controversial 'one child policy' and will now allow two children per family.

In contrast, India will increase its working age population by an additional 200 million. It is estimated that 70 per cent of Indians will be of working age by 2025. However, this could easily become a disaster if the substantial government initiatives aimed at enhancing the employability of these workers were not to succeed. One major challenge for India is the currently limited employment options for its massive cohort of unskilled contract workers.

Both countries have become victims of their own economic success, and the talent shortages facing China and India are a direct result of their economic momentum and a reflection of their failure to recognise and plan for the labour supply and demand gap.

In China, the gap will widen as they move from a low-cost, low-tech manufacturing economy to one that is both high-tech and diversified. India faces a similar dilemma with its surplus of unskilled labour. However, India also has a problem with only a quarter of university graduates being considered, by industry, to be suitable for employment.

Clearly, significant changes need to be incorporated into organisations in both countries in order to deal with the emerging talent crisis.

Questions

1 While this case study presents a number of challenges across a range of critical HR functions, what learning and development mistakes have been made? What would you do to remedy them, at both a macro and a micro level?

2 The case study specifically mentions a mismatch between the skill needs of Indian industry and the country's university graduates. How would you identify what is needed to rectify the problem?

CASE STUDY 7.2

Singapore's got talent

Singapore does have talent – and potentially plenty of it. In a nation dependent on human capital more than any other resource, identifying talented individuals within an organisation is critical.

According to new research, 'talent' are individuals with the ability to adapt and respond to changes and challenges, rather than someone with an impressive degree. The research, 'Future of Talent in Singapore 2030', conducted by the CIPD, the professional body for HR and people development, and the Human Capital Leadership Institute (HCLI), found that the potential pool of talent in Singapore could be larger if organisations are prepared to accept less conventional candidates and the different ways of thinking and working that they offer.

'For Singapore's talent to emerge, business leaders need to change the cultural status quo and encourage individuals to pursue innovation, enterprise, experimentation and entrepreneurship,' says Wong Su-Yen, Chief Executive Officer of HCLI. 'With low unemployment and easy access to decent jobs, the benign environment in Singapore can lead to complacency, less risk-taking and a high fear of failure. As a result, many individuals make choices that are safe and predicable, but which hide the true extent of their talent,' she said.

Current performance alone is insufficient to be recognised as talent. Individuals need to demonstrate they have the potential to learn, adapt and deliver more value if given the opportunity to do so.

The ability to innovate and create value inevitably involves taking more risks and accepting occasional failure. In Singapore, to be considered talent of value, one has to master the fine line between taking risks to uncover new value and respecting the social norms the country values.

Source: Adapted from Networks Asia staff (2016), How to be recognised as talent in Singapore. *Networks Asia*, Newton, 24 May, https://www.networksasia.net/article/how-to-be-recognized-talent-singapore.1464054935.

Questions

1 In this case study, what impact does country and organisational culture have on an employee's career development strategy?

2 What are the implications of country and organisational cultures for both the employee and the employer?

3 What would be the key training needed by employees in Singapore to deal with future global challenges?

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8

Management of performance

Performance review nourishes short-term performance, annihilates long-term planning, builds fear, demolishes teamwork and nourishes rivalry and politics.

W. E. Deming, 1982.

In 2015, our *Global Human Capital Trends* research showed that 82 percent of companies reported that performance evaluations were not worth the time. Today, as companies operate as a network of teams, careers and learning are strategic, and companies are shifting from 'jobs to work' in their operations, the need to align goals, provide feedback, and coach for performance is real-time, continuous, and multidirectional.

N. Sloan, D. Agrawal, S. Garr and K. Pastakia (2017), *Performance management: Playing a winning hand*, Deloitte Consulting.

OBJECTIVES

After reading this chapter, you will be able to:

1 appreciate the importance and general purposes of performance management as well as the associated practical challenges

2 compare and contrast the most widely used performance measurement methods, and the advantages and disadvantages of each

3 describe options and trends regarding the future of performance

management, including the growing influence of digital technology

4 explain the general requirements for developing an effective performance management system

5 understand and apply the processes and practices involved in diagnosing and addressing underperformance.

Emerging issues

1 Performance management and generational change

2 Performance management and organisational justice

3 Performance management and technological change

4 Feedforward

5 Counselling

6 Disciplinary action

INTRODUCTION

In preceding chapters, we discussed the practices that an organisation may use to attract and develop a workforce with the desired types of technical knowledge and skills, personal attributes and other productive capabilities or 'competencies'. In this chapter, we turn to the topic of managing how – and how well – employees apply these capabilities; that is, to the management of employee performance. The practices and processes involved in performance management have an important role to play in allowing an organisation to optimise outcomes from its employees' individual and collective productive capabilities. Whether by design or default, how an organisation goes about managing employee performance plays a central role in determining the level and quality of the contribution that its human resources (its people) make to organisational success and sustainability.

Implementing performance management practices and processes that are appropriate and accepted at all levels is one of the many challenges facing human resource (HR) professionals, as they attempt to show that they do indeed add value rather than additional costs to their organisation. Since the day-to-day management of employees' performance is now commonly devolved to line managers in their capacity as supervisors, the design and administration of performance management is also one of the key points of interaction – and tension – between HR managers and line managers.

employee performance
The efficiency or effectiveness of employees' individual and collective work effort

performance management
Practices and processes to define, measure and influence employee work effort, behaviour and outcomes in ways desired by the organisation

Professional tip 8.1

Key HR roles and competencies

In line with the Australian Human Resources Institute (AHRI) Model of Excellence (MoE; see Figure 1.2), the design and management of an effective performance management system requires the HR professional to be both a *strategic architect* and an *ethical and credible activist*. Associated competencies include *future oriented*, *solutions driven*, *influencer*, *courageous*, and being able to understand and care for those whose performance is managed and those charged with managing. As we shall see, being an expert practitioner in performance measurement, feedback and development is also highly relevant.

HR professionals generally have the primary responsibility for designing, overseeing and coordinating the organisation's performance management system (PMS). However, other managers, particularly line managers, must also be involved actively, particularly in helping to determine and communicate system purpose, job-relevant criteria and mode of feedback provision. Furthermore, employees are more likely to accept and be satisfied with the PMS when they also have the chance to engage in its development. A sense of 'ownership' on the part of employees is considered to be an essential ingredient in an effective scheme. Research across a number of countries concludes that a critical requirement of PMS effectiveness is acceptance by all parties, which, in turn, can be enhanced by active participation in the development phase.[1]

performance management system (PMS)
An integrated set of practices and activities for defining, monitoring, reviewing and developing employee performance

Why do organisations need a PMS at all? Some researchers contend that organisations can now get by perfectly well without one. However, others suggest that an organisation that seeks to abolish its PMS does so at its peril. What, then, is it that a PMS can do – or, at least, seek to do? The following objectives for an effective PMS are those most often cited in research studies (as discussed later in this chapter):

- communicating key performance expectations for employee positions
- assessment of past performance
- assessment of potential for promotion or transfer
- improvement of motivation
- strengthening of the relationship between employee and manager by bringing them together to discuss progress
- a means of obtaining feedback from employees, which may improve job design, the working environment, career path planning, etc.
- identification of key talent
- identification of employee development needs
- a source of information for career and succession planning decisions
- identification of those people that must be retained wherever possible
- linking performance to the reward system and reward outcomes in a consistent and transparent manner.

This is a list of possible PMS aims rather than an overarching statement about the conceptual or theoretical foundations of the performance management field – and there is a good reason for this. As Bititci and colleagues note, scholarship and theorising in the field of performance management remains quite fragmented, with multiple disciplinary perspectives being applied, from frameworks as diverse as management accounting and organisational psychology, but with little sign as yet of the emergence of a unifying and agreed theoretical foundation.[2] Whether a unifying framework is desirable is itself a moot point. However, what is clear is that its absence has left the field open to robust debate and a multiplicity of interpretations and agendas, particularly in the context of the vast forces of technological disruption and demographic change now affecting the nature and meaning of work and organisational life. This diversity of views about the nature and worth of the PMS may prove to be its saving grace.

In this chapter, we aim to make you aware of the change, complexity and debate surrounding contemporary performance management while also offering insights into emerging trends and options for managing employee performance as we approach the 2020s.

DEBATES AND TRENDS IN THE MANAGEMENT OF EMPLOYEE PERFORMANCE

The management of employee performance – both *whether* and *how* it should be done – is among the most controversial of all aspects of contemporary human resource management (HRM). Some critics argue that performance management should be abandoned altogether as

a cumbersome twentieth–century anachronism. The annual performance review is condemned as relic of industrialism and bureaucracy, incapable of accommodating the strategic demands of the digital age and the needs and expectations of the emerging 'digital native' workforce.

Problems with traditional performance management practices

At the centre of concern about traditional performance management are the closely related processes of performance measurement, performance rating and performance review.[3]

These processes have a long history of use and misuse, and their relevance and worth to organisational success and sustainability is now the subject of considerable debate.

Ratings and reviews: use and misuse

Performance review has been traced as far back as the third century BCE when Sin Yu, an early Chinese philosopher, criticised a biased rater employed by the Wei dynasty. The industrialist and utopian socialist Robert Owen used reviews in his New Lanark cotton mill complex in the 1810s.[4] In the United States, the federal government began evaluation of employees in 1842, when Congress passed a law mandating yearly performance reviews for department clerks. By the mid–twentieth century, annual performance reviews had emerged as a central element of performance and promotion practices for professional and managerial roles in both public service and for–profit organisations across the globe.[5]

Just as performance review has been a long-standing feature of HR practice in developed countries, so too has there been an enormous amount of attention paid to its strengths and weaknesses, making it one of the most praised, criticised and debated management practices of all time.[6] Advocates have included eminent early management writers such as Herzberg, Mausner and Snyderman[7] and Drucker, together with a number of contemporary writers such as Cascio,[8] who see performance review programs as the only logical means to appraise, develop and effectively use the knowledge and abilities of employees. Others, such as Deming, contend that performance appraisal 'nourishes short-term performance, annihilates long-term planning, builds fear, demolishes team-work, nourishes rivalry and politics'.[9] Critics have even gone so far as to link performance review with employee burnout.[10] Other notable management theorists to criticise specific aspects of performance review include McGregor[11] and Levinson.[12]

Despite all of the research and the countless texts, articles and conference papers, performance review remains a major source of frustration for HR managers, supervisors/line managers and employees themselves.[13] A constant source of criticism is the lack of effective feedback. Some critics even suggest that part of the problem is the feedback approach itself. Negative feedback – that is, feedback focusing on mistakes and shortcomings – produces recipient defensiveness and distrust of supervisory motives. The problems are magnified when the bad news is conveyed via a formal appraisal interview.[14]

performance measurement
The process of establishing performance criteria, developing metrics for gauging performance against these criteria, and collecting data via these metrics

performance rating
The process of analysing and evaluating performance data against predetermined criteria, and assigning absolute and/or relative scores to each employee and/or group of employees

performance review
The process of interpreting performance data and ratings to provide formal feedback to the employee via an interview, typically on an annual or twice-yearly basis

negative feedback
The provision of information on an employee's performance shortcomings against role-specific performance standards and ways in which these may be addressed

Old ways versus new needs

A further limitation of the traditional approach is that its top-down and bureaucratic nature is out of synch with today's organisational and social context.[15] Technological disruption associated with the internet and social media; the explosion in the volume of information available online; the rise of robotics and artificial intelligence; app-based information management; crowdsourcing of ideas, solutions and funding; rapid shifts in consumer demand and employee expectations; and the globalisation of capital, consumer and labour markets, has transformed workplaces in ways unimaginable even a decade ago. Organisations are being flattened, with spans of control being widened. Jobs are yielding place to 'projects'; individualised work is being replaced with self-managed teams; while HR strategies and practices are often based on recognising people for their capabilities and contribution rather than their job or position size.

Therefore, traditional organisational structures are giving way to more flexible network-based structures focused on projects rather than internal processes. The latest manifestation of project work is freelance work in the so-called 'gig economy', which is a key theme in this book. There is an exponential growth of specialised knowledge with which managers simply cannot keep up, and individuals are working longer and harder for their own careers rather than as organisational 'clones'. Organisational sustainability and success now depends on developing HR capabilities to capitalise on technological possibilities, contextual volatility, uncertainty and ambiguity, and to underwrite creativity, innovation and 'intrepreneurship' (i.e. in-house entrepreneurship).[16]

An additional consideration is the advent of the multigenerational and multicultural workforce. Many organisations now employ people from four generations – the Baby Boomers, Gen X, Gen Y and Millennials (see Chapter 5). Each generation is perceived as having differing values and attitudes towards work, technology and life generally, and different levels of formal education. Most importantly, they also have different expectations about how their capability and contribution (including performance) should be defined, measured and rewarded.[17] Add gender, racial and cultural differences and one must wonder how one performance review system can hope to cope with such complexities! How does the system work when these same people are spread worldwide?

These and other developments have intensified interest in whether and how traditional performance reviews can be made to work effectively.

Emerging issue 1
Performance management and generational change

Is it time to abandon performance management?

There is ample evidence to indicate that there are major shortcomings in the way organisations manage reviews and other aspects of their PMS. Results from Mercer's 2013 Global Performance Management Survey, covering more than 1000 companies in 53 countries, highlight the gap between PMS use and effectiveness. The Mercer study reported that 94 per cent of organisations

in the response sample conducted formal end-of-year performance reviews, while 89 per cent also had overall performance ratings. However, only 3 per cent of firms reported that their PMS delivered exceptional value, with many firms reporting that key aspects of their systems were ineffective and some openly considering abolishing their current systems. Remarkably, only around one-fifth of companies had metrics in place to evaluate whether their PMS made any contribution of a strategic nature, with just 19 per cent measuring the difference in retention rates between top and bottom performers.[18]

It is undoubtedly the case that in many of today's organisations, managers and employees regard performance review as an annual ritual or chore with little connection to other HR functions or business objectives and outcomes. A 2015 PwC study of developments in performance management in 27 of Australia's largest listed companies reported that two-thirds of the companies saw performance management chiefly as a compliance exercise rather than as a strategic enabler. The same report noted that one of the most critical shortcomings with existing PMS is that they 'try to be all things to all people', which leaves them prone to conflicting objectives.[19] For example, is the primary purpose of the PMS to punish underperformance and reward outstanding performance or to support performance improvement and staff development across the board? In the absence of a clear purpose, the ritual of the annual round of performance ratings and review is almost guaranteed to be a source of dissatisfaction.

For these and other reasons, some critics argue that the performance review model is irrevocably broken and should be abandoned in favour of greater attention to improving manager–employee trust and communication.[20] However, it can also be argued that placing greater emphasis on two-way trust and openness represents an evolutionary change in purpose and process, rather than a revolutionary departure from past practice. Rumours of the imminent death of performance ratings and reviews abound but claims of the demise of performance management *per se* are, to say the least, premature. The 2015 PwC Australia study noted that:

> whilst considerable change is occurring, organisations are keeping the existing frameworks but tweaking them to make them leaner and more impactful … Australian companies know that something about their system isn't working quite as it should – as evidenced by symptoms such as employee disengagement and distrust with the process, lack of credibility, and a perception that the process wastes time rather than enables performance. Yet most large organisations continue to run some form of performance management program, even if far from perfect, as they recognise that when done well it can unlock commercial, financial and operational value.[21]

As we shall see later in the chapter, the changes now under way in many organisations in Australian and elsewhere are generally informed by the notion of performance management as a strategically aligned developmental cycle rather than a judgemental event.

A new way forward?

While judgements (and misjudgements) about employee performance remain an ever-present fact of organisational life, in more recent times the ritual of the annual paper-based performance review has begun to yield its place to three interconnected prescriptions for revitalising the PMS model. The first of these is that performance management should be a continuous – even 'virtuous' – cycle. The second proposition is that all aspects of the PMS should be linked directly and explicitly to the organisation's strategic objectives. The third is that PMS development and administration should be based on the principles of organisational justice (i.e. the belief that system operations and outcomes are inherently fair).

PERFORMANCE MANAGEMENT AS A CONTINUOUS CYCLE

performance management cycle
A continuous process of performance monitoring, measurement, informal feedback on performance, regular formal review and feedback, and action planning and support for addressing identified performance shortcomings

A **performance management cycle** is a developmental process rather than a judgemental event. The cyclical process includes establishing performance criteria for individuals and groups that are aligned with organisational strategy and appropriate (i.e. valid) for each role; regular performance monitoring and feedback; accurate (i.e. reliable) assessment of performance against appropriate criteria; provision of formal feedback by an appropriately informed and trained reviewer (typically the immediate supervisor); counselling (and, where appropriate, disciplining) for identified performance deficiencies; action planning to address deficiencies; and coaching of high-potential employees, managers and executives (see Chapter 7).

Figure 8.1 describes the relationship between these key elements of the performance management cycle.

Configured in this way, a PMS can shape employee behaviour in a positive way, thereby contributing to improved organisational performance.[22] For the individual, a well-managed review provides the feedback essential for focused and sustained performance. When integrated into a PMS cycle, the formal performance review should emphasise employee learning as well as career planning, growth and development. A developmental approach recognises that the role of a manager is to improve job behaviour and results, not simply to evaluate past performance for the purpose of punishment or reward.

FIGURE 8.1 The performance management cycle
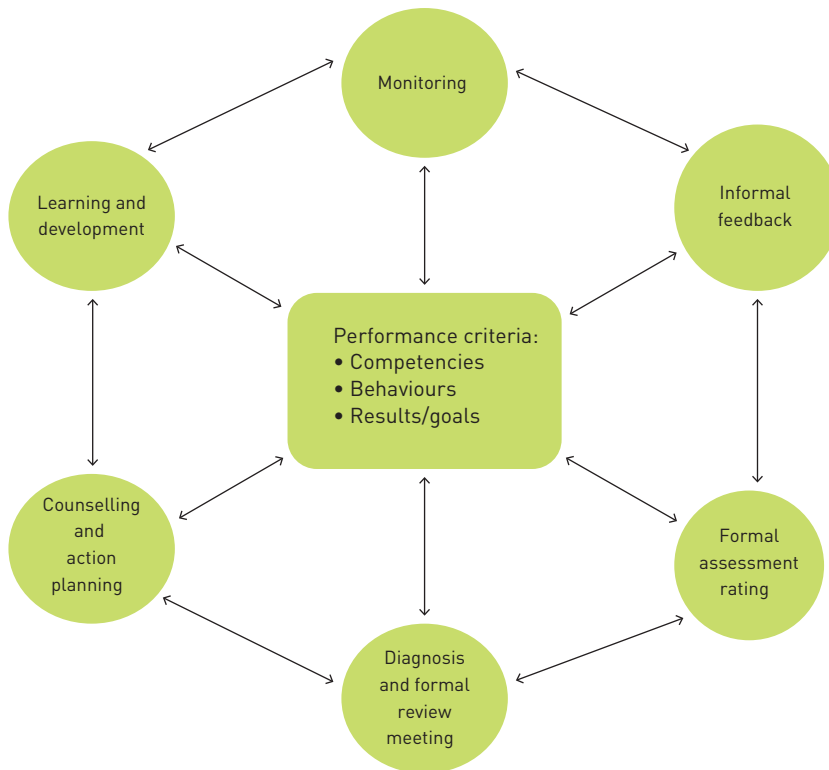
Strategically aligned performance management

Some organisations are finding that by replacing the performance review event with an ongoing cycle of performance management at all levels – individual, work group, business unit and whole organisation – it is possible to realise more effectively the potential that a PMS has to help translate strategic objectives and employee capabilities into desired outcomes. As Cascio has observed: 'Current thinking about performance management has evolved from annual appraisal and rating to continuous feedback and coaching, and from annual goals and objectives to quarterly or even more frequent goal setting, with informal check-in processes.'[23] A key element of this approach is ensuring that the performance criteria used are clearly informed by and aligned with the organisation or business unit's strategic objectives, along the lines depicted in **Figure 8.2**.

In line with the concept of the performance management cycle, performance review is best understood as a purposeful three-step process, where the first phase is effective design,

FIGURE 8.2 A strategic model of management of performance
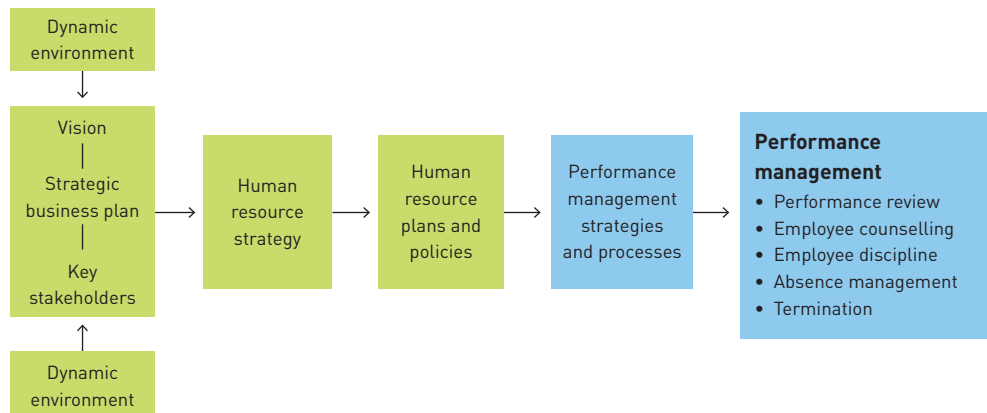
the second is implementation and the third is measurement and feedback.[24] To have clear purpose and meaning, the performance review process should be tied directly to the organisation's overall strategic objectives and the human resource strategies that support those objectives (see **Figure 8.2**). This process will consider questions such as: What does the organisation need from its employees to achieve its strategic aims? Which human resource capabilities or competencies (i.e. knowledge, skills and abilities) does it need to develop? What types of work behaviour does it require? What specific results is it aiming for? A PMS should, first, communicate these requirements (or criteria) to employees clearly and constantly. Second, it should measure employee performance against these criteria, using evidence that is representative and accurate. Third, it should provide feedback to employees that is criterion-specific and evidence-based.

By these means, the review process can be cascaded down to each level within the organisation so that all employees are seen to be contributing to the strategic direction of the company. Individual learning and development plans embodied in the performance review system will, in turn, emanate from the strategic plan (see Chapters 1 and 7). In this way, the complete performance review and employee development processes can be directly linked to strategy.

Research cited in the *Harvard Business Review* strongly suggests that companies using a strategically aligned PMS for individuals and groups perform better financially than those that do not.[25] The basic proposition here is that firms that effectively manage the performance of their people in a strategically aligned way will outperform on a wide range of financial and productivity measures compared with those lacking a strategically aligned PMS.[26] However, establishing a direct cause–effect relationship between performance management and organisational effectiveness is inherently problematic, and the available research evidence on how this relationship works remains sparse.[27]

The effectiveness of any PMS will also depend on the cohesion and compatibility of the bundle of HRM practices of which it is part.[28] A PMS cannot operate in isolation from the other key HRM processes, including staff selection, development and reward management. According to DeNisi and Smith, where these HR processes are integrated and strategically aligned, the capacity of the PMS to make a positive contribution to organisational outcomes will be much enhanced: 'PMSs will be related to firm performance if they are: integrated with other HR practices …; consistent with the firm's strategic goals; focused on behaviours which are under the control of the employees; focused on behaviours that the employee can see are related to achieving strategic goals.'[29]

Performance management and organisational justice

The third ingredient that warrants recognition is performance management and organisational justice. Being continuous and strategically aligned may not be sufficient to make a PMS effective and sustainable. System viability is also likely to depend on the acceptance, commitment and ownership of all involved, including those being reviewed, those performing the review and providing feedback, and the HR professionals accountable for system maintenance. In essence, the PMS must also be seen to be fair in the way it operates, and by all concerned. If it is not, the employees covered by it will have no basis to trust the process, the outcomes, or the attitudes and skills of those responsible for its administration. In other words, a PMS system's effectiveness will also be influenced by the notions of procedural justice and distributive justice.[30] The first concept refers to employees' perceptions of the program's overall process equity, and the latter is linked to the perceptions of the fairness of associated performance ratings, rewards and recognition outcomes. Both concepts will have major implications for employee acceptance of, and commitment to, the system; that is, to whether the system is seen as being a virtuous cycle as opposed to a vicious spiral.

In sum, having a strategic, continuous and fair basis for measuring and improving performance represents a significant departure from the traditional top-down approach to performance rating and review. Performance data generated on a cyclical basis may also be used to assess the effectiveness of other HRM functions in a timely and ongoing way. Real-time data collection of this type offers a valuable means of gauging employee success that may be used in validating selection tests and in determining the relative worth of jobs under a job evaluation program (see Chapter 5). Such data may also be useful in defending HRM actions that have led to the filing of a grievance or a charge of discrimination. Finally, the success of the entire HRM system depends on knowing how employee performance compares with the capabilities, behaviours and results established for them at the point of job placement and subsequently expected from them. This knowledge is best derived from a PMS that is carefully planned, communicated and administered, continuous and aligned with the strategic direction of the organisation, and felt to be fair by all involved.
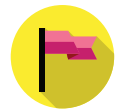
Emerging issue 2
Performance management and organisational justice

procedural justice
Employee perceptions regarding the fairness of the decision-making procedures applied to their work, including how their performance is reviewed

distributive justice
Employee perceptions about the fairness of the outcomes arising from these procedures, including performance scores, promotion outcomes, pay adjustment and employment continuity

We will explore the major changes now under way in PMS practice in more detail once we have considered the main options for measuring, rating and reviewing employees' work behaviour and results.

PERFORMANCE MEASUREMENT METHODS

rating scales
Any method of performance measurement that relies on quantitative scoring with a specified range of scores to measure an employee's performance level in absolute terms

As we have seen, formal performance review constitutes one important (if sometimes controversial) element of a PMS. Performance review methods can be broadly classified as either relative judgement methods, such as individual behavioural rating scales and comparison methods, or results-oriented approaches, such as goal-setting and the balanced scorecard. Behavioural rating scales continue to be used despite long-standing criticism that they are subjective and prone to error and manipulation, particularly by supervisors themselves.[31] The newer methods of behavioural rating include peer, self and upward review and 360-degree feedback. The results-oriented approaches are gaining popularity because they focus on the measurable contributions that employees make to the organisation.

Behaviourally based methods

Behavioural appraisal systems have two key dimensions. The first is the source of behavioural information; and the second, the type of behavioural rating system used. Traditionally, appraisal was undertaken exclusively by the direct supervisor, and this is still the dominant approach. However, it has become increasingly common for supervisory rating to be combined with additional methods, including peer, self and upward review and multi-source, or 360-degree, feedback. The instruments used to rate individual behaviour also vary considerably and the dominant techniques are considered below.

Peer review

peer review
A performance review method in which one or more employees provide typically anonymous input on the performance of a fellow employee

Occasionally, reviews are conducted by someone other than a supervisor. Individuals of equal rank who work together are sometimes asked to evaluate each other. These peer reviews provide information that differs to some degree from a supervisor's assessment. Peers can readily identify leadership and interpersonal skills, along with other strengths or weaknesses, in their co-workers. For example, a police commander asked to rate a constable on dealing with the public may not have much opportunity to observe these interactions. Close colleagues, on the other hand, have the opportunity to assess this behaviour regularly.

One advantage of peer reviews is that they have the potential to furnish more accurate and valid information than reviews by supervisors. The question might well be, 'Who can most accurately judge job performance; the manager who often sees employees putting their best foot forward, or those who work with their fellow associates on a regular basis?'[32] Typically, peer assessments are compiled into a single profile and given to the supervisor for use in the final review.[33]

Despite early evidence that peer reviews may provide the most accurate method of judging employee behaviour, this approach is not widely used in the Asia Pacific region, often due to cultural factors. The reasons commonly cited include:[34]

- Peer ratings are simply a popularity contest.
- Managers are reluctant to give up control over the review process.
- Those receiving low ratings might retaliate against their peers.
- Peers rely on stereotypes in ratings.

Employers using peer reviews must also be sure to safeguard confidentiality in handling the review forms. Any breach of confidentiality can create interpersonal rivalries or hurt feelings and cause hostility towards fellow employees. For this reason, information from fellow employees is commonly anonymised before being passed on to the recipient.

Self-review

A popular approach in some organisations involves employees being asked to evaluate themselves; that is, to conduct a self-review. Self-reviews are beneficial when managers seek to increase employees' involvement in the review process. A self-review requires an employee to complete the review form prior to the performance interview. During the interview, the supervisor and the employee discuss job performance and agree on a final review. This approach also works well when the supervisor and the employee jointly establish future performance goals or employee development plans. It is not appropriate where the performance assessment is linked directly to a pay outcome. Self-review is most often used in combination with goal–setting (see below) and is particularly appropriate where a participative culture is in place.

self-review
A performance review method where employees are asked to evaluate themselves. The supervisor and the employee discuss job performance and agree on a final review

Upward review

Upward review by team members can be used to give team leaders and other managers feedback on how their team members view them. Subordinates are in a good position to evaluate their managers as they are in frequent contact with each other, and the subordinate occupies a unique position from which to observe much performance-related behaviour.[35] Appropriate performance dimensions for subordinate reviews might include leadership, communication, empowerment, coordination of team efforts, development of subordinates, planning and organising, budget control, creativity and analytical ability.

upward review
A performance review method where subordinates will review and rate the performance of their manager or team leader

However, upward feedback is less likely to be accepted in countries with national and organisational cultures in which there is a big power difference between managers and staff, as in many Asia Pacific countries. In relation to the workplace, the concept of *power distance* refers to the power differences between managers and the managed, and the level of acceptance of unequal distribution of power. Cultures and organisations with low power distance accept democratic power relations and people generally relate to each other as equals regardless of rank or hierarchy. Conversely, cultures with high power distance are more autocratic, and subordinates accept and acknowledge the power of those in hierarchical positions above

them. Countries with high power distance cultures include India, Indonesia, Japan, Malaysia, Singapore, Vietnam and China.[36]

360-degree feedback

360-degree feedback
A performance review method where an employee is rated by a select number of people employed above, below and alongside them, as well as by themselves and sometimes their customers and/or suppliers

A sustained effort to provide accurate, objective and timely feedback on performance has seen the emergence of 360-degree feedback, also known as multi-source feedback. In this scenario, organisations will attempt to gather work performance data about an employee from as many sources as possible.[37] It has been suggested that multi-source feedback will help to overcome supervisory blind spots and enhance employees' overall emotional intelligence.[38]

A typical 360-degree feedback approach involves six reviewers – two managers, two subordinates and two peers – commenting on an employee's performance over a range of predetermined criteria. The final report is a compilation and summary of the six individual reports, with feedback provided by a trained facilitator. One Australian writer has commented that the theory underlying 360-degree feedback is attractive because involving more than one person leads to a feedback process that is likely to be more meaningful for both the supervisor and the employee.[39]

The 2013 Mercer global survey revealed that while around one-third of organisations used informal multi-source feedback, only 22 per cent made use of it in a formal capacity.[40] Peiperl suggests that the reluctance to adopt the 360-degree approach may be due in part to the nature of peer review, in that it tends to exacerbate bureaucracy, heighten political tensions and consume an enormous amount of time.[41] This can be true where trust is an issue, where the process is performed manually rather than electronically and where too many reviews are attempted at the one time. With six to eight people involved in each review, peer assessment and 360-degree reviews can virtually close the organisation down as people busily fill in the paperwork.

The potential effectiveness of the 360-degree method is also likely to be dependent upon whether the organisation's culture and employment relations will be supportive of this type of strategy. Where trust, alignment, commitment and acceptance are present, the chances of success will be enhanced. Where these fundamentals are missing, success is likely to be very limited.

Graphic rating scales

graphic rating scale
A simple quantitative performance measurement instrument in which the rater assigns a score within a predefined range of scores (typically between one and five)

Graphic rating scales are a relatively common method for recording behavioural observations for review and feedback. Each trait or characteristic to be rated is represented by a scale on which a rater indicates the degree to which an employee possesses that trait or characteristic. An example of this type of scale is shown in **Figure 8.3**. There are many variations. The differences are to be found in the characteristics or dimensions on which individuals are rated, the degree to which the performance dimension is defined for the rater and how clearly the points on the scale are defined.

FIGURE 8.3 An example of a graphic rating form

1 Knowledge of work Understanding of all phases of his/her work and related matters	Needs instruction or guidance ☐	Has required knowledge of own and related work ☐	Has exceptional ☐ knowledge of own and related work
	Remarks:		
	Is particularly good on gas engines.		
2 Initiative Ability to originate or develop ideas and to get things started	Lacks imagination ☐	Meets necessary requirements ☐	Unusually ☐ resourceful
	Remarks:		
	Has good ideas when asked for an opinion, but otherwise will not offer them. Somewhat lacking in self-confidence.		
3 Application Attention and application to his/her work	Wastes time. Needs ☐ close supervision	Steady and willing ☐ worker	Exceptionally ☐ industrious
	Remarks:		
	Accepted new jobs where assigned.		
4 Quality of work Thoroughness, neatness and accuracy of work	Needs improvement ☐	Regularly meets recognised standards ☐	Consistently ☐ maintains highest quality
	Remarks:		
	The work he turns out is always of the highest possible quality.		
5 Volume of work Quantity of acceptable work	Should be increased ☐	Regularly meets recognised standards ☐	Unusually ☐ high output
	Remarks:		
	Would be higher if he did not spend so much time checking and rechecking his work.		

In **Figure 8.3**, the dimensions are defined briefly and some attempt is made to define the points on the scale. Subjectivity is reduced when the dimensions on the scale and the scale points are defined as precisely as possible, rather than simply using a numerical scale with no descriptive anchors. This can be achieved by training raters and by including descriptive review guidelines in a user-friendly performance review reference book developed by the organisation.

The rating form should also provide sufficient space for comments on the behaviour associated with each scale. These comments improve the accuracy of the review since they require the rater to think in terms of observable employee behaviours, while also providing specific examples to discuss with the employee during the performance review interview. Space for employee comments is also highly recommended.

Behaviourally anchored rating scale

One way to improve the reliability of a simple rating scale is to place descriptions of behaviour along a scale, or continuum. These descriptions – or anchors – permit the rater to identify the point at which a particular employee should be rated on the scale. A review procedure has been developed to identify many dimensions of performance in terms of specific behaviours. It uses a device known as the behaviourally anchored rating scale (BARS).

A BARS typically consists of five to 10 vertical scales – one for each important dimension of job performance anchored by the incidents judged to be critical. A critical incident occurs when employee behaviour results in unusual success or unusual failure in some part of the job. The critical incidents are placed along the scale and are assigned points according to the opinions of experts. A BARS is typically developed by a committee that includes both employees and managers and which identifies the relevant characteristics or dimensions of the job. Behavioural anchors in the form of statements are then established for each dimension. Several participants are asked to review the anchor statements and indicate which job dimension each anchor illustrates. The only anchors retained are those that at least 70 per cent of the group agree belong with a particular dimension. Finally, anchors are attached to their job dimensions and placed on the appropriate scales according to values that the group assigns to them.[42]

One potential advantage of a BARS is that identification of valid behavioural examples requires input from both managers and job holders. Employee participation can lead to greater acceptance and a sense of ownership of the performance review process and of the behavioural measures that it uses. The BARS is particularly useful where the manner in which a job is performed (how) is at least as important as the results achieved (how much). In this sense, a BARS may be a useful complement to the results-based methods discussed below.[43] Indeed, in many service sector jobs, the way in which the service is provided (i.e. the behavioural interaction with the client or customer) *is* the result.

A well-executed BARS should produce valid and relevant performance criteria and measures and be more likely to cover all relevant behavioural aspects of the job. Its main disadvantage is that it requires considerable time and effort to develop. In addition, because the scales are specific to particular jobs, a scale designed for one job will not apply to another.

Results-based methods

As the term suggests, results-based methods of performance review focus on measurable outcomes achieved. Here we consider two such approaches that are emblematic of contemporary results-based performance management: goal-setting and the balanced scorecard.

Goal-setting

The logic behind goal-setting is that better results will be achieved by directing employees towards anticipated future achievement than by benchmarking only against what has already been achieved. Goal-setting theory stresses the importance of self-regulation, contending that

behaviourally anchored rating scale (BARS)
A quantitative performance measurement instrument covering a range of behavioural criteria, each of which is accompanied by a behavioural example or anchor

goal-setting
A method of performance management in which the employee or employee team is set a number of specific but challenging goals (i.e. future outcomes) to be achieved within a specified timeframe

Goal-setting theory
Proposes that employees will be motivated more strongly by performance targets that are specific, agreed and challenging, and by feedback that is precise, automatic and continuous

individuals will be more highly motivated when they are set specific but challenging levels of achievement within a specified future timeframe; when they also have high goal commitment and self-efficacy; and when feedback on progress is continuous.[44]

Goals are also typically referred to by other terms, such as 'objectives', 'targets' and 'key performance indicators' (KPIs). Both in literature and in practice, it has also become customary to recommend that the setting of goals should be in accordance with what have become known as the SMART criteria; that is, goals should be *S*pecific, *M*easurable, *A*mbitious but also *A*chievable, *R*elevant and *T*ime-bound.[45]

As a method for managing employee results, goal-setting has much to commend it. By using seemingly objective measures, it can avoid the subjectivity and susceptibility to unreliability inherent in behavioural assessment. At the level of the individual employee, goal-setting facilitates continuous self-monitoring, feedback and performance improvement, as well as highlighting the importance of systematic performance planning. Properly applied, goal-setting also encourages greater supervisor–subordinate communication, cooperation and trust. There is some evidence that unionised employees are more likely to respond favourably to individual goal-setting for developmental purposes and where employees are allowed to participate in goal-setting.[46]

Yet, as critics have argued, goal-setting also has some potentially serious shortcomings. Being results-focused, it emphasises *what* is achieved over *how* results are achieved and this may encourage short-cuts, undue risk-taking and behaviour that may be unethical or even unlawful. Tasks not subject to goal-setting may be ignored and there may be a temptation to set easy goals, especially where goal achievement is linked to pay. Goals may be set in too many areas, perhaps giving rise to cognitive overload and work stress. The pursuit of personal goals may have a detrimental effect on group cooperation and performance. As the evidence uncovered by the 2017–18 Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry revealed, over-emphasis on sales goals, targets or KPIs can be to the detriment of consumers[47] (see also the **Ethical challenge** at the end of this chapter). Further, where failure to attain a specific goal is punished in some way, goal-setting may discourage employees from being creative and taking reasonable risks in pursuing their goals. Since goal-setting is a formula for continuous performance enhancement, it also opens the possibility of employee stress and performance burnout, particularly where performance potential has technological limits.[48]

Balanced scorecard

Imagine entering the cockpit of a modern aircraft and finding only one instrument there for flying the aeroplane – this is like attempting to measure performance with limited criteria. This problem is addressed by the balanced scorecard approach to performance management.

Introduced to the popular strategic management literature by Kaplan and Norton in the early to mid-1990s,[49] the balanced scorecard approach translates an organisation's mission and strategies into a comprehensive set of performance measures that provides the

balanced scorecard
An integrative strategic management tool where employees, teams and business units are set goals and are assessed across four quadrants: financial, customers, internal business processes, and learning and innovation

framework for a strategic measurement and management system. The scorecard measures organisational performance across four balanced perspectives, resulting in a four-quadrant model (see **Figure 8.4**). The four quadrants are:

1   financial
2   customers
3   internal business processes
4   learning and innovation.

FIGURE 8.4 The balanced scorecard model
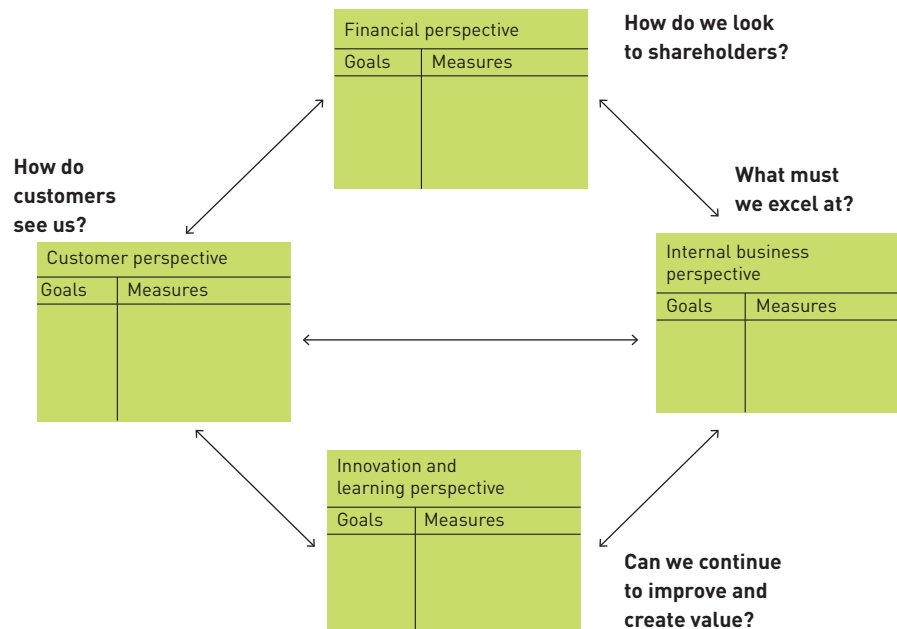
Source: Adapted from Kaplan, R. S. and Norton, D. P. (1992), The balanced scorecard – Measures that drive performance. *Harvard Business Review*, January–February, pp. 92–100.

Kaplan and Norton argued that the shortcoming of traditional performance measurement systems was an over-reliance on financial measures. The objective of the balanced scorecard is to analyse financial and non-financial, forward-looking, predictive measures. The effective management of people, processes and customers is just as important.

This approach to strategy is then easily translated to performance management by setting both short- and long-term goals for all employees across each of the four quadrants. Success or otherwise in attaining those goals is then measured, with performance review far more likely to be linked to the organisation's mission and strategic plan than with any of the other systems discussed. In addition, the attraction of this approach to HR professionals will be in its emphasis on learning and growth goals, not only for the person under review, but also for that person's team members. It is also possible and highly practical to alter the headings of the

four quadrants to reflect the strategic direction and objectives of individual organisations, and to better reflect the position being reviewed.

Yet it can hardly be said that the balanced scorecard has taken the corporate world by storm, at least in its purest form. Country-specific data suggests that only a minority of organisations have embraced the approach. Evidence from Mercer's 2013 global survey on performance management shows that only 56 per cent of firms cascade goals from the company to the business unit, while only 51 per cent cascade them from the business unit to the employee. The incidence was highest in Eastern Europe (85%) and the Asia Pacific region (71%), and lowest in the United States (42%) – the birthplace of the balanced scorecard – and Canada (38%). In 2015, PwC reported that 73 per cent of the largest Australian companies used balanced scorecards of one sort or another when setting performance objctives.[50]

What lies behind this reluctance to embrace the promise of the balanced scorecard as originally conceived? On the practical side, its ambitious scope means that its implementation will necessarily take considerable time, resourcing and commitment. Translating broad and long-term corporate objectives into accepted short-term individual goals also poses many practical challenges. The emphasis on strategic goal alignment means that it may easily come to be seen as a top–down control device rather than as a genuinely participative practice. The model may also be too cumbersome to cope with sudden and unforeseen changes in the operating environment. The emphasis on internalities – especially HR and internal process improvement – may also detract from a proper consideration of external developments.

Rather than applying the balanced scorecard in its pure sense, some leading firms have developed and implemented customised versions of their own, with a measure of success. One celebrated example is internet giant Google's Objectives and Key Results (OKR) system[51] (see **Case study 8.1** at the end of the chapter for an analysis exercise related to this).

WHY PERFORMANCE MANAGEMENT SYSTEMS OFTEN FAIL

Whatever the intentions behind them, PMS often yield disappointing results, and this occurs for a number of reasons. Some of these have to do with general design flaws; others relate to errors of a human nature.

The 'deadly sins' of performance mismanagement

Weaknesses of a systemic nature can include the absence of clear top management support, lack of job–relatedness standards, excessive paperwork and using the PMS for conflicting purposes. The locus of dysfunctionality is often the formal review process itself and how it relates to other HR functions. For example, if a review program is used to drive pay variability and at the same time to motivate subordinates to improve their capabilities and the results achieved, the two

purposes may conflict. As a result, the review interview essentially becomes a salary discussion in which the superior seeks to justify the action taken and, consequently, the discussion has little influence on the subordinate's future job performance.

The literature on the reasons for PMS failure is vast. Management 'guru' Michael Hammer identifies the following as the seven most 'deadly sins of performance management':

1 *Vanity:* using measures that just make managers look good.
2 *Provincialism:* using too narrow a range of measures.
3 *Narcissism:* measuring from one's own point of view.
4 *Laziness:* measuring what is easiest and most obvious.
5 *Pettiness:* measuring only a small component of what matters.
6 *Inanity:* measuring for its own sake.
7 *Frivolity:* not taking measurement seriously.[52]

More subtly, perhaps, a recent review of existing scholarship in the field distils the main reasons for 'unintended consequences' of 'directive' (i.e. top-down) PMS to five factors:

1 *Gaming:* individuals just alter their behaviour to play the system rather than taking it seriously.
2 *Information manipulation:* performance information is misrepresented, misclassified or simply fabricated.
3 *Selective attention:* reviewers become fixated on some criteria and measures – such as readily quantifiable short-term results – to the exclusion of others.
4 *Illusion of control:* managers fool themselves into believing that PMS ratings, however distorted, do truly reflect actual performance and that influencing ratings is tantamount to genuine control over performance.
5 *Relationship transformation:* the PMS itself reshapes social relationships, typically by impairing trust and accentuating power inequality.[53]

As with all HRM functions, if the support of top management is lacking, the system is very likely to fail. Leaders must role model and prioritise performance management as a key strategic enabler. Even the best-conceived system will not work if employees are not encouraged by their leaders to take the program seriously. Senior management should announce that effectiveness in reviewing performance is a standard by which the reviewers themselves will be evaluated. In addition, a policy statement signed by the chief executive officer must be a vital first step. Trust in senior management is especially important in shaping employee perceptions of fair treatment by line managers during performance appraisal.[54]

Other systemic reasons why performance management can fail to yield the desired results include the following:

- Managers feel that little or no benefit will be derived from the time and energy spent on the process.
- Managers see the process as another HR burden rather than a means to link individual and corporate goals.

- Managers are either unwilling or unable to objectively assess and differentiate performance.
- Managers dislike the face-to-face confrontation of review interviews.
- Managers are not sufficiently skilled in conducting review interviews.
- The judgemental role of review conflicts with the role of developing employees.
- In the words of management theorist Douglas McGregor, 'a reluctance to play God' deters raters from making honest judgement calls.[55]
- There is a lack of commitment or sense of ownership on the part of employees.
- Reviews become an empty ritual, with all players focusing on process and compliance issues rather than on the quality of discussions and genuine performance enhancement.

Some contemporary researchers have argued that the first difficulty in performance review is finding a measurement instrument that will be valid across a large number of positions and people. This is particularly evident where such measures are being used across national borders with different cultural beliefs and value systems.[56] In the international realm, contextual performance takes on far greater importance.[57] For example, 360-degree feedback methods may well be effective in collective cultures such as in Sweden or Mexico, but may not be accepted culturally in a high power distance country such as India, Indonesia or China.

As we have seen, performance review in some organisations is a once-a-year activity in which the review interview becomes a source of friction for both appraisers and employees. An important principle of performance review is that continuous feedback and employee coaching must be a positive daily activity.[58] The annual or semi-annual performance review should simply be a logical extension of the day-to-day supervision process. There should be no surprises at the review interview.

One of the main concerns of employees is the fairness of the performance review system, since the process is central to so many HRM decisions. Employees who believe the system is unfair may consider the interview a waste of time and leave the interview with feelings of anxiety or frustration. Also, they may view compliance with the system as perfunctory and therefore play only a passive role during the interview process. By addressing these employee concerns during the planning stage of the review process, the organisation will help the program to achieve its goals. Employee and business management engagement is a key consideration.

Finally, organisational politics can introduce a bias even in fairly administered employee reviews. For example, managers may distort ratings upward because they desire higher salaries for their employees or because higher subordinate ratings make them look good as managers. Managers may manipulate ratings in some way if they want to get rid of troublesome employees or, conversely, keep valued employees. These are not errors in the traditional sense that we discussed earlier, since managers are well aware of what they are doing, and the written rating is at odds with what the manager really believes about employee performance.

Rating errors

PMS weakness or failure can arise from the fact that every PMS – even those making use of cutting-edge technology – involves human judgement and, hence, human fallibility. Human judgement is invariably accompanied by the probability of human error. Supervisors constantly observe the way their subordinates carry out their assignments and form impressions about the contributions they make and the relative worth of these employees to the organisation. Likewise, employees regularly judge the performance of their peers, particularly where teamwork is involved. Indeed, all organisational players – supervisors, peers, subordinates and customers/clients – constantly appraise, consciously or unconsciously, objectively and subjectively. They also continuously appraise the performer's underlying capabilities and outlook, including their personal traits, attributes, motives and abilities, as well as their observable behaviours and individual contribution or results.

Since every method of performance measurement involves rater interpretation and decision-making, the measurement process itself is prone to various types of inaccuracy and error.[59] Some such errors reflect the idiosyncrasies and limits of human cognitive capacity and are unintentional; others are quite deliberate. Rater personality traits have been shown to bias scores. For instance, a study by Bernardin et al. found that the most lenient raters (see the discussion of leniency error below) are those with a high level of agreeableness (one of the 'big five' personality factors).[60] Nobody is immune from such biases. We all have an inbuilt tendency to explain what we see – that is, to attribute causes to our own and other's underperformance – in a biased and self-serving manner. For example, while we might be inclined to attribute underperformance by others to their individual shortcomings, we tend to attribute our own underperformance to contextual factors beyond our control. Likewise, as Nobel laureate Daniel Kahneman has noted, in our haste to arrive at a conclusion or a solution, we are prone to pre-judge situations and then to seek out, quite selectively, evidence that supports or confirms our initial position.[61] Biased decisions of these types are one of the fundamental psychological and procedural challenges of contemporary performance management.

Halo error is common with respect to rating scales, especially those that do not include carefully developed descriptions of the employee behaviours being rated. The halo error is unintentional and occurs when the perception of one positive quality makes someone more likely to perceive other qualities positively, and this can overshadow the review. It can also work in a reverse manner, causing what is sometimes termed 'horns' or 'devil' error. Provision for comments on the rating form, as shown in **Figure 8.3**, tends to reduce halo error. In addition, those methods based on employee participation – such as BARS, 360-degree feedback, balanced scorecard and self-assessment – tend to reduce rater error.

When the review is based largely on the employee's recent behaviour, whether good or bad, the rater may be prone to recency error. This is because we can generally recall most fully those things that happened most recently. Without work record documentation for the entire review period, the rater will be inclined to recall recent employee behaviour to establish the

halo error
An unintentional judgement error where one impressive factor overshadows the entire performance review. Can also be negative (horns or devil error)

recency error
A judgement error that can occur when performance – especially behaviour – across only the last few months of the rating period is taken into account

similarity error
A judgement error arising from the rater's subconscious tendency to favour individuals whom they see as being more like them than dissimilar to them

rating. Consequently, performance ratings may be biased either favourably or unfavourably, depending on the way recent performance information is selected, evaluated and organised by the rater. Recency error can be minimised by having the rater routinely document employee accomplishments and weaknesses throughout the whole review period. Rater training will also help to reduce this unintended error.

Raters may also be prone to similarity error, which involves unconsciously favouring individuals perceived by the rater as being most like themselves demographically, behaviourally or attitudinally, and unfavourably rating those seen as being least like themselves. Raters should be aware of any stereotypical assumptions they may hold about particular groups (gender, race, age or other), because the observation and interpretation of performance can be clouded by these stereotypes. This problem will be aggravated when employees are assessed on the basis of poorly defined performance standards and personal traits that may be unrelated to actual job performance.

Attribution error is another form of unintentional misjudgement. This arises from implicit subjectivity in the attribution of a cause to observed performance. Attribution error occurs when the rater draws on preconceived notions of cause and effect to ascribe causes to what is observed. The classic example is attribution of one's own underperformance to factors beyond the self (external attribution) and high performance to one's own perceived qualities (internal attribution). As with similarity error, other perceptual factors also come into play, from impressions of the performer's track record and the perceived degree of difficulty of their current job to unconscious or implicit bias for or against people from certain social groups.[62]

However, not all rating errors are unintentional. For various reasons, some raters may deliberately give ratings that are higher or lower than they believe the employee's performance really warrants. These are also known as *classification errors*. Among the most common errors of this type are leniency error, harshness error and central tendency error.

Leniency error occurs when the rater is deliberately over-generous in the rating they give, perhaps because they want to be seen as a capable supervisor. Harshness error involves deliberate under-rating, motivated perhaps by a dislike of the individual. Raters who are reluctant to assign either extremely high or extremely low ratings engage in what is known as central tendency error. In large work groups, in particular, it would be normal to expect significant differences in performance between individual employees.

One way to reduce such deliberate errors is to require ratings to conform to a pattern such that raw ratings are adjusted to fit a 'normal' distribution or bell curve. For example, it may be required that 10 per cent of ratings be poor (or excellent). Known as forced distribution, normalisation of this type may reduce the effect of intentional errors. Mercer's 2013 global survey showed that 30 per cent of companies use the forced or 'guided' ratings distributions. It is noteworthy that the rate of use was actually highest in Asia Pacific companies (India 61%, China 58% and South Korea 58%). Yet, globally, only 5 per cent of firms believed that use of forced distribution had significantly improved performance outcomes.[63] Recalibration

attribution error
When the rater wrongly attributes high or low performance either to factors that are within the employee's control (internal attribution) or to factors in the performance context (external attribution)

leniency error
A classification error in which, for personal or political reasons, the rater consciously rates the performer more generously than is warranted

harshness error
A classification error in which, for personal or political reasons, the rater consciously rates the performer less generously than is warranted

central tendency error
A classification error in which, for personal or political reasons, the rater consciously rates all performers in the middle of the range with a view to minimising conflict

forced distribution
A method for addressing systemic rater error – particularly leniency – in which preliminary or raw scores are recalibrated into a normal distribution curve

of raw performance scores in this way may engender a sense of injustice and distrust among employees, particularly if the process is used to determine allocation of reward outcomes, who gets to keep their job and who is dismissed. For such reasons, the practice of forced distribution remains subject to heated debate in the academic and practitioner literature.[64]

THE END OF PMS – OR A NEW BEGINNING?

Having now examined the tools of performance measurement and the reasons why PMS is so prone to mismeasurement and mismanagement, we return to considering the future of performance management, which was canvassed at a general level in the opening sections of the chapter.

The case for abolition

Prominent British 'pracademic' Michael Armstrong, a commentator with many years' experience as a researcher and writer on performance and reward matters, has recently called for the abolition of ratings and annual performance reviews and the reinvention of performance management as a developmental process.[65] Some well-known firms have decided that the annual performance review is beyond redemption and have abandoned it altogether. IT firms Adobe, Dell, Microsoft and IBM led the way and have been joined more recently by professional services firms such as Deloitte, PwC and Accenture.[66] Adobe abolished annual performance appraisals, ratings and forced distribution in 2012, moving to its 'check-ins' approach. While this initiative remains a work in progress, the core concepts remain unchanged: a focus on management setting clear expectations, collaborative feedback as opposed to solo judgement, and a focus on development and continuous improvement.[67] Other firms that have also abandoned once deeply held habits include US multinational GE, which applied forced ranking aggressively in the 1980s and 1990s, but recently abandoned ratings in favour of ongoing touchpoints and procedures to deliver instantaneous multidirectional feedback. The company's new approach focuses on performance development rather than appraisal.[68]

However, there are good reasons for believing that disbanding formal performance management may have significant, unintended consequences, and debate on the fate of PMS in general – and ratings in particular – continues to grow.[69] While removing reviews may reduce employees' negative feelings about being judged, as the 2015 report by PwC Australia cautioned, the vacuum arising from the removal of reviews may also increase bias due to managers inventing their own rules about what constitutes good performance. It may also give rise to a 'wild west' of unofficial, unregulated employee rankings. The same study found that 70 to 80 per cent of firms felt that discontinuing performance management would worsen business performance and reduce their ability to manage both high and low performers although, interestingly, almost half of employees surveyed for this study said they would feel no impact if the PMS was discontinued.[70]

Artificial intelligence and apps to the rescue?

Robotics, artificial intelligence (AI), machine learning and (in prospect, at least) quantum computing may liberate organisations from the drudgery and inaccuracy of backward-facing performance reviews. As in many areas of HR practice, there is an ever-increasing number of online and mobile apps available to support real-time performance feedback. To accompany its new approach, GE has developed an in-house app 'to gain insights from employees and managers at all levels, including upward feedback on managers – and the results in terms of performance improvement appear to have been dramatic'.[71] Specialist providers have also moved into the field. Organisations looking to innovate now have access to a new breed of continuous performance management products incorporating feedback tools from vendors such as Reflektive, Betterworks, Zugata, HighGround, WorkBoard and SuccessFactors.[72]

Technology is therefore transforming not only the nature of work tasks but also how work performance is monitored, measured and managed. As detailed in **The future of work 8.1**, IBM is using AI in the form of its super-computer, Watson, to overcome the limitations of performance reviews in predicting employees' future performance levels. As exciting as this prospect is, it remains too early to tell whether AI will consign rating errors and the performance review to the dustbin of history.

The future of work 8.1

Is this the future of performance management?

Maybe past performance isn't the best predictor of future success.

At IBM, when performance review time rolls around, employees get judged not only on their past accomplishments (and failures) but also on how they might perform in the future. How can IBM predict the future? In a word: Watson.

Using artificial intelligence, Watson Analytics looks at an employee's experiences and projects to infer the potential skills and qualities each person might have to serve IBM in the future.

Watson also scours IBM's internal training system to see if an employee has gained new skills. Managers then take Watson's assessment rating into account as they make bonus, pay and promotion decisions.

'Traditional models said if you were a strong performer in your current job that was the singular way that you got a promotion,' said Nickle LaMoreaux, vice president for compensation and benefits at IBM. 'Well, we certainly still care about performance,' she said.

But that now includes hypothetical future performance, too. IBM claims Watson has a 96 percent accuracy rate, as compared to IBM's internal analysis with HR experts. The company spot-checks employee performance against its predictions.

Historically, employers used past accomplishments as the sole metric for compensation decisions, premised on the idea that the past is prologue. The method worked when job tasks stayed relatively static over time, but 'the half-life of skills is getting shorter and shorter,' said LaMoreaux. What employees could do yesterday matters less than what they can potentially do tomorrow.
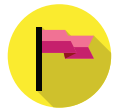
Emerging issue 3
Performance management and technological change

To motivate employees to learn new skills, more employers are starting to focus on the future during evaluations. A survey of more than 2,000 organizations by the consulting firm Willis Towers Watson, found that over 40 percent of respondents are planning on or considering changing the focus of performance management to include future potential and possession of skills.

The shift to skills-based performance management is motivated, in part, by employers that say they're struggling with a skills gap. A National Federation of Independent Business survey from June found that more than one-third of small businesses have open positions. The existence of a worker shortage is debatable. Employers claim they can't find the right people, but they also haven't raised wages much, indicating they're not trying very hard.

IBM, for one, says it can't find enough candidates with the right skills to fill its jobs, especially for its technology roles. The company shows its current employees what positions it needs filled and what skills are needed to do those jobs, so they know what type of training to undertake to get high performance ratings. IBM claims employees take an average of almost 60 hours of education each year.

Not all companies use analytics to predict their employees' futures. The Intern Group, an internship matching organization with 80 employees, ranks its workers on what it believes are the 15 skills – such as flexibility and communication – needed to succeed in the next 100 years.

The company has used the rating system to identify what Chief Executive Officer David Lloyd calls its top 10 percent future talent, a group of people the company will do 'whatever it takes' to keep, Lloyd said. These theoretical future high performers benefit from internal mentorship, job rotation opportunities and compensation rewards, which suggests the rankings are a self-fulfilling prophecy.

Still, Lloyd argues that focusing on these skills will serve all employees. 'We are preparing our employees for the skills that are necessary in the future,' Lloyd said. 'That's going to be relevant whether your future lies in our company or not.'

A new beginning?

To provide a sense of where performance management is heading, **Figure 8.5** details the main changes under way in large Australian companies as revealed in the 2015 PwC study.

More broadly still, **Table 8.1** summarises the differences between the 'old rules' of performance management and the 'new rules' as characterised by Deloitte consulting services. Clearly, the suggested new order remains aspirational and the pace and direction of change is very likely to remain uneven and varied by occupation, organisation, industry and country.

Note how closely these summaries reflect the points made earlier in the chapter regarding the potential of revitalising a PMS so that it is:

- a continuous cycle of capability development (not an annual judgement process)
- strategically aligned and integrated with other HR functions (not an empty, isolated ritual)

- organisationally just (with felt-fair processes and outcomes, not an imposed regime of command and control).

Equipped with these insights, we can now consider with greater confidence the requirements for designing and administering effective and sustainable PMS.

FIGURE 8.5 Main changes to performance management practices in large Australian listed companies, 2015

Business strategy and focus areas
- Alignment of business planning sessions and scorecard development (strategy owned)
- Facilitated sessions to support co-development of goals both within and across business units
- Making scorecards public, particularly those of leaders
- Appointment of formal or informal performance alignment roles to oversee the cascade process
- Including coaching capability uplift/people management as a mandatory business focus area for all leaders

Performance and development goals
- Reduction in the number of individual metrics
- Greater emphasis on team/network contribution metrics
- Auditing of goal quality and additional support to improve quality of goals
- Conduct of upfront calibration sessions to obtain agreement on what 'good' and 'exceeds' look like

Mid-year review
- Positioning of mid-year review as just one of many feedback conversations throughout the year
- Shift in focus to be more of a check-in to consolidate real-time feedback received through apps and project completions to date
- Provision of tools and conversation guides to ensure a more structured conversation
- Removal of mod-year/tentative ratings
- Greater focus on development

Calibration guidelines
- Introduction of bias tests
- Removal of guided distributions
- Defining performance differently so that most employees are expected to be top performers rather than meeting expectations

Performance rating
- Simplification of rating scales
- Use of more positive and qualitative labels

Annual review feedback
- Separation of performance feedback and pay outcome discussion
- Focus on capability uplift of managers to support year-end conversations
- Greater support provided to managers to support higher-quality conversations
- Rebalancing of conversation towards future capability and development

Source: Grogan, E., Geard, D. and Stephens, E. (2015), *Performance management effectiveness in the ASX150. Performance management change is on the way but will it be enough?* Sydney: PwC Australia, p. 6. https://www.pwc.com.au/people-business/assets/publications/performance-management-mar15.pdf.

TABLE 8.1 Old vs new rules of performance management

OLD RULES	NEW RULES
Performance appraisals and goal-setting conducted once per year	Check-ins conducted quarterly or more frequently; regular goal-setting occurs in an open, collaborative process
Feedback collected by manager at end of year	Feedback collected continuously and easily reviewed at end of year (often through apps and mobile tools)
Goals kept confidential with focus on individual achievement	Goals made public and transparent with increased focus on team achievement
Employees evaluated by their manager	Managers also evaluated by their employees
Employees force-ranked on a quantitative scale	Employees rated on a qualitative scale; rankings considered, not forced
Compensation kept confidential and focused on equity; bands based on performance ratings	Compensation levels more transparent, more frequently discussed, and focused more on pay for performance than on equity
Managers focused on evaluating performance	Managers focused on coaching and developing people
One leader evaluates each individual in a qualitative, opinion-based process	Many contribute to an individual's performance evaluation; evaluation draws heavily on data
Process considered to be a burden and waste of time	Process is agile, faster, continuous and lighter

Source: Pelster, B. & Schwartz, J. (eds) (2017), *Rewriting the rules for the digital age. 2017 Deloitte Global Human Capital Trends*. London: Deloitte University Press, p. 72.

REQUIREMENTS FOR SYSTEM EFFECTIVENESS

As the preceding discussion implies, performance management is easy to do badly and difficult to do well. Anticipating and neutralising the sources of potential mismeasurement and PMS failure is no easy task. For Hammer, the solution boils down to four imperatives:

1 deciding what to measure
2 measuring the right way
3 using metrics systematically
4 creating a measurement-friendly culture.[73]

In similar vein, the existing research literature highlights a number of basic ingredients for system efficacy: first, and foremost, being clear about PMS purpose (i.e. what it is meant to do and what it is not meant to do; second, ensuring that 'valid' (i.e. appropriate) performance criteria and measures are applied; third, ensuring that both reviewers and those being reviewed receive proper and timely training in system objectives, standards and processes; and fourth, ensuring reviewer accountability for the judgements they make.[74]

Establishing valid performance criteria

Well before any review is conducted, the standards or criteria by which performance is to be evaluated should be clearly defined and communicated to the employee. These standards must be based on job-related requirements; that is, they must meet the test of job validity or relevance. As discussed in Chapter 5, job standards should be based on job analysis or competency profiling and the resulting job descriptions and person specifications. When performance standards are properly established, they will translate job requirements into levels of acceptable or unacceptable employee performance.[75]

In establishing performance criteria, there are three considerations:

1 *Validity:* Validity is the extent to which performance criteria relate to the tasks and responsibilities of the job. For example, if a standard that 95 per cent of all customer complaints are to be resolved in one day is appropriate to the job of customer service representative, then the standard is said to be relevant to performance.

2 *Freedom from contamination:* A comparison of performance among production workers, for example, should not be contaminated by the fact that some have newer machines than others. A comparison of the performance of travelling sales staff should not be contaminated by the fact that territories differ in sales potential.

3 *Reliability:* Reliability refers to the consistency with which raters measure each employee's performance on each criterion. In ratings, reliability may be measured by correlating two sets of ratings made by a single rater, or by two different raters. For example, in a 360-degree approach, several peer raters may rate a fellow employee using the same set of performance criteria. The ratings should then be compared to determine inter-rater reliability.

Performance criteria will permit managers to specify and communicate precise information to employees regarding quality and quantity of output. Therefore, when performance criteria are written, they should be defined in quantifiable and measurable terms. For example, 'ability and willingness to handle customer orders' is not as good a performance standard as 'all customer orders will be filled in four hours with a 98 per cent accuracy rate'. Expressing standards in specific, measurable terms, and comparing the employee's performance against the standard results, is a more justifiable review.

Some jobs, however, will involve tasks where quantitative measurement is difficult. In these cases, it may be that success must be measured in how the work is performed rather than by the end numerical result. A case in point may be that of a drug and alcohol counsellor whose success will be measured on the quality and outcomes of counselling, rather than by the number of people seen each day.

A challenge that is now of central importance to organisations operating globally is that of managing employee performance across country borders in a way that meets the twin tests of validity and reliability. As detailed in **International perspective 8.1**, cross-border work

undertaken by expatriates typically involves a quite different mix of tasks, responsibilities and risks to that of employees working in their home country. Likewise, creating and maintaining a PMS for host country employees requires consideration of different social and cultural values and expectations regarding performance measurement, attribution, feedback, counselling and discipline. Of course, this additional complexity also makes international performance management one of the most exciting and rewarding aspects of contemporary human resource management.

International perspective 8.1

Managing employee performance across borders

The management of international employees raises many different and complex issues for HRM. The ultimate evaluation of the performance of short- or long-term expatriates and their workforces rests with the business results and outcomes achieved at the completion of the international assignment. For example: Was the international operation effectively established (or has it grown?) Were new product markets successfully developed and was the return on investment the best that could have been achieved during the period? Was the necessary network (e.g. customers, suppliers, governments) for future organisational growth established?

The answers to these broad business questions will necessarily depend on such factors as:
- the reality (or unreality) of business strategies
- the nature of the international venture (e.g. joint venture, strategic alliance, multinational) and the degree of support given by the parent company
- the stability (e.g. social, political, economic) of the host country environment
- the relevance of staffing strategies (e.g. mix of home, host and third country nationals, skills and competency levels).

The standards of business performance (or benchmarks) against which such performance indicators are measured (e.g. regional countries, global standards, home country levels) also need to be factored into the determination of the effectiveness of the expatriate's performance. Are they too high, too low or just right?

As an example, an expatriate manager may be assessed as a very effective performer because they met (or exceeded) sales targets, even though they alienated their local subordinates or damaged good relationships with host country governments through over-aggressive methods. Conversely, an expatriate manager may be regarded as an underachiever if they fail to meet financial goals because of problems with suppliers, local IR difficulties or a focus on longer-term governmental relationships.

These examples suggest that the assessment of an expatriate's performance needs to take into account not only the outcomes they achieve, but also the environmental issues they face in diverse host countries and the short- and long-term benefits of their activities. For host and third country nationals, performance review and management schemes may need to be different from those familiar to the parent company in order to appropriately reflect the different sociocultural environments in which they operate.

Expatriate performance criteria and competencies

Mendenhall and Oddou suggest that the broad international skills that expatriates must exhibit during their overseas assignment include being:

- able to manage a workforce with cultural and subcultural differences
- able to plan for, and conceptualise, the dynamics of a complex multinational environment
- open-minded about alternative methods for solving problems
- flexible in dealing with people and systems
- able to understand the interdependencies among the firm's domestic and foreign operations.[76]

These broad expatriate performance criteria encapsulate the need for cross-cultural management competencies. They also imply that the identified achievements of expatriate managers are directly transferable to the management of operations back in the home country. Organisations, therefore, which ignore or fail to appreciate the value of such competencies to home country operations do so at their own peril.

More significantly, Mendenhall and Oddou suggest that the relevant performance criteria for expatriates should include (at least) their 'technical information and expertise', 'adjustment to the new culture' and 'environmental factors'.[77] Dowling, Festing and Engle agree with the need to factor environmental issues (e.g. industrial relations, social and economic factors) into performance evaluation schemes, but add that task (i.e. the nature of the expatriate's job, the length of the assignment, the degree of required interaction with the host country) and personality issues (i.e. qualities of the expatriates and their families relevant to the host country) may be equally important.[78] These writers emphasise that the review of expatriates may need to differ from methods used in the home country in order to properly take into account the diverse characteristics of the foreign environment.

Therefore, the evaluation of expatriate performance may use different criteria or different levels of effectiveness in different countries of operation. An Australian company operating in Hong Kong, Indonesia, Singapore and India, for example, will need to set variable performance standards and to measure them sensitively in relation to developments in the diverse host countries.

Performance review schemes for such expatriates will (1) need to modify criteria to fit the overseas position and country characteristics and (2) include an expatriate's insights as part of the evaluation. The latter aspect acknowledges that the performance review of expatriates is ideally a joint process involving host country managers (and/or peers and subordinates), parent company senior managers and the expatriates themselves.

While all of these assessors may have inherent biases (e.g. host country employees will perceive performance from their own cultural frames of reference; parent company managers will often suffer from the tyranny of distance; expatriates are likely to be highly subjective), the combination of views included is likely to be more accurate than the review completed by a single parent company manager. In some countries, local employees may be reluctant to express their negative perceptions of expatriates due to hierarchical or 'face' issues.

Assessment of the expatriate is, however, an important function for the business itself and for the expatriate. For the business, it indicates some of the potential (or actual) problems likely to be faced in pursuit of its objectives and may suggest practical solutions or more appropriate criteria for subsequent expatriates. For the expatriates themselves, performance reviews may influence their promotion potential and type of position received on returning home.

Review of host and third country nationals

The criteria against which host and third country nationals are assessed are usually closely related to specific job (or task) criteria, although in the latter case, adaptability to the host country may also be included. Region-centric staffing strategies are usually based on the demonstrated ability of third country nationals to adapt to the chosen host country, or previous experience in such operations. In such cases, cultural adaptability may form part of these reviews, but technical expertise or managerial competence (as in the parent company) assumes more importance.

In the case of host country employees, there may be significant obstacles to the application of home country performance review schemes due to cultural barriers based upon collectivism, work and social ethics, or face issues. As an example, it is often difficult to implement individual performance review programs in countries such as Indonesia and China because of the difficulty of giving employees negative feedback. Similarly, assessments of leadership ability may prove inappropriate in collectivist cultures such as Thailand and Malaysia, where such workplace qualities may not be culturally appropriate.

In such workforces, performance reviews should still be conducted, but modified to conform to cultural demands. For example, rather than critiquing individual employee performance, it may be more appropriate to conduct generalised discussions on the levels of performance and to identify positive solutions to productivity issues. The benefits of such modifications to workplace processes and procedures can then be emphasised and subsequently reinforced with positive, future-oriented reward systems.

Designing international performance management systems

Earlier discussions suggest that PMS for both expatriates and their workforces need to be modified in order to reflect the influences of the host country environment on the overall performance of their companies. PMS, incorporating performance review, employee counselling and discipline, as well as access to career development opportunities, will depend on the nature of the tasks involved, the required degree of interaction between expatriates and the host country environment, parent company perspectives and procedures and the ability and desire of the parent company to adapt its review schemes to host country operations. Each company will, of course, adapt its review programs differently in diverse sociocultural environments.

Reviewer accountability and training

Many PMS fail because reviewers are not held accountable for their judgements and behaviour. Reinforcing reviewers' sense of accountability for the PMS process can also improve system integrity. In most performance review programs, the immediate supervisor has the responsibility to appraise the employee's performance. Where a supervisor assesses employees independently, provision is often made for a review of these assessments by the supervisor's superior. This reduces the chance of superficial or biased evaluations. There is also a growing trend towards 360-degree and 180-degree feedback systems, with claims that such approaches will further reduce bias by providing multidirectional feedback. Knowing that subordinates also have a say in determining their supervisor's own performance rating helps to focus the supervisor's attention on undertaking the task diligently and respectfully.

A further common weakness of performance review programs is that managers and supervisors receive insufficient training in PMS criteria, rater errors and the interpersonal competencies needed for the provision of meaningful feedback to subordinates. PwC's 2015 study found that line managers in large Australian firms frequently lacked the resources and capabilities to lead strong and constructive feedback and coaching conversations.[79] Evidence from Mercer's 2013 global survey indicates that inadequate managerial skills is a key impediment to PMS effectiveness, with 86 per cent of firms conceding that their managers were, at best, only marginally or moderately skilled in holding formal performance discussions. Over 90 per cent indicated similarly low managerial capability in ensuring equitable evaluations, gathering meaningful performance information from multiple sources, having candid dialogue with subordinates about performance, providing employees with developmental direction, undertaking action planning and setting SMART goals. Respondents were also asked to nominate the one area of management skill development that they believed would have the greatest impact on the organisation's overall performance. As depicted in **Figure 8.6**, the top two skills nominated were 'having a candid dialogue' (31%) and 'linking performance to development planning' (20%), with the next highest being 'setting SMART goals' (14%) and 'providing coaching' (13%). This led the Mercer study to conclude that most companies appear to undervalue the importance of goal–setting and assume that managers intuitively know how to conduct performance planning effectively.[80]

FIGURE 8.6 If your organisation could improve the overall capability of your managers, what one skill area would have the biggest impact on the organisation's overall performance?
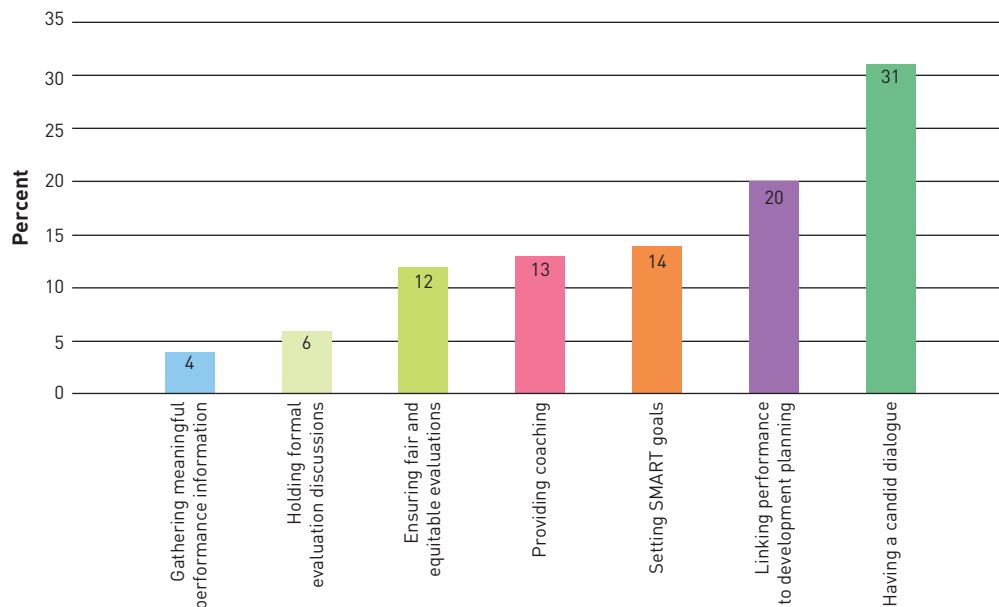
Source: Mercer (2013), *2013 Global performance management survey report, executive summary.* New York: Mercer, p. 5.

Development programs are likely to be most effective when they follow a systematic process that begins with explaining the objectives of the performance review system. The mechanics of the rating system are also explained, including how frequently the reviews are to be conducted, who will conduct them and what the standards of performance are. It is important for the rater to know the purpose for which the review form is to be used and the benefits they might anticipate from the scheme. For example, using the review for remuneration decisions rather than development purposes may affect how the rater evaluates the employee and it may change the rater's opinion of how the review form should be completed. In addition, reviewer training should alert raters to the weaknesses and problems of review systems so they can be avoided.[81]

Performance review training should focus on eliminating the subjective errors made by managers in the rating process. Often managers will claim to be highly competent in assessment on the grounds that they have had much experience. The flaw in this logic is that they may have become very good at assessing very poorly! Finally, a development program for raters should provide some general points to consider for planning and conducting the review.

PERFORMANCE FEEDBACK AND FEEDFORWARD

We have noted that informal feedback is an increasingly important feature of the contemporary PMS cycle. More recently still, it has been joined by the practices of feedforward and performance coaching.

Feedback

Giving feedback on positive and negative performance incidents as soon as they happen is apt to be more meaningful and effective than feedback given months later, when memory and significance may have faded. Equally, research also suggests a number of requirements for effective informal feedback. In particular:

- More feedback is not necessarily better. Once fortnightly appears to be no less effective than once weekly.
- Immediate feedback may be more effective for those new to the job than those with considerable job experience. Holding back on giving feedback to experienced learners may allow them time to reflect critically on their own performance.
- Always share the positive feedback first before progressing to the negative aspects.[82]

Despite the growing recognition of the importance of regular informal feedback, the formal review interview remains one of the most important elements of the entire performance review cycle. The interview gives a manager the opportunity to discuss the employee's performance record and to explore areas of possible improvements and growth. It also provides an opportunity to identify attitudes and feelings more thoroughly and to improve communication.

The format for the interview will be determined in large part by the purposes of the interview, the type of review system used and the organisation of the interview form. Most such interviews attempt to give feedback to employees on how well they are performing their jobs and make plans for their future development. Interviews should be scheduled far enough in advance to allow the interviewee, as well as the interviewer, time to prepare for the discussion. Usually 10 days to two weeks is a sufficient amount of lead time.

Trust, acceptance, engagement and commitment are the keys to the success of the performance review. The relationship between the two participants in the process, then, is fundamental to the success of the review interview. Where peer reviews including 360-degree feedback processes are used, these fundamentals will be even more vital to the success of the program.

Since a major purpose of the performance review interview is to make plans for improvement, it is important to focus the interviewee's attention on the future rather than the past. The interviewer should observe the following points:

- Initially, emphasise strengths on which the employee can build, rather than weaknesses to overcome.
- Avoid suggestions about personal traits to change; instead, suggest more acceptable ways of performing.
- Concentrate on opportunities for growth that exist within the framework of the employee's present position.
- Limit plans for growth to a few important items that can be accomplished within a reasonable period of time.

Unfortunately, the interviewer can become overburdened by attempting to discuss too much, such as the employee's past performance and future developmental goals. Dividing the review interview into two sessions – one for the performance review and the other for the employee's growth plans – can alleviate time pressures. Moreover, by separating the interview into two sessions, the interviewer can give each session the attention it deserves and allow a specific focus on the future. There is little point in spending a great amount of time discussing the past except to agree on the major issues that need to be taken forward.

Moreover, feedback may not be the only or main thing employees – particularly mobile and digitally adept Millennials – want from their managers. The provision of regular feedback for performance development purposes may be appropriate where the employee is looking to grow and progress within the one organisation over the longer term. However, the once-a-year round of formal feedback sits uneasily with young employees who have little interest in remaining in the one job for years, are happy to manage their own career development, and are impatient with traditional processes, highly mobile and looking for instant recognition. As suggested in **HRM in practice 8.1**, what is likely to engage such employees is close attention from their manager rather than a cumbersome process of appraisal and feedback.

HRM in practice 8.1

Employees don't want feedback, they want attention

Digital disruption is presenting HR professionals with a range of new challenges, changing the nature of roles and the expectations of employees.

So what are the key challenges for HR that will intensify as the pace of change quickens over the coming years?

Firstly, we are living in an age where nobody wants to work for the same company forever, according to Jason Averbook, co-founder and CEO of Leapgen, an international consulting and education firm, and author of the new book *The Ultimate Guide to a Digital Workforce Experience – Leap for a Purpose*.

'We live in a very curious world where people will not simply show up to the same company and spend 30 years there,' he noted.

Averbook said that in this world, switching jobs is front and center of people's minds and there's a major reason for that: technology.

'We see opportunities better than we've ever seen them before,' he said. 'If you think about it, not that long ago the main way that people found out about new job openings was by reading the newspaper.'

'These days the world has visibility to new jobs and new opportunities every day. The barriers of entry to trying new things are completely different.'

Averbook believes that in this climate HR really has to change their focus from jobs to actual tasks.

'I think that's probably one of the biggest changes that will impact HR ever,' he said.

'We are going to increasingly break down how work gets done into tasks and we already live in a world where contractors are common.'

Averbook said that the second key challenge is dealing with the fact that every employee is 'dying for attention'.

'We live in a world where we post things on Instagram and Facebook – we live in this concept of an "attention economy" – yet many employers don't have effective strategies to give their workforces attention,' said Averbook.

'What they get is feedback, but employees don't want feedback, they want attention.

'If you say to your spouse or partner "I've got to give you some feedback" they are not going to respond by saying "yes, I've been waiting for feedback for a long time".'

Averbook added that HR should really think about how they can deliver attention so that they can assure employees that they are listening and focusing on them.

This involves looking at questions such as: What's the employee value proposition of working here? How do I deliver new ways of rewarding people? How do I deliver new ways of training people which they see as attention?

Finally, Averbook said that the third challenge centers around 'thinking digital first'.

At the recent ServiceNow Knowledge 18 Conference in Las Vegas, Averbook told the audience that 'HR is one of the oldest professions in the world'.

'We have been doing things forever the same way, doing all these processes the same way,' he said.

'If we really think about the digital world we live in today, we really need to think digital first.'

Averbook said this is going to involve focusing on the 'next generation of the digital workforce technology'.

'How do I make sure that I am delivering technology to you that is going to add value, that is going to give you attention and that is going to deliver you the services that you need to help you do your job?'

'It's so important to look at what's the value of what we are going to do from a workforce lens, not from an HR lens.'

Source: Averbook, J. (2018), Employees don't want feedback, they want attention. *HC Online*, https://www.hcamag.com/hr-news/employees-dont-want-feedback-they-want-attention-252294.aspx.

Feedforward and behavioural coaching

An approach that may resonate more with younger employees is the **feedforward interview**. A study by Budworth, Latham and Manroop suggests that feedforward interviews are a more effective means of improving individual performance than feedback-focused appraisal interviews.[83] Rather than emphasising what has not been done well, feedforward interviews are framed around instances of successful performance and the fact that success is mutually beneficial to the employee and the organisation. For instance, the employee might be asked to relate a specific success story with the aim of replicating the same or similar conditions for success in future activities or projects. The feedforward approach also incorporates active listening by the interviewer (as opposed to instructional monologue), open dialogue and joint problem solving by the participants and consideration of where and why current performance may fall short of the employee's own goals (as opposed to organisational goals only). As the proponents note, feedforward is a 'strength-based rather than deficit-based model'.[84]

Feedforward is also a potentially powerful tool for one-on-one **behavioural coaching**. While behavioural coaching takes many different forms, its defining characteristics are evidence-based problem analysis, solution identification and piloting, application to practice, feedback and self-monitoring of behavioural change. At more senior levels, the coach is generally an external expert. At more junior levels, the coach is more commonly the line manager or a more experienced peer with the requisite coaching expertise. One of the simplest and most widely applied approaches to behavioural coaching practice is the 'GROW' model, which focuses on clarifying personal goals (G); understanding their current realities (R); exploring major obstacles and options (O); and determining the most appropriate way forward (W).[85] (See Chapter 7 for more on coaching in general as a developmental practice.) Recent research by Russo, Miraglia and Borgogni shows that employees – especially older workers – respond particularly well to supervisors who have a coaching (as opposed to directive) leadership style.[86] There are similarities here with the practice of participative goal-setting discussed earlier in the chapter.

Emerging issue 4
Feedforward

feedforward interview
A positive performance review technique in which content focuses on instances of successful performance against both organisational and individual aspirations

behavioural coaching
A process of providing high-potential employees with one-on-one support at regular intervals over a predefined period and informed by deep dialogue and evidence-gathering to identify, test and apply initiatives to address behavioural barriers and optimise the application of capabilities.

PROCESSES AND PRACTICES FOR IMPROVING UNDERPERFORMANCE

In many instances, the performance review interview will provide the basis for noting deficiencies in employee performance and for making plans for improvement. Unless these deficiencies are brought to the employee's attention, they are likely to continue until they become quite serious. Sometimes, underperformers may not understand exactly what is expected of them. However, once their responsibilities are clarified, they are in a position to take the corrective action needed to improve their performance. We now turn to the processes involved in analysing the possible reasons for underperformance and the practices that can be applied to assist and guide improvement once the controllable causes have been identified and verified.

Reasons for ineffective performance

There are many reasons why an employee's performance might not meet expected standards. First, each individual has a unique pattern of personal characteristics that play a part, such as their level of job-relevant knowledge and skills, personality traits (e.g. conscientiousness), work values (e.g. work ethic) and work attitudes (e.g. motivation, job satisfaction). In addition, other factors such as the work environment, the external environment (including home and community) and personal problems have an impact on job performance.[87] **Table 8.2** provides a list of the range of possible sources of ineffective performance in each of these broad causal categories.

TABLE 8.2 Sources of ineffective performance

ORGANISATION POLICIES AND PRACTICES	PERSONAL PROBLEMS
• Ineffective job placement • Insufficient job training • Ineffectual employment practices • Permissiveness with enforcing policies or job standards • Heavy-handed management • Lack of attention to employee needs or concerns • Inadequate communication within organisation • Unclear reporting relationships • Lack of clear job descriptions	• Stress • Relationship problems • Financial worries • Emotional disorders (including depression, anxiety, fear) • Conflict between work demands and family demands • Other family problems • Physical limitations, including impairment • Low work ethic • Lack of effort • Immaturity • Drugs and alcohol • Health concerns

JOB CONCERNS	EXTERNAL FACTORS
• Unclear or constantly changing work requirements • Boredom with job • Lack of job growth or advancement opportunities • Role ambiguity • Management–employee conflict • Problems with fellow employees • Unsafe working conditions • Unavailable or inadequate equipment or materials • Inability to perform the job • Excessive workload • Insufficient workload • Lack of job skills	• Industry decline or extreme competition • Rapid changes in technology, knowledge and information • Legal constraints • Conflict between ethical standards and job demands • Union–management conflict

In the interests of manageability, the diagnosis of possible causes of observed underperformance should focus, in the first instance, on three interactive elements: capability to do the job, effort in the job and conditions external to the job itself. For example, if an employee's performance is not up to standard, the cause could be a skill problem (e.g. knowledge, abilities, technical competencies), an effort problem (e.g. motivation to get the job done) or a problem in the external conditions of work (e.g. poor economic conditions, supply shortages, difficult sales territories). If any one of the three elements is deficient or unfavourable, performance will suffer.

Managing ineffective performance

The first step in managing underperformance is to identify the likely main causes. Once these are known (and preferably acknowledged by the employee), feedback can be provided on specific shortcomings within the employee's control and a plan of remedial action agreed to.

Negative feedback

Few tasks are more emotionally and interpersonally fraught than that of having to provide negative feedback. Providing negative feedback does not involve simply criticising the recipient. Rather, it entails the communication of information and judgements regarding low or reduced achievement against desired performance standards or expectations in a clear but constructive manner and with a view to facilitating appropriate remediation.

One central aim of the feedback review is to persuade the recipient that a performance problem exists, that remedial action is warranted and that remedying the problem is within their power. However, negative judgements can trigger emotive responses that may overwhelm the messages and the possibility of rational dialogue and action planning. Indeed, the emotional

barriers to the effective provision of negative feedback are often substantial. Most people do not like giving it. Most people do not like receiving it, partly because of perceived loss of face, the avoidance of which is of paramount importance in some non-European cultures. Negative feedback is typically received and interpreted less accurately than positive feedback because the emotional mechanisms aimed at protecting self-esteem, such as denial of the message itself, serve to distort how the message is received and responded to, at least in the first instance.

According to Audia and Locke, acceptance of negative feedback, and hence the recipient's potential to benefit from the information conveyed, will depend on three sets of cognitions. First, the recipient must believe that the reviewer is genuine and well intentioned; that is, that the reviewer has credibility, is trustworthy and is acting in good faith and with goodwill. Second, the recipient must have high elaboration proclivity; that is, they must actively scrutinise the feedback information to verify its validity and reliability. Third, the recipient must have high self-efficacy; that is, they must not only accept what is communicated but also believe that they are capable of doing something positive about it and that they are adequately resourced to do so.[88] In practical terms, the overall suggestion here is that while these perceptions are specific to the feedback recipient, reviewers are also able to bring influence to bear on each so as to maximise the likelihood of acceptance and active remediation.

Action planning

action plan
A personal development plan for the subsequent performance round, specifying a range of initiatives to address agreed performance shortcomings and development needs

Once the nature and extent of the performance shortcomings have been identified and communicated, attention should then turn to the process of planning remedial action. This involves formulating a suitable **action plan**, including specific interventions and resourcing. In many organisations, action planning is systematised by means of a personal development plan that may include a range of possible performance development initiatives: from on-the-job training, mentoring and coaching, to networking and assessment centre activity. Action plans also typically incorporate goal-setting techniques.[89] The action involves providing training in areas that would increase the knowledge and skills needed for effective performance. A transfer to another job or department might give an employee a chance to become a more effective member of the organisation. In other instances, greater attention may have to be focused on ways to motivate the individual.

If underperformance persists over a number of performance cycles, it may be necessary to demote the employee, take disciplinary action or discharge the person from the organisation. Whatever action is taken to cope with ineffective performance, it should be done with objectivity, fairness and recognition of the feelings of the individual involved. Any other approach may well lead to legal problems.

Employee counselling

employee counselling
A relationship where one person (usually a professional) endeavours to help another to understand and resolve work-related or personal problems

While performance review is perhaps the key element of a PMS, another important aspect is **employee counselling**. Performance problems should never automatically be assumed to be

issues relating to discipline – in many cases, the performance gap may be a personal or work-related issue that may respond to counselling.

In counselling, a relationship is established where one person endeavours to help another to understand and resolve a problem, whether it be work-related or personal. This definition of counselling immediately raises the question of the role of line managers and HR professionals in the counselling process. From the organisation's perspective, employee counselling should focus on work performance rather than on personal issues that are not affecting the employee's output. An employee may seek assistance through self-referral to the designated counselling program with or without the knowledge of the business manager or HR manager. The viewpoint adopted in this context is that personal problems not affecting work performance are not the organisation's concern. Only where performance is in some way affected should the manager intervene. This view may concern those many managers who believe that they are the source of all wisdom, but in reality they may actually be out of their depth in this area.

Where a performance problem exists, it is the role of the supervisor to investigate the extent to which work standards are not being met and possible causes of underperformance. Where the reason is found to be work-related, it is the supervisor's responsibility to manage the provision of negative feedback and action planning to remedy the situation in the manner described above. On the other hand, a manager who discovers that a personal problem is likely to be the cause of the performance gap should exercise extreme caution in attempting to provide support or what might be seen as counselling. In such cases, the supervisor's role becomes one of detecting the existence of the problem, ascertaining the reasons for the problem and, having determined that a personal problem exists, referring the employee to either an internal, qualified counsellor or, where available, an external counselling service. An overriding principle is that personal counselling must be voluntary. An employee cannot be forced to undergo personal counselling sessions against their will.

Employees may seek the support of professional counsellors for a wide variety of personal reasons: from grief, personal loss, drug and alcohol addiction, financial and gambling problems, eating disorders, and major psychical or psychological illness, among others. Most of these issues are areas where supervisors and other managers should rarely venture. Professional psychologists and psychiatrists have the relevant professional expertise to provide appropriate assistance and are registered (i.e. legally sanctioned) to do so. Unlike line managers, they also carry personal liability insurance against claims of malpractice.

Employee assistance programs

A diverse range of organisations have established professionally run **employee assistance programs (EAPs)** to provide free, professional, confidential counselling to their employees and their families. There are a wide range of EAP providers operating in the Australian market and extending services to a variety of large and small organisations in the private sector and the public sector, as well as not-for-profit organisations.

Emerging issue 5
Counselling

employee assistance programs (EAPs) A systematic approach to providing employees experiencing personal and/or work-related difficulties with confidential counselling and professional support

EAPs can be an effective way of assisting employees when personal or work–related problems are affecting their work. The programs are characterised by effective, early and minimum intervention. They offer a broad-brush strategy and aim at resolving problems such as those listed earlier in **Table 8.2**.

One point that needs to be reinforced is that EAPs cater for problems other than those affecting job performance. A person may self-refer to receive assistance with a personal problem that may otherwise not have been detected as causing any deterioration in work performance. The modern EAP aims at assisting with a wide range of problems. This approach varies from earlier approaches in the United States, the United Kingdom and Australia, where the emphasis was placed solely on alcohol- and drug-related problems. Today's EAPs have evolved well beyond the drug and alcohol programs of the 1970s and 1980s and now address a wide range of factors affecting employee health and wellbeing and, hence, work performance. A survey-based study of Australian organisations providing EAPs, undertaken in 2010–12, indicates that the three most commonly nominated reasons for EAP adoption are support for employee health and wellbeing (18%), implementation of best practice HRM (15%) and perceived duty of care (12%). The same study revealed that the most common issues involved were personal relationships or family problems (31%) and work stress (15%), whereas harassment and bullying accounted for only 2 per cent of cases. Recent research indicates that organisations in the United States are moving away from in-house EAPs to outsourcing arrangements with specialist providers, and there are indications of a similar trend in Australia.[90]

EAP principles

The key principles on which an EAP is based are those of respect for the total person, client confidentiality, both reactive and proactive support, and professional counselling. The modern EAP is informed by the belief that organisations employ the *total person*, not just the person physically at work during the standard working day. Employees simply cannot – and do not – leave their problems at the front door on the way to work and then pick them up going home. Since the job plays a significant part in an employee's physical and mental health, it is the total person who may need assistance from time to time. These problems may or may not be work–related but, in the final analysis, they may affect work performance.

Client confidentiality is a second crucial feature of EAPs. There must be no doubt in the minds of employees that their participation in the scheme is totally confidential. Any breach of trust will destroy the credibility of the program. A consequence of this requirement is that in many cases, the company will not know who is seeking assistance, nor the basis on which that assistance is being sought. Similarly, if the problem involves the employee's manager, EAP counsellors may find their hands tied because they cannot approach that manager and still maintain confidentiality. If, however, in discussion between the counsellor and the employee it is established that the employee may benefit from an approach being made by the counsellor,

then in certain circumstances this may proceed. It does, however, require the written consent of the employee.

A third defining characteristic of today's EAPs is the application of both *reactive and proactive, or preventative support, strategies*. Early EAPs tended to be reactive rather than proactive: action was taken after the problem became apparent. Employees either self-referred or were referred (voluntarily) to the program after performance had reached unacceptable levels. Today's EAP takes on both a reactive and proactive, or preventative, mode. Preventative services complement and extend the benefits derived from the program by advising on organisational methods to prevent personal or work-related problems and by actively promoting employee health, wellbeing and personal development. The types of programs offered are commonly referred to as health and wellbeing programs, or wellness programs. Examples include alcohol and drug education, quit-smoking campaigns, stress management, and obesity and heart disease prevention. While wellbeing initiatives are increasingly common in organisations where managers are genuinely keen to enhance the quality of their employees' working lives, the existence of such programs is rarely just a reflection of managerial altruism. Business considerations are frequently in play, with a significant net financial return on offer due to reduced absenteeism, increased productivity, decreased workplace conflict and employees being better able to cope with change. Legal compliance considerations are also increasingly to the fore, with physical and psychological health now covered by legislation on work health and safety (WHS) and wellbeing.

The fourth central principle of EAPs is counselling provided by *appropriately qualified professionals*. While an important component of EAPs is managers' observational skills (of work performance decline), it is important that they do not inappropriately stray into the counselling role. Managers should be taught to understand their fellow workers and to help them to the best of their ability. Their job should be to detect a work-performance problem at the earliest stage and offer referral to an appropriately qualified professional for expert assistance. This should happen only when two conditions are satisfied: first, the problem must be affecting work performance; and, second, the employee must agree to accept assistance. In the event where an employee seeks support from their EAP in relation to a personal issue that is unknown to the manager, and seeks the assistance of a manager, then the manager's role is simply to facilitate an appropriate referral and not involve themselves further. The overriding principle here is that counselling must always be voluntary and provided by qualified and experienced professionals capable of working with a broad range of personal problems. The focus of the manager must always remain on the work performance of the employee. They must not delve into areas best left to medical practitioners, psychologists and psychiatrists.

While managers are key people in any EAP program, counselling must be left to the counsellors. Managers should be made aware of their limitations in this field. One- or two-day staff development courses in employee counselling will most likely do far more harm than good. Such courses should be limited to teaching work performance monitoring and referral skills, rather than inappropriately attempting to make expert counsellors of managers.

EAP operational requirements

The simple model of EAP operation shown in **Figure 8.7** demonstrates the following requirements.

- If there is a problem related to a person's private life and it is not affecting his or her work performance, then it is not the business of the employer. The employer may be concerned, but has no right to become involved.
- The employer may offer a counselling service, but the decision about using this rests with the employee.
- It is important to provide the resources for people to seek help voluntarily, in a professional and confidential way.
- The basis of management intervention is the recognition that employees have a responsibility to perform adequately on the job, and managers have the responsibility – and should have the training and support – to encourage and guide them to do so.
- The continued monitoring of job performance is the only method of assessment open to the manager. When performance is below established standards, the manager should discuss the facts with the employee and assist them to return to an acceptable standard within the framework of the organisation's disciplinary policy.
- The referral for assessment counselling is made strictly on the basis of declining work performance and can take place any time a manager formally approaches an employee about performance deterioration. This frees managers from trying to assess personal problems.
- EAP manager referral procedures should be tailored to fit the organisation's present policies.

FIGURE 8.7 Simple model of an employee assistance program
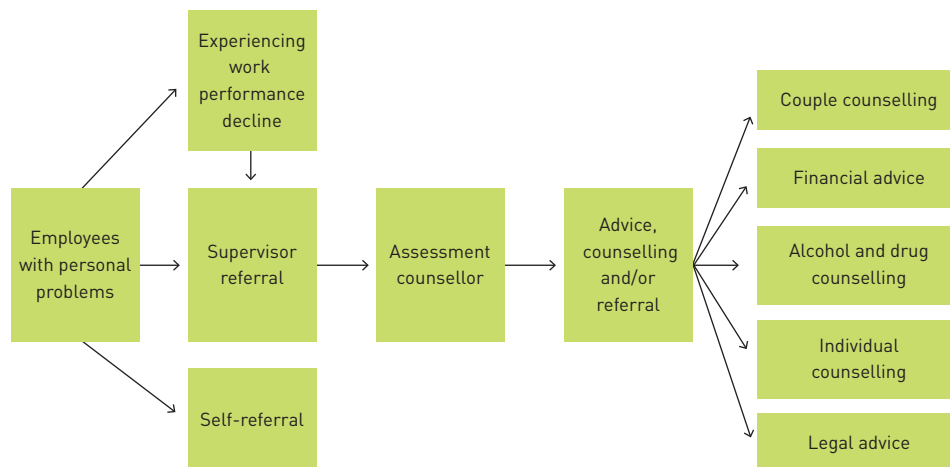
DISCIPLINARY ACTION

Taking **disciplinary action** against employees who infringe organisational standards is perceived generally by supervisors as a difficult and unpleasant task. Growing concern with employee rights in the marketplace, discrimination, privacy and equity considerations appear to further complicate the disciplinary process.

The purpose of disciplinary action in the workplace should, however, be perceived clearly as a genuine attempt to ensure that expected employee behaviour and performance are maintained to required organisational standards. Just as employee counselling seeks to identify personal problems and efficiently resolve them, discipline processes aim to recognise and correct unacceptable work practices for the benefit of the employee and organisation.

Links between discipline and employee dismissals are often overemphasised. A strategic approach to discipline will avoid the costs of dismissal, including possible claims of unfairness, by ensuring that early diagnosis and modification of worker behaviour results in corrected performance, not dismissal.

While they are unconnected processes, employee counselling and discipline actions may occur simultaneously. An identified problem with work behaviour may result in referral of the employee to a counsellor for personal problems, as well as disciplinary procedures in the workplace. Consistent infringements or negligent behaviour may result in instant dismissal, based on clearly established policies. These cases should, however, be rare.

The crucial elements of discipline processes include clear policies, equity across organisations and offences, union agreements, careful examination of the causes, well-documented records and appropriate appeals procedures.

disciplinary action
Reasonable management action to ensure that expected employee behaviour and performance standards are maintained. Can be either developmental and/or punitive, leading to dismissal

Emerging issue 6
Disciplinary action

Rights and responsibilities relating to disciplinary action

Decisions regarding possible disciplinary action should always be informed by a clear understanding of both employee rights at law and the legal basis for what constitutes 'reasonable' management action.

Employee rights are the guarantees that employees expect from their employers, and are usually enshrined in industrial awards and agreements, industrial tribunal determinations (e.g. decisions by the Fair Work Commission – see Chapter 3) and legislation. Work health and safety, equal employment opportunity (EEO) and affirmative action, and privacy legislation codify specific employee rights, along with leave, superannuation and workers' compensation entitlements. The *Fair Work Act 2009* (see Chapter 3) affords employees protection and redress against unfair dismissal, including dismissal on the grounds of alleged underperformance. The failure of employers to observe these requirements in their disciplinary processes may result in costly legal action, or damage to organisational reputation or employee morale. Organisations that establish programs of substance abuse testing, employee searches or surveillance, and associated disciplinary processes, should

pay particular attention to employee rights (e.g. privacy, duty of care and equity) in their activities and record-keeping practices.

On the other hand, an employer who fails to discipline employees engaging in conduct that is apt to cause harm, injury or offence to other organisational stakeholders (including fellow employees, managers, clients, contractors or suppliers) risks not only legal action by those affected, but also lost productivity, lowered morale and work satisfaction. In such cases, under Australian law, management has both the right and the responsibility to take reasonable and timely action to address inappropriate and unlawful conduct.

In view of potential legal challenges to disciplinary procedures, employers should carefully ensure that all proper and reasonable steps are taken in ensuring equity, and to avoid expensive litigation. In particular, where awards contain clauses specifying that 'termination of employment shall not be harsh, unjust or unreasonable', special care should be taken that these are adhered to.[91] Specifically, employers should ensure that new, or stiffer, penalties for prescribed types of misconduct are justifiable, effectively communicated and understood by employees and their unions. Disciplinary policies and procedures should also demonstrate explanations of complaints and why they should not be dismissed. Summary dismissal (or dismissal without notice) is particularly prone to complaint, appeal or subsequent litigation.[92]

Despite these potential difficulties for employers, properly prepared, communicated and conducted discipline processes should avoid litigation and provide considerable benefits for both employers and their employees.

Disciplinary issues and policies

Common disciplinary issues noted by HR managers include those outlined in **Table 8.3**.

TABLE 8.3 Common disciplinary issues

TYPE OF PROBLEM	EXAMPLES
Disciplinary problem	Different ways problem can be expressed
Attendance problems	Unexcused absence Chronic absenteeism Unexcused/excessive tardiness Leaving without permission
Dishonesty and related problems	Theft Falsifying employment application Wilfully damaging organisational property Punching another employee's time card/signing their time sheet Falsifying work records

Work performance problems	Failure to complete work assignments
	Producing substandard products or services
	Failure to meet established production requirements
On-the-job behavioural problems	Intoxication at work
	Insubordination
	Horseplay
	Smoking in unauthorised places
	Fighting
	Gambling
	Failure to use safety devices
	Failure to report injuries
	Carelessness
	Sleeping on the job
	Using abusive or threatening language or behaviour (i.e. bullying)
	Possession of narcotics or alcohol
	Possession of firearms or other weapons
	Sexual harassment
	Accessing pornography in the workplace via the internet

Supervisors frequently fail to take appropriate disciplinary action because of a lack of documentation or evidence, lack of support from senior management or fear of confronting employees. Policies that clearly state the nature of offences, specific disciplinary steps, researching aspects and the positive effects of this process are likely to encourage supervisors to take appropriate action with more confidence.

Where disciplinary action is taken against an employee, it must be for justifiable reasons and there should be effective policies and procedures to guide its use. Disciplinary policies and procedures should cover a number of important areas to ensure thorough coverage. **Figure 8.8** presents a disciplinary process model that illustrates the areas where provisions should be established. The model also shows the logical sequence in which disciplinary steps should be carried out to ensure enforceable decisions.

FIGURE 8.8 The disciplinary model
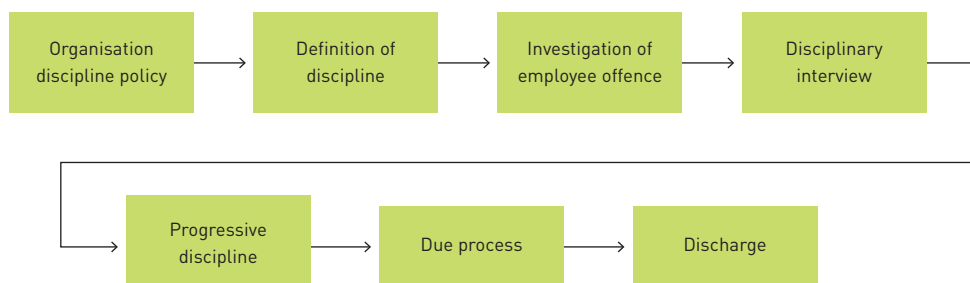
A major responsibility of the HR department is to develop, and to have top management approve, its disciplinary policies and procedures. Such development, however, must involve the participation of supervisors and line managers who carry out these policies. The HR department is also responsible for ensuring that policies and disciplinary actions are consistent across the organisation and particular offences and conform to legal and award requirements.

The primary responsibility for preventing or correcting disciplinary problems rests with an employee's immediate superior. The supervisor is the person best able to observe evidence of unsatisfactory behaviour or performance and to discuss the matter with the employee. Discipline is but one of the components of a supervisor's performance management program. Accordingly, supervisors should attempt to use a problem-solving, positive approach to discipline, aiming to uncover the reasons for the offence or behavioural problem and to devise appropriate solutions. Often, an initial discussion with the employee may effectively resolve the issue. Failure to confront the problem at an early stage may lead to its aggravation. Delays in taking such action make it more difficult to justify and may encourage other employees to feel that such behaviours are acceptable.

Disciplinary action and appeals

Effective disciplinary action usually comprises four basic steps: documentation of employee misconduct, the investigative interview, progressive discipline, and correction or dismissal. These are considered in sequence, along with the issue of appeals against disciplinary action.

Documenting misconduct

Many supervisors fail to effectively impose disciplinary procedures because they have insufficient records of an employee's misconduct. Failure to record such actions often results in the reversal of any subsequent disciplinary action. The maintenance of accurate and complete records is therefore essential for effective disciplinary action.

Such records could include the date, time and location of the incident(s), the actual behaviour(s), witnesses, consequences of employee performance, prior discussions about the problem, disciplinary action taken and anticipated specific improvements, further proposed actions and follow-up dates.

Professional tip 8.2

Questions to consider in disciplinary investigations

1 In very specific terms, what is the offence?
   - Is management sure it fully understands the charge against the employee?
   - Was the employee really terminated for insubordination, or did the employee merely refuse a request by management?
2 Did the employee know he or she was doing something wrong?
   - What rule or provision was violated?
   - How would the employee know of the existence of the rule?
   - Was the employee warned of the consequence?

3   Is the employee guilty?
- What are the sources of facts?
- Is there direct or only indirect evidence of guilt?
- Has anyone talked to the employee to hear his or her side of the situation?

4   Are there extenuating circumstances?
- Were there conflicting orders given by different supervisors?
- Does anybody have reason to want to persecute this employee?
- Was the employee provoked by a manager or another employee?

5   Has the rule been uniformly enforced?
- Have all managers applied the rule consistently?
- What punishment have previous offenders received?
- Were any other employees involved in this offence and possibly guilty?

6   Is the offence related to the workplace?
- Is there evidence that the offence hurt the organisation?
- Is management making a moral judgement or a business judgement?

7   What is the employee's past work record?
- How many years or months has the employee been in the job and with the company?
- What is the employee's personal and disciplinary record as a whole?

The investigative interview

A good rule of thumb for supervisors is that interviews concerning employee misconduct should be held as soon as possible after the infraction. This interview should focus on the particular problems, avoid discussion of personalities and allow the employee adequate opportunity to explain his or her reasons for the conduct. It may be useful to notify employees of their misbehaviour, in writing, prior to the interview and to consider permitting them to have a third party (e.g. a colleague or union representative) present during this interview. In many cases, the investigative interview may be all that is required to correct employee behaviour.

Progressive discipline

Progressive discipline is the application of corrective measures by increasing degrees; that is, via a process of progressive escalation. It is designed to motivate employees to correct their misconduct voluntarily. However, the sequence and severity of the disciplinary action will vary with the type of offence and its circumstances. Severe negligence (e.g. careless driving, violence) may result in dismissal following the initial interview; minor misbehaviours (e.g. absenteeism, productivity problems) may proceed to progressive disciplinary actions.

Typical progressive disciplinary procedures involve four stages, as follows:
1   verbal warning (or counselling)
2   written warning(s)
3   suspension with (or without) pay
4   dismissal.

Written records are usually made, preferably signed by both supervisor and employee, at all but the first stage. The third-party representative may be present at all stages and may witness (as an observer) all subsequent records.

Correction or dismissal

When employees fail, after frequent attempts, to conform to organisational rules and regulations, the final disciplinary action may be dismissal. As stated earlier, this stage should be avoided where possible but, if necessary, should be based on comprehensive and justifiable grounds. Dismissal can be costly, not only in terms of separation payments, recruitment or replacement processes and the possibility of unfair dismissal litigation (see Chapter 3), but also on the morale of remaining employees. The dismissal should therefore be demonstrably equitable, based on job-relevant criteria and fair processes.

Some useful guidelines for effective dismissal include the following.
- Focus on the dismissal and its causes.
- Present an objective, straightforward, firm decision.
- Hold a brief, businesslike and private interview.
- Avoid personal accusations and feelings.
- Provide information concerning severance pay.
- Give the employee information on the type of reference to be supplied.

In some cases, it may be useful to use an outplacement service to demonstrate that the organisation is concerned about the future of its discharged employees and to preserve the organisation's reputation among remaining employees.

Disciplinary appeals

Effective disciplinary processes provide access to appeals mechanisms to ensure equity and demonstrably reasonable procedures. Such mechanisms may include reviews by higher or more neutral authorities (e.g. senior managers or HR managers), grievance procedures or referral to external bodies (e.g. the Human Rights Commission, Fair Work Commission, Ombudsman's Office).

All such options should be made available to employees who may feel disadvantaged by disciplinary actions. Above all, disciplinary procedures should be detailed in clear, explicit policies that are distributed to all employees along with job-relevant behavioural and performance standards. The disciplinary process should be adequately defined for supervisors and employees alike. Ideally, unions should be involved in the policy formulation, and supervisors trained in its application.

Discipline should be perceived as merely one of the tools available to supervisors for ensuring that all employees conform to (or exceed) reasonable organisational expectations regarding workplace conduct. The HR manager has a substantive role to play here in ensuring that policies reflect organisational imperatives, are consistent and equitable, and avoid costly legal challenges or adverse effects on employee morale and productivity.

SUMMARY

The success of an organisation depends largely on the performance of its human resources. To determine the contributions of each individual, it is necessary to have a PMS with strategically aligned, clearly stated and consistently applied performance criteria. Carefully defined and clearly communicated performance standards that are relevant to the job, and reliably and fairly applied, are essential foundations for an effective system of performance measurement and management. A critical PMS design issue is striking the right balance criteria and methods accentuating capabilities/competencies, behaviour and results. These choices assume greater importance in the ever-changing and increasingly complex world of work. The chapter proposes that essential features for an effective PMS in today's changing context are strategically aligned criteria, a cycle of continuous monitoring, informal feedback and formal review, and an approach that employees and managers alike see as being fair in terms of processes and outcomes.

If performance review interviews and any remedial actions are to be based on valid information, supervisors and managers should be thoroughly trained in the particular methods they will use in evaluating their staff. Moreover, the more staff themselves understand and accept the performance criteria and processes, the greater the degree of buy-in they will have. Participation in developing rating scales, such as BARS, automatically provides such training. Whatever the methods used, they should meet the objectives of the performance review.

The degree to which the PMS benefits the organisation and its members is directly related to the quality of the review interviews conducted and feedback provided. Skills in providing constructive feedback regarding areas of performance deficiency are best developed through careful observation, active listening, dialogue directed to problem solving and development rather than blame and punishment, and rigorous action planning. In the interview, deficiencies in employee performance can be discussed and plans for improvement can be made and implemented. This chapter has examined a range of techniques for helping employees to improve their performance: from constructive negative feedback and action planning to counselling and targeted employee assistance programs. Far from making these processes and practices obsolete, technological change in the form of artificial intelligence and machine learning stands to enhance their overall timeliness and accuracy. Feedforward and behavioural coaching are emerging as viable options for developmentally focused performance management.

At times, it will be necessary for an organisation to take disciplinary action where behavioural deficiencies have not responded to counselling. Unless challenged and checked, bullying and other forms of misconduct can seriously damage workplace climate and trust in peers and management. But misconduct is not simply a business case matter. The organisation also has ethical and legal responsibilities in this regard that cannot be ignored. At the same time, great care needs to be taken because disciplinary action leading to dismissal can involve complex legal issues that could result in legal action.

KEY TERMS

- 360-degree feedback 306
- action plan 332
- attribution error 315
- balanced scorecard 309
- behavioural coaching 329
- behaviourally anchored rating scale (BARS) 308
- central tendency error 315
- disciplinary action 337
- distributive justice 303
- employee assistance programs (EAPs) 333
- employee counselling 332
- employee performance 295
- feedforward interview 329

EMERGING ISSUES

1 Performance management and generational change

Baby Boomers have been accustomed to the top-down, bureaucratic and once-a year 'tick and flick' approach to the management of their performance. The digital natives of the Millennial generation seem to expect something quite different, including faster turn-around, less formality and a more attentive approach from their manager.

a   As a freshly minted graduate employee, what is it that you will be looking for from your employer's PMS? Is there anything about the traditional approach that appeals to you?

2 Performance management and organisational justice

Some commentators suggest that the essence of a strong PMS is a clear and consistent alignment with strategic objectives imposed from above. This might cover anything from cost minimisation to maximising in-house creativity and innovation. However, others suggest that employee belief in system process and outcome fairness is essential to PMS viability.

a   Is it possible to reconcile the considerations of strategic alignment and organisational justice? How?

3 Performance management and technological change

We are living through a watershed moment in performance management practice. On the one hand, some commentators are proclaiming the imminent demise of performance management as a relic of a simpler, more certain and process-driven era. On the other hand, the rise of robotics, artificial intelligence and digital apps promises to transform virtually every aspect of HRM practice, including performance management.

a   Can technological change save performance management from itself – and from extinction – or are predictions of a brave new world of technology-driven performance management just an IT dream?

4 Feedforward

Whereas traditional feedback tends to focus on past performance weaknesses via a supervisor monologue, the feedforward formula plays to the performer's strengths via an active two-way listening and dialogue, sometimes coupled with behavioural coaching techniques.

a   How might feedforward be used to address the shortcomings and challenges commonly associated with the provision of feedback by supervisors, particularly negative feedback?

5 Counselling

Employee counselling must be totally confidential and also voluntary. Focus must only ever be on work performance. An employee's personal problems are not the business of the business unless they are impacting on performance. Only then does a manager have the right to offer counselling. Managers must understand their limitations in this very sensitive area of HRM. They must not delve into areas best left to professional counsellors, such as psychologists and psychiatrists.

a   Managers will often fall into the authority trap. They believe they are best equipped to handle personal and workplace counselling simply on the basis that they are the manager. Is this a sensible approach to counselling? Why, or why not?

6 Disciplinary action

Where performance is not meeting agreed standards and specifically where the poor performance is seen as quite deliberate, disciplinary action may be the only remaining course of action. All current legislation must be mastered prior to embarking on this process. Above all, due process must be seen to have been followed.

a   What do you understand by the concept of due process? Why is it so important to understand and apply this concept?

ETHICAL CHALLENGE

Losing our way: how the cult of the KPI has damaged our moral compass

The Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry in Australia uncovered evidence of Commonwealth Bank staff inappropriately setting up bank accounts for children. The practice was so widespread that individual staff could not reasonably be punished. Many more examples of misconduct were exposed by the banking royal commission.[93]

A common element, say experts, is a 'set and forget' approach to key performance indicators (KPIs).

There is a sense that businesses, amidst an unrivalled quantity of data, have lost the ability to count what really matters when it comes to getting the best out of their staff and businesses.

KPIs have helped manage large organisations, track unusual trends and give staff more autonomy and direct them towards a common goal. But when those targets are unrealistic and beyond reach, the temptation to cut corners becomes pervasive.

American academic and author of *The Tyranny of Metrics*, Professor Jerry Muller says that such scandals involve the type of gaming behaviour he identifies in his own country. He calls it 'metric fixation – using standardized measures of performance, and tying rewards and penalties to them'.

The Commonwealth Bank's problem echoes the Wells Fargo scandal where the American bank set aggressive performance targets and tied them to rewards and punishment in 2011. As Muller explains, the quotas were set too high relative to the number of bank customers, which led to thousands of staff opening accounts for customers – without telling them. Wells Fargo fired 5,300 employees, but Muller says the spate of fraud was a predictable response to the performance quotas that the company's managers set for their employees.

Setting goals can help motivate staff, but when high targets are tied to incentive schemes within an unsupportive corporate culture, they can prompt anxiety and fraudulent conduct.

University of Sydney Professor of Accounting Wai Fong Chua recalls that senior and middle-level managers at the Finnish multinational Nokia were so fearful of not meeting performance targets that they withheld vital information about the viability of smartphone technology which resulted in the company having to exit the market temporarily.

To avoid having perverse outcomes, she says individual performance measures should not include activities that cannot be controlled. For example, assessing the performance of medical staff on the number of emergency patients who walk into the emergency department.

Professor Chua recommends combining behavioural as well as financial KPIs in 'balanced scorecards'. 'I think it is about having a combination of KPIs and not just focusing on how profitable you are,' she said.

The Australian Prudential Regulation Authority's recent explosive review of the Commonwealth Bank recommended the use of non-financial KPIs at about the same time the banking royal commission exposed indefensible behaviour partly linked to the way staff were assessed and rewarded.

But fuzzy measures are not always welcome as Commonwealth Bank's shareholders demonstrated two years ago when they slapped down a move to link chief executive Ian Narev's bonus to 'soft' non-financial social and ethical goals.

NAB Chairman Ken Henry last month admitted there was a lack of transparency around executive remuneration, and performance incentive schemes. He said the NAB Board was focused on the structure of remuneration and 'how this drives behaviours, at every level of the organisation'.

'[I]t is clear that "behaviours" need to be considered alongside "financial performance",' he said. The bank's reform of executive pay would, among other things, 'incentivise the right behaviours, especially with respect to the treatment of customers'.

Westpac's executives have one third of their pay fixed and the remaining two thirds determined by measures including behaviour, values, customer satisfaction, risk and compliance, as well as company performance.

Bruno Cecchini from Ernst and Young says organisations, including his, are increasingly emphasising non-financial measures of performance including the conduct of staff to ensure values and standards are not compromised.

'You can't just set and forget KPIs,' Cecchini says. 'They need constant review. We are seeing a number of organisations including our own moving into much more flexible approaches.'

There is nothing in a KPI that can justify misbehaviour or the responsibility of any individual to do the right thing.

Ernst and Young has moved away from annual staff reviews and rigid financial measures. Its managers sit down with staff every three months to reassess goals for their development and outcomes expected from each new project.

The goals are a mix of financial and non-financial measures and feedback comes from a range of people.

'It's not just about the financials. It is balanced with a range of other measures so that you can get a holistic view of someone's performance,' says Cecchini. Non-financial measures including team effort, customer service, people management skills, collegiality and staff turnover are increasingly in focus.

PwC Partner in Performance and Reward Emma Grogan says there is no ideal measure – financial or non-financial.

'I think the way to get around that is to ensure there is a combination of measures,' she says. And a dose of human discretion will always be needed to make a final judgement.

'Organisations that do it well always employ some kind of discretionary judgement at the end of the day because no set of measures is going to fully represent the whole raft of human behaviours that you want some to draw on in a job.'

1   Why do organisations place so much weight on KPIs?
2   Do you accept the author's argument that KPIs are ethically problematic?
3   Is it possible to design and apply KPIs in an ethical way?
4   What might be a more ethical and effective way to manage the performance of employees, managers and the organisations for which they work?

CASE STUDY 8.1

Google's 'OKR' system

Google's Objectives and Key Results (OKR) system was introduced back in the early 2000s, based on an approach originally developed at microchip firm, Intel. OKR involves all members of the organisation setting SMART objectives in key result areas, with the key features described as follows:

- OKRs are set quarterly at three levels: for the individual (what an individual is working on), team (specific priorities for the team, not the bucket of all personal OKRs) and company (the big picture and top-level focus for the entire company) level.
- Google's CEO sets OKRs for the company at the beginning of each quarter, triggering all employees within Google to make sure their own personal and team OKRs roughly sync with Google's. The firm deliberately sets ambitious goals, believing that if they achieve all of them, the goals are not put aggressively enough.
- All individual and team OKRs are visible on Google's intranet so that employees can find out what their co-workers and other teams are doing, feel more responsible for the goals they set and be more willing to contribute constructively to the business.
- The main goal of OKR is to connect company, team and individual goals and make people move together in the right direction. Hence, OKRs provide focus and unite teams behind a single strategy.

Source: Bock, L. (2015). Work Rules! Insights from Inside Google That Will Transform How You Live and Lead. Hodder & Stoughton.

Questions

1   Why do you think Google has applied this approach to its PMS when other firms seem to have shied away from the balanced scorecard model?
2   To what extent can Google's competitive success over the past 15 years be credited to OKR? ('Google' for insights on the drivers of the firm's success.)
3   What scope do you see for the application of artificial intelligence to the OKR system?
4   Can you see any drawbacks or dangers in Google's focus on goal-setting?

CASE STUDY 8.2

Performance management resister gets job back

Fair Work Australia (FWA) has found it was unfair for HJ Heinz Company Australia to dismiss a sales manager who refused to be performance-managed because he feared it was designed to trigger his exit from the company.

In ordering the reinstatement of the former West Australian sales manager, employed by Heinz from 1983 until his dismissal in August last year, FWA Deputy President Brendan McCarthy said the

performance grounds relied on by management had been 'imperfectly, if not carelessly, formed for an employer of Heinz's size'.

One of the reasons Heinz management gave the hearing for insisting on an individual performance management plan for the manager was a low score in his annual review.

However, this score was not an individual performance rating, but a company-wide rating that gave all employees the same score.

'It could not be a justifiable reason or even part of a reason for the development of a plan solely for [the manager]', McCarthy said.

After taking part in an annual performance review in May last year, the manager attended a meeting in early June with the retail sales general manager who, according to the former manager, told him that there was no longer a job for him and he should resign or he would be performance-managed out.

Heinz provided no evidence from the retail sales manager to dispute the employee's account of this meeting, which included notes made immediately after the meeting.

In July and early August, a series of meetings and communications took place between the manager and Heinz during which he was told the company had some performance concerns, but that these would be discussed once he had agreed to sign an individual performance management plan.

The manager repeatedly asked for details of the performance concerns and expressed his fear that the company was going to use this process to force him out. Ultimately, he was given until 17 August to sign the plan or be dismissed.

Heinz argued before McCarthy that the dismissal occurred because the manager refused to take part in discussions about performance concerns or sign up to an individual performance management plan.

However, McCarthy said that he did not accept Heinz's argument, but believed that it was instead based on a possibly flawed view that his performance required improvement.

He said that the company chose not respond to repeated requests by the manager for details of the performance concerns the company purported to have, insisting that he instead sign the performance plan before further discussions.

When he refused to sign, company management told the hearing there was no other option but dismissal. 'I disagree. There are alternative actions Heinz could have taken', McCarthy said.

He said the employee had 'good reason' to be suspicious about the company's intentions.

'He had not been subjected to any performance plans of this nature in the past, no other managers were being subjected to performance plans, his experience was that when employees were subjected to performance plans it was because of poor performance and importantly [the retail sales manager] had told him he was going to be performance-managed out of Heinz.'

McCarthy said the company had not satisfied him that reinstatement was not possible and ordered that the company appoint him to a position on no less favourable terms and conditions and repay the remuneration the manager had lost between his dismissal and reinstatement.

Source: Fair Work Decision, *Mr Frank Moretti v HJ Heinz Company Australia Ltd* [2012], (U2011/11269), FWA 1016 (7 February 2012), © Commonwealth of Australia 2013.

Questions

1 How was Heinz's approach to performance management invalid in relation to the sales manager's job?
2 How was its approach unreliable?
3 Identify three ways in which the Heinz system could be improved.

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9

Strategic reward management

The problem with making an extrinsic reward the only destination that matters is that some people will choose the quickest route there, even if it means taking the low road . . . When the reward is the activity itself – deepening learning, delighting customers, doing one's best – there are no shortcuts.

D. H. Pink (2010), *Drive: The surprising truth about what motivates us.* New York: Riverhead Books, p. 49.

. . . PFP [pay for performance] is of special interest because when it 'works', it seems capable of producing spectacularly good results and when it does not work, it can likewise produce spectacularly bad results . . .

Gerhart, B., Rynes, S. and Smithy Fulmer, I. (2009), Pay and performance: Individuals, groups, and executives. In *Academy of Management Annals, 2009*, p. 4.

OBJECTIVES

After reading this chapter, you will be able to:

1 explain the key elements of the total reward management approach

2 understand the nature, purpose and main options for configuring base pay as the foundational component of employee pay

3 appreciate the purpose of employee benefits plans, and the difference between mandatory and voluntary benefits plans

4 describe the main types of performance-related reward, the advantages and disadvantages of each, and the arguments for and against performance pay

5 understand the options and special challenges in designing reward packages for two key employee categories: chief executive officers and expatriates.

Emerging issues

1 Pay secrecy versus pay transparency

2 The gender pay gap

3 The gender superannuation gap

4 Individual sales commissions and retail banking

INTRODUCTION

A reward may be anything tangible (e.g. financial rewards, such as cash or company shares) or intangible (e.g. psychological rewards, such as higher self-esteem or work satisfaction) that an organisation offers to its employees in exchange for their potential or actual work contribution. The most obvious and, arguably, most important form of tangible reward is pay. Also known as remuneration or compensation, pay typically takes the form of an annual cash salary or a weekly or hourly wage. For many organisations, particularly those in the service and public sectors, pay is generally the single largest item of recurrent expenditure – sometimes comprising 70–80 per cent or more of recurrent costs. Pay is also – at least potentially – a key lever for improving workforce and organisational performance. As such, how employees are paid shapes both organisational outlays and outcomes; that is, pay is a major contributor to bottom line financial performance. However, while pay may be the central element of most reward systems, it is not the only form of reward and its importance needs to be understood within the wider mix of rewards that may be made available to employees.

The importance of rewards lies not just in what is offered by the employer but also in how employees respond to what is offered. For any reward to be meaningful to the employee – and hence to be able to influence how employees think, feel and behave – the reward must be one to which employees as individuals attach a positive value as a satisfier of certain self-defined needs. A 'reward' that is viewed by employees as meaningless and unsatisfying will not produce favourable psychological and behavioural responses from those employees and will therefore fail to support the organisation's strategic objectives. However, designing and maintaining a reward system that does elicit strategically appropriate work attitudes and behaviour is no simple matter.

In this chapter, we explore the key strategic and psychological aspects of employee reward management, as well as examining the main tools and techniques for configuring, implementing and maintaining a strategically aligned and effective reward system. We begin by examining two concepts of key importance in contemporary reward management. The first major concept is that of 'total rewards'. Here, we emphasise the distinction between rewards that are 'intrinsic' (i.e. internal) to the type of work undertaken and those that are 'extrinsic' (i.e. external) to the work itself, including monetary payments and other financial rewards, rewards of a social nature and those relating to the development of individual capability (examined in detail in Chapter 7). We then explore the second overarching concept, namely that of strategic reward management (also known as strategic reward 'alignment'). Building on the model of competitive strategy detailed in Chapter 1, we consider, in broad terms, how a reward manager might set about designing and communicating a strategically aligned total reward management system for their organisation. Drilling down, we then examine in detail the practices associated with each of two broad categories of extrinsic financial reward or remuneration: 'base pay' (i.e. remuneration that is fixed according to time worked) and 'incentives' or 'performance-related rewards' (i.e. rewards that vary according to individual, group and/or organisational

reward
Tangibles or intangibles that an organisation provides to its employees in exchange for the employee's potential or actual work contribution to which individuals attach a positive value as a satisfier of certain self-defined needs

performance). Finally, and building upon prior sections, we examine reward options for two specific categories of employee – executives and expatriates. These two employee categories are of particular interest because their contributions stand to have a major impact on organisational outcomes locally and globally.

TOTAL REWARD MANAGEMENT

Since rewards include a wide range of material and psychological possibilities, the options for configuring a reward system are also extremely wide. A holistic approach to reward management means choosing financial rewards compatible with the various non-financial rewards that the organisation may offer its employees. This is known as the **total reward management** approach.[1]

As **Figure 9.1** indicates, rewards can be divided into two broad categories: intrinsic and extrinsic. A convenient way to understand the intrinsic/extrinsic dichotomy is through the lens of social mediation; that is, identifying which social 'agent' in the employment relationship is actually providing, defining and giving meaning to the reward. Put simply, extrinsic rewards are provided by an external agent (e.g. the employer, supervisor, fellow workers), whereas intrinsic rewards are self-administered and self-defined by the employee themselves.

total reward management
A holistic approach to employee reward management, integrating intrinsic reward elements and extrinsic reward elements of a non-financial and financial nature

FIGURE 9.1 Elements of total reward

Extrinsic rewards	**Financial rewards/remuneration:**	
	• Fixed/base pay • Cash benefits • Performance-related pay	
	Developmental rewards:	
	• Learning, training and development • Succession planning • Career progression • Other indirect/non-cash benefits	
	Social rewards:	
	• Organisational climate/management culture • Performance support • Work group affinity • Work/life balance • Other indirect/non-cash benefits	

Intrinsic rewards:
• Job challenge • Responsibility • Autonomy • Task variety

Source: Shields, J. et al. (2016), *Managing employee performance and rewards: Concepts, practices, strategies*, 2nd edn. Melbourne: Cambridge University Press, p. 12. © Cambridge University Press, Melbourne. Reprinted with permission.

Intrinsic rewards

Intrinsic rewards arise from the content of the job itself, including the interest and challenge it provides, the task variety and autonomy, the degree of feedback on achievement, and the meaning and significance attributed to it by the job holder. It follows that one of the most important determinants of the level of intrinsic rewards in any organisation is the way in which its jobs are designed (see Chapter 5) and how well the content of the job itself addresses (or 'satisfies') the employee's psychological needs.

The term **work motivation** refers to a person's willingness to exert effort to perform tasks within the job to which they are assigned. One prominent group of theories on work motivation proposes that rewards intrinsic to the job hold the key to high and sustained motivation. These approaches, known collectively as 'content' (or 'needs') theories of motivation, focus on the underlying human needs that supposedly shape motivational drive. The assumption is that people will behave in ways that they think will satisfy some or all of these needs. A *need* is a requirement for individual physical survival and security and/or psychological wellbeing and fulfilment. Need fulfilment gives rise to feelings of pleasure and satisfaction. Need deprivation generates feelings of displeasure and dissatisfaction. All content theories propose that individuals are assumed to seek need satisfaction and avoid dissatisfaction. The logic is that an unsatisfied need generates psychological tension; the person then identifies an objective that will satisfy that need and a behavioural pathway is chosen to attain that objective. In essence, all behaviour is seen as being motivated by unsatisfied needs and the desire for need satisfaction. The most widely cited content theories are Maslow's hierarchy of needs, Herzberg's two-factor theory, and Hackman and Oldham's job characteristics model.[2] The latter model informs the 'job enrichment' approach to work design considered in Chapter 5. One prominent contribution to this line of thought is that by American writer and publicist Daniel Pink. Invoking the central tenets of content theories of motivation, Pink proposes that the main motivational force is the satisfaction of the higher-order needs for job autonomy, task mastery and purposeful work.[3]

Look up a video on YouTube entitled *Drive: The surprising truth about what motivates us* that links to Pink's contention that job 'purpose' and 'passion' far outweigh the importance of 'pay' and 'profit' as motivational factors. Now try your hand at answering this teaser question: If passion and purpose are the key to motivation, why is it necessary to pay people at all?

One way or another, all main content theories distinguish between 'lower-order' and 'higher-order' needs, with the latter seen as the key motivational drivers. Lower-order needs correspond with existence and affiliation or relatedness needs and with hygiene factors (including pay). Higher-order needs are congruent with growth and achievement needs, and with job content factors, including task significance, task challenge and variety, and the

intrinsic rewards
Psychological rewards arising from the content of the job, the interest and challenge it provides, task variety and autonomy, degree of feedback given and the meaning and significance attributed to it

work motivation
A person's willingness to exert effort to perform tasks within the job to which they are assigned and may vary in intensity and duration

extrinsic rewards
Tangible rewards (such as pay) and intangible rewards (such as developmental rewards and social rewards) arising from the factors associated with, but external to, the job that the employee does

developmental rewards
Extrinsic rewards associated with personal learning, development and career growth

social rewards
Extrinsic rewards associated with the organisational climate, performance support, quality of supervision, work-group affinity, and opportunities for enhanced work–life balance

financial rewards
Extrinsic rewards of a monetary/cash or near-monetary/cash nature; also known as pay, remuneration or compensation

exercise of decision-making autonomy. Perhaps the most useful element of content theories is the distinction between lower-order and higher-order needs. It does seem to be the case that higher-order needs require different modes of satisfaction from those of a lower-order nature and that they should be addressed and managed in different ways. In essence, content theories propose that the motivation arising from reward satisfaction of an intrinsic nature will be stronger and more sustained than that arising from other types of reward, particularly those that are extrinsic to the job, including monetary reward.[4]

Extrinsic rewards

Extrinsic rewards arise from factors associated with but external to the job that the employee does; that is, from the job context. Extrinsic rewards are of three main types: developmental rewards, social rewards and financial rewards.[5]

Developmental rewards cover those extrinsic rewards associated with personal learning, development and career growth, such as skills training and performance and leadership coaching.

Social rewards are those rewards and indirect (or non-cash) benefits associated with the organisational climate, performance support, quality of supervision, work-group affinity, and opportunities for enhanced work–life balance, such as flexible work time arrangements, staff sabbaticals, fitness and wellness programs and so on.

Financial rewards are of three main types:
1 base pay (the fixed component of total remuneration)
2 benefits, such as employer contributions to superannuation and personal health insurance
3 performance-related pay plans or incentives (which vary with measured performance).

Later in the chapter, we examine each of these three main categories of financial reward or remuneration in more detail. As the case of Salesforce indicates (see **HRM in practice 9.1**), successful firms recognise that social and developmental rewards can also play a pivotal role in attracting, motivating and retaining high-performing employees.

HRM in practice 9.1

Salesforce — the best place to work in Australia, 2018

Workplace culture has been dominating headlines due to a spate of poor behaviour and high profile toxic work environments. So, it's refreshing to focus on those who are getting it right for a change.

What makes for a great place to work? Free food? Standing desks? A company ping-pong table? While these perks may enhance the employee experience, the crux of workplace satisfaction is linked with personal satisfaction; working somewhere where you feel valued and supported and are able to contribute in a meaningful way.

The Great Place to Work Australia (GPTW) *2018 Best Place to Work* benchmark report highlights the organisations that have worked hard to nurture a positive work environment.

As Zrinka Lovrencic, managing director at GPTW Australia, pointed out, we can spend up to 10 hours per day at work. That's a huge chunk of our time that we're not spending with our friends, family and those we love. An engaging and positive work environment is not just 'nice to have', it's imperative to a business' vitality and success.

Taking the top position for companies with over 1,000 employees was Salesforce, a large provider of customer relationship management (CRM) software. It's not the first time Salesforce has scooped the winning position, receiving first place in 2016 and second position in 2017. So, what's the key to their success? Mark Innes, general manager and executive vice president, APAC, says it's all about creating a family culture.

'In Hawaiian culture, the word "Ohana" represents the idea that families – related or chosen – are bound together, with their members feeling a sense of responsibility for one another. When Salesforce was created, all those years ago, [co-founder] Marc Benioff realised that the true meaning of Ohana didn't really exist in corporate culture. So, he built Salesforce from day one around the spirit of Ohana.'

He describes an effective culture as one that is 'a never-ending journey, not a destination.'

'Our people are at the heart of our company. So, for us, the honour to be named the #1 Best Place to Work in Australia, alongside other inspiring Australian companies, is a testament to the diverse and talented people in our Ohana,' says Innes.

Salesforce is a good example of an organisation that thinks beyond traditional means. They aim to 'live and breathe' their four core values of 'trust, customer success, innovation, and equality'.

One way they're doing things differently is through their 1-1-1 philanthropic model, in which they dedicate one per cent of their products, people and resources to not-for-profits. Each employee is encouraged to spend 56 hours per financial year giving back to the community.

For the top 100 employees that complete those hours, Salesforce will donate $10,000 to the charity of their choice. By setting aside time for your employees to volunteer to a service of their choice, you're giving them a higher purpose and instilling a community-minded approach in the rest of your workforce.

The company is forward thinking in other respects too, offering their workers access to their Adoption and Fertility Program – which includes parental leave, adoption and fertility support, and baby bonus policies – as well as spending $8.7 million in an effort to close the gender pay gap.

'Salesforce is committed to providing our employees with the best possible care plans when it comes to planning, building, and raising families. We understand that everyone is different, so we've provided our employees with flexible programs that support equality for every family across APAC,' says Innes.

Salesforce proves that you can't create a good culture overnight. If you're serious about wanting to make a change, you're going to have to put your money where your mouth is.

Source: Neilson, K. (2018), The best places to work for 2018. *HRM Online*, 3 September. http://www.hrmonline.com.au/section/featured/best-places-work-2018.

The relative merits of intrinsic versus extrinsic rewards are also hotly debated. For example, are employees more likely to be motivated by rewards inherent to the job or by those attached to but outside of the job? Which type of motivation is a better predictor of performance? To complicate matters further, some critics suggest that there is no clear limit between

lower–order and higher–order needs and that certain rewards may satisfy more than one need of the individual.[6] For example, while monetary rewards most certainly serve to fulfil lower–level existence needs, they may also have symbolic value and enhance employees' feelings of self–esteem and achievement. We will return to the debate about the role of money in work motivation, particularly the impact of monetary incentives, later in the chapter.

Luckily, it is not necessary to take one side or the other here. The key precept of the total reward approach is that it alerts us to the importance of striking a balance between intrinsic and extrinsic reward possibilities – a balance that aligns with and supports the organisation's overall strategic purpose.

Strategic reward management

strategic reward management
The design and maintenance of an integrated reward system in which reward strategy, policy and practice align with and support the organisation's overall human resource strategy, plans and policies, which, in turn, support the organisation's overall strategic goals and objectives

As indicated in **Figure 9.2**, a **strategic reward management** approach has two main requirements. First, the choice of reward strategy and practices should be informed by the organisation's overall HR strategy, plans and policies. The reward practices applied should themselves be systemic (i.e. integrated and cohesive), as well as synergising with the wider set of HR policies and practices. For instance, if the organisation is seeking to attract people with particular skill sets or personal values, it should consider what combination of reward practices is most likely to not only attract such people in the first instance but also to retain and motivate them. This link between HR strategy/policy/practice is known as 'internal' or 'horizontal' fit or alignment.

FIGURE 9.2 A strategic model of reward management
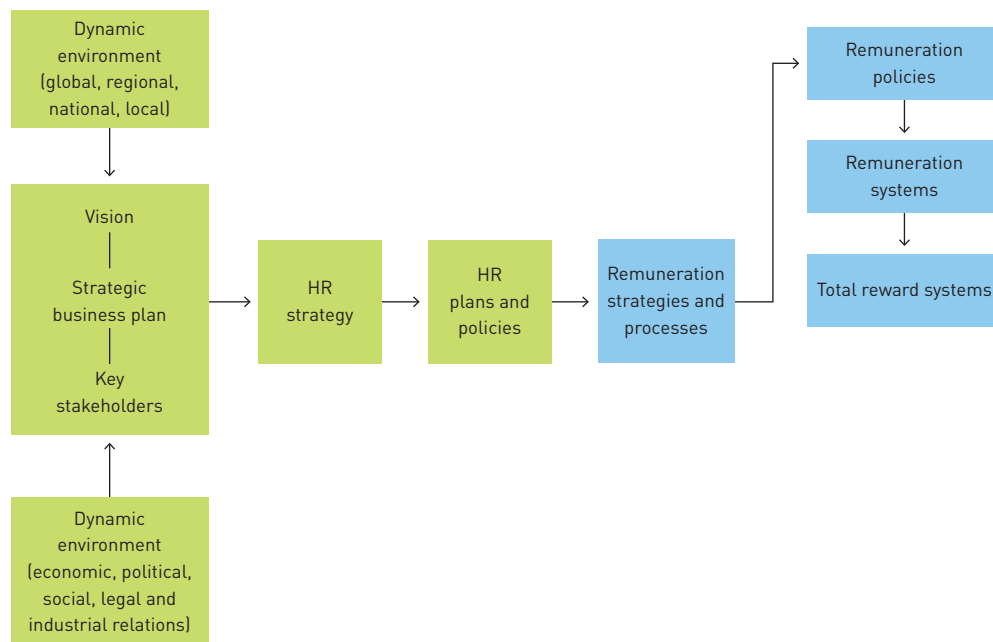
Second, as a key element of the organisation's people strategy, reward strategy and practices should align with and support the organisation's overall strategic business plan (or business strategy) for effective operation in its dynamic environmental context. This link between competitive strategy and the approach to people management is also referred to as 'external' or 'vertical' fit or alignment.[7]

The key point here is that a strategic approach to reward management involves selecting and applying those reward practices that are best suited to the organisation's particular context, circumstances and objectives, including its talent needs and current workforce composition and capabilities. As indicated in Chapters 2 and 3, an organisation's options for configuring its HR practices, including those to do with employee reward type and level, will also be conditioned by the organisation's social, economic, legal and industrial relations context.

Aligning rewards with organisational strategy

As noted in Chapter 1, there are a variety of business strategies and, hence, HRM strategies, that an organisation may choose to pursue. For example, the approach to HRM strategy and practice taken by a firm seeking to compete on the basis of an 'innovation' strategy should differ significantly from the approach taken by a firm pursuing either a 'cost reduction' or 'quality improvement' strategy. You may wish to revisit Chapter 1 to refresh your understanding of the three main types of business strategy identified there (i.e. innovation, quality improvement and cost reduction), and the implications of each for strategically appropriate HRM policies and practices in general.

The critical message here is that one size does not fit all. While each organisation must ensure that it complies with its obligation to provide all legally mandated employee entitlements, reward practices above this mandatory baseline (like all other HR practices) can and should be tailored specifically to the particular strategy of each organisation and, where appropriate, to the specific strategies of distinct business units within the organisation.

The aim is to develop and maintain a reward system that matches organisational and business unit performance factors (also known as 'success factors') and delivers the attitudes, competencies (i.e. knowledge, skills and abilities), work behaviour and results that the organisation requires from its employees.

Professional tip 9.1

Key HR roles and competencies

In line with the AHRI Model of Excellence (MoE; see Figure 1.2 in Chapter 1), the design and management of a vertically and horizontally aligned reward system requires the HR professional to be both *business driven* and a *strategic architect*. Associated competencies include *future oriented*, *critical and enquiring thinker*, *solutions driven* and *influencer*. Being an expert practitioner in reward system configuration is also highly relevant.

Reward philosophy and strategy

One critical early step in the process of reward alignment is formulating a statement of overall reward strategy – a general blueprint for guiding the process of ensuring that reward practices are aligned both internally and externally. Choosing the right reward mix requires that the organisation first establish its basic strategic requirements, preferred employee attitudes, required performance inputs (i.e. skills and competencies) and desired work behaviours and results. It is the identification, application, measurement and reward of these HR factors that holds the key to achieving strategic reward fit or alignment and maximises the contribution of the organisation's human resources to strategic effectiveness and success.

Once the main HR requirements have been identified, it is advisable to incorporate them into a brief statement of reward philosophy, purpose and strategy. The aim is to succinctly define the broad role that reward practices should play in assisting the organisation to be successful and sustainable, and the values or philosophy that will inform the approach taken. A reward strategy statement is basically a set of guiding principles as to how associated practices will be applied to support the organisation's aims. This also presents the opportunity to define, in broad terms, the desired relationship between these and other HR functions.[8]

The reward strategy statement should form part of a wider HR strategy statement and reflect the organisation's core 'employee value proposition' – or espoused psychological contract (see discussion of the 'psychological contract' in Chapter 1). For example, is this an organisation that offers its employees a relational psychological contract; that is, routine work, secure employment and modest financial rewards over the longer term? Alternatively, does it offer a transactional psychological contract; that is, an exciting job, a short-term contract and high financial rewards? Or does its value proposition to employees lie somewhere in between the two?[9]

As **International perspective 9.1** shows, college graduate employment preferences in China are shifting from routine jobs and rewards in big organisations to fast-paced jobs in small, fast-growing enterprises. In the wake of the economic downturn in China following the Global Financial Crisis (GFC; 2008–09), and the consequent shakeout in job opportunities in Western multinational firms operating in large Chinese cities, graduates tended to look to the relative security and long-term reliability of employment in large, local, state-owned enterprises (SOEs).[10] Now, however, with China's economy booming once again, today's graduates are favouring the more fast-paced and exciting, albeit less secure, work offered by high-tech start-ups and small to medium enterprises (SMEs). This trend to employment of a more transactional and entrepreneurial nature is emblematic of the dramatic shifts under way in China and indicative of China's place in the global economy.

International perspective 9.1

Industry preferences of graduates changing

Legacy industries losing appeal for today's job hunters, survey finds; smaller is looking better
Preferences of Chinese college graduates for employment have been changing in recent years as the country undergoes transformations in its economic and industrial structure, a recent survey found.

Knowledge-intensive industries such as information, education and healthcare are hiring more college graduates, while labor-intensive ones such as architecture and manufacturing, are losing their appeal to job hunters, according to the College Graduates' Employment Annual Report.

The survey, which was released by education data and consulting company MyCOS, polled more than 250,000 college students who graduated in 2015.

Guo Jiao, deputy director of the MyCOS Research Institute, said the upgrading of industries comes with a need for workers with a higher education qualification.

Information technology, for example, is leading the current industrial upgrade in China and has become an engine of economic growth. Reflected in college graduates' employment, Guo said the proportion of graduates who chose to work in media, information and telecommunication rose from 8.5 percent in 2010 to 10.5 percent in 2015.

'College graduates' employment is like a barometer, helping decision-makers to differentiate fast-developing emerging industries from those that are declining or facing challenges,' Guo said.

The report, in its eighth year, also found that small and medium-sized private companies and enterprises, as employers, are gaining increasing favor from college graduates, compared with State-owned enterprises or transnational counterparts.

The proportion of college graduates who landed jobs at small and medium-sized private companies rose from 45 percent in 2013 to 52 percent in 2015, while the proportion of those who found jobs in the other corporations dropped.

Guo said the changes indicate that State-owned enterprises are making some adjustments to their capacity, and transnational corporations are facing pressure from rising labor costs.

The report also found that the employment rate of college graduates has remained comparatively stable despite the slowing economy.

Wang Boqing, founder of MyCOS and an expert on college graduate employment, said the stability resulted from the rising proportion of graduates choosing to start their own businesses and those choosing postgraduate studies.

According to the National Bureau of Statistics, among the 6.81 million college students who graduated in 2015, about 204,000 college graduates, or 3 percent, chose to start their own business, a 0.1 percentage point rise from 2014.

Source: Zhao, X. (2016), Industry preferences of graduates changing. *China Daily*, 13 June; permission conveyed through Copyright Clearance Center, Inc.

The organisation's reward strategy statement should indicate the primary purposes to which reward management will be directed. For instance, will the focus be on staffing (i.e. attraction and retention), on motivation, on cost–effectiveness or on a three–way balance? A reward strategy that has a cost focus would be concerned, first and foremost, with controlling labour costs and keeping labour costs in line with industry levels and

external labour market practices. A strategy that focuses on a staffing role would highlight the role of remuneration in attracting and retaining staff of the right type. A strategy that has a motivational focus would emphasise the role of financial and non-financial rewards in eliciting desired performance factors.

Figure 9.3 illustrates the form that a reward philosophy and strategy statement may take. In this example, the strategic requirements and performance factors are those of a firm pursuing an 'innovation' business strategy (as described in Chapter 1).

FIGURE 9.3 Example of a reward philosophy and strategy statement

At Dynastar, competitive success grows from our agility, adaptability, creativity and innovation – from our ability to anticipate market trends and to be the global leader in new product and service innovation. At Dynastar, we celebrate diversity both in our human capabilities and in the products and services that we deliver to our customers and clients in all parts of the world. We see the capabilities and contributions of our people as holding the key to success in our ever-changing competitive environment.

We offer our people work that is exciting, diverse and challenging, with a high degree of accountability and autonomy. To us, the essence of high contribution and performance is:
- self-management and growth of personal knowledge, abilities and talent
- championing our core competencies: citizenship, flexibility, creativity, market-focus, and ethics
- individual creativity and innovation
- strategic decisiveness and risk-taking
- timeliness and effectiveness in meeting challenging goals
- maintaining a positive balance between individual and team commitments
- demonstrating excellence, leadership and citizenship in every assignment.

At Dynastar, we offer work that is intrinsically exciting and rewards that recognise and celebrate individual and team excellence and that share the fruits of our competitive success. Above all else, our approach to employee reward will acknowledge:
- our strategic goals and priorities
- the worth of attracting the best available talent for as long as is mutually acceptable
- the importance of career self-management and portability
- individual creativity and contribution
- teamworking and citizenship
- the principle of reward for individual contribution and effectiveness rather than for seniority or position
- the importance of seeing our people as stakeholders and shareholders in our competitive success
- the importance of flexibility in reward choice
- the need to maintain fairness, transparency and consistency in reward administration
- the value of involving staff in system development and administration.

Source: Adapted from Shields, J. et al. (2016), *Managing employee performance and reward: Concepts, practices, strategies*, 2nd edn. Melbourne: Cambridge University Press, p. 374. © Cambridge University Press, Melbourne. Reprinted with permission.

Reward system design

As noted in the previous section, there is no one best practice reward system configuration. Pay systems can be easily copied by competitors, but these approaches are not necessarily right for the borrower. The aim should be to select and integrate those reward practices that best align with and support the business and HR strategies of the relevant organisation or,

where appropriate, of its distinct business units. Designing strategic reward system entails three key steps:

1 preparing a statement of reward philosophy and strategy (discussed earlier in the chapter)
2 determining total reward mix and target pay levels
3 ensuring strategic fit or alignment.

Determining total reward mix and pay levels

Many questions need to be addressed in determining the total reward mix.

- What 'value proposition' (i.e. espoused psychological contract) is on offer to employees?
- What behaviours and results does the organisation expect from its employees?
- What is the appropriate balance between intrinsic and extrinsic rewards?
- What is the right balance between the main types of extrinsic reward: financial, development and social?
- How high/low will pay levels be set relative to market rates?
- What proportion of pay will be fixed/guaranteed and what proportion variable/at risk against performance?
- Should performance incentives be geared more to individual or group performance?
- How much pay inequality (i.e. **horizontal pay dispersion**)[11] should there be between jobs of a similar type?
- How steep/flat should the pay structure be between jobs at the top and bottom of the organisational hierarchy (i.e. **vertical pay dispersion**)?[12]

In line with the total reward model, a key step in framing a total reward approach should be to determine the respective roles of intrinsic versus extrinsic rewards and, within the latter category, the relative importance of financial, developmental and social rewards. This, in turn, may require an audit of the organisation to identify what non-financial rewards it provides and to gauge the extent to which these may assist the organisation to attract, retain and motivate employees. Organisations that offer high job security, enjoy a high level of prestige and public esteem, or provide opportunities for in-house training and development, may not have to offer as high a level of monetary reward as do competitors that offer much less on the non-financial side. At the other end of the spectrum, an organisation experiencing high labour turnover and low productivity, perhaps because its employees find their jobs uninteresting, may opt to substantially increase financial rewards in order to meet staffing and performance requirements. Alternatively, such an organisation may choose to emphasise intrinsic rewards through job enrichment to make the work more appealing. Therefore, in formulating an optimal approach to total reward management, each organisation will need to consider various combinations of extrinsic and intrinsic, monetary and non-monetary rewards.

While non-financial rewards do constitute an important aspect of a total reward approach, usually financial rewards are of primary importance in reward management practice. Monetary

horizontal pay dispersion
The degree of pay inequality between jobs of the same type or with similar content or at the same level within the organisational hierarchy

vertical pay dispersion
The degree of pay inequality between jobs at different levels in the organisational hierarchy, such as the difference in pay between senior executive roles and employees in lower level routine roles

reward level and type also tend to be focal considerations in industrial relations and regulation. For these reasons, our consideration of reward management options and methods will focus primarily on financial rewards. The overarching point, however, is that when it comes to effective reward management, money alone is not necessarily the be all and end all. What matters above all else when attracting, retaining and motivating high-capability employees is the total reward value proposition.

Ensuring strategic fit

Drawing together the insights offered in our discussion of specific pay practices, it is possible to sketch in the broad contours of an aligned reward system for each of the three archetypal business strategies of innovation, quality improvement and cost reduction. Again, you may find it helpful to revisit the descriptions of these three strategy types in Chapter 1.

Table 9.1 summarises the main reward system characteristics appropriate for each strategic orientation, along with the basis of the employee value proposition (or management-espoused psychological contract) and desired behaviours and results most closely associated with each strategic orientation. Notice that there are substantial differences between the three cases in relation to each main area of reward practice.

TABLE 9.1 Aligning reward system configuration with business strategy

	ORGANISATION STRATEGY FOCUS		
	INNOVATION	**QUALITY IMPROVEMENT**	**COST REDUCTION**
Employee value proposition (i.e. espoused psychological contract)	• Mid- to long-term transactional • High trust • High involvement	• Long-term relational • High trust • High involvement	• Short-term transactional • Low trust • Low involvement
Desired results	• Individual and collective cooperation, timeliness, innovation, successful risk-taking • First mover advantage • New market penetration	• Individual and collective process and outcome quality	• Productivity • Cost • Long-term market share
Intrinsic rewards	• Intrinsic (high job autonomy and task variety)	• Intrinsic, developmental and social	• Few (low job autonomy)
Pay level	• High by market standards	• Mid-market standards	• Low by market standards
Pay variability	• High	• Moderate	• Low
Financial incentives	• Chiefly individual; short-term	• Group plus individual; long-term	• Chiefly group; long-term

	ORGANISATION STRATEGY FOCUS		
	INNOVATION	QUALITY IMPROVEMENT	COST REDUCTION
Pay dispersion — vertical (i.e. degree of inequality between top and bottom jobs)	• Low	• Moderate	• High
Pay dispersion — horizontal (i.e. degree of inequality between individuals in similar jobs)	• High	• Moderate	• Low

In terms of non-financial rewards, an emphasis on intrinsic rewards will give maximum support to both the innovation and quality improvement strategies. In the latter, the requirement for high-skill, team-working and cooperative behaviour also mandates a strong accent on developmental and social rewards. Conversely, the logical focus for a cost reduction strategy, where job design is narrow-functional in nature, is on extrinsic rather than intrinsic rewards.

Then there is the important question of how much to pay overall. Essentially, this involves a choice about whether the organisation is going to pay at, above or below prevailing median market rates for comparable positions. This will depend largely on whether the reward strategy emphasises attraction and retention or payroll cost containment. A cost-reduction strategy implies that pay will be positioned below the market median. An innovator will also be inclined to pay well above market in order to buy-in talent. In contrast, in order to attract and retain talent, a quality-improver will be inclined to position itself at or just above the mid-market rate.

The choice of pay level will also be influenced by prevailing labour market conditions for particular types of labour. Where there is a scarcity of required skills and competencies in relevant external labour markets, firms may have little option in the short term but to pay above market.

Organisational life-cycle stage may also be a factor here. Start-up firms that are cash poor may have no option but to pay below market, as might mature defender firms facing competitive pricing pressure. Conversely, rapidly growing firms will be inclined to pay above the market median in order to buy-in competent staff, although they may also choose to pay below market base pay but offer company equity as a trade-off. Such cash–equity trade-offs are common features of reward practice in start-up firms and companies in early growth mode.

Pay variability refers to the proportion of the employee's overall pay that is performance-contingent rather than fixed or guaranteed. On this dimension, an innovator will be inclined to place a high proportion of pay at risk, a quality-improver a moderate amount, and a cost-reducer a smaller proportion. Regarding incentive choice, an innovator will favour individual incentives with a short-term focus, while a cost reducer will be more inclined to adopt group incentives with a longer-term period.

Partly as a consequence of the above choices, an innovator is likely to have low vertical dispersion but high horizontal dispersion, whereas a cost-reducer will have the opposite; that is,

pay variability
The proportion of employee pay that is contingent on individual or group performance rather than being fixed or guaranteed

high vertical dispersion and low horizontal dispersion. A high degree of vertical pay inequality would be compatible with the hierarchical job structure characteristic of a cost–reduction strategy, whereas the high–pay, high–involvement nature of a quality improvement approach implies a more egalitarian vertical pay structure. Similarly, in an innovator firm, the high accent on recognising and rewarding individual performance will make for a high degree of horizontal pay dispersion, whereas in cost-reducers and quality-improvers individual differences in pay outcomes will be less pronounced.

Later in the chapter – after we have delved more deeply into the reward manager's tool kit – we shall consider how particular types and combinations of pay practice can be selected and applied to address these broad configurational choices.

Visit the website of the software firm, Atlassian, and familiarise yourself with the key features of its products, competitive strategy and 'value proposition' to staff. Based on this information, which one of the above three organisational strategy types best characterises Atlassian's strategic orientation?

Reward secrecy, transparency and communication

Emerging issue 1
Pay secrecy versus pay transparency

reward communication
The process of providing employees, either individually or collectively, with information about the reward system and reward outcomes

Even the most elegantly designed reward system will fail to attract, retain and motivate employees unless it is understood and accepted by the managers and employees affected. Clear communication of reward system philosophy and details will help to increase employee acceptance of the reward composition, structure and level, as well as to sharpen employees' line of sight between what they contribute and how they are rewarded. Evidence suggests that reward communication practice looms as a potentially powerful but underutilised HR tool.[13]

Creating and maintaining employee understanding and acceptance of the way in which they are rewarded is one of the most challenging aspects of contemporary organisational communication, and one of the key stakeholders in this respect is the line manager. Without their 'buy–in', the line of communication between reward professionals and ordinary employees will be weak and unreliable. Given that such managers will also be pivotal to system administration and maintenance, it is also advisable that they be involved in the reward design process. Keeping details of the pay system and pay outcomes secret is likely to cause inference and speculation, which, if unchecked, can give rise to inappropriate pay comparisons, unfair judgements and negative behaviour.[14]

However, reward communication does not necessarily equate with reward openness. The amount of pay information that should be shared with employees is a matter of long-standing debate and a range of competing arguments have been advanced for both pay transparency and pay secrecy.

The case for transparency rests on the proposition that unless employees understand the pay system and how their individual rewards are determined, the system cannot contribute to the strategic goals of the firm or gain the trust of employees. In a fully transparent system,

all employees in the organisation would be made aware of the details of each employee's reward level. Research by Belogolovsky and colleagues indicates that a shift from secrecy to transparency may encourage average- and high-performing employees to increase their level of efficacious help-seeking.[15]

Conversely, those who advocate reward secrecy over pay transparency argue that employee privacy must be respected since knowledge of how others are paid can violate individual privacy, foster jealousy, distract employees from focusing on performance and engender pay envy and a cycle of 'catch up' claims.[16]

Table 9.2 summarises some of the main points of difference in this debate.

TABLE 9.2 Reward transparency — for and against

FOR	AGAINST
Encourages reward satisfaction by helping employees understand how their pay is determined	Violates individual privacy
Clarifies the link ('line of sight') between work contribution and reward outcomes	Fosters petty jealousies and dissatisfaction over minor pay differences
Supports a work climate of trust and openness	Distracts from performance
Clarifies the link between organisational strategic goals and how employees are rewarded	Engenders pay envy and a cycle of 'catch up' pay claims

There is also mounting evidence that the influence of secrecy/transparency may depend less on the organisation's policy approach *per se* and more on individual-level factors, including attitudinal and behavioural orientations and how each employee actually processes or filters information. As such, secrecy may be better suited to some employee dispositions, while transparency is a better fit for others.[17]

So the question remains: in determining rewards communication policy and practice, what is the appropriate balance between disclosure and secrecy, and for which particular types of employee? Certainly, a policy of high transparency may be more appropriate where a high-involvement management approach applies. Even here, though, it may be best to focus on communication of the reward system rules rather than on the details of individual employee pay outcomes.

MANAGING BASE PAY

As noted previously, there are three main categories of monetary reward plans:
1 base pay plans
2 benefits plans
3 performance-related pay and rewards plans.

Base pay: nature and importance

Base pay is the foundational or fixed component of employee remuneration and is generally regarded as the pay best suited to addressing the objectives of staff attraction and retention. Base pay is also the pay component most closely involved in the setting and enforcement of minimum pay standards.

There are some sound reasons why organisations may choose to offer generous base pay voluntarily. This is particularly the case in situations where qualified labour is in short supply. In such circumstances, base pay has a major role in attracting and retaining desired staff. Providing each employee with a guaranteed level of base pay demonstrates the employer's commitment to the employee, which in turn means that the employee is more likely to reciprocate (see discussion of the 'psychological contract' in Chapter 1). The traditional practice has been to fix base pay according to the job or position occupied, with periodic across-the-board adjustments to compensate job holders for increases in the cost of living. It is pay for the job rather than for the person in the job. Under this approach, employees increase their base pay by moving up a seniority-based promotional hierarchy of job pay grades, with each grade having only a relatively narrow pay range.

Base pay is the largest component of total standard pre-tax remuneration for most employees, typically comprising the largest single component of total remuneration, with benefits and performance pay making up the remainder. In many countries, legislatures or tribunals have prescribed payment of guaranteed minimum wage or salary levels.

Base pay systems are themselves quite diverse and there are two distinct approaches to building base pay:

1 position-based base pay (i.e. pay for the 'size' or importance of the job)
2 person-based base pay (i.e. pay for the position-holder's personal capabilities, including personal skills and 'competencies').

As well as making quite different assumptions about what base pay can contribute to an organisation and how it can do so, the following alternative approaches to configuring base pay entail distinct types of pay structure (i.e. the formal architecture of the base pay system), as well as different modes of evaluation (i.e. pricing of positions and/or position-holders) and distinct modes of pay progression (i.e. the rules that determine how each person's base pay level adjusts over time). **Table 9.3** summarises the two main base pay options, including the structures, evaluation techniques and progression modes associated with each.

TABLE 9.3 Options for base pay

	STRUCTURES	EVALUATION TECHNIQUES	MODES OF PAY PROGRESSION
Position-based base pay	Pay ladders Job grades	Market surveys and/or job evaluation	Seniority and/or merit-based increments and promotion
Person-based based pay	Pay bands	Skill assessment Competency assessment	Skill blocks Competency zones

Position-based base pay

The traditional practice has been to fix base pay according to the job or position occupied. **Position-based pay** – that is, base pay determined according to the 'size' of the job or position held – remains the dominant mode of remuneration in most developed countries. For instance, in Australia, standard time-based rates of pay for specific job classifications were enshrined in the plethora of occupational and industry awards developed under the system of compulsory arbitration.[18] While the award system has been in relative decline since the early 1990s, its legacy runs deep in Australian pay practice under the now dominant system of enterprise bargaining (see Chapter 2) and is one of the main reasons why pay for the job or position held still predominates in most Australian workplaces. In the position-based approach, positions of larger 'size' – that is, with a greater content of tasks, duties and responsibilities – attract higher levels of base pay, and employees can increase their base pay chiefly by ascending a hierarchy of job-related pay steps incorporated into either a ladder-like pay scale or a stairway of narrow job grades.

Position-based base pay structures

Position-based base pay structures are of two main types: pay scales (or spines) and **pay grades**. **Figure 9.4** illustrates each of these traditional structures.

A pay scale typically consists of a hierarchy of position-specific pay levels, each comprising a sequence of flat pay rates, steps or points. Traditionally, step-wise pay increments within each level were based on seniority or service, with the increase occurring automatically after each year of service. In the past, service-based increments of this type have been a defining feature of public sector salary structures in many countries. More recently, however, many organisations in both the public and private sectors have adopted the practice of making within-level increments dependent on merit; that is, on individual performance assessment. As such, pay for performance is assuming greater significance even in this most traditional of position-based structures.[19]

A job grade (also known as a 'pay grade' or 'narrow grade') houses a group of jobs of similar size/value to the organisation and specifies a pay range for these jobs rather than a scale step or spot rate. Each grade will cover a group of jobs regarded as being of similar value to the organisation and therefore worthy of roughly the same range of base pay. Unlike simple pay scales, each grade allows for some variance in pay, but the range over which pay can vary is usually quite narrow. Each grade has a pay range that defines the minimum and maximum rates of pay for all jobs in the grade, with the pay range for each grade typically being no greater than 30 per cent. Each grade also has a range midpoint that usually serves as an internal 'control point' intended to regulate pay increases. The grade midpoint typically defines the pay rate for acceptable proficiency in the job.[20]

position-based pay
Base pay where payment is fixed according to the 'size' of the job or position held

pay grades
A base pay structure that houses a group of jobs of similar size/value to the organisation and specifies a pay range for these jobs that defines the minimum and maximum rates of pay for all jobs in the grade

FIGURE 9.4 Position-based base pay structures
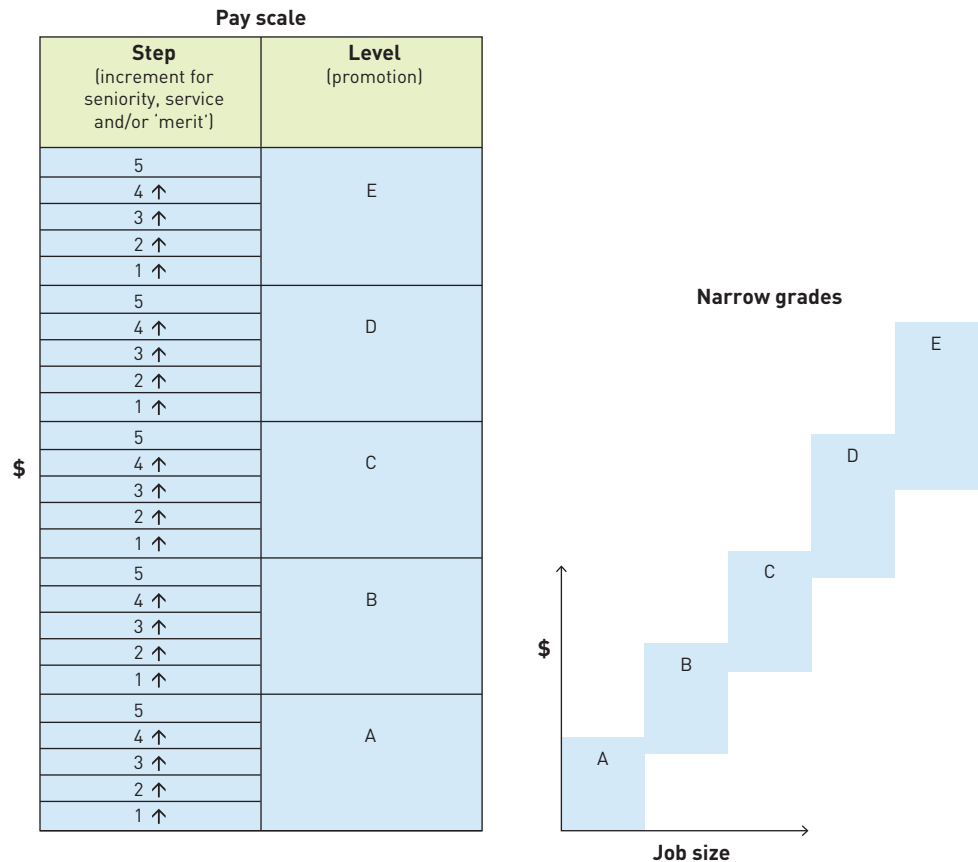
Pay scale

Step (increment for seniority, service and/or 'merit')	Level (promotion)
5	
4 ↑	
3 ↑	E
2 ↑	
1 ↑	
5	
4 ↑	
3 ↑	D
2 ↑	
1 ↑	
5	
4 ↑	
3 ↑	C
2 ↑	
1 ↑	
5	
4 ↑	
3 ↑	B
2 ↑	
1 ↑	
5	
4 ↑	
3 ↑	A
2 ↑	
1 ↑	

$

Narrow grades

Source: Shields, J. et al. (2016), *Managing employee performance and reward: Concepts, practices, strategies*, 2nd edn. Melbourne: Cambridge University Press, Figs 7.2, 7.3, pp. 172, 173. © Cambridge University Press, Melbourne. Reprinted with permission.

Valuing the job or position

In position–based systems, there are two main techniques for pricing each job or position: market surveys and job evaluation.

market surveys
Also known as salary surveys, these involve setting pay rates for particular jobs according to what other employers are paying for the same or similar jobs in external labour markets

Market surveys involve setting pay rates for particular jobs according to what other employers are paying for the same or similar jobs in external labour markets. Regular market surveys also allow organisations to monitor changes in market rates and adjust their own pay rates accordingly. As such, the approach emphasises 'external competitiveness' in determining the rate for the job. The organisation ascertains the range of amounts that other organisations are paying for jobs similar to its own, and then makes a strategic choice about where it will position itself relative to competitors. For this purpose, the market range for each position is commonly expressed as either percentile or quartile means or medians. Rather than undertaking the data–gathering themselves, many organisations utilise market data provided by specialist remuneration consulting firms.[21] As the cartoon in **Figure 9.5** implies, the pay decisions informed by market data are sometimes more of an art than a science.

FIGURE 9.5 An alternative route to external competitiveness

Source: DILBERT © 2009 Scott Adams. Used by permission of ANDREWS MCMEEL SYNDICATION. All rights reserved.

Job evaluation, which is frequently seen as an alternative to reliance on market data, involves determining relative pay rates by relating them to the importance or relative value of the job to the organisation. This is achieved by comparing jobs on a number of factors thought to be important in determining job value, such as skill, effort, responsibility or working conditions. The result of **job evaluation** is a hierarchy of jobs where all jobs of similar value to the organisation, no matter how different they might be in other respects, are placed at the same level in the job-based pay hierarchy. As such, job evaluation emphasises 'internal equity' in setting job-based pay rates rather than 'external competitiveness'.[22]

The most widely used approach to systematic job evaluation is the points–factor method. There are three main steps involved in developing a points–factor approach:

1 identifying 'compensable' factors
2 developing rating scales for these factors based on degrees of factor presence
3 weighing the factors.

Compensable factors typically cover four broad facets of job content, which are:

• job inputs (such as skill, knowledge, education, training and experience)
• job requirements (such as mental effort, physical effort, decision-making and supervision)
• job outputs (such as product accuracy, consequences of error, responsibility for cash and assets)
• job conditions (work environment, hazards, etc.).

These are usually broken down into subfactors that are more specific. A typical scheme will identify four factors, each with three or four subfactors. Commonly used factors include skill, effort, responsibility and working conditions.

The second step involves developing rating scales for each factor. The degree to which each factor is present in each job is measured by means of a rating scale. Typically, a scale will recognise up to seven degrees of factor or subfactor presence.

The third step involves weighing each factor according to its relative importance to the organisation. This is a critical step in the design process and is central to the policy-capturing

job evaluation
Involves determining relative base pay rates by relating them to the importance or relative value of the job to the organisation and is achieved by comparing jobs on a number of factors thought to be important in determining job value

aspect of the evaluation process. The choice of weightings should reflect the organisation's strategic priorities.

In the example given in **Figure 9.6**, there are four job factors, all weighted unequally. Each factor is broken into various subfactors. For each factor and subfactor, there are five degrees; each degree representing a multiple (×2, ×3, ×4, ×5) of the points awarded for the lowest degree. Note that the maximum points that may be awarded to any position is 1000.

FIGURE 9.6 Example of a simple points-factor job evaluation instrument

FACTORS	POINTS FOR EACH DEGREE					FACTOR WEIGHTS (TOTAL POINTS)
	A	B	C	D	E	
Skill						400
Work experience	40	80	120	160	200	
Qualifications	20	40	60	80	100	
Education	8	16	24	32	40	
Initiative	12	24	36	48	60	
Work content						300
Difficulty of work	10	20	30	40	50	
Complexity	20	40	60	80	100	
Physical demand	14	28	42	56	70	
Mental demands	10	20	30	40	50	
Hours	6	12	18	24	30	
Responsibility						200
Supervision of others	16	32	48	64	80	
Care of materials and equipment	4	8	12	16	20	
Decision-making	12	24	36	48	60	
Record-keeping	4	8	12	16	20	
Security	4	8	12	16	20	
Working conditions						100
Work environment	10	20	30	40	50	
Hazards or risks	5	10	15	20	25	
Interpersonal relations	5	10	15	20	25	
Total points	200	400	600	800	1000	1000

Source: Clark, R. (1992), *Australian human resource management: Framework and practice*, 2nd edn. Sydney: McGraw-Hill, p. 295.

As a means of valuing jobs and developing job-based pay structures, the points-factor approach has much to recommend it. It can introduce order, rationality, strategic focus and consistency into potentially arbitrary pay structures by using transparent and clearly defined measures of job size and offering a consistent means of measuring relative job size/value. Further, the points-factor approach can also help to identify and eliminate inequities in the existing pay structure, as well as providing a rational basis for setting pay rates for new or changed jobs. Although many decades old, the approach also lends itself to online applications, including cloud-based software platforms.

Visit the Capterra website for details about some popular software programs for evaluating jobs. How might such programs improve the capability of job evaluation as a method of job pricing? Might there also be some drawbacks in using such programs?

However, the points-factor approach also has some weaknesses and drawbacks. In focusing on internal relativities and generic job content factors, it may downplay or even ignore critical market-related strategic success factors, a point actually conceded by commentators who assert its continuing relevance to contemporary reward practice. According to critics like Edward Lawler, points-factor methods privilege job size over job holder contribution, emphasise internal equity over external competitiveness, and reinforce bureaucracy and hierarchy. In practice, a well-managed system of job-based pay requires simultaneous attention to both internal equity and external competitiveness considerations.[23]

Job evaluation can be seen as a corrective to gender-based pay inequality and distributive injustice (i.e. reward outcome unfairness) evident in the wider labour market. Gender differences in pay levels and earnings remain significant in Australia, despite the fact that the principles of equal pay and gender pay equity have been applied to centralised pay-setting for many decades. As **Figure 9.7** shows, measured in terms of full-time adult average weekly ordinary time earnings, the gender pay gap widened significantly in the decade 2004–14 (from 14.9% to 18.5%) and while the gap has narrowed somewhat (to 15.3% by the end of 2017),

FIGURE 9.7 Full-time gender pay gap, Australia, 1997–2017
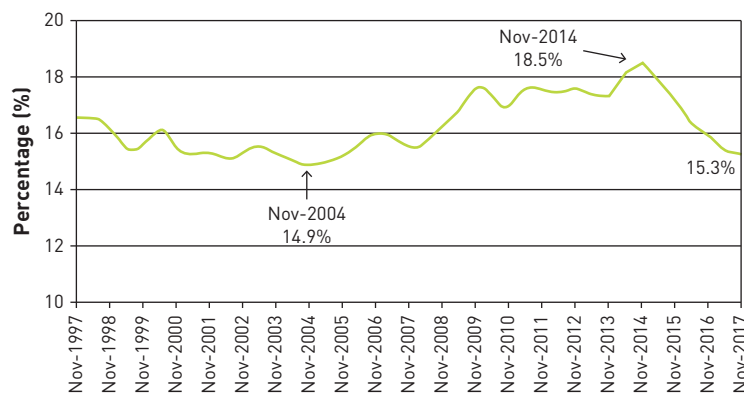
Source: Workplace Gender Equality Agency (2018), *Australia's gender pay gap statistics, February*, p. 3.

it remains high. As **Figure 9.8** indicates, the gap is lowest (around 10%) in public administration and safety, wholesale trade and education, but remains particularly pronounced in many fields or private sector employment, with financial and insurance services having the highest gap (over 31%). Analysing the data by occupation shows that the gap, while narrowing marginally since 2015, remains above 20 per cent in all executive and managerial roles, technician and trades roles, sales workers and labourers.[24]

FIGURE 9.8 Full-time gender pay gap (total remuneration) by industry, Australia, 2015–17

Industry	2015–16	2016–17
All industries	23.1	22.4
Public administration and safety	10.5	9.2
Wholesale trade	10.0	9.8
Education and training	9.3	10.6
Accommodation and food services	11.4	11.9
Manufacturing	14.2	13.9
Mining	15.8	14.7
Health care social assistance	14.7	15.7
Other services	14.7	15.7
Administrative and support services	14.8	16.0
Retail trade	16.2	16.3
Electricity, gas, water and waste services	20.0	18.8
Arts and recreation services	21.0	20.5
Transport, postal and warehousing	21.9	21.9
Information media and telecommunications	23.5	22.7
Professional, scientific and technical services	27.5	25.4
Agriculture, forestry and fishing	21.8	25.7
Construction	28.0	27.4
Rental, hiring and real estate services	29.3	31.4
Financial and insurance services	33.2	31.8

Gender pay gap (total salary)

Source: Cassels R and Duncan A (2018), 'Gender equity insights 2018: Inside Australia's gender pay gap', BCEC, WGEA Gender Equity Series, Issue #3, Bankwest Curin Economics Centre, March 2018, https://bcec.edu.au/publications/gender-equity-insights-2018/.

Pay equity means eliminating all gender bias from pay determination processes and outcomes. It means that men and women undertaking work of the same or comparable value to the organisation and society should receive the same pay, benefits and conditions. The principle of comparable worth prescribes that employees undertaking work of a similar content (e.g. work requiring similar skill levels or qualifications), but in different occupations or organisational contexts, should be remunerated at the same or a similar level. Therefore, taking into account the comparable skill levels and learning times involved, a case can be made for matching the pay of workers in female-dominated occupation such as child care and hairdressing with that of workers in a male-dominated occupation such as that of automotive mechanic. As **Case study 9.1** at the end of chapter highlights, almost 20 years after its initial airing in Australian employment relations tribunals, the comparable worth principle continues to encounter resistance.

Whether organisationally specific job evaluation can do much to further pay equity is a moot point. Indeed, some have argued that badly designed and implemented job evaluation may be a cause of continuing gender pay inequality rather than a reliable remedy.[25] As **HRM in practice 9.2** indicates, some enlightened firms are taking steps to address the issue of gender-based earnings inequality via other means.

Emerging issue 2
The gender pay gap

comparable worth
Prescribes that employees undertaking work of a similar content (e.g. work requiring similar skill levels or qualifications), but in different occupations or organisational contexts, should be remunerated at the same or a similar level

HRM in practice 9.2

Fixing the gender pay gap

Deloitte Australia's new chief executive Cindy Hook said she would close the 'small' gender pay gap during the firm's May 2015 pay cycle by ensuring women on maternity leave have annual performance reviews and receive a pay rise equal to the average for that role.

'They might get more [than the average] but they'll never get less,' Ms Hook said.

The difference between what women and men are paid doing the same job at Deloitte's Australian office is less than 1 per cent.

This is an apples-for-apples comparison. It strips out the fact that Deloitte hires more men than women overall, plus the fact that women occupy senior positions in disciplines that generally command lower market rates.

Correcting the imbalance will be a financial blip for Deloitte.

The pregnancy pay penalty

Ms Hook has signed off on a number of initiatives to bring more women through to the highest level in the firm. However, ensuring that women on maternity leave, especially at manager and director level, do not miss out on pay reviews is among the most significant.

'Once they miss out, it is virtually impossible to catch up,' Ms Hook said.

This supports new research by Chartered Accountants Australia and New Zealand which shows tenure and full-time work experience are key factors in commanding higher salaries in accounting.

It will be hard for firms to close the gap while women are primarily the ones pulling out of the workforce – or working part-time – to raise kids, said Queensland University of Technology professor, Michael Kidd, one of the report's authors.
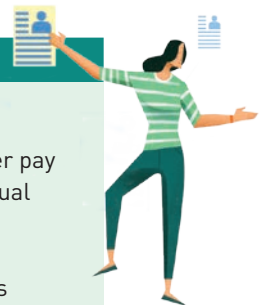
CAANZ' analysis of work conditions in accounting from 1995 to 2013 shows women earn approximately 22 per cent less per hour than men.

The annual average income was $178 000 for men and $110 000 for women among a survey sample of 304 respondents. On a weekly basis, men are taking home $3612 compared to $2339 for women.

Males in the survey are averaging five years more full-time work experience than women, and are staying with the same employer for an extra year (6.6 years) compared to women.

Deloitte is the third of the big four audit and accounting firms to publicly disclose its gender pay gap.

At 10.8 per cent across its 5500 employees (excluding 634 partners), Deloitte's gap is well below the national gap of 18 per cent, lower than PricewaterhouseCoopers, at 11.4 per cent, but slightly higher than Ernst & Young at 8.3 per cent.

Ms Hook committed to 'immediately' addressing the issue.

'Zero pay gap is almost unrealistic until there's more societal change, but we will continue to squeeze this thing down,' she said.

As part of Deloitte's effort to get more women into senior positions within the firm, internal and external recruiters will have to interview 50:50 male and female candidates before any new hires are made.

It hopes this will prevent the gender gap opening up again.

'A lot of the issues come up with lateral hires coming in,' Ms Hook said.

Ernst & Young tackles managers' unconscious bias

Ernst & Young (EY) has identified a similar problem. The professional services giant closes its gender pay gap each year but 12 months later, it is back.

EY has developed a number of mechanisms to address unconscious bias in the job interview process, including a tool that tells managers where the gaps are, their source of origin, and generates questions to reverse unconscious bias in the process.

EY Australia's head of human resources McGregor Dixon said it was encouraging to see a strong sentiment in the partnership 'that we want to get this right'.

Following the Male Champions of Change lunch in August, Deloitte's 80 most senior partners took the 'panel pledge' – an initiative of federal sex discrimination commissioner Elizabeth Broderick, where they refuse to serve on a panel of two people or more at a public conference unless there is at least one woman on the panel, not including the chair.

Source: King, A. (2015), How Deloitte will fix its 10.8pc gender pay gap. *Australian Financial Review*, 6 October. The use of this work has been licensed by Copyright Agency except as permitted by the Copyright Act, you must not re-use this work without the permission of the copyright owner or Copyright Agency.

Person–based pay systems

Person–based base pay systems differ from job-based systems in that the foundational element of pay is configured according to the performance-related capabilities (i.e. technical skills and knowledge and/or competencies) of the job holder rather than on the basis of the size or importance of the job held. The defining structural feature of the person-based approach is the pay band, while the two chief ways of configuring pay bands are skill blocks and competency zones.

Pay bands

During the 1990s and the 2000s, a considerable number of purportedly distinct person-based pay structures were in vogue, from 'job families' and 'broad grades' to 'career bands' and 'broadbands'.[26] While these distinctions are still discernible in some pay systems, the differences involved are more a matter of degree than kind, and today the dominant structural form of person-based base pay is that of the pay band – or, simply, 'banding'.

Pay bands involve the use of a small number of wide occupational or role bands, designed to allow for greater pay flexibility than traditional graded structures. Whereas a graded structure might have upwards of 20 job grades, a banded structure may have as few as five to 10 occupational bands. There are also significant distinctions between the two approaches in respect of the management of pay progression, with banding allowing for more rapid recognition and reward of personal performance capabilities.

Figure 9.9 depicts a typical banded structure. The pay ranges are wide (sometimes a 200% to 300% difference between band minimum and maximum) and there is high-level band overlap, meaning that high-level proficiency at one of the lower levels translates to higher base pay than for early- to mid-career employees at higher levels in the organisation.

pay bands
A base pay structure associated with based pay positioning and progression allowing individual employees to be recognised and rewarded via base pay adjustment for acquiring additional capabilities (skills, knowledge, competencies) required by the employer

FIGURE 9.9 Example of pay bands
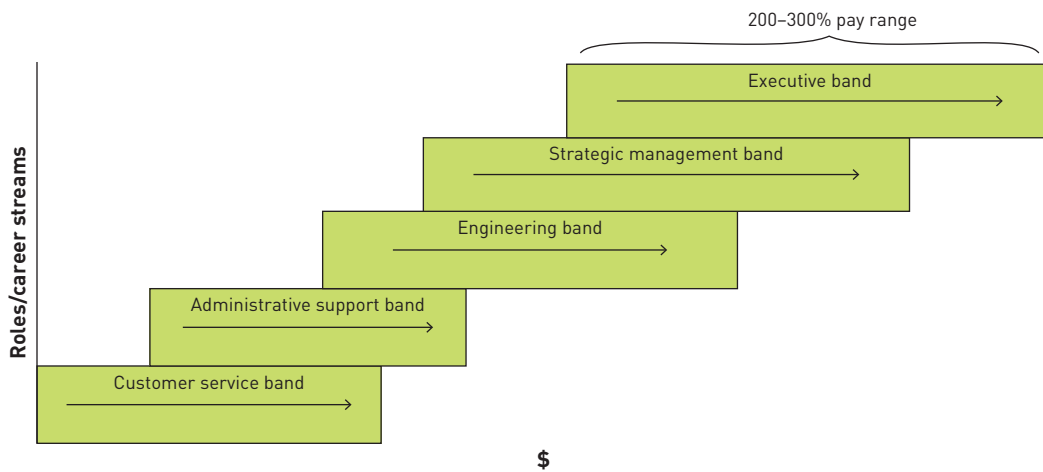
Source: Shields, J. et al. (2016), *Managing employee performance and reward: Concepts, practices, strategies*, 2nd edn. Melbourne: Cambridge University Press, p. 175. © Cambridge University Press, Melbourne. Reprinted with permission.

Skill blocks

Skill can be defined as the individual's level of technical proficiency in performing a particular task. These technical capabilities (also known as 'hard' skills, as discussed in Chapter 1) are acquired via formal training or informal 'learning by doing'. Skill blocks, the oldest form of person-based base pay, consist of a bundle of related tasks and activities – or skill elements – the mastery of which constitutes a finite and verifiable unit of learning for which training content

skill
An individual's level of technical proficiency at performing a particular task, as acquired through formal training or informal on-the-job acquisition

skill blocks
A base pay system that recognises and rewards individual employees on the basis of the acquisition of required technical skills and job knowledge

can be developed and delivered.[27] Each skill block becomes a training module that must be completed successfully to warrant a further increase in the amount of base pay.

Skill blocks are typically configured in cumulative and increasingly challenging learning steps, and each successive set builds on the previous one. Lower skill sets are prerequisites for those higher in the sequence; the former typically focus on developing breadth skills and the latter on depth and vertical skills. For this reason, such models are sometimes referred to as 'stair-step' systems.

In the example of a stair-step approach provided in **Figure 9.10**, the three skill blocks for the administrative support role are cumulative, with block 1 – the entry set – comprising basic breadth skills, block 2 comprising a combination of breadth and depth skills relating to team-based office management, and block 3 consisting of quasi-managerial vertical skills. As each skill set is mastered, the employee's position in the administrative support pay band also increases in a step-wise way: in the example, from an entry point level of $40 000 to $45 000 when set 1 is completed, to $55 000 when set 2 is completed, and to $70 000 when set 3, the most challenging set, is mastered. Failure to complete any step in the sequence means that further skill-based pay progression is suspended until certification in the relevant skill set is achieved. Stair-step models of this type generally apply to broad role categories, so the organisation using skill pay would normally have a separate stair-step model for each role covered.

FIGURE 9.10 Sequential skill-based pay progression in banded structure: a 'stair-step' model for an administrative support role
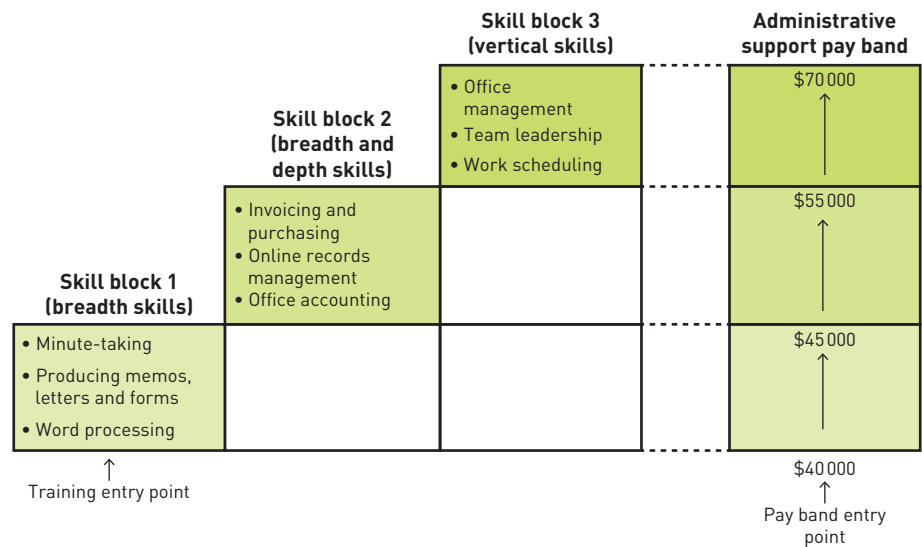
Monetary values are attached to each skill block according to the estimated learning time required. As such, skill-based pay bands support functional flexibility, multi-skilling and career-pathing for line employees.[28] Multi-skilling allows employees to be redeployed quickly without retraining delays. It also minimises downtime arising from the absence of required skills. By breaking down rigid job demarcations, it can enable a more flexible utilisation of the workforce as employees acquire a breadth and depth of relevant skills. A focus on hard skills also lends itself to employee involvement in system design and administration. As such, exponents contend that it is ideally suited to high-involvement management.[29] Skill blocks and bands will be especially appropriate for roles with significant technical knowledge and skill requirements, such as process work, technical or paraprofessional roles, maintenance work and administration. In such roles, technical skills are relatively easy to identify, impart, assess and reward.

By definition, this approach requires both an effective training system and a valid and reliable program for assessing and accrediting individual learners for skills acquired. Where skill bands are introduced in the absence of adequate and accessible training, the consequences for the organisation and the employees concerned may be disastrous. The choice of training methods should reflect the learning content. This necessarily requires careful design, implementation and maintenance, which in turn requires considerable investment of time and money. Likewise, skill-based progression requires formal skills assessment and accreditation. For these reasons, skill-based pay is not a low-cost option. Skill-base progression is also prone to 'topping out': once employees have acquired all the skills they are required to learn, their pay will plateau, and they may lose task motivation and organisational commitment unless additional rewards, such as performance incentives, are made available. A further problem is skill obsolescence. Since pay increases are based on the repertoire of skills that each employee accumulates rather than those that they actually use, any mismatch between learning content and actual requirements will undermine the system's efficacy. In the absence of opportunity to retrain, employees whose skills are no longer needed – for example, because of changes to product range or technology – may be exposed to pay reduction or even redundancy. For such reasons, the design, communication, implementation and maintenance of skill-based plans requires careful attention to procedural fairness, trust and delivering on what is promised.[30]

US management consultant Gerald Ledford is a long-term advocate of skill-based pay. Go online to read the case study, 'Skill-based pay', written by Ledford and co-author, Robert Heneman III, where HR Manager Heather Jefferson, has to weigh up whether or not to implement a skill-based plan in her firm. The case study lists some of the considerations Heather should take into account. What does this list tell you about the skill-based pay option?

Competency zones and bands

Competency zones are the stepping stones and control points of base pay progression in bands accentuating competencies (also known as 'behavioural competencies'). Competency zones provide the internal architecture for competency-based bands.

competency zones
A base pay system that recognises and rewards individual employees via base pay adjustments on the basis of the development and application of abilities, 'soft skills' or 'competencies'

Competency-based band progression commonly involves between three and five zones of competency development in any given role. The descriptors attached to these levels typically seek to capture the essence of each particular level. For example, the descriptor sequence applied in a five-level system might be 'minimal', 'developing', 'proficient', 'advanced' and 'shaping'; and the descriptor sequence for a three-level system might be 'developing', 'applying' and 'shaping'. These criteria constitute the standard for assessing competency levels on each core and role competency included in the assessment instrument. They also provide the categories for an overall assessment across all competency dimensions. Where competency assessment is linked to competency-based or competency-related pay, the competency levels are commonly transposed directly on to each broad band, thus determining automatically both the number of zones within the broad band and the zone descriptors. Each competency zone then becomes the target placement position for employees consistently assessed as having that overall level of competency;[31] for example, an individual whose summative assessments consistently put them at the 'applying' level in overall terms would be placed in the 'applying' zone of their role broad band rather than in a higher or lower zone.

With competency banding, pay increments are not automatic and progression to the upper zones is not guaranteed. In fact, both in-zone and between-zone progression becomes increasingly difficult as competency requirements become more demanding. Where each employee is initially positioned within a zone pay range and how their pay subsequently progresses within and between zones will depend on the specifics of the banded structure. In some cases, progression is based purely on competency assessment; in others, on a combination of competency assessment and results achieved.

In purely competency-based systems, such as that illustrated in **Figure 9.11**, each pay band is divided into a small number of competency zones, each representing a successively deeper level of competency development. Pay increments are not automatic and progression to the shaping zone is not guaranteed. In fact, both in-zone and between-zone progression becomes increasingly difficult as competency requirements become more demanding.[32]

FIGURE 9.11 Example of a competency-based pay band
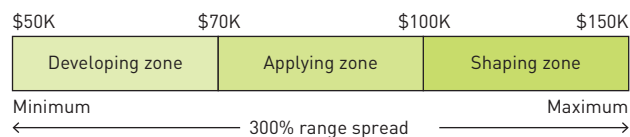
$50K	$70K	$100K	$150K
Developing zone	Applying zone	Shaping zone	

Minimum   Maximum

←———————— 300% range spread ————————→

Source: Adapted from Shields, J. et al. (2016), *Managing employee performance and reward: Concepts, practices, strategies*, 2nd edn. Melbourne: Cambridge University Press, p. 213. © Cambridge University Press, Melbourne. Reprinted with permission.

The appeal of the competencies approach lies chiefly in its focus on those personal attributes that are seen to be the most important and reliable drivers of high individual performance. As such, the suggestion that competency assessment should apply not only to performance

management and development but also to employee reward has intuitive appeal. Likewise, the competencies model is applicable to staff at all levels of the organisation, not just to skilled manual workers.[33] Competency-based banding promises employers an unprecedented degree of flexibility in determining individual base pay levels. By flattening job hierarchies, it can redirect employees' attention away from competition for jobs and promotion and towards individual and group contribution to organisational success. Uncoupling promotion from individual career development and base pay progression redefines 'career success' from a vertical to a horizontal trajectory. This means that individuals no longer have to aspire to a managerial role in order to further their careers and base pay. The competencies approach also supports a more strategic approach to reward management by linking career development and pay progression to individual performance capability and achievement. For these reasons, the competencies model is also especially applicable to high-performance knowledge work, managerial and executive roles. It is also applicable to service work roles.

Yet competency banding also has its drawbacks. Indeed, the enthusiasm initially associated with competency-based pay has, in recent years, been replaced by a healthy degree of caution.[34] One possible shortcoming has to do with the pricing of competencies. Competencies are commodities that have yet to be recognised in external labour markets. Further, far from simplifying payroll administration, competency banding also stands to make it more complex and challenging, requiring considerably greater levels of remuneration expertise. In the absence of clearly defined limits and 'control points' for pay progression, there is a danger of runaway payroll inflation. The wide pay ranges characteristic of competency bands may create unrealistic expectations of pay-raise opportunities, and this too can cause breach of trust and feelings of distributive injustice, especially if these expectations remain unfulfilled.

Overall, then, while the approach does still hold considerable promise as a means of structuring person-based pay, its complexity requires that it be designed, communicated, implemented and monitored with care, caution and, not least, patience.

To take your understanding of competency-based pay a step further, consider the examples on the Erieri (ERI Economic Research Institute) website (go to the site and search for 'Competency-based pay'). What occupations would you say are most suited to competency-based pay? Why might this be a good approach for teachers' remuneration? Can you think of any occupations where it would not be a good fit?

Aligning base pay practices with organisational strategy

Now that we have explored in detail the options for building base pay, we can revisit our earlier preliminary discussion of reward system design issues, where we suggested broad design possibilities for each of three types of organisational strategy: namely, those of innovation, quality improvement and cost reduction.

In general, and as detailed in **Table 9.4**, pay scales and grades with an emphasis on external competitiveness are best suited to organisations with a cost reduction strategy and

the associated low-trust, low-involvement employee value proposition. Base pay built around banded skill blocks would be best adapted to quality improvers requiring technical expertise and adaptability, while banded competency zones would be a better match for an innovation strategy, since these practices facilitate devolution, responsible autonomy and flexibility, and encourage informed risk-taking.[35]

TABLE 9.4 Aligning base pay practices with organisational strategy

	ORGANISATION STRATEGY FOCUS		
	INNOVATION	QUALITY IMPROVEMENT	COST REDUCTION
Base pay structure	• Competency zones and bands	• Skill blocks and bands for technical and administrative roles • Competency zones and bands for professional and managerial jobs	• Pay scales • Pay grades
Base pay progression	• Competency-based progression for all roles	• Skill-based progression for non-managerial roles • Competency-based progression for professionals and managers	• Seniority- and/or merit-based grade progression for managers • Scale or grade promotion for managers • Cost-of-living and bargaining adjustment only for other roles

EMPLOYEE BENEFIT PLANS

benefits
Financial entitlements that directly supplement cash base pay, including employer contributions to superannuation, health and medical insurance, paid leave, education expenses, etc.

Employee **benefits** directly supplement cash base pay and are focused generally on addressing the wellbeing and long-term security needs of employees and their dependants. While they are essentially add-ons to base pay, benefits are also an increasingly complex and varied category of rewards ranging from employer contributions to employee superannuation (i.e. retirement savings), health and medical insurance, and paid holiday leave, to various work-related fringe benefits such as employer-funded mobile technology, travel, child care and support for self-education expenses. The relative importance of financial benefits in the total remuneration package will depend very much on the nature of the prevailing tax regime and whether or not it encourages employees and employers to package up benefits to minimise current and future tax liability.

While employers in most countries are obliged by law to make certain benefits available to employees (i.e. mandatory benefits), it is also open to employers to offer additional benefits to employees as part of a strategic approach to reward management (i.e. voluntary benefits). In many developed countries, benefits comprise a growing proportion of total remuneration costs and are a key facet of targeted talent attraction and retention.[36]

Mandatory benefits

With the decline of the welfare state in many Western countries since the 1970s, the focus of provision for employee economic security has shifted from taxpayer-funded support to benefits via the employment relationship. Depending on the country involved, such benefits include: employer-funded retirement savings; life, health and disability insurance; workers' compensation; various forms of paid leave (e.g. annual, long service, sickness, parental and carer); and severance pay.

In the Australian context, employers are legally obliged to provide a number of these benefits, most notably superannuation contributions currently equivalent to at least 9.5 per cent of each employee's base wage or salary. In most developed countries, employer-funded retirement or superannuation plans are now the single most important form of benefit provision for employees, as well as one of the largest additional costs to employers on top of wages and salaries. Superannuation is now the main employment on-cost for employers.

Superannuation

Superannuation plans are of two main types: defined benefit plans and defined contribution plans. Each may be contributory (i.e. employee-funded) or non-contributory (i.e. employer-funded) or both.[37]

Defined benefit plans provide a predetermined amount of retirement income either as a lump sum or as a regular pension for the remainder of the person's life. Such an approach provides certainty as to the amount of entitlement at the point of retirement. Since such arrangements are not fully funded by contributions, it is necessary for the organisation to use actuarial calculations to ascertain the level of funding necessary to meet promised benefits. Because the employer bears most of the costs and risks under defined benefit arrangements, in recent decades such plans have yielded to defined contribution plans as the dominant mode of retirement planning in many developed countries.

Defined contribution plans, also known as accumulation plans, specify the amount of employer and/or employee contributions, but not the actual retirement benefit. Contributions are expressed as a percentage of the employee's annual remuneration, and employee contributions typically range between 5 per cent and 10 per cent, with the employer often contributing an equal or greater amount. In Australia, employees are also able to deduct their contributions from pre-tax income by way of a 'salary sacrifice' arrangement. Once the employee reaches the prescribed 'presentation age' (ranging from 55 for those born before July 1960 to 60 for those born after July 1964), they can access their superannuation if they are fully retired or have reached the age of 65. The benefit may be paid either as a lump sum or as a pension where the employee uses the accumulated fund to purchase an annuity. The entitlement is calculated on the basis of accumulated contributions plus fund earnings over the period of contribution, with the latter determined largely by the changing state of returns on shares, real estate and other investments and, of course, the investment decisions made by the relevant fund managers.

Under defined contribution plans, employees have no guarantee as to their level of final entitlement, so under such plans the employee assumes most of the risk. If the economic settings are adverse, this risk exposure can have serious consequences for post-employment security. For instance, the paper value of employee superannuation accounts was affected quite severely by the precipitous decline in share prices during the GFC. This resulted in older employees postponing their planned retirement date, with a consequent impact on voluntary turnover (see Chapter 12) and job and promotion opportunities for younger employees. The trend to later eligibility for the aged pension in many developed countries, including Australia, also means that older workers are choosing to remain at work for longer. Superannuation and retirement planning, along with the appeal of superannuation as a reward practice, are now also being affected by a greater willingness by governments in Australia and elsewhere to see superannuation as a source of additional tax revenue.

Arguably, though, the most pressing social issue in Australia's superannuation system is the enormous gap in retirement savings between male and female workers. Whereas Australian men who retired in 2016 had an average superannuation balance of $271 000, women workers retired with an average balance of just $157 000. In part, this is because women experience more career breaks and are more likely to work in casual and other non-permanent jobs – jobs which until recently were not covered by mandatory employer superannuation payments.[38]

Voluntary benefits
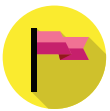
Emerging issue 3

The gender superannuation gap

Voluntary benefits can enhance the organisation's ability to attract and retain high-value employees. As the workforce becomes more diverse and as the levels of employee education and reward expectation rise, voluntary benefits are likely to assume an increasingly critical role in the reward management system's ability to attract, retain and motivate high-potential and high-performing employees.

Voluntary benefits include a wide range of rewards known collectively as fringe benefits or, in the United States, employee 'perks' (short for 'perquisites'). Examples include:
- discount company loans
- housing or mortgage subsidies
- discount travel and accommodation
- product or service discounts
- free clothing
- subsidised canteens
- company cars and/or free parking
- club and gym membership
- medical, dental and vision plans
- life insurance coverage

- self-education expenses
- school fees for dependent children
- free or subsidised child care
- laptop computers and tablets, mobile phones and other communication technology.

In Australia, taxes exist on fringe benefits, so most of these are liable to taxation, though the tax is levied on the employer rather than the employee receiving the benefit. In addition to fringe benefits of a financial nature, many organisations now offer a range of voluntary non-monetary benefits carefully targeted at enhancing employees' work–life balance and wellbeing. These benefits include, among other things, wellness programs of various types. In part, these non-monetary plans are also targeted at reducing costs associated with compulsory financial benefits, including statutory sick leave and stress leave entitlements. The provision of targeted non-financial benefits, such as child care facilities, may also support diversity management and equal opportunity. Most such initiatives amount to forms of social reward.

Employee wellness programs are designed to promote employees' physical and mental health and fitness. Examples include free medical check-ups, in-house gyms or subsidised gym membership, personal trainers, aerobics, yoga, pilates and tai chi classes, in-office massages, stress-reduction and relaxation sessions, ergonomic consultations, meditation rooms, staff health food canteens, nutrition seminars, weight control programs and quit-smoking programs. As well as being inherently beneficial to employees themselves, health and fitness initiatives such as these can make a significant contribution to reducing absenteeism and raising productivity.[39]

In some US firms, voluntary staff benefits or perks are a central feature of strategies for attracting, motivating and retaining (i.e. engaging) professional staff (see **HRM in practice 9.3**). In the Asia Pacific region, too, perks are on the rise. A 2016 study identified the following as instances of the most innovative perks offered by Australian firms:

- Qantas provide staff with 90 per cent off flights, usually business class.
- Deloitte provides pet insurance.
- Landgate and PwC provide support for personal development/learning/training/study.
- Deloitte offers counselling and referral services for professionals who are considering adoption, and reimbursement of up to $5000 per child for eligible expenses related to an adoption.
- Commbank has four priority long day child care places in Sydney. It also offers discounts on electricity and insurance.
- AbbVie provides 18 weeks' paid maternity or paternity leave.
- Smartgroup and InfoTrack provide monthly in-house massages.
- Smartgroup, CSBP, PwC, Deloitte, InfoTrack, UnitedHealth Group, Landgate, TAL and Epic Pharmacy all offer free or discounted gym memberships.[40]

HRM in practice 9.3

Employee perks that attract the best talent

In the United States, the special benefits offered to employees are known as 'perks' (short for 'perquisites') or benefits that one enjoys or is entitled to on account of one's job or position.

Perks are being used increasingly by organisations in and beyond the United States as part of an employee-centred approach intended to attract, motivate and retain the best talent. The range of perks on offer is now vast, with special benefits often tailored to the needs and expectations of particular types of employees, including graduates from the millennial generation (those born between the mid-1980s and 2000).

There is growing evidence that perks do work – and not only for employees in their 20s. Offering attractive benefits and perks seems to be just as powerful a way to get employees engaged as having a strong mission-driven company culture or great career advancement opportunities.

Recent (2016) research in the United States by employee opinion review site Glassdoor found that 'more than half (57%) of people said benefits and perks are among their top considerations before accepting a job, and four in five workers say they would prefer new benefits over a pay raise'.[41] The same research reported that the five types of benefits, as ranked by employees, were:

1   Health care insurance (e.g. medical, dental): 40 per cent
2   Vacation/paid time off: 37 per cent
3   Performance bonus: 35 per cent
4   Paid sick days: 32 per cent
5   401(k) plan, retirement plan and/or pension: 31 per cent.[42]

In the United States, firms typically offer more than 50 specific benefits and perks.

An analysis by Glassdoor of benefits reviews employees shared on its site identified some of the more unique benefits and perks provided by leading companies. Below is a list of some of the perks offered by the highest-rated firms.

FIRM	ILLUSTRATIVE BENEFIT
Netflix	One paid year of maternity and paternity leave to new parents. Parents are also able to return part-time or full-time and take leave as needed throughout the year.
REI	Encourages employees to go outdoors by offering two paid days off a year (called 'Yay Days') to enjoy their favorite outside activity.
Salesforce	Six days of paid volunteer time off a year, as well as US$1000 a year to donate to a charity of their choice.
Spotify	Six months of paid parental leave, plus one month of flexible work options for parents returning to the office. The company also covers costs for egg freezing and fertility assistance.
World Wildlife Fund	Employees take Friday off every other week, also known as 'Panda Fridays' at the nonprofit.
Airbnb	An annual stipend of US$2000 for each employee to travel and stay in an Airbnb listing anywhere in the world.
PwC	US$1200 per year for student loan debt reimbursement.

FIRM	ILLUSTRATIVE BENEFIT
Pinterest	Three paid months off for parental leave, plus an additional month of part-time hours, as well as two counselling sessions to create a plan to re-enter the workplace.
Burton	Season ski passes and 'snow days' to ski after a big snowfall.
Twillo	Offers employees a Kindle plus US$30 a month to purchase books.
Twitter	Three catered meals a day, but some lesser-known benefits include on-site acupuncture classes.
Accenture	Covers gender reassignment for their employees as part of their commitment to LGBTQ rights and diversity.
Walt Disney Company	Free admission to its parks for staff, as well as discounts on hotels and merchandise.
Facebook	US$4000 in 'Baby Cash' to employees with a newborn.
Epic Systems Corporation	A paid four-week sabbatical to allow employees to pursue their creative talents after five years at the company.
Adobe	Shuts down the entire company for one week in December and one week over the summer.
Asana	Access to executive and life-coaching services outside of the company.
Zillow	Allows employees who are travelling to ship their breast milk.
Google	Provides the surviving spouse or partner of a deceased employee 50% of their salary for the next 10 years.

Source: Dishman, L. (2016), These are the best employee perks and benefits. *Fast Company*, 3 February. https://www.fastcompany.com/3056205/these-are-the-best-employee-benefits-and-perks. Fast Company is a registered trademark of Mansueto Ventures LLC.

The line-up of benefits at internet giant Google is simply vast. Googlers working long hours have access to three full, healthy meals a day. For those who prefer to graze between meals, there are equally healthy snacks, as well as first-class coffee and juice bars across the firm's campuses. The food perk saves busy employees money and time, as well as affording them plenty of opportunities to commune with colleagues. Free 'massage credits' allow employees to recognise and reward each other for outstanding team work, especially in high-pressure projects. The credits can be used to enjoy a free massage on-campus. Google's 80/20 rule also taps into Googlers' passion for creativity and innovation by allowing them to devote 20% of their work time to their own pet projects that may deliver the next big breakthrough for the company. And the list of 'win-win' benefits goes on.

Perks also feature when ranking the happiest companies, such as in CareerBliss's '50 Happiest Companies in America' report. As one Adobe employee noted on the CareerBliss website: 'The company has great perks for their employees that include company parties, outdoor activities, indoor pool and ping-pong tables, and a computer gaming room. They also have a great cafeteria that provides excellent food'.[43]

The possibilities are almost limitless. Additional perks offered by these and other companies also include

- Unlimited paid time off
- Profit-sharing
- Extra time off around the holidays

- Free on-site spa services
- Company-sponsored sports teams
- Off-site sporting, social and entertainment events
- Subsidised education
- Paid day off for birthdays
- Technology for new employees (such as tablets)
- Paid time off for community service
- Season sports passes
- Free food/drink
- On-site gym or membership to a local gym
- On-site childcare.

Naturally, these perks and benefits don't carry equal appeal to all employees. Rather, what is offered is targeted carefully at those types of employees that the firm most wishes to keep onboard and engaged. Note the strong accent on parental leave beyond what is required by law – a great way to retain talented women and men beginning the frequently stressful journey of parenthood.

The key point is that special benefits programs have enormous potential as a way for organisations to tailor and target their reward practices to meet the needs and expectations of employees from different backgrounds and at different stages of their working lives.

Source: Dishman, L. (2016), These are the best employee perks and benefits. *Fast Company*, 3 February; England, L. (2015), An inside look at Google's best employee perks. *Inc.*, 21 September; Blake, B. (2015), 21 employee perks that attract the best talent. *Forbes*, 24 February.

Fixed versus flexible benefits plans

flexible benefits plans
Allow employees a degree of choice in how best to configure their benefits package within a range of options made available voluntarily by the employer. Also known as 'cafeteria' benefits plans

Benefits packages may be either fixed benefits plans or **flexible benefits plans**. They may have a standard content, with the composition being determined by legal requirement and employer choice. Alternatively, they may be flexible in content, with employees having a degree of choice in how best to configure their package within a range of options made available voluntarily by the employer. The latter are also known as flexible or 'cafeteria' benefits plans. The logic of flexible packages is that one size does not fit all. Differences in age, family responsibilities, financial circumstances and lifestyle preferences mean that different employees will have different benefit needs, and the needs of any one employee will change considerably over time.[44]

Overall, flexible schemes are likely to have the greatest appeal to large organisations with diverse workforces, for which staff attraction and retention concerns are of paramount importance. Still, flexible benefits packages have some significant drawbacks for both parties. For the employer, cafeteria plans have high administrative costs simply because of the wider range of options that have to be made available, the sheer technical complexity of multi-plan schemes, and the need to micro-manage each employee's package and frequent changes in their preferences. For the employee, the array of choice available may be daunting and confusing. Poor or ill-advised choices may also compromise the employee's long-term security, especially if they result in the employee having inadequate health care coverage or insufficient retirement savings.[45]

Aligning benefits practices with organisational strategy

Returning to the theme of strategic reward alignment, as proposed in **Table 9.5**, a cost reduction strategy will leave little room for anything other than mandatory benefits, whereas the two other strategies – innovation and quality improvement – would be best served by the provision of additional voluntary benefits designed to retain high-performing employees. Flexible benefits are particularly well suited to the high involvement value proposition associated with an innovator strategy (see **The future of work 9.1**).

TABLE 9.5 Aligning benefits practices with business strategy

| | ORGANISATION STRATEGY FOCUS | | |
	INNOVATION	QUALITY IMPROVEMENT	COST REDUCTION
Benefits	• Highly flexible • Wide voluntary provision	• Some flexibility • Voluntary provision	• Minimal • Mandatory only fixed

The future of work 9.1

The future of reward management

Strategic choices are shaped by the organisation's operating context and we are living through a constellation of changes unprecedented in human history. Globalisation, urbanisation, technological disruption and transformation associated with 'Industrial Revolution 4.0', particularly robotics and artificial intelligence (AI), the accelerating pace at which information, people and goods move, and shifts in workforce composition and how people interact are reshaping our concept of work, what we value, and how we interact with each other and the environment These 'mega-trends' have broad implications for how work will be organised in the future, the capabilities leaders will need, and what rewards will be required to attract, engage and retain talent in a very competitive world. Leadership is becoming more social than commanding, more flexible than dogmatic and increasingly requires the creation of shared meaning among people who might rarely interact in person; rewards and how those rewards are used by leaders is one important link.

Such developments in the world of work and work organisation presage major changes to the way we think about and practice employee reward management and prompt some major questions about the future of reward management:

- How are reward systems changing and what will they look like in 10 years' time? Will they be more centralised or less so; tailored by business or employee characteristics, and delivered by technology?
- How is AI transforming major professions like accounting, engineering, medicine and the law, and how is it changing the roles of reward professionals themselves?
- How will the role of leaders change and what reward systems will be most effective in supporting these new management models?

Jason White, Director, Performance and Reward, KPMG Australia, offers these predictions: 'As organisations transform their workforces to be relevant in an agile and digital future, old methods of goal setting, reviewing performance and rewarding employees are unlikely to fit well with new approaches to productivity. . . . As organisations go through change, ensuring they have an engaged, supportive and productive workforce can require more than raising salaries. We need to think from a total reward perspective. Financial and non-financial rewards can be utilised to create a compelling proposition that will motivate staff to align and support change. . . . The assumption that cash-based rewards are the only thing that matter to employees is being challenged by more contemporary views around the intrinsic motivators that people have around work.'

And what of rewards for the newest groups to enter the world of work – Millennials and Gen Z? Deloitte's 2016 Millennial Survey noted that loyalty and personal recognition are paramount concerns among these younger workers, chiefly because their wish for career mobility and progression reaches far beyond a weekly salary. So employers are likely to be compelled to tailor employee engagement programs to suit Millennial values and aspirations.

Following close behind are Gen Z – the 'digital natives' whose education, social interaction and entertainment have all been shaped by technology. For them, teamwork and cooperation, not individual material achievement, are set to be the defining features of their modus operandi. Rewards that are experiential rather than narrowly economic are also apt to have greater appeal. The sharing of information and experiences among Gen Z social networks presents an opportunity for a novel approach to reward configuration, recognition practices and HR communication. Social media and online lives open the way for a different approach to sharing the successes and achievements of employees with everyone across the organisation.

How would you like to be rewarded when you are 25? How do you think your reward preferences will be different when you are 40?

Source: B. Travers (2016), Rethinking reward for employees of the future. KPMG Australia, https://home.kpmg.com/au/en/home/insights/2016/12/employee-remuneration-reward-transformation.html; Anon. (2016), Looking to the future of employee recognition. 212oF, http://www.2one2f.com/blog/looking-to-the-future-of-employee-recognition.

PERFORMANCE-BASED REWARDS

Performance-based rewards (or incentives) are rewards given in recognition of past performance (individually or collectively) and in order to reinforce and enhance future performance. Performance pay plans, the most common form of performance-related reward, vary according to the level of measured or assessed performance. As such, performance pay is said to be variable, contingent and at risk, rather than fixed or guaranteed.

Incentives: for and against

As noted earlier, one of the most protracted and passionate debates within contemporary reward management centres on the relative merits of intrinsic and extrinsic rewards. Some theorists argue that intrinsic rewards are the most powerful motivators of work effort. Others disagree, asserting the superiority of extrinsic rewards in general, and performance-related

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performance-based rewards
Also known as incentive plans, these are rewards given in recognition of past performance and in order to reinforce and enhance future performance

agency theory
Proposes that performance incentives are the most effective way for owners / employers ('principals') to align the actions of self-seeking employees ('agents') with owner / employer interests

reinforcement theory
Proposes that a timely reward for a given desired action will motivate employees to repeat the rewarded action, while punishment in the form of non-reward will extinguish misbehaviour

monetary incentives, in particular. Indeed, this long-standing debate turns on the perceived pros and cons of monetary incentives.[46]

The case for performance incentives

Arguments supportive of incentive-based rewards derive either explicitly or implicitly from one or other of the main process theories of work motivation. Process theories of motivation differ from content theories in that they emphasise the motivational potential of performance incentives and the importance of perception and decision-making in individual work behaviour, especially judgements about whether the extrinsic rewards on offer are worth the effort.

The most influential process theories of motivation are agency theory, reinforcement theory, expectancy theory and goal-setting theory.[47]

Agency theory, which assumes a potential conflict of interest between principals (i.e. owners) and self-seeking agents (i.e. hired employees), prescribes incentives as the most effective means of aligning employees' economic interests with those of employers/owners.

Reinforcement theory posits that a timely reward for a given desired action will motivate employees to repeat the rewarded action, while punishment in the form of non-reward will extinguish misbehaviour.

Expectancy theory holds that an incentive is likely to motivate higher work effort if: (1) the employee sees the promised reward as personally valuable; (2) they expect that they can achieve the required level of performance; and (3) they trust the employer to deliver the reward in exchange for the achieved performance.

Goal-setting theory suggests that employees will be motivated more strongly by performance targets that are specific, agreed and challenging, and by feedback that is precise, automatic and continuous.

A further common rationale for performance-related rewards is that they operationalise the equity norm of distributive justice. **Equity theory** proposes, in part, that reward satisfaction stems from making employee outcomes (including pay level) commensurate with their individual inputs.[48] In short, high performers should be paid more than low performers, with reward inequality being proportional to the difference in individual performance. This is a common normative justification for performance-related pay.

The case against performance incentives

Performance pay and related incentive plans also have many detractors. Among the classic critiques of monetary incentives are those by academic psychologists, such as E. L. Deci, R. M. Ryan, D. J. Bem and M. R. Lepper, and social commentators Alfie Kohn and Daniel Pink. In essence, these critics contend that most incentive schemes are prone to dysfunctionality because they tend to be informed by very mechanistic and instrumental assumptions about the wellsprings of human motivation.

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expectancy theory
Proposes that for a reward to be effective in motivating an employee, the employee must see the reward as valuable, must believe that they are capable of delivering the required performance, and must trust that the reward will be forthcoming if they do perform as required

goal-setting theory
Proposes that employees will be motivated more strongly by performance targets that are specific, agreed and challenging, and by feedback that is precise, automatic and continuous

equity theory
Proposes that an employee's sense of reward satisfaction is influenced, first, by whether they see their own reward received ('outcome') as being commensurate with their effort ('input') and, second, how they see their input/ outcome ratio when compared to that of other employees

cognitive evaluation theory
Proposes that intrinsic motivation arises chiefly from the individual's need for task autonomy and competence and that incentives that are perceived to be controlling stand to impair intrinsic motivation

self-determination theory
Proposes that individuals who have been deriving high intrinsic rewards from their work tasks may revise their self-attributed motives for doing the work once a financial incentive is offered to them

Deci and Ryan's cognitive evaluation theory (also known as intrinsic motivation theory) challenges the instrumental cognitive assumptions typical of pro-incentive process theories.[49] On the assumption that the basic factors facilitating intrinsic motivation are the needs for autonomy and competence, cognitive evaluation theory suggests that the effect of external interventions such as extrinsic rewards will depend on how these rewards affect perceived self-determination and perceived competence. To the extent that they are perceived as controlling, they will indeed undermine satisfaction with the need for autonomy and, in turn, decrease intrinsic motivation. However, cognitive evaluation theory is not entirely dismissive of incentives. When incentives are perceived as informational (supportive) rather than controlling, they may actually enhance intrinsic motivation. A cognate psychological theory that sees incentives as having no redeeming features is self-determination theory. This suggests that individuals who have been deriving high intrinsic rewards from their work tasks may revise their self-attributed motives for doing the work once a financial incentive is offered to them.[50] The point is that the initial motivation to do something is likely to be implicit and intrinsic rather than calculative and driven by the pursuit of some extrinsic reward. For this reason, it is suggested, extrinsic rewards are likely to be more harmful than good when applied to tasks with high intrinsic reward potential (e.g. have high autonomy) because they accentuate an external locus of control over the performer and may dissipate the intrinsic motivation that may have driven performance initially.[51]

In a similar vein, Kohn argues that incentives undermine intrinsic interest in the job and motivate people to pursue one thing only – the money itself – with everything else being ignored. Incentives, he suggests, also encourage negative spillover effects such as destructive competition between employees and the rupture of cooperative work relationships.[52] Empirical evidence in this regard comes from a recent study by Gubler, Larkin and Pierce, who investigated a case study of an organisation introducing an award program to motivate attendance. They discovered that while the program did lead to short-term improvements for employees with poor levels of attendance, a motivation crowding-out effect was found for those who had been internally motivated for attendance prior to the program. Moreover, the authors found evidence for negative motivational spillover on work efficiency, which brings further support to the idea that there are certain 'hidden costs' of rewards that need to be carefully considered when incentivising behaviour.[53]

On the other hand, it is by no means clear that intrinsic and extrinsic motivation are always antithetical. According to exponents of performance incentives, the weight of evidence indicates that the two are, if anything, mutually reinforcing. Research shows that under certain conditions (such as those prescribed by expectancy theory), incentives can exert a positive influence on behaviour and that extrinsic and intrinsic rewards can make a joint contribution to reward satisfaction and motivation.[54] Moreover, cognitive evaluation theory and self-determination theory also allow that, while performance-contingent extrinsic incentives are, on average, detrimental to intrinsic motivation, there are still certain circumstances when a positive motivational effect is to be expected. Research has shown that individual-level factors,

such as people's tendency to perceive their actions as self-determined and their individual norms against payment, also tend to moderate the impact of extrinsic rewards on intrinsic motivation.[55]

Furthermore, contesting the proposition that financial incentives are detrimental to motivation and performance, Gerhart and Fang offer evidence that incentives may enhance employee performance by two main means: first, by means of a direct 'incentive effect' on individual and group motivation and effort; and second, by means of a longer-term **sorting effect**, whereby employees more likely to be motivated by performance-contingent rewards will be attracted to workplaces with such practices in place, while those not similarly motivated will be disinclined to enter or remain in such workplaces.[56] In addition, other studies point out that to fully understand the relative impact of intrinsic versus extrinsic rewards on performance, one needs to consider the role of task type as well as the way in which performance is defined. Weibel, Rost and Osterloh, for example, showed that while extrinsic rewards such as pay-for-performance are poor predictors of performance for interesting tasks (i.e. those that are challenging, enjoyable and/or purposeful), they tend to have a strong, positive impact on performance in the case of non-interesting tasks.[57] Similarly, Cerasoli, Nicklin and Ford suggest that intrinsic motivation is a better predictor of performance quality (e.g. the type of performance expected in knowledge-intensive jobs), whereas extrinsic incentives are a better predictor of performance quantity (e.g. the type of performance expected in jobs involving highly repetitive tasks).[58] On the practical side, it follows that while a focus on intrinsic rewards may be appropriate for work that is intrinsically motivating in the first instance, not all jobs will be intrinsically rewarding. In such cases, it would be necessary either to enrich the jobs or to apply extrinsic rewards.

Perhaps the most meaningful conclusion to draw from these debates on the efficacy and fairness of incentives is that pay for performance may have the potential to elicit higher levels of desired behaviour and results from participating employees. However, the effectiveness and felt-fairness of any such plan will be contingent on the mode of application, particularly the way the pay-performance linkage is configured, the type of performance criteria prioritised (e.g. creativity, quality and timeliness versus quantity and cost efficiency), the validity and reliability of the performance measurement process (see Chapter 8), how effectively this linkage is communicated and accepted, and how appropriate it is to the needs and expectations of the employees involved, the jobs to which they are assigned, the constellation of HRM practices applied, and the wider organisational context; in short, whether it is a good fit both vertically and horizontally.[59]

Types of performance pay

From an employer perspective, financial incentives – or pay-for-performance plans – seek to reduce the degree of uncertainty associated with the nature of the employment exchange by specifying the basis of the transaction in more explicit terms. Performance pay can therefore

sorting effect
Employees sort themselves in and out of organisations depending on whether the organisation's value proposition, including how it rewards employees, attracts or repels them

be defined as any remuneration practice in which part or all of remuneration is based directly and explicitly on employees' assessed work behaviour and/or measured results. On the basis of this definition, it would be inaccurate to classify plans that focus on assessing and rewarding performance capabilities, such as job knowledge, skills and competencies (see the above discussion of person–based base pay), as performance pay plans since they focus on rewarding employees' productive inputs rather than work activities/behaviours or outputs.

While performance-related reward plans can themselves be classified in many different ways, the four crucial considerations are as follows.

1   What is being measured: behaviours, results or both?
2   Whose performance is being measured: individuals, large work groups (business units, plants, divisions), small work groups (teams) or the whole organisation?
3   Over what timeframe is performance being measured and rewarded: over a short term (12 months or less) or a longer term (more than 12 months)?
4   What form does the contingent reward take: cash, company share equity or non-monetary?

Using these dimensions, we can identify three main categories of performance-related rewards.

1   *Individual performance-based rewards:* These are based on either the individual employee's assessed work behaviours or results or on a combination of the two. These typically have a timeframe of no more than one year and, as such, may also be described as a form of short-term incentive. They may also be of a cash or non-cash nature, or both.
2   *Performance pay based on the measured results of large or small work groups internal to the organisation as a whole:* This is also described as a **short-term incentive (STI)** plan since the performance timeframe is typically between one month and one year. While rewards for group performance are generally monetary in nature, recognition for group performance may also be of a non-monetary nature.
3   *Collective performance rewards based on results achieved by the organisation as a whole:* Where organisational results are defined in terms of financial accounting criteria (such as annual net operating profit) and the resulting payment is cash-based, the organisational performance plan would amount to a short-term incentive. However, where organisational performance is defined in terms of share market criteria (i.e. movements in ordinary share prices and/or dividend payments to shareholders over a number of years) and the reward takes the form of actual or potential company shares/equity, the approach is described generically as a **long-term incentive (LTI)** plan.

Table 9.6 summarises the specific reward practices within each of these three broad categories. Each type of performance-related reward is examined in more detail below. To provide a sense of the general importance of performance pay in Australian workplaces, **Table 9.7** details the incidence of STIs by broad type and enterprise size. Note, in particular, the higher incidence of STIs in the form of regular and irregular bonuses in larger organisations and the greater use of commissions in SMEs.

short-term incentive (STI)
Awarded on the basis of individual or group performance over a period of one year or less. Payments typically take the form of an annual cash bonus

long-term incentive (LTI)
Awarded on the basis of individual or group performance over a period of time greater than one year, but typically over a three- to five-year period. Rewards generally take the form of company equity rather than cash, although cash payments based on multi-year performance would also qualify

TABLE 9.6 Performance-related reward options

WHO (PERFORMANCE ENTITY OR UNIT) AND WHEN (TIMEFRAME FOR PAYOUT)?	HOW? (BEHAVIOUR)	HOW MUCH? (RESULTS)
Individual performance-related reward plans	• Merit raises or increments • Merit bonuses • Discretionary bonuses • Individual non-cash recognition awards	• Piece rates • Sales commissions • Goal-based bonuses
Collective/group short-term incentives (STIs)		• Profit-sharing • Gain-sharing • Goal-sharing • Team incentives • Team non-cash recognition awards
Organisation-wide long-term incentives (LTIs)		• Share bonus plans • Share purchase plans • Share option plans • Executive LTI plans

TABLE 9.7 Incidence of performance-based payments (STIs) in Australian enterprises by workforce size, 2014

	5–19 EMPLOYEES (%)	20–199 EMPLOYEES (%)	200+ EMPLOYEES (%)	ALL ENTERPRISES USING PERFORMANCE-BASED PAYMENTS (%) (N = 1838)
Commissions	33.8	37.8	26.3	34.5
Regular bonuses (paid at least quarterly)	21.3	24.8	33.6	22.7
Other bonuses/irregular performance-based payments (paid less frequently than quarterly)	66.1	70.7	76.7	67.7
Piecework payments (e.g. payment per unit produced)	1.2	2.2	3.6	1.6
Other performance-based bonuses	1.4	1.0	0.7	1.3

Source: © Commonwealth of Australia (Fair Work Commission) 2015.

Individual performance-related reward plans

Pay plays that recognise and reward the behaviour and/or results of individual employees are many and varied. In this section, we focus on three of the most popular types of such plans; namely, merit pay, recognition award and results-based bonuses.

Merit pay

Schemes that reward individuals on the basis of formal performance appraisal scores are known as **merit pay** plans. Typically, merit payments are based on performance grades determined by means of formal systems of behavioural observation and assessment, more commonly known as performance review (see Chapter 8).

In traditional merit pay plans, payments take the form of cumulative additions to base pay. These additions are termed 'merit raises' or 'merit increments'. These merit raises reward employees for appraised performance in a previous time period, typically one year. An alternative approach is the merit bonus method, in which the appraisal-based payment does not roll into base pay, but stands apart from it and does not become an ongoing entitlement.

In a merit increment plan, merit payments are expressed as a percentage of base pay and calculated by means of a **merit grid**. The merit grid (or 'merit matrix' or 'merit guide chart', as it is also known) specifies the precise link between the assessed performance grade, the employee's current position in the base pay range (also known as the **compa-ratio** – short for compensation comparison ratio) and the percentage performance increment. In essence, the merit grid is a 'ready reckoner' for awarding merit increases based, first, on assessed performance and, second, on current position in the pay range. The higher the individual's current base pay level, the greater the monetary reward associated with a percentage increment. Merit grids are also intended to ensure that pay increases are applied consistently by supervisors throughout the whole organisation.[60]

An example of a merit grid is provided in **Figure 9.12**. In this case, the pay range position is broken into quintiles (i.e. fifths) and percentage increments are prescribed for each quintile and each of five performance grades. Note that for each performance grade, progressively smaller percentage increases are given the higher the employee currently sits in their base pay range. This means that the higher the performance rating and the lower the existing position in the pay range, the larger the percentage increase. Conversely, the higher the existing position, the lower the percentage increase, which means that employees with the same level of performance should receive around the same dollar amount no matter how large or small their existing base pay happens to be. The aim is to promote relatively rapid pay acceleration for new job incumbents to the competitive midpoint but, at the same time, to control pay costs at the top end of the range so that the organisation does not become uncompetitive.

merit pay
Schemes that reward individuals on the basis of formal performance appraisal scores; generally based on performance grades determined by means of formal systems of behavioural observation and assessment, typically in a previous time period – usually one year – and take the form of cumulative additions to base pay

merit grid
Also known as merit 'matrix' or merit 'guide chart'; specifies the precise link between the assessed performance grade, the employee's compa-ratio and the percentage performance increment

compa-ratio
An index number representing the employee's position in their base pay range. Short for 'compensation comparison ratio'

FIGURE 9.12 The merit grid

PERFORMANCE GRADING ↓	BASE PAY RANGE PENETRATION = CURRENT POSITION IN BASE PAY RANGE (QUINTILES)				
	MINIMAL QUINTILE	DEVELOPMENTAL QUINTILE	QUALIFIED QUINTILE	OUTSTANDING QUINTILE	EXCEPTIONAL QUINTILE
Exceptional	6%−8%	6%−8%	4%−6%	3%−5%	2%−4%
Outstanding	6%−8%	4%−6%	3%−5%	2%−4%	2%−4%
Proficient	4%−6%	3%−5%	2%−4%	2%−4%	0%
Developing	2%−4%	2%−4%	2%−4%	0%	0%
Minimum	0%−2%	0%	0%	0%	0%
		↑ Pay range midpoint (compa-ratio = 1.00)			

Source: Shields, J. et al. (2016), *Managing employee performance and rewards: Concepts, practices, strategies*, 2nd edn. Melbourne: Cambridge University Press, p. 258. © Cambridge University Press, Melbourne. Reprinted with permission.

The danger in awarding lower percentage increments to those already positioned high in their base pay range is that the nominally lower reward can be demotivating to these employees. This, however, is largely a matter of perception. Much depends on whether employees value the increments in percentage terms or in absolute dollar terms. The crucial issue is how − and how effectively − the logic of the merit grid formula is communicated to the employees affected.

From an organisational perspective, merit increments have many potential advantages. Since pay increments are linked to achieved individual performance, the risk of the employer receiving no return on a pay increase is less than would be the case where pay is not directly performance-related, as in a traditional structure involving seniority-based pay scales. As such, merit increments increase performance-contingent flexibility in base pay adjustment. Merit increments signal the organisation's willingness to 'invest' in employees over the longer term. Likewise, because they increase base pay, merit increments can also reinforce staff attraction and retention. A US study by Park and Sturman found that merit increments have larger incentive and sorting effects than bonuses in organisations where multiple performance plans were in use.[61]

Merit increments also are prone to a range of problems.[62]

- They are vulnerable to the validity and reliability shortcomings associated with subjective performance assessment (see Chapter 8).
- Merit increments combine performance pay and base pay, which means that employees may fail to see a clear and objective link between performance and pay outcomes.
- The size of the merit increase may be too small to have any effect on motivation and performance. This is usually a symptom of inadequate budget allocation.

- Merit pay plans are not self-funding. This is because merit pay is generally based primarily on assessed behaviour rather than on hard financial results.
- In-built cost escalation is also an issue. Each merit increment amounts to an 'annuity'; that is, it becomes a permanent addition to base pay. This results in a compound growth in base salary, and the employee continues to receive past increases as annual entitlements irrespective of subsequent performance. While the merit grid approach can control this to some extent, compound increases in base pay can compromise pay system cost-effectiveness.
- The emphasis on rewarding individual merit may be problematic in national cultural contexts that place a high value on collectivism and seniority, as is the case throughout much of Asia.[63]

The main alternative means of linking individual performance assessment and pay outcomes is the merit bonus approach, also known as the 'lump sum bonus' method.[64] A bonus is a payment made quite separately from base pay. Merit bonuses do not become annuities and, to be retained, they must be re-earned. The critical difference between this approach and traditional merit increments is that the payments made are conditional and irregular rather than cumulative. In short, they avoid the annuity problem.

Some merit pay plans combine increments and bonuses. The employee receives regular assessment-based increments only up to the midpoint of the relevant pay range. Once this level is attained, increments cease, and any increases in total pay beyond this level take the form of stand-alone bonuses that have to be re-earned each year to be retained. This means that while no employee can have a base pay greater than the midpoint value, there is still opportunity to receive additional amounts of pay related to individual performance.

Individual recognition awards

recognition awards
Monetary or non-monetary rewards given in recognition of outstanding performance by individuals or work groups. May also combine monetary and non-monetary rewards

A key attraction of **recognition awards** is that they represent a flexible, low-cost and potentially effective alternative to merit pay. Recognition for immediate past performance may involve rewards that are either financial or non-financial in nature. However, the cash and non-cash approaches are by no means mutually exclusive. Many such plans also involve nomination by peers and customers, not just by supervisors. Advocates argue that recognition should be both celebratory and fun: 'If you can reward a person and have fun in the process, you will satisfy two important desires of most employees: to be appreciated for the work they do and to enjoy their jobs and workplace'.[65]

discretionary bonus
An irregular lump sum award for outstanding performance made at the discretion of the supervisor and/or senior management

The simplest form of cash recognition is the **discretionary bonus**. Discretionary bonuses are irregular lump sum awards for outstanding performance made at the discretion of the supervisor and/or senior management. Payment is kept completely separate from base pay, and the size of the payment is not tied in any arithmetic way to a performance measurement system. Discretionary lump sum payments, being highly visible, can communicate a strong performance message. By the same token, the absence of formal performance assessment

means that award allocation may be seen as being arbitrary and with little clear link between performance and reward.

Recognition may also be of a non-cash nature. Non-cash rewards for high performance are also said to have a longer 'shelf life' than cash; that is, they have enduring 'trophy value'.[66] McAdams identifies seven basic forms of non-monetary recognition.[67]

1 *Social reinforcers:* A public 'pat on the back' from the supervisor or peers, positive feedback, staff involvement in planning and decision-making (i.e. social rewards).
2 *In-house learning* and development opportunities (i.e. developmental rewards).
3 *Merchandise:* Either pre-selected items of significant monetary value or access to self-selected goods and services by means of shopping vouchers or certificates, retailer-specific debit cards, or printed or online catalogues from which specific items can be acquired by accumulating sufficient recognition points over a period.
4 *Travel:* All-expenses-paid trips for individuals, families or groups.
5 *Symbolic awards:* Plaques, personal letters from the CEO, flowers, books, 'thank you' notes, publicity in in-house journals or on the staff intranet, pins, gold watches, pens and desk-sets, books, CDs and DVDs, restaurant meals, theatre tickets, tickets to sporting events, access to corporate 'boxes' at entertainment venues, T-shirts, embossed mugs, company umbrellas or hats, gym or sporting club membership, concierge services, massages, free parking spaces, etc.
6 *Earned time off:* Time-off with pay additional to normal paid leave entitlements.
7 *Flexible or family-friendly work schedules:* Ability to adjust working hours to fit personal needs and family commitments.

Advocates of the non-cash awards suggest that organisations should seek to recognise and reward performance excellence in more personalised, immediate and exciting ways. McAdams asserts: 'It is easier and more effective to promote the excitement of a non-cash award than its cash equivalent. Non-cash awards have built-in excitement and recognition factors that cash simply doesn't have'.[68] They are also likely to be less costly than cash.

Conversely, poorly implemented non-cash recognition plans may also be profoundly dysfunctional in the following ways.[69]

- They may create an atmosphere of 'winners' and 'losers' (when the same few employees repeatedly get the award) or, alternatively, of 'everyone a winner' (where everyone takes a turn at receiving recognition).
- They may also be demotivating where employees feel that the reward is tokenistic and patronising ('beads and trinkets') and not worth the effort.

Some rewards may also convey unintended messages. For instance, McAdams cautions against using earned time off to reward high performers since this may reinforce the perception that leisure is pleasure and work is pain. Anecdotal evidence suggests that well-designed and clearly communicated non-cash recognition plans can have a powerful effect on employee attitudes, engagement and performance. However, it is important to note

that academic research on the effectiveness of recognition awards is still in its infancy, and evidence of plan effectiveness remains fragmentary.[70]

Many recognition plans include a mix of cash and non-cash rewards, as a means of securing the benefits of both reward forms and mitigating the potential drawbacks of each. **Case study 9.2** at the end of the chapter details one such plan – the Bankwest 'Hero' program, and invites you to draw on the insights offered above to analyse program intentions and impact in a constructively critical way.

Individual results-based incentives

Incentives geared to measured individual results, or individual 'payment-by-results' plans, are among the oldest and most enduring of all performance pay plans.[71] A major attraction of results-based plans for employers is that they offer greater certainty, immediacy and objectivity in the pay-performance relationship than that offered by other pay plans. Since desired results are frequently defined in measurable monetary terms, such plans also tend to be self-funding, which represents an important point of contrast with merit pay plans. The result–reward relationship can be either fixed (i.e. a single rate of reward per unit of output) or configured according to a sliding scale, as in the case for progressively scaled payments, whereby the rate of payment itself increases as output rises. These systems may either be applied in conjunction with a guaranteed minimum base pay or, as in the case of pure piecework and commission-only work, as stand-alone reward plans.

Included in this category are piece rates, task-and-time bonus plans (where employees are rewarded for completing a specified volume of work or a task in less than a 'standard' time), sales commissions and bonus payments to individuals for goal achievement. Piece rates and task-and-bonus plans[72] were developed primarily for labour-intensive manufacturing jobs and had their heyday in the early to mid-twentieth century, when they were at the forefront of innovation in reward theory and practice in industrialised economies. However, interest in individual output-based incentives of this type has waned with the relative decline in manufacturing activity in Western economies since the 1970s. Sales commissions, however, remain widely used in such sectors as consumer retailing, finance, insurance and real estate. Conversely, goal-based individual reward plans have become an increasingly important feature of white-collar professional and managerial work. For these reasons, we focus here on commissions and goal-based bonuses.

Sales commissions are the retail sector equivalent of piece payment and, like the latter, they may be flat-rate, scaled progressively (or in rare cases regressively), stand-alone (commission-only payment) or paid as an overlay to base pay. Typically, a commission payment will be expressed as a percentage of the sale made. This might be a flat rate of, for example, 5 per cent of the value of each sale. Alternatively, the rate may be configured according to a progressive scale; for example, 3 per cent of the value of the first 10 sales per week, then 5 per cent for the next 10 to 19 sales, then 7 per cent for each sale over 20. Commissions may also be expressed as flat dollar amounts rather than as percentages of sales revenue achieved. Whether the system

is commission-only or base-pay-plus-commission will depend primarily on the nature of the product or service market involved, as will the proportion of total reward that is at risk via commission.[73]

In general, commissions have the attraction of being simple to set and measure. They institute automatic task clarity and provide instant feedback and reinforcement. They substitute for direct supervision of sales staff, which is especially significant where staff members are operating in the field rather than on the shop floor. Commissions are also likely to have a strong sorting effect on staff profile, in that only the most effective sales workers are likely to stay on.

Clearly, commissions are applicable only in sales roles. They may also:

- encourage aggressive, deceptive or negligent selling practices, including the sale of goods to consumers who may be unable to service a consumer credit or loan debt
- foster excessive competition among sales workers working for the same firm, leading to customer poaching and the hoarding of market information
- encourage sales staff to neglect important tasks, such as good record-keeping, after-sales follow-up and the training of new sales workers.

Goal-based bonus plans are capable of being adapted to virtually any role.[74] In essence, these plans entail annual or quarterly bonus payments linked directly to individual goal-setting. Goal-based bonuses may be based on either a flat scale or a sliding (progressive or regressive) scale. **Figure 9.13** illustrates the difference between flat scale and progressive sliding scale bonuses. In each case, the bonus paid for full goal achievement is $1000.

Emerging issue 4

Individual sales commissions in retail banking

FIGURE 9.13 Goal-based individual bonuses: flat and sliding scale plans

GOAL ACHIEVEMENT	FLAT SCALE*		PROGRESSIVE SLIDING SCALE	
	RATE OF BONUS PAYMENT	AMOUNT OF BONUS PAID	RATE OF BONUS PAYMENT	AMOUNT OF BONUS PAID
130%	100%	$1000	300%	$3000
120%	100%	$1000	200%	$2000
110%	100%	$1000	150%	$1500
100%	**100%**	**$1000**	**100%**	**$1000**
90%	0%	$0	60%	$600
80%	0%	$0	30%	$300
70%	0%	$0	0%	$0
60%	0%	$0	0%	$0

*Bonuses are paid out only if the performance target is achieved, which means that the organisation retains 100 per cent of under-target performance improvement.

Source: Shields, J. et al. (2016), *Managing employee performance and reward: Concepts, practices, strategies*, 2nd edn. Melbourne: Cambridge University Press, p. 276. © Cambridge University Press, Melbourne. Reprinted with permission.

With the flat bonus plan, no bonus is paid unless the goal is met, and no additional bonus is offered for exceeding the goal. Either way, the absence of recognition for both near-miss and overachievement performance may be demotivating to the individuals affected. An added problem with sudden death plans of this type is that individuals falling just short of the target may engage in calculated dishonesty in order to improve their reward prospects.

Sliding scale bonuses seek to avert this possibility. A threshold (or reduced) bonus applies where performance falls marginally short of the goal; the full bonus where the goal is fully achieved; and a premium bonus paid where the goal is exceeded.

Goal-setting introduces a degree of transparency, ownership and apparent objectivity rarely possible with behaviourally based appraisal. Where the goals are financial in nature, such plans are self-funding, which means that they avoid one of the major shortcomings of traditional merit pay plans; namely, that of budget underfunding.

Even so, goal-setting is not without its risks.

- Where goals are either too loose/easy, too tight/hard, too few or too many, a goal-based bonus plan is unlikely to be effective.
- Where the plan incorporates non-financial goals, such as those related to site safety or customer satisfaction, goal achievement on these criteria will require special funding, with all of its attendant challenges.
- The goal achievement approach focuses the employee's attention and effort solely on goals that attract a reward.
- Rewarding only the hard, measurable results may encourage employees to ignore equally important but less quantifiable aspects of the job or role.

For these reasons, individual results-based incentive plans tend to be of a multi-measure nature, often built around a balanced scorecard of weighted indicators and goals.

Collective short-term incentive plans

Most collective short-term incentive plans fall into one or other of four plan types: profit-sharing, gain-sharing, goal-sharing and team incentives.

In certain contexts, such plans may have decided advantages over individual incentives. Indeed, individual incentives may be quite dysfunctional in organisations where work is organised on interdependent and cross-functional lines and where results are predicated on a high degree of inter-employee cooperation. Interdependence of this type is one of the hallmarks of team working and high-involvement management. In such organisations, it may be neither possible nor logical to attribute performance to specific individuals, since what counts is collective effort and contribution. Collective incentives may encourage employees to work collaboratively to achieve goals that require teamwork and cooperation. Accordingly, collective incentive schemes are more likely to elicit a greater degree of organisational citizenship behaviour than are schemes of an individual nature. There is also evidence to indicate that group incentives may be more effective in organisations that are highly innovative.[75]

Collective incentives may also be more appropriate in national cultural contexts where collectivism is valued above individualism, such as in many Asian countries and in Latin America.

Workplace-wide collective plans are also likely to encounter less opposition from trade unions than are individual incentive plans. This is primarily because broadly based collective incentives focus on transparent results-based performance criteria rather than on individual behavioural assessment. In general, collective plans are also amenable to collective bargaining, employee involvement and more egalitarian pay outcomes. However, it does not necessarily follow that collective incentives will always be well received in unionised settings. One reason for this is that the collectivist ethos of unionised employees may make them averse to engaging in the peer monitoring and co-management that typifies group performance pay. Another reason may be that unionised organisations tend to be managed along traditional lines, leaving little scope for the potential benefits of employee participation.

This is not to suggest that collective incentive plans are necessarily incompatible with individual performance pay plans. With careful planning, it is possible to combine the two approaches in such a way that they are mutually reinforcing. For instance, while the funding of a performance pay pool might be based on measures of improvement in collective results, the distribution of payments from the pool could be based on assessed individual contribution.[76]

Profit-sharing

A profit-sharing plan typically involves a formal arrangement under which bonus payments are made to eligible employees on a regular (usually annual) basis, based on a formula that links the size of the total bonus pool to an accounting measure of periodic (typically annual) profit, such as net profit (total income less operating costs) or net profit after tax. As such, profit-sharing is applicable only to profit-making organisations and is not relevant to public sector organisations or non-profit entities. Payments usually take the form of a cash bonus, which may either be paid out immediately at the end of the relevant performance cycle (a current plan) or set aside for future access at departure or retirement (a deferred plan).[77]

By allowing overall labour costs to be varied automatically according to the employer's capacity to pay, profit-sharing is seen as providing a form of organisational insurance against external contingencies, particularly fluctuations in product market demand and prices. As such, profit-sharing is wholly self-funding. It may also increase employees' identification with and understanding of the organisation's financial circumstances, enhance citizenship behaviour and reduce industrial conflict.

At the same time, however, profit-sharing has a number of potential drawbacks.

Because profitability is influenced by many variables that are beyond employees' collective control, the line of sight between individual performance and reward is likely to be weak; that is, the 'instrumentality' nexus between effort and reward, as prescribed by expectancy theory, is at best very weak. For the same reason, profit-sharing may give rise to free riding or social

profit-sharing
A formal arrangement under which bonus payments are made to eligible employees on a regular (usually annual) basis, based on a formula that links the size of the total bonus pool to an accounting measure of periodic (typically annual) profit, such as net profit (total income less operating costs) or net profit after tax

loafing, especially where payments are allocated on an equal basis irrespective of individual contribution. Further, profit-sharing may attract union opposition, especially where union members see it as a way for employers to substitute variable pay for fixed base pay and to undermine union rates of pay.

Gain-sharing

gain-sharing
A form of collective performance-related pay in which management shares with all employees in a particular production plant or business unit the financial gains associated with specific measures of improvement in the results achieved by that work group

Gain-sharing is a form of collective performance-related pay in which management shares with all employees in a particular production plant or business unit the financial gains associated with specific measures of improvement in the results achieved by that work group, as measured against a historical benchmark of the group's performance.[78]

Traditional gain share plans emphasise hard, single-factor performance measures such as labour cost reduction or labour productivity improvement. For instance, under the Scanlon Gain-share Plan, formulated in the United States in the late 1930s by sometime steelworker, unionist and university professor Joseph Scanlon, productivity gains are measured in terms of shifts in the ratio of overall labour costs to the value of total sales, set against a carefully determined historical benchmark ratio. The lower the measured ratio in relation to the benchmark, the greater the labour saving and, hence, the greater the gain.

Gains are calculated on a monthly basis and shared between employees and the organisation on the basis of a predetermined formula, typically in the ratio of 75 per cent to 25 per cent. Typically, all employees get the same percentage payout on their base pay, and payments are made on a weekly, monthly or quarterly basis. In many Scanlon plans, only 50 per cent of the gain is distributed automatically to employees. The remaining 25 per cent is placed in an equalisation fund to reimburse the company for any future negative gains, with any excess remaining in the fund being distributed at the end of the year.

The Scanlon model also places a strong emphasis on cooperative relations between management, workers and any unions that might be present, and on employee participation in productivity improvement. A joint labour–management productivity committee oversees scheme design, implementation and maintenance. Workers are also encouraged to submit suggestions for improving productivity and reducing costs, which are vetted by a special joint screening committee.[79]

One weakness in the Scanlon plan approach is a failure to factor out changes in sales value that are attributable to uncontrolled movements in external materials and commodity prices. More sophisticated plans, such as the Rucker Plan and Improshare model, seek to address this shortcoming.[80]

Like profit-sharing, such plans are self-funding, but gain-sharing also has a number of advantages over profit-sharing. It can be targeted to particular plants, departments or divisions or to discrete business units in the wider organisation. This compares with profit-sharing, which is generally organisation-wide. Unlike profit-sharing, gain-sharing can be applied in public sector and other non-profit organisations. It also seeks to reward only those results that are within the group's control. It can support a high-involvement culture through employee

involvement programs and devolution of decision-making. It is also compatible with a unionised workforce and collective bargaining.[81] The emphasis on continuous improvement means that gain-sharing is well suited to competitive strategies emphasising either cost containment or quality improvement, or both.

However, traditional gain-share plans have shortcomings that limit their relevance to the contemporary workplace.[82] They are a poor fit for highly dynamic contexts because each change in technology, work organisation and product type will require recalibration of historical performance benchmarks.

Given the focus on hard measures of cost and productivity improvement, traditional gain-sharing plans ignore non-financial or soft aspects of group performance, such as worksite safety, environmental compliance and customer satisfaction.

While often considered to be applicable only to manufacturing firms and other parts of the 'old economy', gain-sharing might just be more versatile than we had imagined. Consider the example of the Parisian restaurant described in the article 'An example of successful gain-sharing plan in a most popular Parisian restaurant', which can be found on the LinkedIn website. What does this example tell you about the prospects for applying gain-sharing in the service sector and even in high-tech firms?

Goal-sharing

Goal-sharing is the collective equivalent of individual goal-based bonuses (discussed above) and, like the latter, it draws on the technique of goal-setting.[83] As with goal-based individual bonuses, payments may be either flat-rate or geared.

While goal-sharing resembles gain-sharing, there are several major differences between them.

Goal-sharing is future-oriented, whereas gain-sharing is tied to retrospective performance benchmarks. This makes goal-sharing simpler to develop and more flexible, as well as wider in application and better placed to accommodate rapid changes in technology and product or service type. As such, it is particularly well-suited to a prospector competitive strategy.

Goal-sharing is generally not self-funding. Rather than creating a pool based on dollar value improvements above a financial performance baseline, goal-sharing allocates a predetermined amount geared to the achievement of a set of financial and non-financial goals. A series of goals are established for the work group and a fixed, predetermined amount is paid to the group for each goal achieved or exceeded.

Team incentives

Team incentives tend to be small group adaptations of sales commissions, single-factor gain-sharing or multi-factor goal-sharing. Team incentives emerged – or, more accurately, re-emerged – in the 1990s as the reward corollary of teamworking. Since they are targeted at the performance of small work groups, they have greater potential to overcome the 'line of sight' problem so common in large group plans.

goal-sharing
Bonus payments linked directly to the achievement of group performance goals over a specified timeframe

The choice of team incentives over another collective incentive plan, such as team commissions, business unit gain-sharing or goal-sharing, will depend primarily on how self-managing and autonomous the work teams are in relation to the rest of the organisation. If teams are largely self-managing, there is little interdependence between teams and the emphasis is on cooperation within individual teams, then team incentives may well be appropriate, since each team will exercise considerable control over what it does and what it achieves. Conversely, where teams are highly interdependent and the emphasis is on cooperation between teams to achieve divisional, departmental or organisational goals, then a gain-share or goal-share plan pitched at capturing and rewarding the performance of the larger group may be more appropriate. The greater the degree of inter-team dependence, the wider the coverage of the group performance scheme should be. In summary, team incentives are suited to workplaces characterised by task interdependence, cross-functionality, project work and participative management.[84]

Employee share plans

employee share ownership plans (ESOPs)
Long-term incentive plans that provide eligible employees with access to share ownership in the organisation that employs them

Organisation-wide long-term incentive plans – more commonly known as **employee share** (or 'stock' or 'equity') **ownership plans (ESOPs)** – reward employees for improvements over time in the employing firm's share market performance. Such plans allow eligible employees access to share ownership in the organisation that employs them. Once confined almost wholly to executives, share plans have now assumed a significant role in non-executive reward practice, although their incidence varies considerably from country to country and industry to industry.

The potential rewards from share plans take four main forms:
1 share price appreciation (or capital gain)
2 annual dividend earnings
3 special bonus share issues
4 special taxation concessions or exemptions.

As such, share plans are seen as having a long-term benefit via the reinforcement of employee commitment to organisational success. Because they stand to foster an ownership mentality among employees, broadly based option plans (i.e. plans in which many or most employees are eligible to participate) are particularly appropriate for organisations that embrace a high degree of employee involvement and participation. However, the precise attitudinal and behavioural outcomes will depend on, among other things, the extent of employee eligibility and take-up and on the particular plan or plans involved.[85]

Shares may be granted to employees free of any charge (share bonus plans), or they may be sold to them at a discount on the market price (discounted share purchase plans) or using an employer-funded low-interest or interest-free loan. A third type of share plan – employee share option plans – gives employees the option of acquiring a specified quantity of company shares at a particular price on or after a designated future date.

Share bonus plans

With share bonus plans, employees receive a gift of fully-paid-for shares in the firm. The distribution of shares to each employee is commonly based on a predetermined allocation formula – perhaps according to years of service with the company, position in the organisational hierarchy, on the basis of individual performance, or as an equal number or value of shares to each employee where the size of the grant is determined by group or organisational financial results, as in a profit-share scheme.

In some cases, the shares granted can be traded immediately, which means that the grant is technically 'unrestricted'. However, it has become increasingly common for share grants to have certain limitations attached, which generally means that ownership does not transfer ('vest') immediately and/or that the shares are not tradable immediately in the same way as common stock (i.e. ordinary shares held by external investors). Conditional share grants of this type are known as **restricted share plans**. While employees are not required to outlay any of their own money, they usually cannot sell their shares until a specified minimum period has elapsed.

For the company, share grants may encourage long-term employee commitment and membership behaviour, particularly where restricted shares and trust arrangements are involved. A firm may also issue shares as a way of securing employee acceptance of an organisational change strategy. In smaller companies, restricted share grants may also be a means of locking up company equity to prevent hostile takeovers. Equally, issuing share grants to employees may require a company previously managed along traditional lines to institute a new management system that is more 'open book' and participative.

From the employee's perspective, share grants have the obvious advantage of being notionally cost-free, although grants are sometimes in lieu of an increase in cash remuneration, which means that an opportunity cost is involved. Regular share grants can serve as a convenient means for employees to supplement retirement savings, although employee shareholders may well have a far higher risk exposure than will external shareholders, since the latter are more likely to have a diversified share portfolio covering a range of sectors, industries and firms. Depending on the prevailing taxation regime, share grants may also carry tax advantages for share recipients, particularly where shares are received in lieu of additional cash remuneration and where tax liability on shares received can be deferred until retirement by being held in a managed trust.[86]

restricted share plans
Share plans under which the employee receives the share free of charge but where vesting is conditional and contingent on certain specified conditions being met rather than guaranteed

Share purchase plans

With share purchase plans, employees have the opportunity to purchase part or all of a specified quota of shares in the company. Employees typically pay a small deposit on the full share purchase price with the balance of the purchase price repayable over a specified term. The plan typically includes favourable purchase terms, such as a purchase price set below the prevailing market value and/or a low- or zero-interest loan from the company to fund the purchase. Some schemes allow the share purchase loan to be repaid from dividends so that the repayment period is open-ended and there is no employee outlay from personal savings. Other schemes

involve employee savings plans and pay deductions to fund the purchase. Legal ownership of the shares vests to the employee over time as the loan is paid off.

Share purchase funded by a company loan means that employees are indebted to the company for the duration of the loan and may therefore be more accommodating of management initiatives. Also, where employees have had to pay for the shares, 'ownership' motivation is likely to be considerably stronger and more enduring than would be the case where shares have been received as a gift.

By the same token, share purchase plans entail greater risk all round than that associated with share grants. In particular, by their very nature, share purchase plans expose employees to greater financial risk. Employees committed to repaying the principal on a company loan at a fixed purchase price will experience severe financial difficulties if the share price collapses and the debt is not renegotiated or forgiven.[87]

Share option plans

A **share option plan** is a variant of share purchase in which the earliest date of purchase is set some time in the future. Such plans give the employee the right to buy a specified number of company shares at a predetermined price at a specified future date, such as the third anniversary of the option grant date. The price payable to exercise the option to acquire some or all of the shares – the 'strike price' – is commonly set at or below the market value of the shares at the time the option is granted. If the market price increases after the option is granted, the option-holder stands to make a net gain by acquiring the shares, then selling some or all of them on the general market. An employee who expects a further rise in the share price may retain some or all of the shares acquired. Unexercised options carry no shareholders' rights and, unlike fully vested shares, options are not usually transferable.

Since the granting of an option does not confer immediate equity ownership, there will be no ownership effect on motivation unless and until the option is exercised. Until the options are exercisable, the main behavioural effects will be twofold. First, restriction on exercise will reinforce staff retention, since the options are likely to be forfeited if the option-holder leaves the company. Second, during the holding period, the incentive effect will be largely extrinsic; that is, the holder will be motivated to improve company performance so as to strengthen market perceptions and increase the market share price with a view to maximising any capital gain when it becomes possible to exercise the option to buy and sell the shares.

However, with option plans, the line of sight between employee effort and financial reward is even more remote than is the case with share grant and purchase plans, since the realisation of any market-related rewards is significantly delayed. In 'bull' share market conditions, in which most companies are experiencing share price appreciation, options may confer unearned ('windfall') gains on some option-holders. For these reasons, it has become common practice for option plans to include exercise hurdles that make use of relative rather than absolute measures of a company's share market performance. For instance, the focus might be on how the company's share price performs relative to a group of peer firms, regardless of whether the

share price trend for the group as a whole is rising or falling. As with all equity plans, options are 'fair weather' reward instruments; they may work well in time of share price growth, but can also compound a firm's problems if the share price falls (e.g. in a declining, or 'bear', share market), and the market price falls below the option strike price. Option plans may also encourage a speculative outlook among employees rather than an ownership mentality.[88]

For further details on employee share plans, review the information and examples on the website of Employee Ownership Australia. What do the information and examples tell you about the opportunities and challenges for employee share plans in the Australian context?

Aligning performance pay practices with organisational strategy

Returning to the theme of strategic reward alignment, what can we conclude regarding the choice of performance-related rewards for each of the three main types of organisational strategy? **Table 9.8** highlights the mix of appropriate choices. For a strategy of cost-reduction, results-based individual incentives and non-case recognition would be a strong match, perhaps with cost-based gain-sharing and a limited degree of profit-sharing thrown in for good measure. Merit raises offer a better means of rewarding sustained individual excellence under a quality-improvement strategy, while commissions, merit and discretionary bonuses offer an ideal means of recognising and rewarding individual contribution in innovator firms. Collective incentives in the form of gain-sharing, goal-sharing and team incentives will be a good match for quality improvers. Research shows that broadly based equity plans are also well suited to quality improvers and innovators, particularly given their emphasis on encouraging an ownership mentality and a high-trust, high-involvement culture.[89] For innovators, where the emphasis is on creativity and adaptability, goal-sharing and share options would be a good fit.

TABLE 9.8 Aligning performance pay practices with organisational strategy

	ORGANISATION STRATEGY FOCUS		
	INNOVATION	**QUALITY IMPROVEMENT**	**COST REDUCTION**
Individual performance rewards	• Commissions • Discretionary bonuses • Merit bonuses	• Merit raises	• Piece-rates • Commissions • Results-based bonuses • Non-cash recognition
Collective STIs	• Team and/or business unit goal-sharing	• Multi-factor business unit gain-sharing/ goal-sharing • Team incentives	• Cost-based gain-sharing • Selective profit-sharing
Collective LTIs	• Broadly based option plans	• Broadly based share bonus or purchase plans	• Executive share bonuses

REWARDING EXECUTIVES

While the incentive plans applied to executive-level employees, including salaried CEOs and their 'C-suite' direct reports (e.g. Chief Operating Officers, Chief Information Officers, Chief Human Resource Officers), resemble those applied to other employees, executive incentives are also sufficiently distinct in character to warrant separate treatment. By far the most important difference is that executive performance is almost universally equated with organisational results – and supposedly rewarded accordingly.

However, it is debatable whether top executive rewards are linked adequately or effectively to firm performance. Most reputable research suggests that the link is either nonexistent or very weak. For this reason – and as the public outcry over excessive executive bonuses during the GFC attested – executive incentives constitute one of the most emotionally charged and ethically challenging facets of contemporary reward management.

Executive incentives are of two main types: short-term cash incentives and long-term equity-based incentives (such as option plans). In many Western liberal market economies, the relative contribution of long-term incentives to CEO total reward has risen substantially over the past two decades. Growth in long-term incentives has also been the main driver of the unprecedented growth in total reward levels of CEOs and other top executives since the early 1990s. However, short-term cash incentives or bonuses have retained much of their significance.[90] Indeed, the continued payment of high cash bonuses to executives in the United Kingdom and the United States was a key focal point of public and political outrage during the GFC.

While Australian executive reward practices appear, in the wake of the GFC, to be more robust than those in other developed economies, the accent on incentive plans in CEO pay packages remains strong, albeit with a significant shift from equity-based long-term incentives to cash incentives of a short-term nature.[91] **Table 9.9** provides a breakdown of the main components of the reported remuneration of ASX100 CEOs for 2017.[92]

TABLE 9.9 Reported and realised remuneration of CEOs of ASX100 companies, 2017

	AVERAGE	MEDIAN	LOWEST	HIGHEST
Fixed pay and benefits	$1909500	$1700480	$371396	$6555254
Cash bonus	$2303960	$1763623	0	$17236480
Total cash	$3044666	$2871409	$646396	$12944540
Reported total remuneration	$5544284	$4728890	$646396	$23566967
Realised total remuneration (cash payments plus value of vested equity)	$6226213	$4361201	$646396	$36837702

Source: Australian Council of Superannuation Investors (2018), *CEO pay in ASX200 companies.* Melbourne: ASCI.

On average, fixed pay comprised just 34.4 per cent of the reported total remuneration, and cash bonuses comprised 41.6 per cent. The value of vested equity holdings, on average, added a further $3 181 547 to total remuneration, bringing average realised total remuneration to $6 226 213.[93]

Table 9.10 lists the details of the 10 highest paid ASX100 CEOs on a realised pay basis. Note that in all cases, realised pay far exceeds reported pay, due in large part to the additional stream of wealth flowing from vested equity holdings in the company involved. LTI and STI plans have been the main drivers of the unprecedented growth in executive pay in Australia and elsewhere since the early 1990s – in both absolute terms and relative to the pay of ordinary wage and salary earners – and here, as elsewhere, renewed public outcry over seemingly excessive executive pay levels has prompted official enquiries, calls for statutory limits on top executive pay levels and the introduction of statutory provision for binding shareholder voting on proposed pay packages for CEOs of public companies.

For further details and views on the debate about executive pay and bonuses in Australia, see the 'Ethical challenge' at the end of the chapter.

TABLE 9.10 Ten highest paid ASX100 CEOs (2017) on a realised pay basis

RANK	CEO	COMPANY	REPORTED PAY (FY16 RANK)	REALISED PAY (FY17 RANK)
1	Chris Rex	Ramsay Health Care	$23 566 967 (4)	$22 308 656 (4)
2	Peter & Steven Lowy	Westfield Corp	$21 401 953 (1)	$25 906 960 (2)
3	Nicholas Moore	Macquarie Group	$18 713 836 (2)	25 191 040 (3)
4	Louis Gries	James Hardie Industries	$13 299 136 (3)	$18 543 533 (5)
5	Richard Goyder	Wesfarmers	$12 089 419 (31)	$9 065 462[a] (13)
6	Paul Perreault	CSL	$10 847 031 (5)	$9 264 394[b] (12)
7	Peter Coleman	Woodside Petroleum	$10 290 086 (6)	$7 320 185[c] (23)
8	Andrew Mackenzie	BHP Billiton	$9 403 341 (10)	$6 182 356[d] (26)
9	Greg Goodman	Goodman Group	$8 890 902 (27)	$8 462 652[e] (17)
10	Michael Clarke	Treasury Wine Estates	$8 853 451 (28)	$4 741 072[f] (37)

[a] Wesfarmers Limited, 2013 Annual Report, p. 85.
[b] CSL Limited, 2017 Annual Report, p. 7.
[c] Woodside Petroleum Limited, 2017 Annual Report, p. 90.
[d] BHP Billiton, 2017 Annual Report, p. 144.
[e] Goodman Group, Change of director's interest notice, 1 September 2016.
[f] Treasury Wine Estates Limited, 2017 Annual Report, pp. 54 and 56–57.

Source: Australian Council of Superannuation Investors (2018), CEO pay in ASX200 companies. Melbourne: ASCI, p. 10. https://www.acsi.org.au/images/stories/ACSIDocuments/generalresearchpublic/CEO-Pay-in-ASX200-Companies-2017.Jul18.pdf.

Executive incentives

The incentive plans applied to executive-level employees fall into two broad categories: STIs and LTIs, with STIs mainly taking the form of cash bonuses and LTIs chiefly consisting of executive-specific equity plans.

Executive short-term incentives

Executive STIs are awarded on the basis of one or more aspects of organisational performance over a short period, generally one year. Payments typically take the form of an annual cash bonus, and it is increasingly common for payment to be contingent on the executive achieving one or more targets related to the firm's absolute or relative annual financial or accounting performance. In essence, this amounts to reward-linked executive goal-setting, with the targets themselves generally focused on one or more indicators of the firm's annual financial performance; that is, on its annual operating performance as measured, for example, by net income, net operating profit after taxes, earnings before interest, taxes, depreciation and amortisation, earnings per share, return on assets or return on equity.

For the firm itself, the two main advantages of accounting-based measures are high 'instrumentality' (i.e. the relatively clear line of sight between executive behaviour, the performance indicator and the resulting reward) and the immediacy of the 'reinforcement' effect. The chief drawback is their susceptibility to manipulation. Profit- and cost-related bonuses have particular problems in this regard. Indeed, they highlight particularly sharply the possibility that incentive plans may actually exacerbate rather than curb the 'principal–agent problem'. For example, in order to achieve a bonus, the executive may be tempted to inflate the firm's paper profits artificially by postponing infrastructure investment, cutting back on research and development, retrenching staff to reduce payroll costs or divesting assets to raise revenue. Such actions will deliver a short-term personal gain but only at the cost of longer-term organisational performance and sustainability.[94] It is partly for this reason that firms typically apply both short-term and long-term incentives to their executive-level employees.

Executive long-term incentives

Executive LTIs tend to relate to organisational share market performance over a three- or five-year period, with rewards generally taking the form of company equity rather than cash, although cash payments based on multi-year performance would also qualify. The aim is to encourage a longer-term focus on improving organisational performance, particularly in terms of total returns to shareholders. Increasingly, such plans include both market-related performance targets and restrictions on the disposal of equity-based rewards.

Such plans come in an almost limitless variety of forms, but most existing plans fall into one of the following categories:

- restricted share plans
- performance shares (or zero exercise price options)
- executive option plans
- share appreciation rights.

Restricted share plans are variants of straight share bonuses or grants (discussed above). The executive receives the share free of charge, but full shareholder entitlement is 'restricted' in some way. For example, the shares may be subject to forfeiture if the executive leaves the firm before the expiry of a specified period, a restriction commonly referred to as a 'golden handcuff'. Alternatively, or additionally, full ownership ('vesting') of the shares may be subject to the meeting of a performance target or 'hurdle' within this period. A commonly used market indicator is total shareholder return, which measures the additional wealth per share accruing annually to shareholders in the form of share price appreciation, dividend payments and any bonus share issues.[95]

While executive option plans are similar to broadly based option plans (discussed above), they also have some important differences. First, listed firms in many Western countries are now required to report the fair value of all new option grants to top executives and to 'expense' such grants against company income. Mandatory expensing is intended to counter the questionable belief that option grants are a nil-cost means of remunerating executives. It is now widely agreed that option grants do impose various costs on the company and its shareholders.[96] There is the opportunity cost of income foregone by the company in issuing options to executives rather than, for example, exchanging them for cash in a derivatives market. Shareholders may also incur an additional cost in the form of share dilution; that is, a reduction in share price and/or returns per share. This occurs when companies simply create an additional volume of shares for executives or when executives dispose of option-acquired shares in the general share market.

A second distinguishing feature of executive option plans is that it has become increasingly common for the option to purchase shares to be conditional on one or more performance hurdles being met. **Table 9.11** lists some of the most widely used hurdles, with the most two most common indicators being total shareholder returns (TSR) and earnings per share (EPS). With TSR, a typical threshold hurdle is a return in excess of the 50th (i.e. median) percentile of returns achieved by a specified group of peer companies; that is, if the firm achieves TSR better than half of the comparator group, the options vest. Relative hurdles of this type also commonly incorporate performance-conditioned vesting. For example, if the firm achieves TSR equivalent to the peer group median, the executive may receive 50 per cent of the full potential option entitlement; if its TSR performance exceeds the 75th percentile of peer group performance, 100 per cent of the entitlement may vest. However, there is considerable evidence to suggest that market performance hurdles themselves are susceptible to executive manipulation.[97]

TABLE 9.11 Hurdles applied to executive LTIs in ASX100 companies, 2016

PERFORMANCE HURDLE/INDICATOR	COMPANIES USING HURDLE WITH LTIs
Total shareholder return (TSR)	14%
Earnings per share (EPS)	4%
TSR and EPS	33%
Other (typically return bases measures, customer satisfaction, sales revenue, comparative cost position, etc)	7%
TSR and other	36%
EPS and other	6%

Source: PriceWaterhouseCoopers (2017), *10 minutes on 2016 executive remuneration trends: Fair pay for a fair day's work?* https://www.pwc.com.au/publications/pdf/10-minutes-executive-remuneration-may17.pdf.

performance shares
The executive is able to take up shares in the company at no cost but only on condition of a performance hurdle (typically a specified threshold improvement in share price or total shareholder returns) being satisfied over a designated performance period; also known as zero exercise price option (ZEPO) plans

Prior to the 2008–09 GFC, many firms replaced option plans with **performance shares** or zero exercise price options (ZEPOs). With such plans, the executive is allowed to take up shares at no cost but only on condition of a performance hurdle being satisfied over a designated performance period. In other words, the executive receives a free grant of shares subject to a hurdle. Since fewer performance shares will be needed to deliver a level of reward comparable to that of a fixed price option plan, there is less potential for dilution of ordinary shareholder wealth, especially when the shares themselves are acquired in the marketplace rather than being new issue. Unlike options, performance shares do not encourage speculative behaviour.[98]

share appreciation rights
The executive receives cash equivalent to the wealth that would accrue to ordinary shareholders via share price appreciation plus dividend earnings over the grant period without the need to own shares

Share appreciation rights differ from option plans in two main respects. First, they take account of dividend earnings as well as share price appreciation over the designated grant period. Second, the executive is not required to take ownership of the shares; rather, the executive receives cash equivalent to the wealth that would accrue to ordinary shareholders via share price appreciation plus dividend earnings over the grant period, with the baseline typically being the market price at the date of grant. While cash payments via rights plans are a direct cost to the firm, unlike unvested option holdings they allow the executive to share in the dividend stream flowing to ordinary shareholders during the period of the grant. The executive stands to receive a cash payment geared to the total returns to shareholders over a specified period in the form of share price appreciation plus dividends, whereas rewards flowing from an option plan will reflect share price movements only. In short, appreciation rights plans replicate the monetary gains accruing to ordinary shareholders but avoid the dilution effect common with option plans.[99]

Key issues in executive pay: effectiveness and governance, inequality and inequity

Few aspects of reward management arouse more public interest, passion and (occasionally) outrage than that of executive pay. Debate rages about both the effectiveness and the equity of executive pay.

Effectiveness and governance

Just how effective executive incentive plans are in aligning executive reward with changes in ordinary shareholder wealth is a matter of ongoing research. Studies conducted in the United States, the United Kingdom and Australia indicate that executive reward levels are either insensitive to prior changes in company performance or only very weakly sensitive.[100]

Critics like Bebchuk and Fried argue that the day-to-day power and knowledge at CEOs' command continues to allow them to 'decouple' pay from performance and to extract 'stealth compensation' from unwitting or compliant company boards, including extravagant sign-on, termination and post-employment payments.[101] A study of 350 senior executives in the United Kingdom concluded that the way in which executives 'frame choices, perceive value, assess probability, evaluate temporal effects and respond to uncertainty means that long-term incentive plans (LTIPs) are generally not efficient and are often not effective in meeting their objectives'.[102] If it is the case that incentives for top executives are not all that they purport to be, then this would seem to lend some credence to Kohn's contention (see earlier in this chapter) that all incentive plans are inherently dysfunctional; that is, they motivate the employee to get the reward, but that is all. In this sense, there is mounting evidence that executive incentives exacerbate rather than remedy the 'agency problem'; that is, the hazard that distal organisational owners face in seeking to manage hired executives who are both better informed and more strongly entrenched within the organisation.

At the very least, this suggests that company boards of directors, who are the elected representatives of the firm's owners, need to be more vigilant and robust in the approach they take to linking executive reward to organisational performance. In many corporate governance systems, including Australia's, director accountability for decisions about executive pay level and composition has been tightened significantly since the GFC and shareholders now have a legislated right to a 'say on pay' for top executives of companies in which they have an equity stake.[103]

The CEO pay gap, organisational equity and the role of HR professionals

Whether executive pay practices in general, and incentive plans in particular, are fair and ethical also remains a matter of ongoing public debate.[104] This is also a debate that is assuming fundamental significance for the role and responsibilities of HR professionals within the organisation. Arguably, it is the responsibility of HR practitioners to alert company boards to the possibility that the growing gap between executive and non-executive reward may impair not only the motivation and commitment of line employees and managers, but also the performance of the organisation as a whole. This is essentially an organisational issue of perceived distributive injustice. Several studies have found that the greater the degree of vertical pay dispersion (i.e. the pay differential between lower-level employees and senior managers), the greater the degree of lower-level dissonance and the lower the level of lower-level commitment, cooperation, effort and attention to quality.[105] The spate of taxpayer-funded

corporate bailouts during the GFC, coupled with the continued payment of bonuses to CEOs of some high-profile but terminally distressed companies, have prompted both public outcry and calls around the world for mandatory limits on executive pay levels.[106]

Figure 9.14 summarises the ratio of CEO pay to average worker pay by selected country as at 2014. Australia is in the middle of the pack, with a pay gap of just under 100 per cent compared with the United States, on the one hand, where the gap is over 350 per cent, and Japan, where it is 65 per cent.

FIGURE 9.14 Ratio between CEO and average worker pay by country, 2014
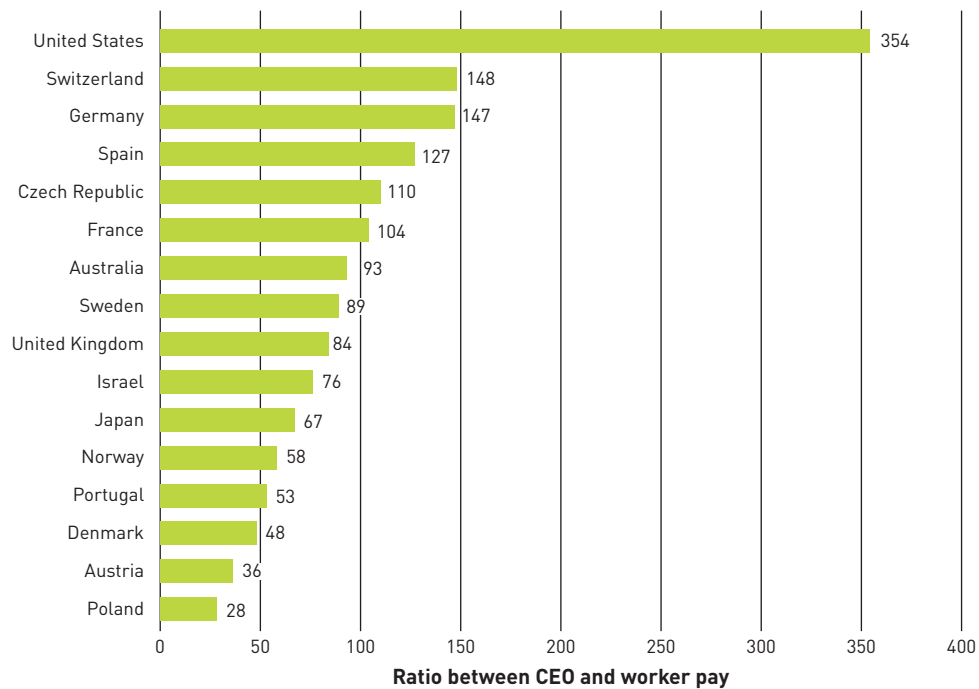
Source: R A Ferdman (2014), The pay gap between CEOs and workers is much worse than you realize, 25 September, Washington Post and S Kiatpongsan and M I Norton (2014), How Much (More) Should CEOs Make? A Universal Desire for More Equal Pay, Perspectives on Psychological Science 9, no. 6 (November 2014): 587–593.

HR professionals can no longer assume that such matters are beyond their sphere of accountability. Executive pay has emerged as a pivotal ethical challenge for the HR profession.[107] Since executive behaviour and misbehaviour have a profound effect on the outlook, motivation and wellbeing of other organisational employees, and hence on the domain of the HR practitioner, matters of executive performance and reward should be of pivotal concern to the HR profession on both fairness and ethicality grounds. This, of course, poses a major challenge for HR and reward managers because it involves engaging directors and senior executives in a critical dialogue about social responsibility and justice in relation to reward philosophy, policy and practice. However, it also presents HR professionals with

an opportunity to redefine the 'ethical and credible activist' role (see Chapter 1) to include wider philosophical considerations to do with distributive justice within and beyond the organisation. As such, strategic reward management may well be another domain in which HR professionals can demonstrate significant organisational leadership.

MANAGING EXPATRIATE PAY

Another special category of employees posing special challenges for effective reward management is expatriates; that is, those employees posted to international assignments for a number of years. Although less controversial in nature than executive reward, the cross-border nature of expatriate employment carries its own problems for reward system effectiveness and equity. Further, expatriate reward management must necessarily address a broader range of objectives than is the case with the reward of domestically based employees.

Expatriate pay: objectives

An expatriate is an employee of a multinational organisation who is assigned to work in a country other than their country of origin on either a temporary or permanent basis. The costs associated with expatriate management mean that expatriates are, for the most part, managerial and other professional appointees. In general terms, expatriate rewards must be sufficient to attract suitably qualified and capable individuals to the role, and also to retain and motivate the individual or individuals selected for the role for the full duration of the placement.[108]

This typically means that an expatriate reward package is considerably more complex than that of non-expatriates. In particular, the reward package should recognise and address the legitimate special financial needs of the expatriate and her/his family during the placement, including those associated inter-country variations in cost-of-living and income taxation, as well as differences in quality of life, housing conditions, health, medical and educational services and social conditions. At the same time, the reward levels should not be so high as to undermine a positive return on investment or to engender feelings of reward inequity among host country nationals (HCNs) – that is, local employees – in comparable positions.[109]

Expatriate pay: elements

The main elements of a typical expatriate reward package include base pay, foreign service premiums, allowances, benefits and performance incentives.

Base pay

Base pay may be paid in the currency of the parent firm country, of the host country or, in the case of a third country national (TCN), in the currency of their country of origin. Further, the level of base pay may be fixed in line with levels paid in the parent firm country, the host

country or a TCN's home country, and, as we shall see, the choice of country will have a major effect on remuneration levels.

Foreign service premiums

It is customary to pay expatriates a salary premium either as an inducement to accept an international posting (a 'mobility premium') or to compensate them for hardship or net disadvantage caused by the assignment (a 'hardship premium'). Premium payments are typically made as a percentage of base pay, and may range as high as 40 per cent of base pay. Since they are already 'global citizens', mobility payments are less common for TCNs, although hardship premiums will still be paid, with the rate depending on location.

Allowances

These may include cost-of-living allowances, housing allowances, relocation allowances, home leave allowances, education allowances and spouse assistance.[110]

Cost-of-living allowances seek to compensate for differences in consumer price levels between home and host country. Such allowances may also take account of differences in costs of housing, public utilities and taxation. The cost of basic consumer goods can vary dramatically from one country to another. These variations are determined partly by differences in real costs of production but also by differences in the extent to which a country's currency is overvalued or undervalued compared with other currencies. The calculation of a meaningful cost-of-living allowance requires consideration of a balanced basket of consumer goods and services. For this reason, many consulting firms and business information providers specialise in providing up-to-date comparative cost-of-living information to clients.

Access to suitable housing will be one of the chief expectations of an expatriate assignment and this may be achieved either by the provision of company-owned accommodation or payment of a dedicated housing allowance. The allowance may be a fixed sum or a specified proportion of the base salary, based on anticipated/assessed housing expenses, or it may involve reimbursement of actual costs. In many cases, the allowance is 'tax-equalised' so as to discourage property purchases in low housing cost host countries and to compensate for the greater expense incurred in high housing cost locations.

Relocation allowances cover expenses associated with packing, storage and shipment of possessions, as well as costs of temporary accommodation, motor vehicle sale and purchase, and purchase of white goods, furniture and the like. They may also cover the cost of domestic help, drivers, personal security, club membership and other perquisites.

Home leave allowances to fund return visits to the home country are a means of addressing one of the most common causes of expatriate failure – a feeling of isolation from family, friends and colleagues at home, as well as from the 'main game' in the parent firm. Regular contact with home will also minimise the possibility of 'reverse culture shock' at the time of repatriation.

Education allowances may also be provided to cover children's school fees, school transport, private tuition, language education, books, uniforms, boarding school fees and, in some instances, university fees for older dependants.

Special assistance may also be provided to the expatriate's spouse to protect them against, or compensate for, loss of career opportunity or income arising from the relocation, as adjustment difficulties experienced by the partner are common causes of expatriate failure. Rather than providing financial compensation, many firms now provide partners with either job-search assistance or direct employment in the firm's host country business, along with assistance in arranging work visas.

Benefits

Wide international differences in health, medical and social security benefits, as well as in retirement/superannuation/pension planning, makes the provision of suitable benefits one of the most complex aspects of expatriate reward management.[111]

The firm must decide whether to maintain full coverage under the home country benefits program or, alternatively, transfer to the host country benefits program and adjust total remuneration in line with any post-tax difference between home and host country entitlements. Likewise, the firm must determine whether the expatriate and her/his dependants will be covered by home or host country social security benefits. In some countries, participation in the local social security program, including specified contribution payments, is mandatory.

For TCNs, benefits arrangements pose a particular problem, since they may have little home country social security coverage, may encounter difficulty in transferring accrued retirement contributions between countries, and may spend their immediate pre-retirement years in a location where salary levels are significantly lower than those in their home country, or in the country to which they plan to retire. In view of these uncertainties, TCNs may be best advised to maintain a self-managed retirement fund and to negotiate special contribution arrangements with each employer on a case-by-case basis.

Performance incentives

Expatriate reward packages commonly incorporate performance-related payments additional to base salary, benefits and allowances. While it is possible to apply to expatriate employees any of the STI and LTI plans discussed earlier in this chapter, in line with the particular performance monitoring and measurement challenges associated with physical distance and cross-cultural boundaries, special care must be taken to ensure a clear line of sight between controllable performance delivered and incentive payments given.

At the same time, care should be taken that incentive plans neither reward nor penalise the expatriate in a way that is disproportionate to the performance payments received by other employees occupying comparable functional roles. One means to this end is maintaining expatriate eligibility for equity-based organisation-wide LTI plans.

Approaches to expatriate reward management

In configuring its expatriate reward packages, the organisation must decide whether it wishes to benchmark reward level and mix against parent country standards, host country standards or a self-defined set of transnational standards. On this basis, we can identify two broad approaches to expatriate reward configuration:

1 the 'balance sheet' approach
2 the 'going rate' approach.

Balance sheet approach

balance sheet approach (expatriate)
An approach to expatriate reward configuration which links reward level to the home country pay structure and seeks to preserve home country purchasing power and living standards by means of compensatory financial adjustments

The chief aim of the **balance sheet approach**, which remains the preferred approach in Western multinationals, is to maintain relativity with non-expatriates while providing a beneficial inducement to compensate for foreign assignment. In essence, the approach links the expatriate reward level to the home country pay structure and seeks to preserve home country purchasing power and living standards by means of compensatory financial adjustments. As reported in **International perspective 9.2**, due to rising living costs, urban pollution and related factors, firms operating in China are now having to offer expatriates salary packages at record levels in US dollar terms in order to meet staffing needs.

International perspective 9.2

Who's top of the expat salary pack in Asia?

With Asia emerging as the world's economic power house, salary packages for managers on expatriate placement in Asia-Pacific countries are booming, with all three main elements of pay – base salary, benefits (such as accommodation, school fees, utilities and cars) and taxation compensation – contributing to the surge. The growth in expat pay is such that it is now becoming more common for firms operating in major Asian locations to use the host country local salary as the starting point with or without some additional benefits, such as an allowance for accommodation or children's school fees.

Data produced by ECA International, one of the leading providers of information and technology for the management and assignment of employees around the world, demonstrates these trends very clearly. Recent (May 2017) data from ECA International's annual MyExpatriate Market Pay Survey shows that Japan continues to come out on top, with the total value of a typical expatriate pay package for middle managers in Japan exceeding US$375 000 per year on average. Japan also has the highest benefit packages in the region, according to the ECA International survey. Benefits for housing, education and transportation are higher than elsewhere simply because Japan has significant income tax rates and the cost of benefits is much higher in Japan compared with other countries.

As **Figure 9.15** shows, the next highest middle manager expat packages are found in China, India, Hong Kong and Australia, followed by the Republic of Korea (South Korea), the Philippines, Indonesia and Singapore. In Australia, the value of a typical total expatriate package for middle managers is just on US$260 000.

FIGURE 9.15 Total expatriate salary packages of middle managers in selected Asia Pacific countries (USD)

Total expatriate package breakdown in Asia Pacific – middle manager (USD)

Source: ECA International (2017), https://www.eca-international.com/news/may-2017/expatriate-salary-and-benefits-packages-singapore.
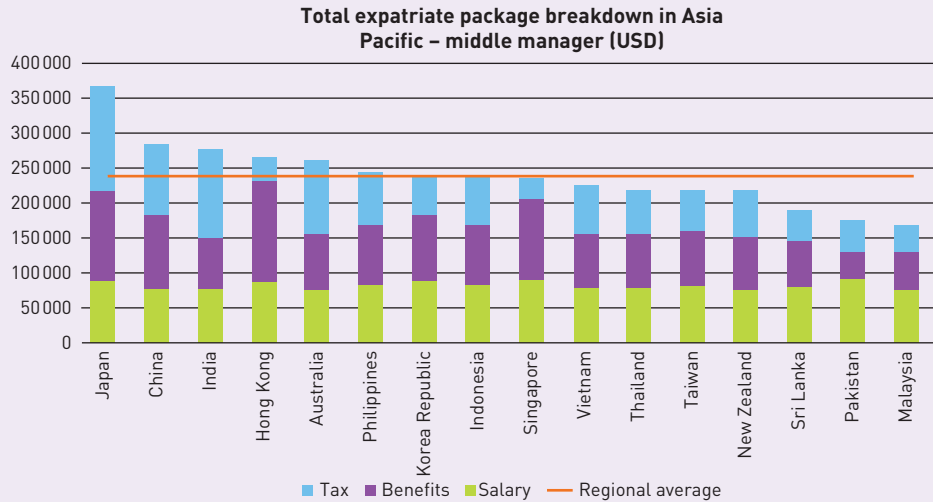
While Japan, Australian and India also topped the list in 2014, the results for 2017 show average packages for expats placed in mainland China and Indonesia rising rapidly. In contrast, packages for the previous expat nirvana of Singapore are slipping relative to these emerging powerhouses, principally due to a contraction in the value of the benefits component. Even so, Singapore's reputation for providing excellent living standards remains a drawcard for expats. Singapore also offers attractive tax rates as a counter to very high housing costs. In India the tax component has the opposite effect, with high tax reducing its appeal to foreign companies.

In other locations, where local pay levels are low and the supply of management talent is limited (e.g. Malaysia and Pakistan), even junior level staff receive expat packages. However, in large global cities that have ready appeal to expats, such as Sydney, Singapore and Hong Kong, getting the extra benefits above and beyond what locals receive is more difficult because more expats are willing to relocate there.

As an ECA notes: 'When choosing an expatriate pay approach, companies need to be clear about the reasons behind the assignment so that their choice reinforces this. This can help organisations to decide whether they wish to create equity among home or host country peers – something that has become even more complex as companies manage increasingly diverse nationalities in and out of different markets. This will also need to be balanced against benefits and costs to the business.'

Source: Adapted from ECA International (2017), Singapore offers some of the most generous expatriate salary and benefits packages in Asia Pacific, https://www.eca-international.com/news/may-2017/expatriate-salary-and-benefits-packages-singapore.

The approach typically covers four main categories of outlay:

1 *goods and services:* home country expenditure on food, clothing, personal care, household furnishings, household items, transportation, recreation and health and medical care
2 *housing:* accommodation expenses in the host country
3 *income taxes:* parent country and host country income tax liabilities
4 *reserve:* including personal savings, retirement fund contribution, payments for benefits, investments, education expenses, social security taxes and the like.

The management of expatriate tax liability is a particularly fraught matter – and obviously a matter of special concern to expatriates themselves – since income tax rates vary considerably from country to country, as do goods and services tax rates, which can also be widely discrepant within countries with federal systems. The two main options for managing international tax are:

1 tax equalisation, under which the firm pays all host country taxes and withholds an amount equal to the notional home country tax liability. This is by far the most common approach taken by Western multinationals
2 tax protection, whereby the employee pays no more than the amount of tax that she/he would normally pay on the home-equivalent salary. If host tax is less than home tax, the employee pockets the windfall.[112]

In the balance sheet example provided in **Figure 9.16**, the expatriate's salary is adjusted by means of allowances to compensate for the higher cost of goods and services, education, social security and housing in the host location. Since the firm uses the tax equalisation option, the employee also receives a deduction or credit to compensate for the higher net amount of income tax liability in the host country, which in this case is equivalent to 50 per cent of the home salary compared to the home tax liability of 28.5 per cent. On top of this, they receive a relocation bonus equivalent to 20 per cent of the home salary.

The chief advantage of the balance sheet approach is that it preserves an equitable relationship between expatriate and non-expatriate salary packages in real and net terms and, as such, minimises variance in base remuneration following repatriation. Conversely, the approach is administratively complex. It may also cause considerable pay discrepancy between expatriates and locals performing similar roles. In low pay countries (e.g. India, China, Vietnam, Indonesia), this may trigger internal inequity/distributive injustice perceptions among local employees.[113] In terms of total reward management, a further problem with the balance sheet model is its emphasis on expatriate needs as opposed to performance outcomes.

Going rate approach

With the **going rate approach**, the base salary is tied to salary levels in the host country, partly with a view to maintaining an equitable relationship between expatriates and HCNs. However, it will still be necessary to decide whether the comparator will be local HCNs *per se*, expatriates from home or expatriates of all nationalities working in the host country. In general, if local

going rate approach
An approach to expatriate reward configuration, which ties expatriate pay to salary levels in the host country, partly with a view to maintaining an equitable relationship between expatriates and host country employees with whom they work

Example of a balance sheet for deployment to a high-cost, high-tax location
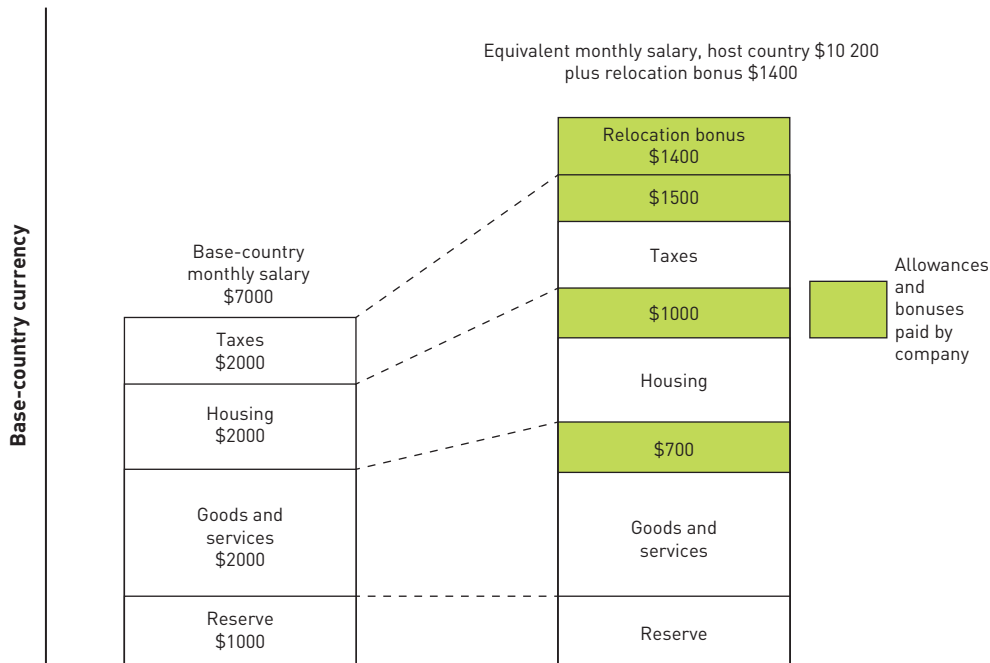
Source: Republished with permission of McGraw-Hill Education, from Milkovich, G., Newman, J. and Gerhart, B. (2011), Compensation, 10th edition, 2011; permission conveyed through Copyright Clearance Center, Inc.

salaries in the host country are high by international standards, the firm may have little choice but to match the local market. Conversely, if local salaries are low by international standards, as is the case in many developing countries, the firm will typically augment base pay with additional allowances and benefits. Either way, the upshot will be a tendency towards reward level convergence at the local level.

The going rate approach is relatively uncomplicated, sets a common standard for expatriates from both the parent country and third countries, reinforces expatriate identification with the host country, and institutes a degree of equality with HCN salaries, something that is likely to be very effective in attracting PCNs and TCNs to high pay locations, such as the United States and countries in western Europe. Conversely, strict adherence to the going rate approach will make it difficult to attract candidates to low pay locations, while the prospect of major variations in pay level from one posting and currency to the next may damage both staff recruitment and morale. A compromise approach here would be to balance local and home rates by configuring expatriate packages on a regional basis with pay levels expressed in a major global currency, such as the US dollar or the euro.[114]

SUMMARY

This chapter has explored the key concepts and practices associated with the management of employee reward, with a special emphasis on the notions of total reward management and strategic reward alignment; that is, on the selection and application of an integrated mix of monetary and non-monetary rewards that maximise the contribution of HR to organisational success and sustainability.

We began by considering the nature and importance of the total reward approach, with particular reference to the distinction between intrinsic rewards and those of an extrinsic nature, including financial, developmental and social rewards.

Attention then turned to the distinguishing features of a strategic approach to reward management, including reward philosophy and strategy statements, the employee value proposition (or espoused psychological contract), horizontal alignment (i.e. the configuration of a cohesive set of rewards and other HR practices) and vertical alignment (i.e. ensuring that reward practices support the organisation's strategic objectives).

Building on these general concepts, we next examined the requirements for designing a cohesive and strategically aligned total reward system, including determining reward mix and pay levels appropriate to particular organisational strategies and employee value propositions (or espoused psychological contracts). Linking back to the three generic types of business strategy identified in Chapter 1, the chapter offered some tips on how the various reward options might best be selected and integrated to maximise reward alignment with the organisation's strategic purpose.

While HR practitioners and reward consultants devote considerable energy to designing elegantly tailored reward systems, less attention tends to be paid to how (and how much) information on the reward system should be shared with employees themselves. Here, by way of acknowledging the controversy associated with the issue of reward communication, we weighed up the arguments for pay transparency versus pay secrecy.

We then explored in detail the three main elements of total remuneration, namely base pay, benefits and performance-related rewards, and the 'reward toolbox' options and practices associated with each. Here, we compared the range of performance pay or incentive plans applicable to line employees, including individual versus collective plans, cash versus non-cash plans, and short-term versus long-term plans. We also considered the strengths and weaknesses of each pay plan type and the circumstances to which each may be best and least suited. In this context, we also explored the controversial issues of the gender pay gap and the use and misuse of incentive plans.

As well as examining reward management for employees in general, we also examined reward challenges and options for two key employee groups; namely, top executives and expatriates. Consideration was also given to a further area of reward controversy that is associated with the gap between CEO pay and the pay of ordinary employees.

Overall, designing and maintaining a strategically aligned, effective and equitable reward system is a complex and challenging process. Perhaps more so than with any other HR process, it allows HR professionals to demonstrate both their vital worth to organisational effectiveness and their role as guardians of a positive employee value proposition. Effective reward management demands high-order competencies in organisational and behavioural analysis, as well as solid abilities in strategic decision-making, communication and HR leadership. For these reasons, managing employee rewards can also be immensely rewarding in its own right.

KEY TERMS

- agency theory 390
- balance sheet approach (expatriate) 420
- base pay 368
- benefits 382
- cognitive evaluation theory 392
- comparable worth 375
- compa-ratio 396
- competency zones 379
- developmental rewards 356
- discretionary bonus 398
- employee share ownership plans (ESOPs) 406
- equity theory 391
- espoused psychological contract 360
- expectancy theory 391
- extrinsic rewards 356
- financial rewards 356
- flexible benefits plans 388
- gain-sharing 404
- goal-setting theory 391
- goal-sharing 405
- going rate approach 422
- horizontal pay dispersion 363
- intrinsic rewards 355
- job evaluation 371
- long-term incentive (LTI) 394
- market surveys 370
- merit grid 396

- merit pay 396
- pay bands 377
- pay grades 369
- pay variability 365
- performance shares 414
- performance-based rewards 390
- position-based pay 369
- profit-sharing 403
- recognition awards 398
- reinforcement theory 390
- relational psychological contract 360
- restricted share plans 407
- reward 353
- reward communication 366
- reward strategy statement 360
- self-determination theory 392
- share appreciation rights 414
- share option plans 408
- short-term incentive (STI) 394
- skill 377
- skill blocks 377
- social rewards 356
- sorting effect 393
- strategic reward management 358
- total reward management 354
- transactional psychological contract 360
- vertical pay dispersion 363
- work motivation 355

EMERGING ISSUES

1 Pay secrecy versus pay transparency

Being open and transparent about pay can clear up situations in which people think others are making far more than they really are. It can create a greater sense of justice among employees. It can help direct people in their career choices because they can see the paths that lead to higher salaries. It creates a greater sense of solidarity in the team. More comprehensive pay disclosure appears to align with the values of young, highly educated Millennials and members of Gen Z.

Yet communicating the details of the reward system to line managers and employees so that they each understand and accept the rules of the system is one of the most challenging aspects of organisational communication. However, as the debate about pay transparency versus pay secrecy attests, when it comes to pay communication, more is not necessarily better. For example, should each employee know how much other employees are paid (i.e. openness about horizontal pay dispersion), or should employees know how much senior executives receive (i.e. transparency in vertical pay dispersion)?

a   Do employees have a right to know the pay levels of fellow employees?

b   Why/how might pay transparency reduce pay inequity?

c   When might it be appropriate to keep pay secret?

2 The gender pay gap

Pay equity is the principle that employees undertaking the same or comparable work should receive the same level of remuneration irrespective of their gender. In all areas of HR practice, including determining pay levels, it is unlawful for Australian employers to discriminate between employees purely on the basis of gender. However, in Australia, as elsewhere, the gender pay gap persists, despite almost 50 years of 'equal pay' rulings by industrial tribunals.

a   Why does the gender pay gap persist?

b   Why is the gap greater in some industries and occupations than others?

c   What components of total reward have the greatest gap? Why might this be so?

d   Why does the comparable worth principle continue to encounter resistance? (See **Case study 9.1** below for a recent example of such resistance.)

e   In what respects is the continued earnings gap between men and women inequitable? In what respects (if any) might it be fair and appropriate?

3 The gender superannuation gap

Men do much better out of superannuation than women, and the current system works against women who take breaks from full-time paid work to care for children or frail parents. Australian women who retired in 2016 averaged $120 000 less than men in their super accounts and, while the gap is diminishing, it is doing so very slowly.

These average balances fall well short of what both sexes need to live on, meaning that both men and women have to rely heavily on the age pension to top up their retirement incomes. As such the superannuation issue highlights a critical point of disconnect between the work-related benefits available to employees and the provision of income support for retirees by government.

A 2018 report on Women and the Future of Work, led by academics from the University of Sydney, highlighted the retirement-related security concerns confronting women workers in a very personal way.[115] As well as surveying over 2000 women aged under 40, the researchers conducted deep focus group discussions with some 50 women. Even highly skilled women on relatively high pay and in secure jobs expressed concern that their superannuation contributions to date were insufficient, and that they would not have enough to live on in retirement:

•   'I looked at my super (superannuation balance) and I've been working for over ten years now and I've got like less than a year's worth of money put aside . . . How many years am I going to keep working, how much money am I going to have, can I ever retire comfortably?'

•   'I started to salary sacrifice . . . it's very depressing. I don't know how I would be able to sustain myself through retirement. And I don't save anything.'[116]

Since 2016 there has also been an additional policy-related impediment in play. In Australia, the lifetime limit for money that can be transferred into a superannuation pension account is $1.6 million. At the same time, the concessional, or pre-tax, contribution limit for super is $25 000 a year and the after tax, or non-concessional limit, is $100 000? This makes it difficult for women in their 40s and 50s to get close to $1.6 million, even if they have the money to do so. Removing the annual contribution caps would allow women (and men) to top up their super in a meaningful way.

What solutions can you offer here?

a   Draw up a list of the factors that you see as contributing to the relatively low super balances of women retirees.

b   Separate these factor into two categories: first, those that are within the control of women workers themselves; second, those that are beyond their control.

c   Recommend solutions for each of the two categories of factors.

d   How can employers configure their remuneration and benefits practices to help address the super gap?

4 Individual sales commissions in banking

In 2017–18, the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry exposed deep shortcomings in bank culture in general and in the use and misuse of commission-based incentives in particular, particularly in Australia's $1.6 trillion mortgage market.[117]

The commission heard case after case of staff and commission agent misconduct, including bribery, forgery, fraud, fudging of figures, unacceptable delays and other assorted misdemeanours visited upon consumers of bank products, particularly mortgage loans. Critics contend that Australia's banks are under the sway of a sales culture that is both toxic and riddled with conflicts of interest. The bigger the loan – and the longer it takes to pay it off – the bigger the commission the mortgage broker earns, and the less inclined they may be to exercise due diligence regarding the borrower's capacity to repay.

Earlier inquiries also highlighted the potentially damaging effects of sales incentives. An independent review conducted in 2017 by former senior public servant Stephen Sedgwick for the Australian Banking Association found: 'Significant risks of mis-selling attached to current arrangements to remunerate mortgage brokers.' Sedgwick also warned of the dangers of overuse of individual sales commissions and other narrowly volume-based bonus practices to motivate bank industry workers generally.

Among this report's key recommendations were that:

•   incentives should no longer be paid to any retail staff based directly or solely on sales performance
•   eligibility to receive any personal incentive payments should be based on an assessment of that individual's contribution across a range of measures, of which sales (if included at all) should not be the dominant component
•   maximum available payments should be scaled back significantly for some roles
•   retail bank culture should be demonstrably ethically and customer oriented.[118]

a   Give reasons for the heavy reliance on extrinsic rewards in the form of individual sales incentives in retail banking.

b   Would group incentives be a better option?

c   Can you see any connection between the high reliance on incentives for ordinary bank employees and the incentives applied to bank executives?

d   How can employers configure their remuneration and benefits practices to help address the superannuation gap?

e   How would you go about reorienting bank culture from one of selling to one of service?

ETHICAL CHALLENGE

Putting the brakes on bosses' bonus blow-outs

In a 2016 report on executive pay released in the United Kingdom, titled *Time to listen*, consultants PricewaterhouseCoopers (PwC) warned the corporate world that it needed to 'find a way to respond to public concern about executive pay, or matters will be taken out of our hands'. (PwC's business includes advising boards on the structure of remuneration packages and how much to pay executives and staff.) In a note for Australian clients, it pointed to 'political turmoil around the world', which had 'highlighted the concern among many that globalisation and free trade have left them behind'.

'There's now an urgent need for "big business" to learn from this and start to rebuild public trust,' it warned.

But as far as some experts are concerned, at least one sector of 'big business' in Australia has missed its chance. Former consumer watchdog Allan Fels, the architect of the 'two strikes' rule that gives Australian shareholders a say on executive pay, remarked that the scheme had failed to restrain executive pay at the banks, suggesting additional, special rules on remuneration may be needed for the financial services sector.

Martin Lawrence, who advises institutional shareholders on governance issues on behalf of proxy firm Ownership Matters, says while executives appeared to be walking away with unfairly large pay cheques, the notion that it was unfair failed to resonate with the majority of Australians, who unlike Brits or Americans, had not experienced a taxpayer bailout.

'The major economic problems [in the US and UK] make people more sensitive about fairness arguments,' he says.

In real terms, the salaries of Australia's business elite still tower over those of the average worker.

But pay disparities, while still gaping, are less pronounced here. A *Harvard Business Review* study found that, in Australia, the average ratio between the pay of a chief executive and an unskilled worker is 93 times, while in the United States it is about 350 times. Australians are more open to chief executives being paid more for their work, according to a survey of people in 40 countries also cited by PwC.

A July survey from the Governance Institute, which represents company secretaries and other governance experts, found that executive pay was rated as one of the top five ethical issues in Australian business. When respondents were asked to rate different industries according to how ethical they were, the corporate sector – a broad grouping including senior executives, listed companies and big foreign firms – had the second-lowest rating on the index, with a reading of minus three.

A key factor here is the continued high level of executive bonus payments. Data collected by institutional investor peak body ACSI shows that while fixed pay fell by 1.1 per cent for ASX100 chief executives in 2015, bonuses rose 12 per cent. Bonuses also became more common, with the proportion of top-100 chiefs receiving a bonus reaching the highest level since 2008.

ACSI has pointed to bonuses – and whether they are truly 'at risk' – as a key issue for investors. Chief executive Louise Davidson says more needs to be done to ensure executive bonuses reflect more than just 'short-term profit numbers'.

'It's about having a social licence to operate and [addressing] the lack of trust and scepticism that has built up in the community – particularly toward the banks – by seeing culture failure after culture failure,' she says.

Lawrence says it is now more likely for a chief executive to be fired in Australia than to not receive a bonus.

'Executives in Australia seem to be compensated for a risk that is not real,' he says.

'What is the worst thing that can happen to you as an executive of a large publicly listed company? You get fired with more money than most people earn in a lifetime.

'You might get bad stories written about you in the newspaper, but people look at that and think that's not risk.'

PwC has advised boards' remuneration committees to make 'tough decisions' and only pay bonuses that are close to the maximum 'for unambiguously outstanding performance'.

'Furthermore, on target annual bonuses should not be easily earned,' it says. 'The percentage of ASX100 CEOs receiving less than 75 per cent of their target incentive has not exceeded 30 per cent over the past three years.

'These payments need to be seen by the public as truly variable, and to be varying in relation to transparent performance outcomes.'

The corporate sector, and its advisers like PwC, warn that increased regulation on salaries can have unforeseen and negative consequences. The UK government, for example, has argued that the EU's bonus cap has merely led to a substantial increase in base salaries.

But these arguments are hard to make in the face of job losses, stagnant wage growth and public outrage. Worldwide, big business is on notice: respond to concerns about pay packages, or brace for the consequences.

'In all developed countries there's concern about executive pay,' PWC's Emma Grogan says.

'There's an opportunity right now for organisations to take a position on that and address some of those concerns . . . or there is the risk of further regulation, which could fuel perverse outcomes'.

1   In what ways might executive pay be damaging public trust in big business?
2   Is executive pay too high, about right or too low?
3   What are the ethical considerations related to setting the level of executive pay?
4   What would an ethical approach to executive pay actually look like?

CASE STUDY 9.1

Childcare equal pay claim rejected

In February 2018, a full bench of the Australian Fair Work Commission rejected a claim by two unions, United Voice and AEU, for equal pay for childcare workers. The Commission found that a 2005 work value case was insufficient, in the absence of contemporary evidence, to establish metalworkers as an appropriate comparator.

The long-running case hinged on whether two classifications in the Manufacturing and Associated Industries and Occupations Award were of equal and comparable value to classifications in the Children's Services Award.

While accepting it was 'arguably, a highly persuasive consideration in favour of the conclusion that there is equality or comparability of work value', the bench pointed out multiple 'impediments' to definitively concluding that there is equality or comparability in work value between the groups based on the 2005 decision and the 'subsequent pay nexus' it is said to have established.

Unions took 'incorrect approach': full bench

The bench accepted that the male comparator group might include employees to whom the award applies who are in fact paid at or above the award rate, including those covered by an agreement if it 'reproduces or incorporates by reference' the relevant classifications.

However, it highlighted a 'practical incapacity' in identifying the individual employees, making it 'hard to reach any definitive conclusion about the value of the work performed by the group'.

It also noted the unions' suggestion that after it resolved the comparator question and identified a difference in pay, the bench could look at the value of work actually being performed to analyse the extent to which the pay gap might by justified by work value considerations not accounted for in the award classifications and associated minimum rates of pay.

This 'approach is incorrect', the bench said, adding that if the value of the actual work performed by the male comparator group is higher, 'regardless of what the applicable award classifications may say, then the comparator groups simply do not perform work of equal or comparable value in the first place, and the case fails at the outset'.

Nor was there a finding in the 2005 decision that childcare workers performed work of equal or comparable value to workers covered by the same classifications in the Metal Industry Award, which could satisfy the jurisdictional prerequisites for an equal remuneration order.

'It was not possible for such a finding to have been made because the Full Bench in that matter did not receive any evidence about the work performed by employees under the Metal Industry Award (including the conditions in which it was performed),' the bench said.

Even if the 2005 decision had established an equivalence in work value, the bench said it could not positively be satisfied this remains 13 years later, in the 'absence of any evidence about these matters'.

'Indeed the contentions of the [unions] . . . give rise to the possibility that the proper conclusion might be that employees under the diploma-level and certificate III classifications in the Children's Services Award now perform work of greater – not equal – value than employees under the C5 and C10 classifications of the Manufacturing Award,' the bench said.

Regarding metalworkers now receiving over-award payments, the bench said that in the absence of evidence about the basis for this, it would not be prepared to assume that they 'do not include any element of work value that is not included' in the relevant Manufacturing Award classification descriptors.

'For example, it may be that an over-award payment is reflective of some aspect of the conditions under which the work is performed which is not dealt with in the classifications descriptors, such as a remote work location or unpleasant working conditions, or that it is paid for the exercise of some special skill unique to a particular workplace,' the bench said.

'That may mean, whatever was found in the 2005 decision, that members of the comparator group under the C5 and C10 classifications on over-award payments in fact perform work of a greater value than those under the relevant classifications in the Children's Services Award, notwithstanding the pay nexus in award minimum rates.'

Full bench defends equal pay claim system

In concluding that the preliminary question must be answered in the negative, the bench said it was necessary to make further observations 'lest it be said that in light of this outcome the system for the achievement of equal remuneration established by the Fair Work Act is ineffective'.

'The first is that the applicant unions elected to place all their forensic eggs in one basket by seeking to demonstrate the required equality or comparability in work value between its selected male and female comparator groups by reference only to the 2005 decision and the subsequent historical pay nexus without calling any evidence whatsoever,' it said.

The bench continued that a 2015 decision on their claim also made it clear that while a case advanced under Part 2–7 of the Act requires a comparator group of the opposite gender, a case run on the basis that wages had been subject to gender-based undervaluation 'could be advanced under s156(3) or s157(2)'.

It could 'equally have been advanced as a conventional work value case under s156(3) or s 157(2),' the bench continued.

'However, for reasons which they have not explained, the applicant unions have chosen not to progress these aspects of their application in the current proceedings.'

System 'not fit for purpose': United Voice

United Voice assistant national secretary Helen Gibbons said the union had 'done everything possible to try and resolve this equal pay issue' over the past five years.

'We have jumped through every legal hoop required and we briefed one of the best legal teams in the country,' she said.

However, she said, the Fair Work Commission 'has failed us'.

'They failed to hear from a single educator about what it's like to live on half the minimum wage,' she said, adding that it shows 'the system is not fit for purpose to deliver equal pay in the 21st century'.

Gibbons said the community 'knows that our early education workforce is undervalued, unlike our government and the Fair Work Commission' and that today's result 'will only ramp up the campaign to get the government to step in and resolve this situation'.

Source: Adapted from Anon. (2018), FWC rejects childcare equal pay claim, *Workplace Express*, 6 February, https://www.workplaceexpress.com.au/nl06_news_selected.php?R=2&act=2&stream=14&selkey=56453&hlc=2&hlw. See also: Application by United Voice and the Australian Education Union [2018] FWCFB 177 (6 February 2018).

Questions

1 Why did the Commission reject the unions' case?
2 What is the Commission really saying about the merit of the comparable worth claim for equal pay for child care workers?
3 What should the unions have done differently to strengthen their case?
4 What should the unions do now?
5 What does this case reveal about the continued challenges for achieving pay equity for women workers?

CASE STUDY 9.2

'Bankwest Heroes': an enterprise-wide recognition program for a post-GFC world

The backdrop

Previously known as the Bank of Western Australia, Bankwest is a second-tier retail bank owned since 2008 by the Commonwealth Bank of Australia. Other owners following the bank's privatisation were the Bank of Scotland (1995–2001) and HBOS (2001–08). Bankwest employs approximately 5000 staff Australia-wide in its various business divisions (head office, retail/business sales and customer service, IT, and various support units).

In the years prior to its acquisition by the Commonwealth Bank, Bankwest's experiments with a range of employee recognition and incentive programs met with limited success. However, in the wake of the 2008–09 GFC, Bankwest management embraced new strategic and behavioural priorities applicable to all staff and designed to drive the bank's commitment to 'bringing happy banking to all Australians' while also strengthening a sense of shared enterprise and unity of purpose. To support the process of strategic alignment and employee engagement, Bankwest management also took the opportunity to consolidate, recalibrate and rebrand the bank's existing recognition and reward initiatives.

A key element of this strategic recalibration was the development and launch in 2011–12 of a new and holistic approach to employee reward and recognition. Known as the 'Bankwest Heroes' employee incentive program, the initiative was designed to refresh the firm's whole approach to recognition, drive desired behavioural change, and introduce an integrated and sustainable approach to inventive planning administration. The aim, in essence, was to nurture a culture of recognition based on transparency and fairness, accompanied by a dash of fun. The single greatest challenge to achieving this was always going to be crafting a program that would resonate with all sections of the bank's diverse workforce, irrespective of role, gender, age or ethnicity.

The program

'Bankwest Heroes' was designed to be uncomplicated, edgy, fun – and motivational. It played on employees' general awareness of Hollywood superheroes characters. It also played to all main features of the bank's business operations. In terms of plan messaging, the program highlighted organisational commitment/'loyalty' (measured by length of service markers); 'advocacy' (proxied by customer referrals); 'sales focus' (for those in retail, call centre and related business roles); and 'general performance improvement' (covering all roles and all strategic priorities). These criteria were operationalised by 'brand Heroes' charged with championing each strategic priority so that the program was well understood, all-inclusive and within reach of every Bankwest employee.

The tangible rewards on offer were coupled with opportunities for public praise, sharing of success stories and celebration of achievements. Recognition options range from routine day-to-day achievement to more formal and prestigious twice-yearly and annual recognition events. Each level of recognition feeds those above. A program website was also created as the single source of truth for all recognition activity.

Recognition processes

Any employee could send instant 'Hero Mail' (e-cards) to acknowledge/thank a colleague for outstanding work. Providing their manager approved, any employee could nominate a fellow employee for demonstrating behaviour aligned with one of the bank's strategic priorities.

A 'Heroes Wall' was created to display approved nominations in real-time. All the nominator had to do to show their appreciation was to click the 'Great' button. The bank's Managing Director then made contact with selected nominees each week to congratulate them. In sales teams, provisions were also made for instantaneous recognition, with sales team leaders able to distribute instant recognition vouchers when they observed an instance of exceptional behaviour.

Employees receive 'Hero Points', the program's common currency. These can be accumulated and redeemed for rewards from the Heroes merchandise catalogue. This covers a wide selection of products from leading brands.

Program kick-off

The program's initial success was due in large part to a well-planned and executed launch event at which bank executives and senior managers featured prominently. Prior to implementation, managers received an interactive digital manager brochure explaining their pivotal role in developing the new culture of recognition, and testing their understanding of the new program. 'Lunch 'n' Learn' sessions were also organised to provide senior managers with an opportunity to seek clarification about the program and their role in its roll-out.

To this was added an element of frivolity and fun. On launch day, executives and senior managers wore superheroes costumes and distributed gifts to employees arriving for work. Every employee's computer had a new screensaver uploaded to introduce them to the program champions/superheroes and to encourage them to visit the 'Heroes' website. Here they could view a welcome video from the Managing Director explaining the program's objectives and processes, accompanied by an animated video steeped in the 'Heroes' theme and traversing the program's features in a light-hearted way. A special communication package was also prepared for staff working in remote locations.

Every new employee received a 'starter pack' including 'Heroes' program information and invitations to visit the 'Heroes' website.

Initial impact

The initial results were especially positive. In its first five months of operation, the program enjoyed a high level of employee interest and engagement across the organisation. Specifically: over 80 per cent of participating employees visited the 'Heroes' website; almost two-thirds of participants achieved reward points; 67 per cent (over 3400) employees were recognised either with a 'Hero Mail' or a recognition nomination; and 70 per cent of managers and 31 per cent of employees had nominated someone for recognition.

The initiative is seen to have:

- created a single, all-encompassing program, bringing together previously disparate and ineffective recognition and reward activities, and removing administrative inefficiencies associated with managing multiple programs
- driven the desired behavioural change, and helped to reinforce customer focus
- become a part of the fabric of the bank's culture.

Source: Adapted from Anon. (2014), Bankwest heroes: Employee recognition at Bankwest. *Accumulate*, https://www.accumulate.com.au/files/BankwestHeroesCaseStudyaccumulate2013.pdf.

Questions

1   What do you believe may have been management's underlying reason for introducing the 'Bankwest Heroes' program?
2   What attitudes and behaviours does it seek to encourage among Bankwest staff?
3   What further information would you need to make a balanced assessment of the impact of the program on employee attitudes and behaviour?
4   Bearing in mind the potential downsides of such recognition plans (as discussed earlier in the chapter), how would you mitigate the associated risks?
5   Are recognition plans of this type immune from the problems of individual cash incentives?

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114 Dowling, P. J. et al. (2008), op. cit., pp. 165–6; Watson, B. W. and Singh, G. (2005), Global pay systems: Compensation in support of a multinational strategy. *Compensation and Benefits Review*, January/February, pp. 33–6; Yandori, Y. (2011), Paying both globally and locally: An examination of the compensation management of a U.S. multinational finance firm in the Asia Pacific region. *International Journal of Human Resource Management*, 22(18), pp. 3867–87.

115 Cooper, R. et al. (2018), *Women and the future of work: Report 1 of the Australian women's working futures project*. Sydney: University of Sydney Business School. Available at https://sydney.edu.au/content/dam/corporate/documents/business-school/research/women-work-leadership/women-and-the-future-of-work.pdf

116 Ibid.

117 Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry (2019), *Final report*. *Vols 1, 2 and 3*. Available at https://treasury.gov.au/publication/p2019-fsrc-final-report

118 Sedgwick, S. (2017), *Retail banking remuneration review report*. Australian Bankers' Association. Available at https://www.betterbanking.net.au/wp-content/uploads/2018/01/FINAL_Rem-Review-Report.pdf.

CHAPTER

10

Managing work health and safety

Occupational accidents and diseases have an impact not only on the lives of individual workers but also on the productivity and profitability of their enterprises and ultimately on the welfare of their entire societies.

International Labour Organization (2019), Occupational safety and health in Asia and the Pacific, https://www.ilo.org/asia/projects/WCMS_099347/lang--en/index.htm.

Work health and safety laws place the primary duty of care on the 'person conducting a business or undertaking'… This is a broad concept used to capture all types of modern working arrangements.

Safe Work Australia, 2017.

Employers, governments and unions must work together to ensure safety is at the highest level in our workplaces because we can do a lot better than we currently are.

Michael Borowick, ACTU Assistant Secretary (2015), ACTU media release, https://www.actu.org.au.

OBJECTIVES

After reading this chapter, you will be able to:

1 analyse to what extent workplace injuries and accidents cost Australian workplaces

2 recognise the various perspectives of employers, unions and workers, and the influences of medical, paramedical and legal professions on work health and safety (WHS) theory and practice

3 explain the harmonisation of WHS legislation in Australian federal and state government jurisdictions, and analyse its advantages and disadvantages

4 describe how WHS programs can create safe, healthy and ethical workplace environments

5 explain how to manage WHS programs, including how WHS information systems can facilitate this.

Emerging issues

1 The medical model and patienthood
2 Unions and WHS
3 Work stress
4 Manual tasks and body stressing
5 Managing WHS

INTRODUCTION

Earlier chapters emphasised the importance of economic security and psychological satisfaction to the effectiveness of employee work performance and productivity. Workers' needs for physical, psychological and emotional safety demand equal attention. The establishment and maintenance of a healthy and safe work environment for all workers and all occupations is not only desirable and required by Australian law and ILO conventions (see the opening quote), but also is a cost-effective means of supplementing more traditional human resource management (HRM) activities. Work health and safety (WHS) issues pervade almost all aspects of HR functions: job design; quality-of-work-life programs; recruitment, selection, training and development; performance management; and remuneration systems.

During the past few decades, health, safety and welfare issues have been a focus of legislation in all states and territories of Australia. The direct financial costs of work-related injuries and illness (both physical and psychological) are understood to be greatly exceeded by the indirect costs in terms of medical and hospital expenses, lost productivity, staff turnover, recruitment, retraining and replacement costs, damaged corporate reputation and worker morale, rehabilitation, workers' compensation payments, and retirement and superannuation entitlements. There are, of course, many other hidden costs, including the pain, anguish, depression and insecure futures experienced by individual workers and their families.

Recognition of the immensity of these costs to organisations and their workers, and the prospect of cost reductions through healthy and safe workplaces, have supplemented the external legislative requirements. Strategic approaches in WHS, as in other HRM areas, aim to ensure that health and safety issues are paramount in the minds and plans of employers and other persons conducting a business or undertaking (PCBUs), senior, line and HR managers (see **Figure 10.1**).

work health and safety (WHS)
A term for occupational health and safety in Australia, which includes a broad range of physical and psychological risks in all workplaces, and their management

rehabilitation
The process of assisting employees back to work safely, following accidents or injuries

FIGURE 10.1 A SHRM model for managing work health and safety
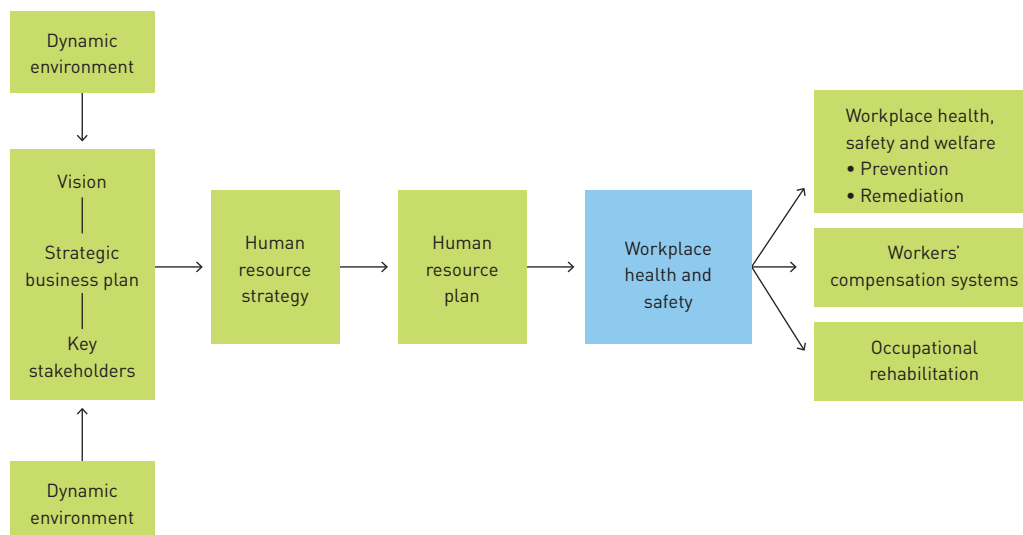
This chapter traces the development of WHS legislation and practice, with an emphasis on Australia, and analyses the perspectives of WHS specialists and the ever-growing variety of WHS issues. It also presents guidelines for the effective management of WHS issues, including the roles of senior and HR management.

THE EXTENT OF THE PROBLEM

Estimates of the numbers and costs of industrial injuries and diseases in Australia vary, due to differences in what is counted, and for what purposes. The most commonly quoted data come from national compilations of state, territory and federal government workers' compensation-based data. This data, however, does not include work-related injuries of people who do not claim workers' compensation, either because they are self-employed, contractors, casual, working in family businesses or fear that a claim may damage their prospects of continued employment. It also omits compensated fatalities and claims arising from a journey to or from work or during a recess, as well as work-related illnesses that arise many years after the work exposures that caused them and are seldom attributed to the workplace.

The Australian Bureau of Statistics (ABS) augments workers' compensation figures with data from a Multipurpose Household Survey, which collects information on injuries claimed under workers' compensation and also injuries *not* claimed under workers' compensation. To-and-from-work journey injuries and the aggravation of pre-existing conditions where employment was a contributing factor are also included. It still leaves out data on work-related illnesses never attributed to work, such as occupational cancers, which have been estimated to exceed known work injuries by a factor of 10. However, the latest available data (2013–14) reveal that approximately 650 000 WHS incidents are reported annually in Australia.[1]

Safe Work Australia is the Australian Government's national body responsible for developing WHS and workers' compensation. Its report, *Work-related traumatic injury fatalities, Australia, 2016*, notes that fatality rates have been decreasing and had halved since 2007. Nevertheless, on average each year in Australia, 20 workers die every month at work.[2]

There were almost 105 000 serious workers' compensation claims in the period 2015–16,[3] with the majority of these associated with (mainly male) labourers, machinery operators and drivers, and community and personal service workers in the agriculture, forestry and fishing industries; manufacturing; and construction industries.[4] Ninety per cent of serious claims were due to injury and musculoskeletal disorders, while most fatalities were caused by vehicle incidents, falling objects, falls from a height and moving objects.[5] It is likely that the occurrence of these incidents is similar (if not greater) in many other Asia Pacific countries.

Direct and indirect WHS costs include sick leave, medical costs and rising insurance premiums, lost productivity, replacement salaries, equipment downtime, lost potential output, loss of current and future earnings, adverse effects on teamwork and morale, and the cost of providing

Safe Work Australia (SWA)
The federal agency that brings together industry, unions and governments to jointly determine WHS standards and strategies

direct and indirect WHS costs
All costs incurred by workers, their families, employers and the community as the result of workplace accidents and injuries

social welfare programs for injured or incapacitated workers. Safe Work Australia has estimated that the total annual cost to the Australian economy amounts to more than $60 billion.[6] It also estimated that these costs were by no means shared equally between stakeholders. It was suggested that 77 per cent of the costs were borne by employees, with the community bearing 18 per cent and employers only 5 per cent.[7]

These costs include the physical and emotional suffering of the injured employees, their families and dependants; financial disruption; and often the severe damage to employees' self-esteem and future work capacities.

The range of potential work hazards, both physical and psychological, is increasingly broad, and encompasses the following.

- *Physical factors:* These include noise, vibration, excessive heat or cold and electro-physical agents. Vehicles, machinery, equipment and appliances, ultraviolet and ultrasound, X-ray and laser technology add to the potential risks in the workplace.
- *Chemical agents:* These include poisons, toxins, corrosive or irritant substances and sensitisers (allergy-causing chemicals). Exposure to hazardous chemicals is associated with a range of illnesses, including cancer and neurological effects.
- *Other hazardous substances:* These include lead, mercury, asbestos, coal, oil, petroleum and various kinds of dusts, such as sandstone dust.
- *Workplace organisation:* Unsafe systems of work, loading and manual handling procedures; speed, repetition and the supervision of work processes; and training and payment systems (especially reward/bonus schemes) can also contribute to increased worker risks.
- *Stress:* This is an increasingly common phenomenon related to many of the above factors and constant organisational change and often results in worker responses such as excessive drug or alcohol use and psychological reactions.
- *Violence, physical or psychological harm from work colleagues:* The extent of this WHS problem in the workplace is one of a series of pressures for changes in safety awareness and risk control measures, work reorganisation and rehabilitation throughout Australian industry.

WHS issues pervade all HRM activities, from job design through to recruitment and selection, training and employee development, remuneration and appraisal. Therefore, all HR managers and their staff need to be alert to current and future risk factors in their workplaces and must also participate in the development of effective WHS management programs.

However, unlike many other HR activities, the management of WHS will involve considerable participation and consultation from managers, unions, employees and government agencies. The nature of this involvement is discussed in detail later in this chapter, but usual HR roles in WHS include mediation between conflicting interests, policy and program development and coordination, the convening of consultative committees and assistance in the compilation of relevant WHS data, for both preventive and rehabilitative purposes.

Professional tip 10.1

Key HR roles and competencies

The most important roles and competencies for HR professionals with respect to the applications of the Australian Human Resource Institute's (AHRI) Model of Excellence (see Figure 1.2 in Chapter 1) to WHS are *business driven* and *ethical and credible activist*, but *culture and change leader*, *workforce and workplace designer*, and *stakeholder, mentor and coach* are also crucial components.

WHS and strategic HRM

Using WHS data (including financial costs, accidents, and absenteeism and compensation statistics) and specific WHS performance benchmarks as part of an integrated human resource information management system (HRIMS; see Chapter 4), HR specialists can adopt strategic interventions and use these as evidence of their contributions to business productivity and profitability (e.g. decreased costs and increased revenue).

Therefore, a strategic HRM approach to WHS would focus on the common causes and trends of work accidents and injuries, assess the associated human and financial costs, and develop appropriate risk management strategies and more effective administrative and rehabilitation programs. These initiatives would usually involve consultation with line managers, workplace committees, workers and their unions.

PERSPECTIVES OF WHS IN AUSTRALIA

WHS was referred to as occupational health and safety (OHS) until the advent of new Australian WHS legislation in 2012. The change of nomenclature reflects a broadening of concerns away from particular occupations towards more generic issues in all workplaces. Early developments in OHS awareness and prevention in Australia, like their precedents in the United Kingdom and United States, were largely due to the pressures of social reformers and the associated humanitarian movement in the late nineteenth century. Their concerns centred on the hazardous working conditions and increased risks associated with new manufacturing and mining industries and, in particular, the use of child labour. Governments were, in general, very reluctant to pass protective legislation, considering that OHS was essentially a management prerogative. Lack of regulation and the costs of protecting workers ensured that most managers paid scant attention to even the most obvious physical hazards until forced to do so by the growth in legislation as the twentieth century progressed.

Fuelling this increase in legislative activity was the growth of a number of professions with an interest in OHS. Toohey, Borthwick and Archer identified the overall issues that became central to the prevention of OHS problems as:

1   the correct perception of OHS issues and their causes
2   the determination of the appropriate methodologies to address them
3   adequate coverage of all occupations, industries and OHS issues.[8]

A variety of different professions began to express their interests in OHS issues during the 1970s and 1980s, each bringing their familiar perspectives and models of causes and solutions. With their multidisciplinary approach, WHS professionals are increasingly being recognised as strategic partners who facilitate the integration of WHS into the overall functioning of the organisation.[9] Legislative developments across Australia, especially in the decades since the 1980s, served to ensure their continuing interest in OHS issues, often as consultants to industry or governments.

The main professions to be involved in WHS in Australian industry include medical professionals, occupational epidemiologists, occupational hygienists, ergonomists, dangerous goods specialists, HSE (health, safety and environment) coordinators, trainers, industrial psychologists and industrial sociologists. Management, unions and the legal profession have a strong and direct interest in such issues. Each professional group represents a different perspective and is considered separately below.

Therefore, in coordinating and conciliating between workplace personnel and these varying perspectives to ensure the most cost-effective approach to a growing range of WHS issues, the task of the HR manager in WHS areas can be very complex.

WHS and the medical model

Medicine was not traditionally involved in workplace issues such as accidents and disease. However, due to the negative effects of the Industrial Revolution in both the United Kingdom and Australia, the medical profession began to be consulted by managers and government agencies searching for ways to prevent the growing organisational and human costs of workplace accidents and illnesses.

Medical specialists focused on the identification of the direct physiological effects of work on health. Aspects of working conditions such as the handling of toxic substances, the inhalation of dangerous dusts and the injuries caused by machinery preoccupied early occupational medicine practitioners. Links between certain workplace exposures and a variety of illnesses and other conditions had been noted for centuries, but more widespread recognition of such links (e.g. the association between asbestos dust and lung disease) was often delayed. The status of the medical profession and the services occupational physicians were able to offer employers meant that doctors gained pre-eminence in the hierarchy of OHS professionals. However, the dominance of the medical perspective tended to put the focus on the individual with the illness or injury and the recommended treatment, rather than the underlying workplace causes.

This so-called **medical model** has been challenged particularly by studies of workplace-related psychosocial hazards. Medical approaches were often seen to serve the company's interests rather than the interests of the workers. Some researchers have suggested that medical diagnoses tend to favour managerial perspectives of the 'accident-prone worker' or the 'malingerer' or, even worse, to engender employee feelings of patienthood,[10] with workers encouraged to feel that they are helpless victims of work-caused illness. This can foster
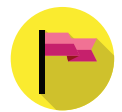
Emerging issue 1
The medical model and patienthood

medical model
The view of WHS held by doctors and paramedics that focuses on scientific diagnoses of the causes, effects and treatment of WHS, usually from an individual employee perspective

excessive worker dependency on medical specialists and lead to ongoing treatment rather than encouraging a rapid return to work duties or modification of the workplace causes of the problem. One WHS researcher concluded that 'turning (workers) into patients exposes them to a medical/legal game which few understand or escape from happily. If they are not labelled as sick patients, they risk being labelled as psychiatric patients or malingerers'.[11] Such concerns exist for problematic WHS issues, including stress, bullying and violence in the workplace, for which managerial solutions are often more appropriate than medical ones.

Occupational epidemiology

occupational epidemiology
Focuses on the broad incidence and causation of work-related illness or epidemics

Occupational epidemiology focuses on the broad incidence and causation of work-related illness and the effectiveness of various treatment options. Occupational epidemiologists use mass scientific studies to determine causal relationships between working conditions and occupational accidents and diseases. They may, for example, study the incidence and causation of WHS problems such as asbestosis, poisoning by hazardous chemicals, skin diseases or industrial deafness and then suggest ways of preventing their occurrence. Their practical effects have been to highlight various occupational exposures causing illness – for example, asbestos-related diseases and occupational cancers in general – and to provide scientific backup for policy-making aimed at preventing work-related disease.

Industrial psychology

industrial psychology
Explores the individual psychological aspects of WHS

The application of psychology to the workplace and to workplace accidents and diseases brought a different perspective to their causes and treatment, emphasising behavioural or attitudinal rather than simply physical approaches. Applications of industrial psychology include investigations of work-related psychosocial hazards. Rather than relating these symptoms purely to the physical nature of the work, industrial psychology takes the view that they may be caused partly by individual psychological reactions to stressful, boring or repetitive work processes. On the other hand, the introduction of new technologies such as artificial intelligence, robotics and machine learning may lead to different forms of psychosocial issues or stress caused by job replacement or significant job design and new skills development.

Industrial psychology has, however, been criticised for its over-concern with individual worker reactions to their work environments and for its categorisation of workers into accident prone or 'machismo' (macho) types. 'Macho' workers are those who fail to take protective measures against risks because they feel them to be unmanly. Other critics suggest that industrial psychology tends to blame the victim, focusing on the individual (mis)behaviour of workers rather than their work environments. As Quinlan has suggested, such approaches have often led to 'an undervaluing of the structural characteristics of the workplace, which may be conducive to ill-health'.[12] Some of these perceived deficiencies of the industrial psychology perspective have been addressed by the views of industrial sociology.

Industrial sociology

While recognising the contributions of medical and paramedical strategies to the resolution of WHS issues, sociologists have increasingly criticised their selective focus on individual and physical factors, to the neglect of the importance of structural elements in the workplace. Industrial sociology suggests that aspects such as lack of worker control in their work processes, production imperatives and associated reward (or bonus) systems are significant contributors to WHS accidents and disease.[13] As an example, occupational overuse syndrome (often referred to as carpal tunnel syndrome or repetitive strain injury) was typically reported by workers in semi-skilled occupations (manufacturing operations, word processing and secretarial positions) who had little control over workloads. They were often bound by productivity–based bonus systems, or their workload was determined by the speed of the conveyor belt at which they worked. Similarly, numerous research studies identify stress as a significant issue in manual rather than managerial positions, possibly due to employees' lack of autonomy or influence over their work processes. Other contributing factors include reward systems, work systems and hierarchical organisational structures, together with individual worker attributes.

The union movement has been favourable to this sociological perspective but has emphasised the consideration of many perspectives to resolve WHS issues. In recent decades, a more consultative approach between governments, unions and employers with respect to WHS has become the norm.

industrial sociology
Focuses on the structural and broader workplace social aspects of WHS

Ergonomics

Ergonomics is an applied science concerned with designing and arranging equipment, products, systems and processes so that people can use them most efficiently and safely. Also known as 'human factors', the application of ergonomics to workplaces aims to make equipment and work spaces comfortable and convenient for workers to use, while minimising unnecessary strain on the workers. By modifying the physical arrangements and conditions of the workplace, an ergonomic approach seeks to fit the job to the person. Robotic and artificial intelligence technologies promise to resolve some of these issues by eliminating some of the discomforts of such workplaces, but may also exacerbate WHS problems in the interface between humans and these new technologies (see **The future of work 10.1**).

Ergonomics focuses on the physical features of the work environment, such as workstations, work processes and machinery. A classic illustration of the need for ergonomic design referred to the layout and operation of controls in a certain type of crane, of which it was said that in order to use the controls comfortably and conveniently, the crane driver would need to be exceedingly short, but with arms one metre long and a neck at least half a metre long!

An example of the contribution of ergonomics to WHS is its approach to occupational overuse injury in the 1980s and 1990s. During that period, ergonomists were often employed to prevent its rising incidence by designing workstations to minimise the strain on workers

ergonomics
Focuses on fitting the job space and technology to the person so that work can be done more comfortably, conveniently, efficiently and safely

in occupations requiring repetitive, tiring or awkward movements or the maintenance of relatively fixed postures, such as telephonists or word-processing operators. More comfortable chairs, modified keyboards and hourly rest breaks were instituted to reduce the physical and postural strains on such workers.

Occupational hygiene

occupational hygiene
Focuses on assessing and controlling environmental hazards at workplaces and ways to address potential risks

Occupational hygiene is the art and science of anticipating, recognising, measuring, evaluating, communicating and controlling workplace environmental hazards. Occupational hygienists are typically called on to determine whether workers are exposed to hazardous levels of airborne contaminants or excessively loud noise, and to recommend ways of controlling the risks to health or hearing.

Occupational hygienists have the education and knowledge to use the specialised equipment necessary to collect and analyse samples of the air workers are breathing or evaluate workers' exposure to noise. They also have the specialised knowledge to advise on how to eliminate or minimise the risks presented by chemical, biological, radiation or noise hazards at work.

Occupational hygienists have contributed to the reduction of asbestos-caused diseases by measuring the concentration of airborne asbestos fibres to which some workers were exposed and advising on dust-suppression and safe working methods for workers handling, removing or disposing of asbestos-containing materials. With other potentially hazardous substances, hygienists can advise on whether the organisation is complying with national workplace exposure standards. They may also advise on methods of monitoring workplace conditions to ensure workers' continued safety; for example, the wearing of radiation measuring devices by radiotherapists and their assistants in hospital radiotherapy units.

Undoubtedly the impact of the Fourth Industrial Revolution on many workplaces will demand increasingly innovative responses from all these WHS disciplines, some of which are raised in **The future of work 10.1**.

The future of work 10.1

The future of work and WHS

One observer suggests that while there will likely be advantageous WHS outcomes from the implementation of artificial intelligence and robotic technologies, including a reduction in risks from manual handling and ergonomics, there are also potential challenges associated with workers' emotional reactions and future workplace stress. He points to the 'remake' of existing jobs and the destruction of many of them, leading to 'the threat of increased polarisation between the "winners" and the "losers" of the digital economy'.

As more workers are forced to work with and alongside robotic 'colleagues', there is likely to be 'a reversal between the role of the human worker and that of the machine'. Advances in ergonomics and the replacement of human expertise by artificial intelligence, he argues, bring

with them 'major consequences for employees' identity in the workplace as well as for human resources management'. In addition, 'new employee-monitoring systems' (radio-frequency identification tags, IP cameras, software programs) will reduce worker autonomy and decision making, leading to less satisfying work roles. As an example, the observer cites delivery drivers and technicians, who 'are now trackable via their satnavs and other composite mobile devices, so that a continuous check can be kept on their routes, their stops, their detours'. As a consequence, workers may lose pride and dignity in their jobs, and experience reduced job satisfaction and a diminution of trust in the employment relationship. Fertile ground for industrial psychologists, industrial sociologists, HRM professionals, unions and line managers!

Source: Adapted from Degryse, C. (2016), Here are the new social risks of the Fourth Industrial Revolution. *Social Europe*, http://www.socialeurope.eu/here-are-the-new-social-risks-of-the-fourth-industrial-revolution.

The legal profession and WHS

The growth in WHS issues has increasingly concerned lawyers and insurance agents, especially in the settlement of workers' compensation claims. Frequent disputes have ended up in the federal and state courts, resulting in payments to ill or injured workers or decisions in favour of employers.

The legal profession has a vested interest in WHS issues and there are numerous examples of costly litigation as the result of employer negligence or employers' failure to provide healthy and safe workplaces. Legal action has increased since the passing of more comprehensive legislation in most Australian states and territories since the 1980s. Arguments and counter-arguments include reference to medical, ergonomic, occupational hygiene, industrial psychology or sociological perspectives and may reflect managerial or union interests. The courts become mediators or arbitrators between the opposing interests and differing perspectives of the various parties. For example, if two medical practitioners have expressed different opinions about the degree to which a work injury resulted from a pre-existing condition, the court may need to decide which opinion has the most credibility. Legal proceedings are often very costly to employers, workers or both.

Union approaches

With a growth in education and awareness of WHS issues, from the 1970s unions and their national representative body, the Australian Council of Trade Unions (ACTU), began to show more interest, and growing knowledge, in the area (see Chapter 3). The Accord struck between the ACTU and federal government in 1983 restricted the wage and salary bargaining activities of unions, providing an opportunity for them to branch out into other areas of workers' conditions, including health, safety and welfare.

In 1983, the ACTU produced a comprehensive OHS policy and established a combined ACTU and Victorian Trades Hall Council Health and Safety Research Unit. Subsequently, most states developed or enhanced their own OHS services, including information and training

units. Some individual unions, notably the Australian Metal Workers' Union, also established OHS project groups or task forces.

In the twenty-first century, with the significant restructuring of many Australian industry sectors, the impacts of new technology, and the growth in individual employment contracts, unions and the ACTU have heightened their awareness of, and responses to, the changing WHS issues in the workplace. The ACTU, for example, developed its National OHS Strategy 2002–2012, which focused on 'national action to address contemporary hazards such as work-related stress, dangerous working hours, violence and bullying; (the) health and safety impacts of labour market changes, such as casual and contract work; and (the) prevention of occupational diseases, such as cancer, heart and respiratory diseases'.[14] The strategy supported the use of regulation and enforcement for breaches of the legislation, including criminal sanctions, public exposure and even lobbying for occupational manslaughter provisions for employers that breach the legislation.

Emerging issue 2
Unions and WHS

Following the Rudd and Gillard Governments' *Fair Work Act 2009* principles, the ACTU adopted its Vision 2005–2015, which took a considerably broader approach, arguing for policies and systems that 'support employers, employees and all those in the supply chain to develop cultures and attitudes, and accept responsibilities, that achieve safer places of work and safer methods of working so that Australian workplaces are free from death, injury and disease'.[15] It participated in the government's review panel, which was designed to harmonise the former state and federal OHS laws towards standard national WHS legislation, using its Health, Safety, Compensation and Rehabilitation Union Charter of Workplace Rights. The WHS principles agreed between governments, industry and the ACTU, and included in the *Australian Work Health and Safety Strategy 2012–2022*, are outlined in **HRM in practice 10.1**. Its expected outcomes include 'significant and sustained' reductions in workers' deaths and injuries; associated cuts in 'human and economic costs'; 'reasonable, balanced, and practical' WHS regulations; and 'safer communities'.

HRM in practice 10.1

Australian Work Health and Safety Strategy 2012–2022

The *Australian Work Health and Safety Strategy 2012–2022* has seven national action areas:
1   healthy and safe by design
2   supply chains and networks
3   health and safety capabilities
4   leadership and culture
5   research and evaluation
6   government
7   responsive and effective regulatory frameworks.

These action areas were chosen for the following reasons:

1   Prevention activities should be directed to where there is the greatest potential for reducing harm. Hazards and risks are most effectively controlled at the source. Prevention efforts should focus on eliminating or minimising exposure to serious hazards and risks and progressively improving controls. If elimination is not practical, then risks need to be minimised according to the hierarchy of control.

2   Where a hazard exists but the level of risk is not certain, the risk should be assumed to be high and managed accordingly until the actual level of risk is known. Creating healthy and safe work requires that jobs and tasks be designed to accommodate the abilities, diversity and vulnerabilities of workers, including those returning to work following injury or illness.

3   Continued improvement in work health and safety requires ongoing collaboration and cooperation between all parties. Workers have the right to be genuinely consulted in all matters relating to their work health and safety. Organisation leaders influence work health and safety through their management, education and procurement practices. Work health and safety improvements are best achieved when health and safety is supported by the organisation's culture and embedded in its procedures and processes. The community and its leaders can influence attitudes and cultural norms.

4   All parties with a role in work health and safety require appropriate knowledge and skills. Work health and safety policy and practice should be informed by evidence. Governments can strongly influence work health and safety. The regulatory framework needs to be flexible, responsive and adaptive to the changing nature of work and work circumstances.

Source: Safe Work Australia (SWA) (2015), *Australian work health and safety strategy 2012–2022: Healthy, safe and productive working lives*. Canberra: SWA, p. 8. Licensed under CC BY 3.0 AU.

Work health and safety, and HRM

WHS has a very broad scope. Workplace parties, including the employer or other person conducting a business or undertaking (PCBU – see 'The national WHS legislation' later in the chapter), 'officers' of the PCBU, employees, contractors and other workers all have a role to play. In addition, designers of workplaces, equipment, chemicals and processes, and manufacturers, suppliers, importers and installers of equipment or substances for use at work all have primary duties under the law.

The pursuit of working conditions that are safe and without risks to health may also involve a diverse group of specialists, with varying perspectives, interests and objectives. Federal and state legislation has effectively emphasised the importance of WHS issues to the overall employment relationship. More than any other area of SHRM, WHS requires substantial involvement from workers and their unions, supervisors and middle and senior management. This is not only legally required, especially where workplace consultative committees exist, but it is also because WHS issues pervade all other SHRM activities. Job and work design systems involve WHS considerations; recruitment, training and performance management programs will encompass WHS aspects such as workers' physical capabilities and general health status, previous levels of exposure to toxic substances, or stress factors. HR managers

will usually be involved in WHS issues, as strategic, operational and administrative functions are required, in consultation with workplace committees, unions, managers and the broad range of experts described earlier.

At the strategic level, HR managers need to keep abreast of current WHS issues, legislation and strategies, analysing trends or accident rates and workers' compensation costs, and projecting the impact of the introduction of new technology or new work processes on workers' health and safety. In consultation with workplace committees, unions and managers, HR managers may modify existing WHS policies or develop new policy directions.

At the operational level, HR managers may chair workplace committees (such as health and safety committees) or advise on procedures required to prevent accidents or injuries. They may also support supervisors and line managers in workplace redesign, provide safety awareness training or promotion campaigns or advise on the relevant WHS consultants to resolve particular issues. Administratively, HR departments may coordinate the collection of statistics on accident rates and work-related diseases or provide secretarial support to workplace committees.

THE HARMONISATION OF WHS LAW IN AUSTRALIA

Common law established that employers have a duty of care for their workers. In addition to common law, Australian industry has been subject to a wide range of prescriptive Acts of Parliament and regulations made under the Acts concerning specific occupational risks and hazards. This is known as statute law, and because WHS legislation and its administration are the responsibility of governments at the state/territory level, each Act and its associated regulations applied only to businesses operating in that jurisdiction. This situation meant there was a great deal of variation between requirements in the various states and territories, making it hard for businesses operating across state/territory boundaries to adhere to requirements. It also created difficulties for workers moving interstate; for example, a crane driver's certificate valid in Victoria was not valid in New South Wales, and vice versa.

Another problem with health and safety laws throughout the twentieth century was that they were fragmented; that is, they commonly applied only to a specific sector of industry. For example, the *Factories, Shops and Industries Act 1962* (NSW) tried (albeit inadequately) to limit manual handling injuries for women and juniors in factories and shops by prohibiting them from lifting loads over 16 kg, but nurses in hospitals and workers in child care centres received no such 'protection', as the legislation did not cover them. Furthermore, the law had nothing to say about the many other factors (apart from the weight of loads) involved in causing back injuries. Similarly, a worker needed a qualification/authorisation to drive a forklift above ground, but no such qualification to drive a forklift in a mine. There were laws to protect workers from the *safety* risks of dangerous goods, but no protection from the *health* risks of developing diseases such as cancer from exposure to carcinogens, and so on.

The national **model work health and safety (WHS) Act** was developed with the intention of rationalisation (or **harmonisination**) of the earlier federal and state laws. The model WHS laws have now been adopted in all Australian states and territories except Victoria and Western Australia, although Western Australia is expected to adopt its own version of the model WHS laws in 2019. The model WHS legislation is supported by model codes of practice, which provide practical guidance on how to meet the various legislative responsibilities.

Concern with workers' health and safety has generally had three broad thrusts:

1 *prevention*, to safeguard workers from real, or potential, health and safety risks
2 *compensation*, to provide injured workers with specified levels of monetary compensation
3 *rehabilitation*, to assist the safe return to work of injured workers.

Table 10.1 illustrates the diverse legislation on WHS and workers' compensation in the various Australian jurisdictions.

model Work Health and Safety (WHS) Act
The model which serves as the basis for WHS laws in the Commonwealth jurisdiction and in most Australian states and territories

harmonisation
The attempt to ensure consistency in WHS laws between Australian states and territories

TABLE 10.1 WHS, injury management and workers' compensation laws in Australia

JURISDICTION	LEGISLATION
Commonwealth/federal	• *Work Health and Safety Act 2011* (and Regulations 2011) • *Occupational Health and Safety (Maritime Industry) Act 1993* (and Regulations 1995) • *Safety, Rehabilitation and Compensation Act 1988* (and Regulations 2002) • *Seafarers Rehabilitation and Compensation Act 1992* (and Regulations 1993)
Australian Capital Territory	• *Work Health and Safety Act 2011* (and Regulation 2011) • *Workers Compensation Act 1951* (and Regulation 2002)
New South Wales	• *Work Health and Safety Act 2011* (and Regulation 2017) • *Workers Compensation Act 1987* (and Regulation 2016) • *Workplace Injury Management and Workers Compensation Act 1998* (and Workers Compensation Commission Rules 2011)
Northern Territory	• *Work Health and Safety (National Uniform Legislation) Act* (and Regulations) • *Return to Work Act* (and Regulations)
Queensland	• *Work Health and Safety Act 2011* (and Regulation 2011) • *Workers' Compensation and Rehabilitation Act 2003* (and Regulation 2014)
South Australia	• *Work Health and Safety Act 2012* (and Regulations 2012) • *Return to Work Act 2014* (and Regulations 2015)
Tasmania	• *Work Health and Safety Act 2012* (and Regulations 2012) • *Workers Rehabilitation and Compensation Act 1988* (and Regulations 2011)
Victoria	• *Occupational Health and Safety Act 2004* (and Regulations 2017) • *Accident Compensation (Occupational Health and Safety) Act 1996* • *Workplace Injury Rehabilitation and Compensation Act 2013* (and Regulations 2014) • *Workers Compensation Act 1958* (and Regulations 1995) • *Dangerous Goods Act 1985*
Western Australia	• *Occupational Health and Safety Act 1984* (and Regulations 1996) • *Workers Compensation and Injury Management Act 1981* (and Amendment Regulations 2005) • *Workers Compensation and Rehabilitation Act 1981* (and Regulations 1982)

While health and safety laws are intended to prevent work injury and illness, in practice worker protection has been limited, especially in smaller businesses.

Historical developments

During the 1970s, growing costs associated with lost-time accidents and workers' compensation payments prompted criticism of existing OHS legislation. Specific criticisms included the following:[16]

- The legislation did not cover all workers or hazards in the workplace.
- Risk standards were frequently inconsistent and multiple Acts applied within each workplace.
- Enforcement of the Acts was conducted by several government agencies, usually with severely limited resources.
- Established standards generally represented only the minimum requirements and differed from state to state.
- No systematic reviews occurred and updating of the legislation was largely *ad hoc*.

Accordingly, unions, managers, OHS specialists and both federal and state/territory governments were receptive to the findings of overseas authorities grappling with similar issues. In particular, the Robens Inquiry of 1972 in the United Kingdom, and the *Occupational Safety and Health Act* (OSHA) in the United States in 1970, attracted considerable interest, eventually leading to legislation similar to that of the United Kingdom in most Australian states during the 1970s and 1980s.

Preventive OHS legislation

In the 1970s, Lord Robens and the British Committee on Safety and Health at Work examined existing OHS law in the United Kingdom and concluded that – like the Australian OHS laws of the time – the law was far too fragmented, had a paternalistic or punitive focus, and had largely failed to reduce accidents and injuries at work. He also concluded that OHS was not simply a legal or employer responsibility but should also involve employees and their unions. Some critics of Robens suggest that he placed too little emphasis on the enforcement provisions of the legislation, preferring employer self-regulation.[17] In contrast, the United States' OSHA consciously developed mandatory health and safety standards, workplace inspection procedures and penalty systems.

In the Australian states and territories, the explosion of OHS legislation in the 1970s and 1980s focused on the establishment of unified systems to cover a broader range of physical and psychological work risks. The concept of occupational wellbeing and the inclusion of employee welfare in at least some states signified a more preventive approach to OHS issues. As an example, the Williams Report (1981), which established the NSW legislation, defines

OHS as 'the protection and maintenance of the highest degree of physical, mental and social wellbeing of workers in all occupations'.[18] Deves suggests that the legislation provided 'the opportunity to replace a fragmented and out-dated regulatory system that emerged from the social conscience of the previous century with a more positive and comprehensive legal framework that reflected contemporary social policies, and which conformed broadly to international conventions'.[19]

Most Australian legislation followed the Robens and Williams approaches to the enforcement of OHS legislation (i.e. self-regulation, cautions preferred to punishment), rather than the stricter United States (OSHA) provisions. As discussed earlier, this perspective has been maintained by subsequent Australian governments,[20] despite the more aggressive position generally adopted by the ACTU. Some commentators have criticised the under-resourcing of some OHS inspectorates, and the perceived reliance in some jurisdictions on informal sanctions (e.g. improvement and prohibition notices, injunctions, licence suspensions or adverse publicity), rather than more stringent action for negligent employers.[21] Stronger organisational sanctions (e.g. cash fines, internal discipline orders, corporate probation, community service orders or criminal convictions) were not necessarily invoked.[22] However, since 2012 and the advent of WHS legislation, maximum financial penalties have increased dramatically and a range of alternative sanctions are now commonly used, including enforceable undertakings, court orders to devise solutions and share them with others in the same industry sector, and even imprisonment. Queensland and the Australian Capital Territory have now incorporated industrial manslaughter provisions in their WHS laws, with some other states likely to follow. Unions have also expressed support for amendments to WHS legislation to include new offences of industrial manslaughter against negligent employers and their senior managers.[23]

As well as state/territory legislation to deal with operational OHS issues and regular inspections, the Australian Government established the National OHS Commission (NOHSC) in 1985, as a tripartite policy review body. It was replaced by the Australian Safety and Compensation Council and subsequently by Safe Work Australia, which includes representatives from the Confederation of Australian Industry (CAI), the ACTU, and all state and territory governments. Its functions include setting advisory national WHS standards, developing national strategies and providing research, education, training and statistical support. The National OHS Strategies, which it develops periodically, aim to reduce the incidence of workplace injuries and fatalities.[24] It also was intended to develop 'greater national consistency for OHS and workers' compensation'.[25]

More recently, the Australian Government reviewed all federal and state OHS legislation and subsequently established a harmonised national WHS model, as discussed earlier and in more detail below.

The national WHS legislation

While the purpose of the national model WHS legislation was to create a consistent, efficient, 'fair and balanced' legal framework across all Australian states and territories,[26] the quest for national uniformity in WHS laws has not been entirely successful. Even apart from the fact that Victoria has declined to adopt the model WHS legislation, some variation even exists between requirements in those jurisdictions with WHS laws. However, there is now a much higher degree of consistency in health and safety laws across Australia than at any previous time.

All state and territory (and Commonwealth) WHS legislation contains the following components:

persons conducting a business or undertaking (PCBUs)
The inclusive legal term for employers, companies, partners in partnerships, unincorporated bodies and associations, sole traders, contractors, subcontractors and franchisees

1 *Categories of duty holders:* Instead of referring to 'employers' and 'employees', WHS laws use the terminology '**persons conducting a business or undertaking (PCBUs)**' and 'workers'. These terms are more broadly defined in order to capture all types of modern working arrangements. A 'person' (in 'PCBU') may be an organisation or an individual. The term 'PCBU' includes companies, self-employed people, franchisees, partnerships, unincorporated bodies and associations. Contractors and subcontractors may also be PCBUs in relation to their employees, or as sole traders. The term 'worker' includes all types of workers (e.g. contractors, subcontractors, employees of contractors, employees of labour-hire firms, outworkers, apprentices, trainees, work experience students and volunteers).[27]

2 *PCBU duties:* The duties of PCBUs are defined as what is reasonably practicable to assure the health and safety of their workers. PCBUs must eliminate health and safety risks to workers and others as far as is reasonably practicable, or if eliminating the risks is not reasonably practicable, they must minimise the risks in accordance with the hierarchy of risk control. This hierarchy requires the more effective risk control strategies (such as engineering changes, substitution or isolation) to be used if practicable, in preference to administrative and behavioural risk controls, with the use of personal protective equipment only as a last resort.

3 *Duties of 'officers' of the PCBU:* Under the legislation, an officer of the PCBU has a positive duty to exercise due diligence in ensuring that the PCBU complies with its health and safety responsibilities. An 'officer' is a person who makes decisions, or participates in making decisions, that affect the whole, or a substantial part of the business or undertaking. Due diligence includes taking reasonable steps to keep up-to-date with knowledge of WHS and business risks, appropriate resource allocation, WHS reporting and the provision of compliance and verification processes.

4 *Duties of parties in the supply chains of plant and chemicals:* All parties in the supply chains of hazardous chemicals and plant (machinery, equipment and structures) – including designers; manufacturers; importers; suppliers; installers; and people erecting, commissioning and decommissioning plant – must take specified steps to

ensure workers and other users of the plant and chemicals are not exposed to health and safety risks by using the plant or chemicals at a workplace.

5 *PCBUs' duty to consult workers and others:* PCBUs must consult with workers who are (or are likely to be) affected by a health and safety matter. The WHS Act sets out the nature of the consultation, and when it is required. PCBUs must also consult, cooperate and coordinate with others who have duties in relation to the same health and safety matters.

6 *Prohibition of discriminatory conduct:* PCBUs and others must not engage in discriminatory or unfavourable conduct towards a person for a 'prohibited reason', such as raising a health and safety concern.

7 *Rules for worker and union participation:* Under the legislation, union officials who hold WHS entry permits may enter workplaces without notice for specified purposes, and they must comply with all WHS requirements. Health and safety representatives (HSRs) who have had the requisite training are permitted to direct unsafe work practices to cease and can issue PINs (personal improvement notices).

8 *Penalties:* The maximum financial penalty for corporations is $3 million, and for individuals (including managers) it is $300 000 and/or five years' imprisonment. Other penalties include court orders and enforceable undertakings.

Clearly, HR professionals are likely to be involved in associated functions such as education and training, consultation, advice, record-keeping and system evaluation processes.[28]

Workers' compensation and rehabilitation legislation

In the first two decades after Federation in 1901, most Australian states established some form of legislation to compensate workers injured at work. This legislation generally had little relationship to other safety law and was primarily concerned with providing 'a specified array of hospital and medical expenses associated with their injury, as well as specified weekly payments in lieu of wages lost as a result of absence from work'.[29] Additional so-called lists of 'maims' provided lump-sum payments for permanent, total or partial incapacity.

Flaws in workers' compensation systems

Over time, workers' compensation systems exhibited serious flaws, which began to be recognised by management, unions and governments during the 1960s and 1970s. Not only was there a distinct lack of national coordination of systems but the costs of both payments and premiums were escalating; claimants frequently experienced delays in the determination of their claims; not all workers were covered; and accident claims tended to be viewed more favourably than those for occupational disease. Differences also existed between states in such areas as eligibility (e.g. casuals and domestic workers were not always included), entitlements, definitions (e.g. disease, injury) and insurance providers (e.g. public or private).[30] Furthermore, there appeared to be little incentive for the rehabilitation of injured workers, or even the prevention of identifiable risks.

workers' compensation
The legal and administrative system that provides financial compensation for employee accidents, injuries or fatalities

Revised legislation

During the 1980s, most Australian states began to modify their workers' compensation legislation to ensure more cost-effective, integrated and comprehensive compensation systems. Victoria passed Accident Compensation legislation in 1985, which, among other things, established the Victorian Accident Rehabilitation Council (VARC), setting up a 'network of government and licensed private rehabilitation centres'.[31] South Australia, in its *Workers' Rehabilitation and Compensation Act 1986* (subsequently repealed and replaced by the *Return to Work Act 2014*), established a Workers' Rehabilitation Advisory Unit, and New South Wales passed its own *Workers' Compensation Act 1987*. New Zealand followed later with the *Accident Rehabilitation Compensation Insurance Act 1992*. The Australian Government's Safety, Rehabilitation, and Compensation Commission (SRCC) regulates all federal authorities that determine workers' compensation claims, including **Comcare** (an 'integrated safety, rehabilitation and compensation system').[32]

This legislation generally included changes in the structuring of benefits (emphases on weekly payments and reductions or the removal of lump-sum payments); insurance providers (e.g. government insurance office monopolies or primarily privatised); and improved administration systems (streamlining of claims, reduction of cost structures). Most state legislation also introduced procedures to eliminate false compensation claims and aimed to more closely integrate workers' compensation, rehabilitation and overall WHS preventive systems.

Comcare
An Australian Government agency that works in partnership with employees and employers to reduce the human and financial costs of workplace injuries and disease in the Commonwealth jurisdiction

Ethics and codes of practice

Some of the specialists involved in workers' compensation procedures simultaneously developed statements of professional ethics to ensure more effective and humane rehabilitation systems. An example of this is the code of the Australasian Faculty of Rehabilitation Medicine, which says that rehabilitation should be:

1 *industry based*, with employers undertaking a critical role in supporting recovery, adjustment and resettlement back on the job
2 *function oriented*, so that the physical, psychological and vocational impairment can be minimised
3 *based on early intervention*, which enhances the chances of success and maximises cost-effectiveness
4 *multidisciplinary*, involving the best profession or person for providing a specific service or making a relevant decision
5 *based on a shared responsibility*, of all stakeholders (workers, employers, the compensation agency, professionals).[33]

It is perhaps worth noting that these points reflect the broad principles associated with the legislation. It also acknowledges the involvement of another series of vested interests in WHS − that of the rehabilitation and insurance providers. From an HR perspective, all

of these interest groups need to be consulted, coordinated and monitored to ensure cost-effective approaches to prevention, rehabilitation and compensation.

Recent statistics on workers' compensation in Australia reveal that there were nearly 106 260 serious claims between 2016–17 (median compensation $11 500), with 62 per cent from male employees and 38 per cent from females, and older workers more likely to make a serious claim, particularly those aged between 45 and 54. The industries most affected were agriculture, forestry and fishing, construction and manufacturing sectors.[34] Body stress (38%); falls, trips and slips (24%); and hits by moving objects (16%) were reported as the main reasons for workers' compensation claims.[35] In recent years, federal and state/territory governments have attempted to reduce the immense costs associated with workers' compensation claims in a complementary way, through the National Disability Insurance Scheme (NDIS) covering both genetic and workplace-related disabilities.

The growth of global business, which entails frequent domestic or international travel, may lead to even greater insurance and workers' compensation risks and spiralling premiums. Transportation accidents, tropical diseases, deep vein thrombosis (DVT), travel fatigue, civil unrest and even terrorist events are but a few of the increased threats to frequent business travellers (see 'Emerging issue 3' later in this chapter).[36]

Strategic approaches

Strategic approaches for reducing the incidence of workplace injury and illness may include the redesign of work processes, the implementation of new technology for manual handling or more effective safety training programs. WHS and workers' compensation provide astute HR managers with significant opportunities to demonstrate their contributions to organisational success, by directly reducing costs (e.g. equipment downtime, compensation payments and replacement costs), through more careful WHS management. More efficient rehabilitation programs, which help injured employees return to work as quickly as is medically safe for them, serve both worker and organisational interests. Roberts-Yates suggests that:

> effective risk management, early intervention, a commitment by the injured worker to return to work, a non-adversarial context and competent injury/rehabilitation management at the worksite are critical factors to an early return to work. Clear communication and a rigorous quality service performance by the medical and vocational providers are seen by employers and human resource management as influencing successful rehabilitation and successful return-to-work outcomes.[37]

CREATING A SAFE, HEALTHY AND ETHICAL WORK ENVIRONMENT

While the success of a WHS program depends largely on top management, line managers, supervisors, union representatives and employees themselves, HR professionals can be involved in strategic, operational, coordinating and administrative roles that support all their activities. These roles will necessarily differ from organisation to organisation and change over time. However, HR professionals may aggregate data on the causes, impact and adverse effects of WHS issues on organisational productivity (including aggregated big data from internal and external sources), in order to persuade senior managers to focus on effective preventative or remedial measures. They may design appropriate WHS training programs for workers or they may implement sound risk management and evaluation processes in consultation with managers, supervisors, health and safety representatives, union representatives and other stakeholders. HR professionals are also often seen as the guardians of organisational ethics and associated codes of conduct (see Chapter 1) in WHS as well as in other HR issues. The 'Ethical challenge' at the end of this chapter illustrates a recurring WHS problem in relation to which both senior management and HR professionals may be in a position to influence the outcome.

We now examine some specific WHS issues: accidents, stress, international travel, bullying, shift work, manual handling and body stressing, drug and alcohol management, and employee personal problems. This is followed by discussion of relevant management and SHRM responses.

Issue 1: Workplace accidents

As with other WHS issues, information on the extent and costs of accidents to Australian industry and society is imprecise because of the large numbers of work accidents and injuries that are never recorded in the data (e.g. as they do not result in claims for compensation) and, often, a failure to record indirect costs. The major problem in reducing the impact of accidents is to identify their causes and to build in suitable preventative processes. Accidents generally occur as the result of unsafe systems of work, lack of effective training, a workplace culture that does not prioritise safety, lack of machine guards and a failure to identify or manage risks, as well as unsafe acts or unsafe conditions. The most common accidents in industry occur as the result of hazardous manual handling; being struck by moving objects; unsafe use of machinery or tools; and casual slips and falls.

workplace accidents
Any event or incident in the workplace that causes, or could have caused, injury to a worker or other person

Not surprisingly, the greatest incidence of **workplace accidents** resulting in death or serious injury occurs in industries that use heavy machinery (e.g. construction, manufacturing and agriculture) or involve inherently dangerous work systems (e.g. transport and construction). As discussed earlier in this chapter, SWA reported in 2018 that the agriculture, forestry and fishing, transport and storage, and manufacturing and construction sectors recorded the highest number of work-related fatalities and injuries.[38] Deaths were related to vehicle accidents, long-term contact with hazardous substances, and being hit by moving or falling objects.

With most incidents, the causes tend to involve both immediate and longer-term factors. Incident investigations need, therefore, to examine the whole range of potential, and actual, contributing factors.

It is evident that simple explanations for the causes of workplace incidents are inadequate. Multi-factor analyses of the causes and multiple strategies for the prevention of future risks are required. Administrative actions might include collection of data on 'near misses', monitoring of injury data from other workplaces in the same industry (e.g. from compilations of workers' compensation statistics), accident trend analyses, changes in shifts and rosters, and more regular maintenance and monitoring procedures. Engineering approaches could involve workstation redesign, environmental programs or modifications to machinery or work processes.

As suggested above, the trend towards the outsourcing of many non-core organisational functions has often involved WHS issues.

Some authors suggest that accidents are usually caused by the natural degradation of one or more components of organisational systems – that is, HR technology, the physical environment or process management – and that, accordingly, the prevention of likely risks is enhanced by the regular and routine maintenance of all components.[39] In the case of HR, this means giving attention to procedural training, routine monitoring and effective safety rewards systems. Lin and Mills suggest that the major factors in accidents in the construction industry include a lack of safety training, company size and the effects of competitive tendering.[40] They found that smaller companies are more accident prone due to their tight profit margins, are perhaps less likely to rigorously monitor safety risks, and that self-employed building contractors are 'more than twice as likely to be killed at work'.[41] The Royal Commission into the Building and Construction Industry (Cole Royal Commission; 2001–03) concluded that there was a need for a significant change to workplace cultures and safety behaviours, recommending a more integrated national WHS and workers' compensation system.[42]

As **HRM in practice 10.2** shows, a strategic approach is required in order to effectively manage health and safety risks and prevent workplace injuries and accidents.

HRM in practice 10.2

Injury prevention and management at Gay's Construction

Workplace Health and Safety Queensland (WHSQ) has developed an Injury Prevention and Management (IPaM) program which encourages collaboration between government and industry to develop better work health, safety and injury management systems. As one example of its activities, WHSQ is working with Gay Constructions Pty Ltd, a Brisbane steel manufacturer. The company had already decided to aim to be a world-class manufacturing business. This involved attitudinal changes and associated changes in the company in a bid to improve production, quality and safety.
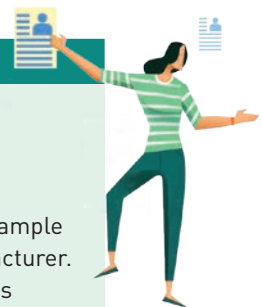
> Their partnership with WHSQ through IPaM has resulted in significant safety and injury management improvements, including:
> 1   improved staff productivity
> 2   more clients attracted by Gay's accredited safety system and safety record
> 3   eighty per cent reduction in workers' compensation claims
> 4   reduced Lost Time Injury rate.
>
> These significant improvements resulted from their partnership with an IPaM advisor and a subsequent action plan which:
> 1   identified and measured positive safety criteria
> 2   enhanced the incident investigative process
> 3   included greater worker consultation, ongoing safety training and controls on job risks.
>
> Source: Safe Work Australia (2015), *Management commitment: The key to safety and business improvement*, http://www.safeworkaustralia.gov.au/sites/swa/australian-strategy/case-studies/pages/key-to-safety, June. Safe Work Australia © Commonwealth of Australia 2014. Licensed under CC BY 3.0 AU.

There are a number of important activities that all organisations need to undertake in order to cost-effectively reduce accidents at work. These include the provision of:

1   safety policies (not a legal requirement, but can help establish organisational commitment)
2   a WHS specialist function, either as part of the HR department or integrated with an environmental management function, or within a strong health and safety committee
3   safety awareness, prevention and training programs for all workers and their supervisors
4   effective first aid, return-to-work and workers' compensation procedures
5   an emergency plan, fire and emergency drills, and suitable safety equipment
6   safety incentive and prevention schemes
7   effective mechanisms for incident investigation and the ongoing analysis of accident and injury statistics.

It is clear that HR practitioners have a role to play in policy development, incident investigation and analysis, safety training, compensation and safety promotion schemes. The need for WHS and current workers' compensation policies, and the roles of WHS coordinators, and health and safety representatives and committees, have already been discussed.

Issue 2: Work stress

work stress
Workers' emotional or psychological reactions to any workplace stressors

Work stress has become a significant WHS issue in Australian organisations in recent years due to increased pressures on workers, legal precedents and a series of research studies examining its causes, symptoms and effects. One study of Australian workers suggests that a quarter of the Australian respondents reported moderate to severe stress levels, with younger people more affected than their older counterparts, and approximately 20 per cent had mental health issues. More than 40 per cent of those workers feeling stressed felt that workplace problems had caused their stress, although financial and family issues were also perceived as important factors.[43]

Macro issues such as organisational restructuring, downsizing and overall change strategies appear to be increasing workers' perceptions of stress. Micro issues include high job demands, low job control, poor supervisor or co-worker support, low job security or an absence of procedural justice.[44] All Australian WHS legislation specifically includes 'psychological health' in the definition of 'health'.[45]

There is no clear or universally agreed definition of stress. Most definitions focus on either the stimulus (cause), the response (symptoms), the individual worker or their environment.

Hans Selye uses two separate terms to distinguish between the positive and negative effects of stress on the individual, even though bodily reactions to the two forms of stress are similar.[46] *Eustress* is positive stress that accompanies achievement and exhilaration; it is also the stress of meeting challenges such as those found in a managerial job or physical activity. *Distress* is when we feel insecure, inadequate, helpless or desperate as the result of too much, or too little, pressure or tension. Selye's stress and job performance model shown in **Figure 10.2** applies this theory to job performance, suggesting that optimum stress (or eustress) may be achieved at work and reflected in job performance when jobs provide adequate challenges, but not too little or too much pressure.
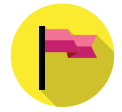
Emerging issue 3
Work stress

FIGURE 10.2 Stress and job performance model
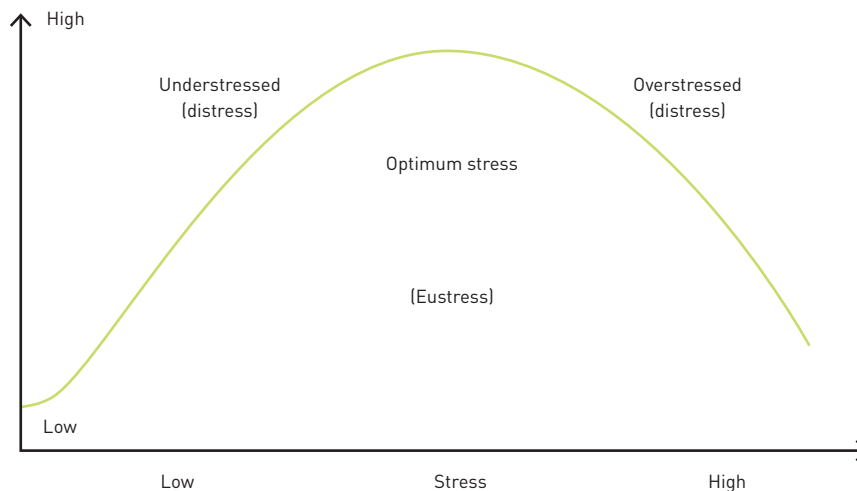
Source: Adapted from Selye, H. (1974), *Stress without distress*. Philadelphia, PA: Signet Books.

Research from http://health.com revealed the worst and best jobs according to their health impact. The worst included firefighters, police officers, manual labourers, health care shift workers, desk jockeys, lawyers, retail employees, enlisted soldiers and transportation workers, with various causes including danger, high stress, long hours, sleep deprivation, sleep disorders and poor nutrition. The best jobs were those of fitness instructor, software engineer, florist, insurance worker, government employee and administrative assistant.[47] It is likely that Australian police, fire and ambulance services will have similar challenges.

Medical, psychological, union and legal perspectives disagree about the definitions of stress, and the links between stress and work factors, and stress and disease – especially high blood pressure and heart disease. Research studies are inconclusive in these areas, permitting frequent litigation in workers' compensation arenas.

Figure 10.3 indicates the range of potential organisational stressors and appropriate prevention strategies in any workplace.

FIGURE 10.3 Stress in organisational settings

Level I prevention	Organisational stressors	
Organisational techniques	**Role factors** • Conflicting expectations • Confusing expectations • Role incongruity **Job factors** • Work design • Performance evaluation	**Physical factors** • Noise levels • Vibrations • Temperature levels **Interpersonal factors** • Personality conflicts • Degree of interrelationship • Group pressures

Level II prevention
Individual techniques

Fight or flight
• Elevated heart rate
• Increased respiration
• Elevated adrenalin levels
• High blood pressure

Eustress
• Relative health
• Individual performance effectiveness
• Minimal organisational problems

Distress

Individual costs
• Withdrawal
• Discomfort
• Disability
• Accidents
• Death

Organisational costs
• Accidents
• Absenteeism
• Tardiness
• Turnover
• Medical claims

Source: Quick, J. C. (1979), Reducing stress through preventative management. *Human Management*, 18(3), Fall, pp. 15–22.

Tools to prevent burnout include job redesign, development of career plans, performance management and counselling systems. The HR manager should be involved with supervisors, employees, and their health and safety representatives and committees in designing and administering appropriate stress management programs. HR activities will include liaison with external or internal experts (e.g. industrial psychologists, sociologists, job designers), the development of stress management or stress reduction strategies and referrals for employee counselling.

Employer responses

Awareness of the legal and productivity implications of workplace stressors will help managers to initiate the most effective responses. Responses should focus on the twin aims of prevention and support.

Prevention starts with identifying the problem; in other words, investigating existing levels of stress in the organisation. This can be challenging, as people will not always admit there is a problem – from fear of repercussions from dictatorial supervisors, anticipation of their colleagues' scepticism, fear of inferences about their competence, or many other reasons. Surveys that enable participants to remain anonymous, informal discussions with workers and managers, and observations of workplace interactions between staff can help to shed light on the presence and extent of stress in the workplace. The influence of known stressors such as time-pressure, performance monitoring, work–life balance issues and fear of violence should also be taken into account.

Once the areas of problematic stress have been identified, remedial measures can be formulated and put into practice or, at the least, strategies can be developed to address the issues. Most important is to recognise that organisational problems (such as autocratic or bullying management styles) need organisational solutions, rather than attributing a 'psychological problem' to an individual worker and referring that person for counselling. The effects of organisational stressors may be alleviated by redesigning jobs, reallocating workloads, providing extra resources, instruction or mentoring to workers, training managers to recognise the symptoms of stress, improving supervisory skills or providing more autonomy or job variety.

If the sources of stress are personal rather than organisational, workers may be referred to employee assistance programs or other professional help.

Support for at-risk individuals starts with two-way communication. If workers have already taken sick leave citing stress, management should remain in touch with them, listen to their views about what is troubling them and investigate ways of fixing any work-related issues that are amenable to change, such as workload or work process issues. Such communications should be undertaken by someone who is able to strike a reasonable rapport with the person and encourage them to return to work, rather than allowing the problem to escalate and result in a workers' compensation claim. Case-by-case interventions may also include offering training in problem solving or other coping strategies. Such support needs to be backed up with clear conflict resolution or grievance-handling procedures, and confidentiality must be protected in all cases.

Issue 3: The risks of international travel

Flight attendants and other business travellers are concerned about their exposure to the risks of domestic and international travel, together with their increased responsibilities for the health and safety of their passengers. These risks include the threat of terrorism, disease and other

medical conditions including DVT. In addition, frequent international travel may have adverse effects on travellers' physical and mental health, as well as disruptions to their families.

With the increase in the number of workers required to travel domestically or internationally as a normal part of their jobs (e.g. multinational corporate managers, consultants, engineering contractors, project managers, helicopter technicians, military personnel and university educators), these risks have assumed greater importance for both workers and employers. For workers, the likely dangers may deter them from travel, resulting in reduced career opportunities or even their inability to accept lucrative positions, or they may increase their stress levels and put pressure on their families. The combination of these risks, together with terrorism and recent financial crises, has had serious effects on many industries, their employees and associated supply chains.[48]

Issue 4: Workplace bullying

A more recently recognised WHS issue, which is closely related to stress, is that of the bullying of workers by their supervisors, work colleagues and, sometimes, clients. Workplace bullying has been estimated by the Productivity Commission to cost the Australian economy between $6 billion and $36 billion annually, with the average case costing employers $17 000 to $24 000.[49] Traditionally associated with manual workers, especially young apprentices, there is a general consensus that bullying can occur in all types of workplaces,[50] and can include both physical and psychological intimidation at work. In the Fair Work Commission's definition, bullying at work occurs when 'a person or group of people repeatedly behaves unreasonably towards a worker or a group of workers at work, and the behaviour creates a risk to health and safety'.[51] Bullying typically involves 'the systematic persecution of a colleague, a subordinate or a superior, which, if continued, may cause severe social, psychological and psychosomatic problems for the victim'.[52] It may be manifested by behaviours ranging from physical violence to degrading or humiliating language or actions. **HRM in practice 10.3** provides more details of bullying behaviours identified by the Australian Human Rights Commission.

The consequences of workplace bullying for the organisation reportedly include increased employee turnover, higher absenteeism, an increase in stress claims and a loss of productivity.[53] The effects on the individual may involve depression, anxiety, post-traumatic stress, psychosomatic symptoms, burnout and physical health complaints. The individual who perceives that he or she is being bullied is also likely to experience a decrease in commitment, job satisfaction, psychological and physical health.[54]

National anti-bullying laws cover 'constitutionally covered businesses' as well as outworkers, students gaining work experience, contractors and subcontractors, and volunteers. Individuals who believe they are being bullied at work are entitled to apply to the Fair Work Commission for help in resolving bullying matters. Where the issue cannot be resolved between the parties, the Fair Work Commission may make an order to prevent bullying in future. Workers may also

sue their employers for damages, under some circumstances, and the courts have awarded sums in excess of $500 000 in some cases. Legal action can also be initiated against organisations and individuals through compensation laws in many states.

Under health and safety laws, an employer's duty of care requires them to manage risks to workers' health, including their psychological health. The more progressive employers are reported to be actively dealing with bullying, using internal surveys to provide their staff with examples of bullying behaviour and to seek confidential feedback on its incidence.[55] In addition, some organisations are supporting their employees by encouraging them to make such complaints and actively pursuing them.[56]

Employers are advised to develop and maintain an anti-bulling policy, ensure workers are informed about it, and enforce it fairly and consistently. They should ensure there is not a culture of bullying in the organisation, and that effective grievance procedures are in place and used appropriately. Employers should also monitor any cases of bullying in their own workplace, and give managers and supervisors training and instruction to enable them to deal with it effectively.

HRM in practice 10.3

What does bullying in the workplace look like?

1 repeated hurtful remarks or attacks, or making fun of your work or you as a person (including your family, sex, sexuality, gender identity, race or culture, education or economic background)
2 sexual harassment, particularly unwelcome touching and sexually explicit comments and requests that make you uncomfortable
3 excluding you or stopping you from working with people or taking part in activities that relate to your work
4 playing mind games, ganging up on you or other types of psychological harassment
5 intimidation (making you feel less important and undervalued)
6 giving you pointless tasks that have nothing to do with your job
7 giving you impossible jobs that can't be done in the given time or with the resources provided
8 deliberately changing your work hours or schedule to make it difficult for you
9 deliberately holding back information you need for getting your work done properly
10 pushing, shoving, tripping, grabbing you in the workplace
11 attacking or threatening with equipment, knives, guns, clubs or any other type of object that can be turned into a weapon
12 initiation or hazing – where you are made to do humiliating or inappropriate things in order to be accepted as part of the team.

Source: © Australian Human Rights Commission 2015. *Workplace bullying: Violence, harassment and bullying fact sheet*, http://www.humanrights.gov.au/workplace-bullying-violence-harassment-and-bullying-fact-sheet. Licensed under CC BY 4.0.

Issue 5: Shift work

Shift work, a common feature of many jobs, has become a focus of concern for general management, WHS and SHRM. Shift work involves working outside normal daylight hours (7am to 6pm), the period in which many people work a seven- to eight-hour shift.[57] Research studies suggest that shift work interrupts workers' circadian (daily bodily) rhythms – their 'body clock'[58] – resulting in increased levels of sickness (especially digestive and sleeping problems) and interruptions to productivity. The International Agency for Research on Cancer has suggested that night work probably raises the risk of cancer.[59] Weekly or monthly rotating shifts, which involve variable rosters covering morning, day and night, appear more associated with harmful effects on workers' health, accident levels and productivity.

Both job flexibility and WHS initiatives provide employers and their HR managers with substantial opportunities to modify shift work arrangements to reduce adverse effects on shift workers. Rosters may be redesigned to minimise the incidence of night shifts or impose regular shift cycles. Ends of shifts can be moved forward (or backward) to allow workers to avoid heavy traffic periods and, in some organisations, the lengths of shift periods have been increased to allow for four 12-hour shifts, rather than conventional five-day weeks. However, research indicates that there are significant WHS risks associated with newer forms of shift work involving compressed work weeks (in particular drive-in, drive-out, and fly-in, fly-out workforces, often used in remote mining sites), notably mental stress and an increased risk of vehicle accidents due to employee fatigue on the way to or from their workplaces, especially among night shift workers. Employers may need to provide these workers with more support in the form of education about these risks, sleep facilities immediately following the end of such shifts and possibly transport assistance.[60]

Issue 6: Employee personal problems

Workers' welfare is closely related to their health and safety. Undoubtedly, the personal problems of employees aggravate, and may be exacerbated by, work issues. Job stress may result in alcohol or other substance abuse, which can adversely affect work performance. Personal problems, including untreated mental health conditions, can have significant costs for the organisation in terms of lost productivity due to lost working days and impaired work performance.[61] Anxiety, marital or financial worries may disrupt harmonious relationships with supervisors or colleagues.

Even where they are not specifically work-related, employee personal problems often become a concern for their supervisors and work colleagues. For this reason, it is imperative that supervisors receive training and support in recognising and managing these issues. Some organisations maintain on-site counselling services for their employees; others regularly use external employee assistance programs (EAPs – see Chapter 8). HR managers are usually involved in the coordination and evaluation of these programs.

HRM in practice 10.4 illustrates one company's positive approach to these issues, as well as its commitment to employee wellbeing.

HRM in practice 10.4

Family matters

FKG (FK Gardner & Sons Group) is a construction and mining company based in Queensland. It recently established a new employee health and wellbeing initiative that includes a range of benefits such as gyms, flu vaccinations and skin checks. It has been involved in a comprehensive return to work co-ordination and injury strategy which has significantly reduced FKG's WorkCover policy premium rate and resulted in effective early return to work outcomes for its employees.

More recently, it established a Family Matters Program with an on-site childcare facility. FKG managing director Nick Gardner said that 55 per cent of its female workforce are aged between 20–34 years old and thus there was a need for childcare services – Building Blocks – to ease the parenting burden and assist employees in their early return to work.

Family Matters includes many benefits and entitlements for employees, including additional paid parental leave, flexible work options and a health and wellbeing benefits program. Other employee benefits include fully equipped gyms, free influenza injections, skin checks, healthy lunches and personal counselling. Mr Gardner said employee trends and movements were the biggest drivers for opening the early learning centre and launching the Family Matters Program.

'We identified there was the potential for an increased incidence of parental leave by employees over the next five years. We value our employees' contribution but understand that the cost of childcare can make it a difficult decision to re-enter the workforce. We wanted to ease this burden and provide the support and resources needed to make the return to work a positive financial decision,' he said.

In a recent evaluation reported on the Workplace Health and Safety Queensland website, workplace health initiatives resulted in a 25 per cent reduction of sick leave, a 32 per cent drop in workers' compensation and disability claims, and a saving of $5.56 for every $1 invested in employee wellbeing.

Queensland Government, WorkCover Queensland

Issue 7: Manual tasks and body stressing

Work injuries considered to be instances of 'body stressing' consistently feature as the biggest single category of serious compensated injuries every year. Body stressing includes strains, sprains and other traumatic injuries of joints, ligaments, muscles and tendons. Collectively, these are often known as manual handling injuries, musculoskeletal disorders or connective tissue diseases, and they typically involve the back, neck, shoulders, wrists or knees. While injuries such as these often seem to occur suddenly, as the result of a single action, the underlying vulnerability has commonly been building up gradually, with damage accumulating over time.

Australian workers' compensation statistics list over 60 000 serious cases of body stressing and connective tissue diseases every year, and this is certainly an underestimate because so many injuries in this category do not result in claims for compensation. On average, between four and eight working weeks are lost due to each injury, and the median compensation paid for each claim is between $5000 and $11 000, depending on the nature and severity of the

injury. It is clearly a major cost for many businesses, both in lost productivity and considering its impact on workers' compensation premiums.[62]

hazardous manual tasks
Defined in WHS Regulations as tasks that require a person to lift, lower, push, pull, carry or otherwise move, hold or restrain any person, animal or thing involving repetitive or sustained force

Hazardous manual tasks are not limited to those that involve lifting heavy loads, although this can be one aspect of the problem. Work activities that result in strains, sprains and other body stressing injuries can involve the moving, carrying or restraining of loads, the exertion of physical force, or the maintenance of awkward postures. For example, the forceful jerking or yanking movement to pull the cord to start operating a brushcutter may result in a shoulder strain that could be considered a body stressing injury; or the repeated bending forward of a nurse tending to patients in a hospital could result in back pain that could be regarded as a musculoskeletal disorder.

The challenge is to prevent such injuries from happening by investigating any hazardous manual activities carried out in the course of the work, and to find a safer way for accomplishing what has to be done.

Preventing musculoskeletal injuries

Managing the risks of hazardous manual tasks starts with the identification of work activities that could result in body stressing injuries or musculoskeletal disorders. This can be done by consulting workers about jobs that are difficult to do, very tiring, awkward or dangerous, or cause discomfort. HR managers should also review available information such as records of workplace injuries and incidents, inspection reports and other sources of information that will point to hazardous manual tasks relevant to particular industries or occupations. Direct observation of how people actually do the work, and the postures and movements they adopt, can also highlight problematic tasks. For example, if a worker is observed to be sitting for hours with their head bent forward, peering into a microscope, this could well constitute the origin and cause of neck pain.

Emerging issue 4
Manual tasks and body stressing

Work with equipment that causes hand–arm or whole-body vibration can also be a factor in a musculoskeletal disorder. For example, truck drivers and workers standing on the platforms of concrete-crushing plants may experience low back pain as a result of whole-body vibration.

Other factors such as general fitness, activities outside work, and even sleeping postures can also influence the likelihood of body stressing injuries, but workplace interventions will generally be limited to workplace factors that could cause or exacerbate a musculoskeletal disorder.

The *Code of practice: Hazardous manual tasks* provides detailed practical guidance on identifying, assessing and controlling risks from activities likely to result in or contribute to musculoskeletal disorders.[63] For complex situations, it could help to obtain advice from an ergonomist or other WHS professional with experience in the identification and control of risks from hazardous manual tasks.

Once hazardous manual tasks have been identified and assessed, health and safety laws specify that the risks need to be managed in accordance with the hierarchy of risk control. This hierarchy ranks control measures from the highest to the lowest levels of protection and reliability.

The most effective way of controlling the risks is to eliminate them. For example, moving loads using a forklift rather than by carrying them by hand could eliminate a hazardous manual task.

If the risk cannot be eliminated, it should be minimised as far as is reasonably practicable. For example, if a task involves heavy psychological demands (such as time pressure and high workload) as well as heavy physical demands (such as high force or sustained awkward postures), it may be possible to alleviate one or more of these risk factors; for example, by allowing more time for the task to be completed and providing a mechanical lifting aid of some sort.

The redesign of tasks or work systems can substantially lower the risk of musculoskeletal disorders. Administrative actions might include using team lifts, rotating workers between different tasks or training workers in 'safe lifting techniques'. Note that information from Workplace Health and Safety Queensland provides evidence that training workers in lifting techniques may not be effective because the risk factors causing the injuries are not changed.[64] If training is one of the risk control strategies employed, it is preferable to train managers and supervisors in manual handling risk factors and options for solutions that involve modifying the work systems or equipment.

Personal protective equipment to help prevent injuries could include shock–absorbent shoes for work on hard, concrete floors. So–called 'back belts', which provide support around the trunk, are generally not recommended, as they can generate a false sense of security and proper safety procedures may not be followed.

As **HRM in practice 10.5** indicates, the most reliable approach to preventing body stressing injuries is to modify the task or the workplace, rather than relying on workers to 'take care' or use 'safe lifting techniques'.

HRM in practice 10.5

Preventing body stressing injuries

The most effective risk control measures aim to eliminate or minimise the frequency, magnitude and duration of movements, forces and postures by changing the source of risk – that is, the work area, tool, load, environment, method of handling and/or the way work is organised. Some examples are:

1   automate manual tasks (e.g. by using remote controls)
2   deliver goods directly to the point of use to eliminate multiple handling
3   replace heavy items with ones that are lighter, smaller and/or easier to handle
4   replace hand tools with power tools to reduce the level of force required to do the task
5   isolate vibrating machinery from the user (e.g. with independent seating on mobile plants)
6   use mechanical aids such as trolleys, ramps, levels, scissor-lift tables, counterbalanced tools
7   provide workstations that are height-adjustable.

Source: Adapted from Safe Work Australia (2016), *Hazardous manual tasks: Code of practice*, https://www.
safeworkaustralia.gov.au/system/files/documents/1705/mcop-hazardous-manual-tasks-v2.pdf.
Safe Work Australia © Commonwealth of Australia 2016.
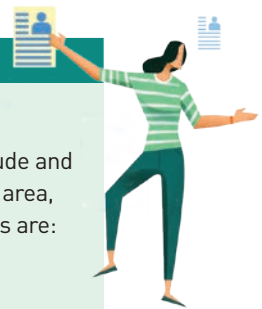
HRM professionals have an important role to play in helping to identify and assess the factors raising the risk of body stressing injuries and coordinating efforts to devise effective solutions in consultation with the workers affected, and other relevant personnel such as health and safety representatives and committees.

Issue 8: Drug and alcohol management

Managers with an HR component in their role at work are likely to be involved in programs for the management of issues arising from the use of alcohol and other drugs, which can impair a person's capacity to work safely. This is particularly important in occupations where errors or misjudgements can have catastrophic consequences; for example, air traffic controllers, airline pilots, drivers of any kind, and operators of potentially dangerous machinery.

Alcohol and other drugs are considered to be a contributing factor in about 7 per cent of workplace injuries, although estimates vary. According to the Alcohol and Drug Foundation, the impact on workplace productivity in Australia is significant, with an estimated 2.5 million working days lost annually, at a cost of more than $680 million.[65] In addition, one in 10 workers say they have been affected by a co-worker's misuse of alcohol; for example, they have been involved in an accident or a near-accident, or they have had to work extra hours to cover for a co-worker. Absenteeism is said to be much higher among drug and alcohol abusers, and alcohol can magnify the effects of some workplace chemical exposures; for example, exposure to solvent vapours.

A different kind of issue arises in workplaces where staff may have access to drugs; for example, pharmacies, hospitals, medical clinics and pharmaceutical warehouses. Attention was drawn to the risks when a Victorian paramedic was found dead in the ambulance station where he worked, having overdosed on painkillers, with which he was known to have a problem. In that case, Ambulance Victoria was convicted of breaching the *Occupational Health and Safety Act 2004* and fined $400 000.[66] The organisation was found to have failed to maintain a safe system for ordering, receiving, stocking, auditing and disposing of painkillers.

Work health and safety issues can also arise if staff are exposed to the risk of alcohol- or drug-related violence on the part of clients, patients or other members of the public with whom they interact in the course of their work. For example, workers in a hospital may be exposed to drug-affected arrivals in an accident and emergency department, or staff at a refuge may be at risk of violence from intoxicated partners or other family members who arrive demanding to see someone who has fled from domestic violence.

Managing the risks of alcohol and other drugs involves identifying potential areas of risk and taking steps to eliminate or minimise those risks, as far as is reasonably practicable. Most risk control strategies focus on the development, promotion and implementation of a drug and alcohol policy and a safe workplace culture around alcohol, provision of education and counselling, establishment of procedures for personal reporting and help services for workers struggling with alcohol/drug addiction issues, and a range of other risk control strategies,

which may or may not include workplace drug and alcohol testing. However, great care must be exercised when developing the policy and establishing testing regimes, as these matters can be sensitive: there is a risk of invading individuals' privacy, and a potential for conflict, complaints, industrial action and further damage to morale and productivity.[67] Where there is no legal requirement for it, testing is not an essential part of a drug and alcohol program. However, a testing regime may be adopted in the hope that it will act as a deterrent and help prevent accidents due to workers being affected by drugs or alcohol.[68]

Workers also have duties in regard to the use of alcohol or other drugs. They must take reasonable care for their own and others' health and safety at work, including being fit for work, and not being under the influence of alcohol or other drugs while at work.

The most common types of testing are breath testing for alcohol, and oral fluid (saliva) or urine testing for other drugs.[69] All testing programs should comply with the relevant Australian Standards – AS 3547 for breath testing for alcohol, AS/NZS 4308 for drugs in urine, or AS 4760 for the detection of drugs in oral fluid (see **Professional tip 10.2**). It should also be noted that some studies have found other approaches to safety, such as improved training, maintenance and more rigorous risk management, are more useful than drug and alcohol testing.

Professional tip 10.2

Who should carry out drug and alcohol testing procedures?

Workplace testing for alcohol or other drugs is usually conducted by a professional provider of testing services. It can be done by in-house personnel, but it is vital that the person performing the testing has received the appropriate training in the chosen testing system. The Fair Work Commission has ruled that it is not best practice for an employee's direct manager, or any other person who is well-known to the employee, to take a urine sample from that employee.

MANAGING WHS PROGRAMS

With the high costs of occupational injuries, accidents and disease to employers, workers and the community, there is no longer any excuse for employers to avoid their responsibilities in these areas. Legal aspects reinforce what is essentially a rational strategy for ensuring organisational productivity and profitability. As a consultation process involving senior managers, supervisors, unions and employees, WHS management must necessarily also involve HR specialists in a wide range of activities. As HR consultant Steve Wilson suggests, 'it's about working together as a group of people (not just a group of managers and employees) to implement the systems required by legislation in a way that ensures that everyone is working safely'.[70] WHS issues pervade all SHRM functions, and therefore HR managers need to operate on strategic, operational and administrative levels, creating links with all managers in their organisations. Their roles include liaison, WHS trend analysis, information

dissemination, training coordination and evaluation, policy and program development and the establishment of WHS accountability systems.

HRM professionals may be among the users of a work health and safety management system (WHSMS), such as those described in the Australian Standards that specify the elements of such a system. Compliance with the Australian Standards (see **International perspective 10.1**) is not required by law and does not guarantee compliance with WHS legislation, but the use of a WHSMS may help to provide a focus for improving safety performance through a systematic approach to planning, implementation and review.

International perspective 10.1

Australian and International Standards

International Standards and international systems have now been developed and adopted by Australia in relation to a number of WHS matters, including maritime safety, the transport of dangerous goods, risk management, and the classification and labelling of hazardous chemicals.

The most recent International Standard to be adopted by Australia is ISO 45001 Occupational health and safety management systems – Requirements with guidance for use. This standard provides a framework that can be used to reduce work-related accidents and illnesses, allowing organisations to manage this key risk as part of their business processes. Following a period of public comment, Standards Australia will undertake the adoption process for the new standard, which was published in 2018 as AS/NZS ISO 45001. Compliance with Australian (and International) Standards is voluntary – they have no legal status unless they are 'called up' in legislation.

Source: Adapted from Standards Australia (2018), *Process for the adoption of ISO 45001 commences in Australia*, https://www.standards.org.au/news/process-for-the-adoption-of-iso-45001-commences-in-australia.

To be successful, WHS programs require:
- top management commitment to the effective management of health and safety risks
- extensive safety and health promotion, communication, training and development activities that are integrated and cost-effective
- emergency response plans, suitable first-aid supplies and safety equipment
- risk management, recording, reporting, analysis and development systems
- consultative mechanisms to investigate, monitor and prevent actual and potential workplace issues
- integrated approaches to accidents/injury/disease, rehabilitation and workers' compensation.

From a strategic HRM perspective, WHS provides an opportunity to protect workers and to save the organisation the associated costs of accidents and injuries. By doing this, HR managers can demonstrate their contributions to organisational effectiveness. Productivity lost due to work injury and illness is a tremendous drain on business profitability,[71] and sickness absence reportedly costs the country billions of dollars every year. This means there are very significant opportunities for the remediation of the underlying causes.[72]

Emerging issue 5
Managing WHS

Senior management, WHS specialists and HR managers all need to recognise that 'safety and health … [are] … an integral part of every job'.[73]

Presently, the implementation of Total Quality Management and Best Practice programs has also incorporated WHS initiatives and worker participation, in order to inculcate a culture of continuous improvement. Strategic HR managers will see this as a way of cementing their own positions and contributing demonstrably to organisational productivity, as demonstrated in **Professional tip 10.3**.

Professional tip 10.3

Analysing WHS issues

Given the enormous financial and human costs associated with accidents, injuries, stress and other psychological issues at the workplace – for both employers and their employees – WHS provides a significant opportunity for HR professionals to increase their profiles within organisations and to demonstrate the business outcomes of their HR strategies and processes.

As a HR professional, by collecting and analysing appropriate data on the number, types and costs of WHS issues and initiating consultative mechanisms and preventative procedures, you will be better equipped to persuade doubtful managers and cynical employees and their unions of the inherent value of these procedures to their organisations.

As examples, clear and strictly policed safety procedures, accessible and enforceable anti-bullying policies and stress prevention and reduction programs can potentially yield immense cost-savings, morale-building and public relations benefits.

WHS information systems

As with the other components of an HR information management system (see Chapter 4), a **WHS database** is a valuable indicator of organisational effectiveness and provides essential information for external reporting as well as internal HR management. WHS databases are compiled by supervisors, health and safety committees, senior managers and HR practitioners and are often accessed by these people and other external users. Effective WHS databases should include the following features:[74]

- comprehensive data on all workplace incidents, not merely workers' compensation claims
- accurate records of workplace hazards and preventive measures
- effective cost-management of accident and disease (e.g. individual claims, medical and workers' compensation costs)
- control of cost reimbursement from insurance companies
- clear details of rehabilitation and return-to-work programs
- medical programs – pre-placement, first-aid training, health monitoring
- interfaces with other HR processes.

WHS database
A component of an HRIMS that collects, aggregates and analyses individual employee and overall workplace WHS information in order to improve work health and safety

Comcare, which supports the Australian Government's Safety, Rehabilitation and Compensation Commission and administers both the WHS and rehabilitation and workers' compensation frameworks, provides regular data on six broad performance indicators. These may serve as useful national WHS benchmarks against which organisations and their HR professionals can evaluate their own performance:[75]

1   reductions in workplace injury and disease
2   rates of return to work
3   proportions of workplaces with systems in place to manage safety risks
4   reduced incidence of safety breaches
5   quick and accurate decisions
6   cost-effective service delivery.

Strategic and operational benefits can be achieved by an effective WHS database system, including the overall analysis of accident and disease trends, costs and benefits, the implementation of preventive measures and the identification of high, low and medium hazard and risk areas.

SUMMARY

WHS has experienced significant change during the past three decades. Due to a mixture of economic and industry factors, it has begun to occupy the minds and activities of a host of organisational and external groups, including employers, unions, state and federal governments, doctors, lawyers, industrial psychologists and sociologists.

Comprehensive and more nationally consistent WHS legislation in most Australian states and territories, coupled with reforms in workers' compensation legislation, has compelled employers to examine their work practices and job design in order to ensure safer and healthier workplaces. This process has been increasingly consultative, focusing on preventive rather than merely reactive programs and strategies.

This chapter has critically explored the nature of current WHS legislation, the perspectives of those who hold various vested interests and a range of significant WHS issues. Effective management principles and sources of ongoing assistance for employers and HR practitioners are detailed. Strategic HRM approaches will ensure that the management of WHS is integrated with overall HRM functions so that it demonstrably contributes to an organisation's productivity and competitiveness.

KEY TERMS

- Comcare 456
- direct and indirect WHS costs 440
- ergonomics 445
- harmonisation 451
- hazardous manual tasks 468
- industrial psychology 444
- industrial sociology 445
- medical model 443
- model Work Health and Safety (WHS) Act 451
- occupational epidemiology 444

- occupational hygiene 446
- persons conducting a business or undertaking (PCBUs) 454
- rehabilitation 439
- Safe Work Australia (SWA) 440
- WHS database 473
- work health and safety (WHS) 439
- work stress 460
- workers' compensation 455
- workplace accidents 458

EMERGING ISSUES

1 The medical model and patienthood

The medical model of WHS represents the perspective of the medical profession, which tends to focus more on individual workers as patients needing treatment, rather than on work systems and managerial or organisational solutions to WHS problems.

a   Argue the cases for and against the value of the medical model in WHS. What implications does the medical model have for HRM practice?

2 Unions and WHS

Trade unions have been heavily involved in contributing to the development of WHS legislation in many countries, to represent their members' interests and, more broadly, to strengthen their range of legitimate interests in negotiations with management.

a   Discuss both sides of the following statement: 'Unions have led the development of WHS legislation, while management has largely resisted it.'
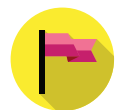
3 Work stress

Workplace stress has become an increasingly important issue over the past two decades, although its nature, causes and treatment are contested.

a   Is workplace stress caused by job responsibilities, personal responses and/or management styles? Discuss these issues in relation to your own work experiences. How should HRM professionals deal with all of these potential stressors?

4 Manual tasks and body stressing

Body stressing issues are often subject to opposing points of view.

a   Are strains, sprains, back pain and other musculoskeletal injuries caused by carelessness, macho individuals who do not acknowledge their physical limitations, people wishing to 'rip off' the workers' compensation system or unsafe systems of work? Discuss these issues in relation to your own work experiences. How should HRM professionals deal with these potential issues?

5 Managing WHS

Managing WHS is simultaneously a legal, moral and business responsibility that involves educational, preventative, remedial and compensatory processes. It must include employers, workers and their unions, together with a wide range of industry specialists.

a   Discuss the proposition that employers and unions have contradictory and irreconcilable interests with respect to WHS.

ETHICAL CHALLENGE

Foreseeable risks ignored before mine fire

The 2014 Hazelwood mine fire in Victoria went very quickly from a bushfire-related event to an industrial fire to a significant and lengthy environmental and public health crisis. Started by embers spotting into the mine from nearby bushfires, the fire burned for 45 days, sending smoke and ash over the town of Morwell and surrounding areas for much of that time. It had significant adverse health effects on the local community, and the total cost to the government, the local community and the operator of the mine was estimated to exceed $100 million. A Board of Inquiry later noted that all the factors leading to the ignition and spread of the fire were foreseeable, and inquiries into previous fires at the mine had recommended a risk assessment concerning the risk of fire in worked-out areas to determine if further preventive measures were needed, but such a risk assessment was never undertaken. This meant the opportunity to avoid or reduce the severity of the 2014 fire was lost.

'Safety warnings were ignored' is a recurring theme that emerges from investigations into numerous industrial and public health disasters, including the 2017 Grenfell Tower fire in London that caused 72 deaths, and the Genoa bridge collapse in Italy in August 2018 that killed 41 people. This is usually attributed to a workplace culture that rejects 'bad news' and gives a higher priority to budget and deadlines.

Source: Adapted from *Hazelwood Mine Fire Inquiry Report*, http://report. hazelwoodinquiry.vic.gov.au/executive-summary/hazelwood-mine-fire.html.

1   Do heavy fines and/or prison sentences deter senior executives from ignoring warnings about foreseeable risks?
2   Can such attitudes be prevented by more effective selection and promotion processes?
3   Do you know of other industries or companies that have ignored warnings of WHS issues?

CASE STUDY 10.1

Drug and alcohol testing must be reasonable

The Fair Work Commission has found that an inadequate drug and alcohol policy and the employer's departure from the process set out in the policy enabled an employee to make a successful claim for unfair dismissal. The policy included the use of random drug tests and stipulated that a refusal to participate would be regarded as a positive test, and that disciplinary action, including possible dismissal, would follow.

After it was alleged that some urine samples had been diluted, management ordered a further drug screening process. The individual concerned offered to undertake a further urine test but when he was told the second screening would be via a blood test, he refused to participate, and was dismissed.

The Commission found that the dismissal was unfair because the policy did not specify the type of testing to be used, terms used in the policy (e.g. 'laboratory testing') were not defined, and the employer had departed from their usual process of urine testing. The Commission noted that though the person who had administered the tests believed, based on its colour, that one sample was diluted, the sample was within the applicable temperature range and creatinine level so it may not have been diluted.

The Commission concluded that no satisfactory explanation had been provided as to why a more invasive test – a blood test – was required, and that in the absence of an express policy provision permitting blood tests, the request for the employee to undertake a blood test was not a reasonable request. The employee was awarded compensation of 10 weeks' pay.

Source: Adapted from Fair Work Commission, Decision. *Shannon Green v Lincon Logistics Pty Ltd T/A Lincon Hire & Sales* [2017] FWC 4916. Delivered 20 September 2017. https://www.fwc.gov.au/documents/decisionssigned/html/2017fwc4916.htm.

Questions

1 Under what circumstances would it be reasonable for an employer to require random drug testing using:
   a oral fluid testing
   b urine testing
   c blood testing?
2 What strategies other than testing could be used to help ensure that workplace safety is not impaired by the use of alcohol or other drugs?
3 How can HR professionals best manage the tension between the obligation to provide a safe workplace and workers' rights to privacy and procedural fairness?

ENDNOTES

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Workplace negotiation processes

Let us never negotiate out of fear. But let us never fear to negotiate.

John F. Kennedy, former President of the United States, Inaugural Address, 20 January 1961.

Mediation is good for the litigation process, just as sunscreen is good for your health.

Andrea Tsalamandris, Judge, County Court of Victoria, 2017.

OBJECTIVES

After reading this chapter, you will be able to:

1 understand the role of conflict in the employment relationship

2 understand the positive and negative aspects of workplace conflict

3 explain alternative dispute resolution (ADR) processes

4 identify and discuss current trends in workplace conflict resolution and negotiation strategies

5 identify the different conflict management styles and understand when to use particular styles

6 identify and understand the impact of cross-cultural differences on dispute and conflict handling outcomes.

Emerging issues

1 Negative aspects of workplace conflict

2 Third-party dispute resolution

3 Mediation

4 Skills for successful negotiations

5 Recognising conflict management styles

6 Cross-cultural awareness

INTRODUCTION

In Chapter 1, the pluralist and unitarist models of human resource management (HRM) were explored and applied to the employment relationship. The unitarist approach assumes common interests between employees and employers, with conflict viewed as counter-productive to organisational effectiveness and thus to be avoided; while a pluralist approach acknowledges a divergence, or even a conflict, of interest between employees and employers, and the necessity to provide mechanisms and processes by which this can be resolved.

With the locus of industrial control being increasingly passed back to the organisation (or enterprise), its managers and employees, there has been a growing reliance on processes for reducing and resolving conflict within the workplace rather than relying on the resources provided by a third party in the form of an industrial tribunal or advocate. This change in focus has brought with it a need for line, operational and HR managers to develop the necessary competencies required to resolve workplace conflict and grievances. This has been encouraged further through changes to industrial legislation, the changing nature of employment (notably the rise of the so-called 'gig economy', discussed throughout this book), and the shift to the employment of more highly skilled employees.

In addition to the provision of training, mentoring and coaching (Chapter 8), it is essential that senior management views the development of workplace negotiation and conflict-resolution competencies as essential to the operation of the organisation. These competencies are enshrined in the Australian Human Resources Institute's (AHRI) Model of Excellence (see **Professional tip 11.1**).

Professional tip 11.1

Key HR roles and competencies

The AHRI Model of Excellence (MoE; see Figure 1.2 in Chapter 1) suggests that the key roles of HR professionals with respect to workplace negotiation and conflict resolution are to be *expert practitioners*, *stakeholder mentors and coaches*, and *culture and change leaders*. Associated competencies include *future oriented*, *resolver of issues*, *collaborative* and *credible*, although some of the other competencies are also relevant.

These developments have encouraged the use of less formal methods of resolving grievances and conflict framed around internal mediation processes. This is especially evident in organisations that rely on highly educated and highly paid **knowledge workers**, or short-term and casual labour, rather than full-time, permanent, blue-collar employees who are more likely to turn to their union representatives to provide support during times of conflict. Professionals and technical specialists not only have the skills to be able to negotiate independently, but are often in the strongest bargaining position due to the organisation's need for their labour. This, however, may not be always the case in the wake of the Fourth Industrial Revolution,

knowledge workers
A term that evolved during the 1990s; used to define an educated and/or a professional occupational grouping who meet their job outcomes primarily through the use of their knowledge and expertise

as artificial intelligence and robotic technologies further challenge professional and technical roles. The resolution of individual workplace conflict is essential to the success and productivity of the modern work environment, both at a national and a global level.

THE NATURE OF CONFLICT

The trend towards leaner organisations, especially if it involves reductions in employee pay and conditions, can often lead to higher levels of conflict, particularly over issues such as workloads, the provision of resources, and remuneration and reward packages (see Chapter 9 for an extended discussion of these issues in relation to executive reward systems). Organisations are operating in an extremely competitive global environment, where pressures exist to rationalise and provide more efficient and productive services that coexist with a shortage of qualified and experienced labour in a number of industries. In the case of unskilled labour, there are pressures to outsource the work to external agencies, even other countries (offshoring), which can lead to conflict as a result of changing employment relationships, and cultural and philosophical differences. These pressures on organisations are often cyclical, particularly with the impact of shifting economic conditions, both nationally and globally, along with the ever-evolving changes to the types of skills and occupations required.

Changes to internal organisational structures and mechanisms, such as the introduction of self-managed work teams, virtual work teams, subcontracted work teams/individuals and the employment of specialist, professional staff on non-industrial contracts (Chapter 3), have also meant that traditional industrial and union-based conflict resolution processes are no longer as relevant to, or characteristic of, significant numbers of employees and organisational representatives. Given the reportedly low levels of union engagement among Gen X and Gen Y employees, it is likely that they will also favour such non-industrial forms of consultation, negotiation and mediation.

Conflict in organisations is ongoing and does not necessarily result in disputes. The changing nature of the employment relationship, which includes the negotiation and renegotiation of the employment contract, means that conflict at some level will also be constant. In addition, conflict can arise from an individual employee's struggle to maintain a work–life balance, or as a result of a number of other interpersonal conflicts. Today's workplaces are complex and dynamic environments and, as such, conflict will be ongoing.

The conflict also may not always be direct and overt. More often than not, the manifestation of a conflictual situation or relationship will be informal, unorganised and subtle. Rather than being a vocal protest or dispute, it can be a slow withdrawal; for example, a decline in motivation or productivity; a slowdown in performance; increased absenteeism; or even an increase in employee turnover. While more subtle, these types of conflict are still extremely destructive for the organisation, as well as for organisational culture.

POSITIVE AND NEGATIVE ASPECTS OF WORKPLACE CONFLICT

There can be a tendency to perceive all conflict as being destructive and negative. Most definitions of conflict are focused entirely on its negative aspects, and will include words that invoke strong negative feelings, such as 'clash', 'fight' or 'struggle'. The perception that conflict is predominantly a negative action in organisations stems from some outdated views on organisational behaviour.

Emerging issue 1
Negative aspects of workplace conflict

Coser, for example, defined conflict as 'a struggle over values and claims to scarce status, power, and resources in which the aims of the opponents are to neutralise, injure, or eliminate their rivals'.[1] Deutsch, and Lewicki, Saunders and Minton, suggest that there are a number of negative consequences of conflict, including:

- increased competition between the parties, which can hinder team cooperation
- heightened emotions such as anxiety, fear, irritation and frustration
- a breakdown in communication
- bias towards or exclusion of others
- divergence from the core issue
- lack of flexibility
- escalation of the conflict.[2]

From an organisational effectiveness perspective, the existence of long-term, heightened or destructive conflict can lead to high rates of employee absenteeism and turnover, as well as reduced organisational productivity. The impact on the organisation's bottom line can be significant.

However, there are also positive outcomes to conflict, which learning or knowledge-based organisations (e.g. Apple, Samsung, Google and Westpac; also see Chapter 7) characteristically harness to achieve high levels of creativity and greater productivity – often called 'constructive disruption' and demonstrated in many entrepreneurial companies. The following benefits can often emerge from a well-managed and recognised conflict situation:

- It heightens awareness of the issues among the parties.
- It can be a catalyst for organisational change.
- If handled in a cooperative manner, it can strengthen existing relationships and heighten morale.
- It promotes awareness of self and others.
- It enhances personal development.[3]

The key to achieving positive results from conflict is managing the conflict effectively. This involves not only recognising the conflict early, but implementing appropriate strategies for resolution. It is important for managers to realise that conflict can never be eliminated, but that it can be effectively harnessed and constructively managed. In fact,

the 'disruptive' technologies employed by many cutting-edge organisations consciously encourage the confrontation and effective resolution of conflict as a catalyst for innovation and intrapreneurship. It is seen as neither good nor bad; rather, it is diagnostic in that it alerts the organisation that differences exist.[4]

Unfortunately, by the time many HR professionals become aware of a conflict situation in the workplace, it has usually escalated significantly, causing lasting damage to both employee–employer relationships and organisational effectiveness. It is important for organisations to have processes and strategies in place to deal with such conflict, early and appropriately. These strategies are often not difficult or complicated to establish, as the following points demonstrate:

1 Intervene at the earliest possible time.
2 Identify the source or sources of a conflict as well as **ALL** the possible solutions **BEFORE** making a decision.
3 Deal with the issue in an objective manner that will stand the test of time so that you don't have to deal with it again.
4 Demonstrate mutual respect for all employees.
5 Get back to work quickly.[5]

Two different types of conflict

Conflicts between employees and employers are often described as being either industrial disputes or workplace disputes; however, the two terms are often used to explain the same type of dispute, causing some confusion. Here, we differentiate them.

Industrial disputes/conflict

Generally, industrial disputes/conflicts are the result of unresolved workplace conflict, where the dispute or conflict has escalated to a high level, and usually where there is a threat of lost work time, disruptions and/or work bans. These disputes are mostly related to perceived or actual breaches of law, awards or agreements and are heard by agencies external to the employing organisation. Resolution is formal and via a recognised tribunal or agency using conciliation and arbitration third-party mechanisms. This is covered more comprehensively in Chapter 3.

Workplace conflict

Workplace conflicts are usually the result of differences of opinion during bargaining phases, when negotiations are taking place in an organisation, particularly during periods of significant change, or interpersonal conflict between two or more employees. They are considered to be of a lower level than industrial disputes; do not generally involve the threat of lost time and/or bans; and are ordinarily resolved within the organisation, often with the assistance of a third party such as a mediator (sometimes an HR professional) or a workplace representative (discussed later in the chapter).

Specific causes of workplace conflict may include:

- personality differences
- workplace behaviours that can be regarded by some co-workers as annoying or irritating
- unmet workplace needs
- perceived inequities in the distribution of resources
- unclarified roles in the workplace
- competing job duties
- workforce mergers, acquisitions or reduction
- mismanagement of organisational change and/or transition
- poor communication, including misunderstood remarks or comments taken out of context
- differences over work methods or goals.[6]

However, these types of conflict are more common than direct forms of industrial conflict, and while less overt, they can be just as destructive to organisational performance and culture.

Both the causes and nature of workplace conflict are changing. The pace of organisational change, economic turbulence, changes to the nature of the work, and the way it is performed, all place significant pressure on both the employee and the employer. Although the use of formal industrial tribunals in Australia is reducing, conflict within organisations is not. The use of alternative dispute resolution (ADR) techniques in the workplace, involving mediators and facilitators to resolve conflicts, is increasing. This is due primarily to the focus of Australian industrial legislation on resolution in the workplace, but also to the change in the nature of work and the increased work autonomy of employees. This transition to workplace rather than external conflict resolution is supported by the creation of the Fair Work Commission on 1 July 2009 (which replaced the Australian Industrial Relations Commission – see Chapter 3).

While not able to directly resolve disputes in the workplace, the Fair Work Commission does provide a range of information on how to resolve such disputes. For HR professionals, the resolution of workplace conflict is a central HR function (e.g. HR roles such as 'solutions–driven' and 'resolver of issues' and HR capabilities including 'stakeholder mentor and coach' and 'expert practitioner' in the AHRI Model of Excellence – see Figure 1.2 in Chapter 1), but to date it has had little attention in strategic human resource management (SHRM) literature.[7] It is important for HR professionals and line managers to become familiar with conflict–resolution frameworks and processes, along with the most common ADR processes. It is also vital that HR staff work with line managers, who are often responsible for the resolution of conflict and grievances among their staff, to ensure that they possess the necessary competencies to facilitate successful conflict resolution.

COMMON ALTERNATIVE DISPUTE RESOLUTION PROCESSES

Emerging issue 2
Third-party dispute resolution

In the event that conflict cannot be resolved through direct negotiations between the parties, third-party intervention is a useful mechanism. This is known as **alternative dispute resolution (ADR)**. The process of ADR has gained widespread acceptance globally among both the legal profession and industry in general. This increase in popularity can be attributed to a number of factors: the increasing caseload of courts, requirements for ADR in legislation (as is the case in a number of industrial instruments in Australia), reduction in union density and membership, reduced litigation costs, issues of confidentiality, and the desire of the parties involved to have greater control over the resolution of the dispute.[8] In short, ADR can be a fast, cheap, effective and efficient way of resolving disputes.

However, the use of a third party may lead to a sense of failure for those involved in the conflict, reinforcing a sense being unable to resolve the problem themselves. There may also be issues around the power balance among those involved in ADR, particularly in resolving disputes between employees and their line managers, as well as the qualifications and skills of those facilitating such ADR discussions and processes.

As previously mentioned, the use of ADR has been increasing over the past few decades, including in Australia. More recently, there has been a shift towards a range of more organisationally based ADR mechanisms introduced specifically to address workplace conflict resolution (see **Table 11.1**).

TABLE 11.1 Current workplace conflict resolution practices

	CONVENTIONAL	ADR
Individual disputes	• Multi-step grievance and disciplinary procedures with provision for outside arbitration following an impasse • Resort to employment tribunals and litigation in courts	• Open-door policies • 'Speak-up' and related systems • Ombudsman • External and internal mediators • Review panels of managers or peers • Arbitration • ADR-led conflict management systems
Collective disputes	• Multi-step disputes and grievance procedures, usually with provision for external conciliation and arbitration, or adjudication following an impasse	• Assisted bargaining/mediation within procedure to avoid impasse • Brainstorming and related techniques • 'Interest-based bargaining' with facilitation • Fact-finding • Arbitration, 'mini-trials' and 'med-arb' • Intensive communications surrounding change management • ADR-led conflict management systems

	CONVENTIONAL	ADR
Individual and collective disputes	• Rights-based disputes go to litigation in courts or to adjudication	• Mediation and adjudication processes or judicial and expert mediation under judicial process, with final stage resort to formal hearings by courts or administrative agencies

Source: Roche, W. K. and Teague, P. (2012), The growing importance of workplace ADR. *International Journal of Human Resource Management*, 23(3), pp. 447–58.

In Australia, the Attorney-General's Department within the Australian Government is responsible for supporting dispute management within government agencies. The Australian Government acknowledges the productivity costs associated with conflict and disputes, and provides a range of services, including a third party, to assist with conflict resolution.

The *Fair Work Act 2009* (see Chapter 3) has less prescriptive mechanisms for dispute resolution between parties than the previous *Workplace Relations Act 1996* and *Workplace Relations (Work Choices) Amendment Act 2005*. The Fair Work Act suggests that it can assist in resolving disputes for those covered by the national industrial relations system and that it can assist with award, collective or enterprise agreement disputes; bargaining disputes; and disputes arising under the general protections provisions of the Act.[9] Industrial conflict and dispute resolution are comprehensively discussed in Chapter 3.

Former Australian High Court Judge, Michael Kirby, has suggested that Australia should follow ADR practices, and encourage parties to mediate before resorting to court action, to avoid time-consuming, costly and public trials.[10] Kirby further explains that ADR allows confidentiality, unlike many court cases, thereby ensuring that parties do not end up having to front the media or have solvency issues aired publicly.

ADR in workplace conflict

A key to using ADR processes within an organisation is first to recognise that there is some form of workplace conflict or dispute, and second to determine the type of conflict management style to use. For those who are not trained mediators or facilitators, this is a skill to be developed. The overarching purpose of any ADR process in the workplace is to provide employees with an effective voice so that workplace problems can be deliberated in a manner that builds cooperation and unity of purpose between employees and management.[11]

Generally, ADR processes take the form of internal mediation mechanisms, although a specialist third party can also be appointed to facilitate mediation meetings. Other mechanisms, such as process consultation, are discussed later.

Mediation

The term **mediation** comes from the Latin root *mediare*, meaning 'to halve'. In Chinese it means to step between two parties and solve their problems, and in Arabic it indicates manipulation.[12]

mediation
A third party guides the dispute/disagreement participants to an agreement. The parties are encouraged to listen to each other's points of view

In the current Western context, mediation describes a situation where a third party helps the other parties to achieve agreement by guiding them. Mediation has become one of the most popular ways in which to resolve disputes. Traditionally, such methods were primarily engaged to deal with marital or family disputes, but they are now commonplace in dealing with both civil and industrial matters. Local governments employ mediators to assist in the resolution of neighbour disputes and major government departments such as the Australian Taxation Office (ATO) utilise the services of a third party to mediate taxpayer disputes related to debt.

One of the reasons mediation has become such a popular way in which to resolve disputes is that the parties themselves have control over the outcome as well as having significant input into the discussions. This high level of involvement in, and control of, the process means that the mediation participants are more committed to the outcomes than they would otherwise be if the decision regarding a problem was owned and disseminated by a manager or an independent arbitrator. The role of the mediator is very much that of an independent – and skilled – facilitator or umpire. While the parties to the conflict or dispute are the most significant players in a mediated discussion, the role of the mediator is vital to a successful outcome. Their role is to skilfully draw out the issues from the participants and to frame the discussion so that they also develop strategies for resolution and/or outcomes themselves.

Major benefits of the process of mediation, as well as the outcome, are that it assists the parties to repair relationships as well as resolve grievances, differences of opinion and/or conflict. British research findings suggest workplace mediation resolves conflict quickly and has resulted in a reduction in the number of conflicts escalating to litigation, realising time, money and stress savings.[13] However, the same study also suggested that the use of mediation will also depend upon the type of dispute, the stage of the dispute and the type of resolution being sought.[14] Mediation is certainly growing in popularity, with Australia adopting the process for resolving conflicts and grievances not only between employees, but also between residents and between elected officials, as can be seen in **HRM in practice 11.1**.

Emerging issue 3
Mediation

HRM in practice 11.1

Mediation for North Sydney Council

Workplace complaints at North Sydney Council led it to call in outside experts last year to work with councillors to help them work together more constructively.

Dispute resolution firm, Mediate Today, which specialises in resolving workplace disputes, interviewed councillors and produced a draft report in December. In the report, the firm is understood to have made specific recommendations on how the conflict could be addressed.

It is understood that conflict between the Mayor and a fellow councillor was one reason why the council sought mediation. In fact, the conflict between the two elected members escalated to such a point that the Mayor filed an application for an apprehended violence order against the councillor.

Source: Bell, A. (2014), Outside mediators sought over conflict. Mosman Daily, 17 April, p. 3. The use of this work has been licensed by Copyright Agency except as permitted by the Copyright Act, you must not re-use this work without the permission of the copyright owner or Copyright Agency.

Although all mediation processes involve the use of a neutral and objective facilitator who does not make a decision on behalf of the participants, there is no one prescribed way in which to achieve this. However, there are a number of elements to the process that remain constant irrespective of the situation or disputes, as outlined in **Figure 11.1**.

FIGURE 11.1 Steps in the mediation process

Dispute
- Identification of a dispute or conflict.
- The parties agree to enter into a mediation process.

Appoint mediator
- The parties themselves appoint a mediator, or in the case of court-ordered or workplace mediation, the mediator is selected on their behalf.
- A date is set for the first meeting.

Preparation for mediation
- The parties prepare information for distribution to the mediator.
- The mediator reads the information to obtain background information.
- In some cases, the mediator may request to meet with each party individually to clarify points of view.
- The parties bring copies of the distributed information to the mediation meeting.

Mediation session
- The ground rules for the process are often restated at this time.
- Each side outlines their issues, uninterrupted.
- Questions are asked throughout by the mediator.
- A framework for resolution is discussed and agreed to.
- If there is no resolution, another meeting date is set.

Finalisation
- The mediator will often summarise and draft the agreement between the parties for their signature.

In Victoria, court-ordered mediations have been in place for over two decades, with both the Supreme and County Courts making orders for parties to civil disputes to attend compulsory mediation.[15] Such a process significantly reduces the need, as well as the time and cost, of progressing a dispute to trial. Tsalamandris suggests that, in her experience as a judge in Victoria, such mediation resulted in 70 per cent of cases being resolved without the need for progression to trial.

It is also suggested that apart from the direct cost benefits of engaging in workplace mediation, it has major 'upstream' effects, such as being a catalyst for changing the organisational culture in the way all conflicts of opinion are managed, and developing collaborative,

high-trust relationships, as well as acting as a development tool by equipping employees with conflict and problem-resolution tools.[16] One of the many advantages of mediation is that it can be adapted to almost any situation, as seen in **HRM in practice 11.2**.

HRM in practice 11.2

Mediation helps family farm disputes

When planning for the future ends with multiple parties at loggerheads, no one is a winner and farm business can suffer as a result. That's why some families are turning to professional mediators to help iron out their differences.

As a non-adversarial approach, mediation is well suited to resolving disputes, particularly emotionally charged ones, quickly. No wonder it is growing in popularity.

David Hooper, a professional mediator with Brown & Co., decided on such a change of career after experiencing an acrimonious clash between two brothers that had resulted in massive financial costs over a long period of 20 years, finally resulting in the loss of the family farm. 'I realised there had to be a better way of dealing with this sort of dispute, which is very common in the farming world,' Mr Hooper says. 'In an ideal world, people would use mediation very much earlier than they typically do,' he said.

Mr Hooper has now been involved in more than 150 mediations and generally conducts between 20 and 30 a year. Unlike the unfortunate case with the two brothers who over 20 years of disputation finally lost the family farm, Mr Hooper says that mediation generally results in a solution within a day.

Source: Adapted from Harris, L. (2018), How mediation can help resolve farming business disputes. *Farmers Weekly*, 169(11), pp. 26, 28. Reproduced with permission of the Licensor through PLSclear.

While mediation has many advantages over more formal dispute-resolution processes, there are also some disadvantages, as outlined in **Table 11.2**.

TABLE 11.2 The advantages and disadvantages of mediation

ADVANTAGES	DISADVANTAGES
The parties involved in the dispute work together towards a resolution and are therefore more committed to ensuring its success.	The parties have to agree to mediate and cooperate.
The parties have an opportunity to speak and hear each others' perspective without interruption.	The outcomes are not legally binding.
Everything discussed is private and confidential.	The mediator may be inexperienced.
It is cheaper than formal arbitration and litigation processes.	
It is quicker than formal arbitration and litigation processes.	
The mediator is skilled in ensuring objectivity and that conflict does not escalate.	
The process often preserves or repairs relationships.	

International mediation

Increasingly, organisations are required to resolve conflicts and grievances at a global level. This will often occur as a result of conflict between virtual work teams, conflict or differences of opinion between members of the same organisation employed in different countries, or conflict between economic trading zones, non-governmental organisations (NGOs) or government offices on matters of an international nature.

While the overriding purpose of international mediation is the same as at a domestic level – that is, to assist the parties to resolve differences of opinion, grievances or conflict – the dynamics and structures involved are quite different.

At an international level, preservation of self-interest (national interest) is much higher than domestically; the cultural context plays a more significant role; and it usually involves more than one mediator/third party.[17] The complexities of the mediation process and the issues to be resolved increase if the mediation is to be conducted between representatives of different companies, NGOs and government agencies. The aims, goals and values of the organisations will be quite different, would need a greater time investment, and a more experienced and skilled mediator. Conflicts between members of the same organisation working in different countries may be less complex due to shared organisational values and goals.

The use of technology assists mediators working at an international level by allowing Skype or Zoom meetings between all members at the same time, which enables real-time understanding of each other's points of view and to encourage constructive discussion and ideas. For those who work in virtual teams, the use of technology as a primary communication medium is commonly understood and accepted.

Mediation skills

The competency requirements for mediators, whether they are existing employees in the organisation or an external third party, are critical for both the process and successful outcome of any mediation. The mediator can have a significant influence on decisions made by the parties as well as on the final outcome.

At an international level, the skills of the mediator are even more complex, with a need to understand a range of cross-cultural issues, as well as economic, political, financial and social differences. An understanding of the use of virtual platforms for communication is also essential.

With the growth in the use of ADR processes, including mediation, it is vital that the mediator possesses a sound level of knowledge and ability in communication, interpersonal, conflict-resolution and problem-solving skills. If an existing employee, whether a representative from HR or another sector of the organisation, is identified to perform the role of mediator or facilitator in assisting the resolution of workplace grievances and/or conflict, they need to be trained or coached prior to performing such a role. This

training or coaching should be comprehensive, as the mediation and facilitation role can be complex and, if not performed well, can have significant resourcing, financial and branding implications for the organisation.

Such conflict resolution skills are also important to all leaders and managers within an organisation. A Stanford University survey suggested that conflict resolution was a major area of development for CEOs, so that they can manage and channel conflict in a constructive way to get to the root of issues, apply rigour to team thinking and ultimately drive the best outcomes for the organisation.[18] The Queensland Police Service, for example, lists conflict coaching as a significant area of training for its staff.[19]

Other alternative dispute resolution services

There has been a significant increase in the range of dispute resolution services available. These include process consultation, 'arbitration of the papers, investigative tribunals, time limited judicial decision-makers, specialist decision-makers, early neutral evaluation, issue mediation, range mediation, med-arb, telephone mediation, baseball or best offer arbitration, and multiple models of counselling or therapy'.[20] It is not within the scope of this chapter to explain all of these techniques, but process consultation is growing in popularity and success, and is worthy of further discussion.

Process consultation

Process consultation is a dispute resolution approach that involves focusing not on the individuals and their issues, but on the process itself. The aim is to focus on procedures rather than emotions and 'to create a foundation for more productive dialogue'.[21] This technique helps the organisation to name and explore what is going on and what needs to be understood, as many procedures and meetings are seldom understood in an identical way by all employees.[22] The advantage of focusing on the procedure removes the emotional aspect of conflict in order to improve communication between the parties. A positive outcome of this process is that it provides the parties involved in the dispute with skills in managing the issue more productively.

The tactics employed by process consultants include:

- separating the parties
- interviewing them individually and gaining their view on the other parties as well as information on the history of the conflict
- structuring a series of discussions/interviews between the parties to address the cause of past conflicts and perceptions
- creating a strategy or format for dealing with differences in the future.[23]

Unlike mediation, the focus is not on a solution or outcome for the problem, but on looking at better and more effective ways to interact and control the agenda. This method, like other methods discussed in this chapter, has limitations. It is only effective when the conflict has been long term and the parties can see no future other than a continuation of the conflict – they must also see that continuing the conflict is not an acceptable conclusion.

In the past, there has often been a misconception that HR professionals and specialists are in the most appropriate position to take on the roles of mediator and process consultant. However, this chapter makes clear that these are unique and skilled roles that should only be undertaken by those with the necessary training. The role of HR is becoming more focused on the provision of advice in order to empower line managers to manage their own staff and to ensure that appropriately skilled professionals are brought into the organisation to assist in the resolution of conflict where necessary.

Negotiation

Over the past decade or so, there has been an increased focus on determining the way in which the employment relationship is to be managed, as well as on pay, working conditions, rewards and performance management systems, between employee and employer.

Negotiation or bargaining skills remain an integral part of industrial relations and HRM, and are essential for resolving the conflicts that arise between employers and employees (or unions) over the terms, conditions and organisation of work, or over the interpretation of awards and agreements.

Emerging issue 4
Skills for successful negotiations

Definitions and types of negotiation

Negotiation is described as any formal or informal bargaining process in which two or more parties attempt to reach an agreement by successively narrowing their initial claims, through a series of offers and counter offers (see Chapter 3). The process of negotiation can be highly formalised (as in the case of arbitration) or it can be extremely informal. Negotiation can also occur unassisted (as in free collective bargaining) or it can occur with the support of an independent mediator (as in conciliation).

Negotiation (or bargaining) involves the bringing together for examination, comparison and argument the opposing claims of employer(s) and employee(s). The aim is to resolve or avert potential or actual industrial disputes by producing a solution that is finally acceptable to both parties, and to which the parties will adhere. Negotiation varies in its degree of formality and occurs at all levels of industrial relations, from settling grievance disputes in the workplace to resolving wage claims or other industrial matters of organisational (and sometimes national) importance. The classic work on labour negotiations by Walton and McKersie, *A behavioral theory of labor negotiations*, discussed and differentiated between the two most common types of bargaining processes. The first, *distributive bargaining*, was most prevalent in the United States at the time the book was written in the 1960s[24] and was descriptive of collective bargaining between unions and employers, where the parties were at 'arm's length' from each other's interests. Distributive bargaining is therefore bargaining or negotiation that results in a situation 'where one side's gain is the other side's loss' and is also referred to as win–lose or zero–sum bargaining.[25] Distributive bargaining is common,
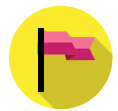
distributive bargaining
A competitive negotiation strategy often known as win–lose bargaining, with the purpose of determining how to distribute resources, money or wages, etc. between the parties

for example, where a union's demand for a wage increase for members comes at the direct cost to an employer's profits. The outcome is important for both sides and leads to tough negotiations and adversarial relations.

By contrast, **integrative bargaining** is bargaining or negotiation that produces 'gains to both labour and management'. It is also known as *mutual gains bargaining* or *win–win bargaining*.[26] This can be achieved when it is recognised by both sides that negotiations can bring about improvements for all parties. For example, the introduction of new work arrangements that increase productivity for the employer and allow the employees to receive increased wages may be regarded as mutual gains or integrative bargaining.

Changes to the structure of work as well as the way it is performed bring with them an increased need for negotiation in the workplace. Jobs are changing significantly, resulting in a need for duties to change, the need for more training, and even a shift from full-time to part-time work or redundancy. These changes mean increased levels of consultation with employees, and such discussions are often fraught with stress, uncertainty and emotion. These negotiations will often involve union bodies, but in the case of non-unionised labour, intensive consultations with the employees themselves. It is not surprising to note that the ways in which employees and employers negotiate is just as important as the final result itself.

Irrespective of the type of industry or the issue to be negotiated, there are a number of principles that should be adhered to in order for the negotiations to be successful. **HRM in practice 11.3** outlines the essential principles to be considered.

integrative bargaining
Win–win bargaining. A collaborative strategy where parties' needs and interests are considered

HRM in practice 11.3

Core principles in negotiating

No matter what the industry, job title, product produced or sold, or the issue, being able to successfully negotiate with others is essential for success.

At its core, negotiation is really about persuading others – this means presenting ideas in a way that others will agree with. It's about influencing ethically – using the following core principles:

1   *Reciprocity:* people are inclined to give back to others what has been given to them. You should be the first to 'give' and be sure it's in a genuine, personalised and unexpected manner.

2   *Scarcity:* people generally want what they can't have. It's important to emphasise the unique or otherwise unattainable advantages of any recommendation or offer you make. It's also important to make clear the benefits that will be achieved, along with what could be lost if they don't accept the recommendation/action/direction.

3   *Authority:* research shows that people will typically follow the lead of those they see as credible and knowledgeable. If you are not the expert, arrange for someone who is to conduct the negotiations on your behalf.

4 *Consistency:* people feel compelled to be consistent with their prior behaviours, actions or statements. Recognise any prior commitments made and link them to the current request.

5 *Liking:* people are more easily influenced by those they like. We like those who like us, who are similar to us and who will cooperate with us. In negotiation, it's important to take the time to find out about genuine shared interests and points of agreement. This will save time in the long run. Negotiation is an essential skill in working with others. The key is to do this ethically.

Source: Adapted from Cialdini, R. (2015), The six principles of successful workplace negotiation. International Association of Business Communicators, 4 September, based on his book Influence: The Psychology of Persuasion.

Negotiation skills

The freeing up of centralised arrangements since the early 1990s has moved the locus of the employment relationship to the enterprise or workplace level, encouraging management to resolve disputes at the lowest possible level.

One consequence of the increased reliance on direct negotiation and bargaining between the employer and employee has been increased attention to the competencies of managers to successfully participate in these processes, and the acquisition of a range of skills to enable them to do so. These include:

- active listening skills
- verbal communication skills
- empathy skills
- strong interpersonal skills, particularly in the areas of persuasion, negotiation, mediation and facilitation
- problem-solving and conflict-resolution skills
- emotional regulation
- adaptability and flexibility.

Emotional intelligence

More recently, **emotional intelligence (EI)** has been considered an essential skill for successful negotiators to possess. As discussed in Chapter 1, EI refers to the ability to understand and use emotions and emotional knowledge appropriately to enhance thought and action, and is critical to the establishment and maintenance of productive and successful interpersonal relationships.[27] The emotionally intelligent negotiator is able to identify emotions that assist or hinder negotiations, their impact on the outcome and how to positively manage them.[28]

emotional intelligence (EI) Refers to the ability to understand, use and interpret the emotions of others appropriately

The future of ADR: online systems

The technological revolution has meant that many HR systems and processes have been automated, providing the opportunity to reduce time spent on routine, administrative tasks and increase time spent on the important tasks. ADR is no exception. The use of technology – known

as online alternative dispute resolution (OADR) – has emerged over the past decade to support a number of ADR processes, as well as to resolve complaints. Such technology can range from utilising videoconference and Skype or Zoom platforms to allowing those party to the dispute to engage in direct communications without physically being in the same location, and to use artificial intelligence to have in place expert systems equipped with the knowledge, facts and rules to enable mediation and decision making. **The future of work 11.1** provides examples of how artificial intelligence is revolutionising one of the most complex and labour-intensive areas of HR: conflict resolution.

The future of work 11.1

Conflict resolution by BOTS: humans no longer needed

Two systems that are currently revolutionising conflict and dispute resolution are a Dutch platform called 'Rechtwijzer' (Roadmap to Justice) and a Canadian automated tribunal system in British Columbia.

Rechtwijzer uses guided pathways to simulate an information-driven system that provides advice and tailored referrals. The system is used by the Dutch Legal Aid Board to provide any user with the opportunity to solve their own problems at an affordable cost. The platform uses algorithms to find points of agreement between the parties and then proposes solutions. If the proposed solutions are not acceptable, the parties can then use the system to employ a mediator and in more complex cases, an adjudicator.

The Canadian online tribunal system has four stages: it has an expert component which uses interactive questions and answers to give users tailored legal information as well as tools and resources, such as template letters; there is a party-to-party negotiation platform which helps parties to resolve the dispute themselves online; the use of online facilitators employed by the tribunal who use ADR techniques in an attempt to resolve complex cases remotely; and where agreement is still not reached between the parties, online adjudication by a qualified lawyer, utilising online submissions and videoconferencing where necessary.

Such technological platforms have the capacity to assist in the resolution of disputes at an affordable cost, relieving industrial and civil courts and tribunals of much of the backlog of cases. Importantly, such systems also empower users by helping them to not only understand their disputes better, but also how to resolve such matters themselves.

Source: Adapted from Legg, M. (2017), Online alternative dispute resolution. *Precedent 32* (Sydney, NSW), 141, July/August, pp. 32–5.

Emerging issue 5
Recognising conflict management styles

dual concerns model
A two-dimensional framework which identifies the different styles in conflict management across concern for one's self and concern for others

CONFLICT MANAGEMENT STYLES

Much of the literature covering conflict management styles has adopted, and adapted, a two–dimensional framework by Pruitt and Rubin, called the **dual concerns model** (see **Figure 11.2**). On the horizontal dimension is the concern for the negotiator's own outcomes and on the vertical dimension is concern for the other's outcomes.[29]

FIGURE 11.2 The dual concerns model
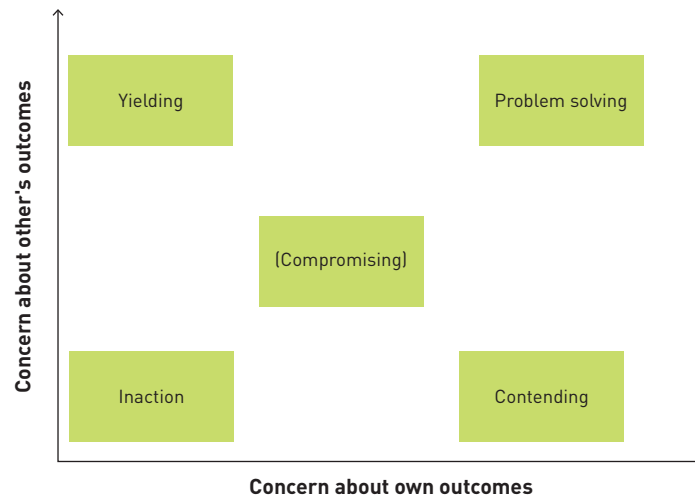
Source: Lewicki, R. J., Saunders, D. M. and Minton, J. W. (1997), *Essentials of negotiation.*
New York: McGraw-Hill, p. 21. Adapted from Pruitt, D. and Rubin, J. (1986), *Social conflict:
Escalation, stalemate and settlement.* New York: Random House.

This model identifies five different management styles that can be used in the resolution of conflict, according to the degree to which the style is more concerned with achieving the parties' own concerns or those of others. Lewicki, Bruce and Saunders also use the 'dual concerns' model to further explain the five styles that follow.[30]

The five main styles

Contending

Contending is also known as competing, dominating or fighting. This is used by parties who are strongly self-interested and want to achieve their own outcomes at the expense of the other parties. Lewicki, Bruce and Saunders suggest that punishment, intimidation, threats and unilateral action are consistent with this approach. Wertheim and colleagues also argue that with this approach only short-term gains are achieved, and relationships are likely to suffer.[31]

Yielding

Yielding is also known as accommodating and obliging. From the model, it can be seen that this strategy suggests that there is little concern for achieving one's own outcomes or concerns. It can be seen as a submissive style, but there may be situations where this resolves the conflict and pacifies others, particularly if the conflict is becoming emotional or heated. However, as Wertheim et al. suggest, this may indeed lead to frustration as the actual issues and differences of opinion have not been discussed and resolved and the relationship may suffer.[32]

Inaction

This style is also called avoiding or, to use an Australian expression, the 'emu effect' (placing one's head in the sand!). This is self-explanatory and suggests little interest in achieving one's own outcomes, and no interest in assisting others to achieve theirs.

Unfortunately, with inaction or avoidance, the conflict or issue often does not go away and may very well emerge again sometime in the future. However, this technique can be used effectively in situations where the conflict is perceived as trivial or minor and will resolve itself.

Compromising

As it can be seen, this strategy is located in the middle of the model and is often viewed as a bargaining style. Wertheim et al. also suggest that this is a 'give a little, lose a little' strategy, which is seen as displaying fairness in negotiations, but only results in 'half wins' for both parties.[33]

Problem solving

Problem solving is viewed as the most effective style and is also known as collaborating, integrating or cooperative problem solving. There is a high concern for achieving the outcomes for all the parties involved. The result of such an approach is considered to be win–win, but the style does require time, energy, resources and, most importantly, a culture of trust between the parties.

Which style to use?

There are disadvantages and advantages to each of the conflict management styles discussed. A critical skill for managers, employees and HR professionals alike is not only to understand each of the styles, but to know which one is the most appropriate and effective to use in any given situation. In addition, managers, employers and HR professionals must acquire the skills and abilities necessary to effectively change to another style when factors in the conflict change (see **Professional tip 11.2**).

Professional tip 11.2

Use of management styles

The role of HR in recognising and implementing the management styles to be used is primarily an advisory one. HR practitioners need to be aware of the appropriate use of each style as well as the advantages and disadvantages of each and to advise line managers accordingly. It is strongly recommended that learning and development programs for all line managers incorporate the identification of conflict and ways in which to effectively deal with it.

CROSS-CULTURAL AWARENESS IN CONFLICT MANAGEMENT

As we have seen in this chapter, the maintenance of positive and productive relationships in the workplace is vital not only to organisational productivity, but to the overall ongoing sustainability of the business. The way in which both employees and employers deal with disputes and conflict is a vital component in the maintenance of organisational harmony and productivity.

Emerging issue 6
Cross-cultural awareness

In the age of globalisation (see **Figure 11.3**), conflict resolution can often involve a clash of cultures, with research showing that different cultures resolve disagreements and conflict through a variety of approaches.[34] While technology has made communication (often face-to-face) across borders and oceans more seamless, it would be inappropriate to assume that the use of technological innovations such as Skype or Zoom could eliminate cultural differences. Indeed, more interpersonal ways of communicating across boundaries may serve to expose such differences more readily, leading to the potential for miscommunication, misunderstanding and even conflict. Expatriate managers and those working with a diverse workforce, either face-to-face or virtually, would do well to learn the cultural variations in the way conflict is resolved.[35]

FIGURE 11.3 Cross-cultural awareness is crucial when working with a diverse workforce

Source: iStock.com/luxizeng.

One global study on how different cultures tackle conflict situations provides the following examples:

- the United States: more likely to discuss workplace task-orientated conflict directly with those affected or impacted
- Hong Kong: more likely to involve upper management in resolving the conflict
- China: more likely to select an indirect approach, as a direct approach would harm the relationship with the other party
- Brazil: more likely to select a style that expresses concern for others and they are more accommodating than their North American counterparts.[36]

These examples support numerous studies citing the significant impact of different national cultures on the way people deal with decision making, grievances and conflict in the workplace.[37] Many Asian cultures are collectivist in nature and have a strong, traditional respect for roles of authority and power, whereas many Western cultures are individualistic, focusing on single actions and rewards for individual achievement.

In support of this research, there are considered to be specific variations in the ways in which Asian cultures problem solve in conflict situations.

- *Positive* Asian values for problem solving may include:
  - experience of and respect for diversity and older people
  - emphasis on consensus-building rather than conflict
  - preference for gradual rather than rapid change
  - inclusive decision making
  - pragmatism over principles
  - use of 'middle-person'/neutral mediator.
- *Negative* influences may include:
  - face (*mianzi*) – unwillingness to venture opinions
  - conflict avoidance
  - uncertainty avoidance
  - excessive deference to managers.

The task of the negotiator or mediator is to design problem-solving processes that minimise the negative factors and maximise the positive factors.

Two of the principles of successful negotiation (as outlined in **HRM in practice 11.3**) are consistency and liking, which are achieved through shared behaviours, values, attitudes and goals. With the existence of cultural diversity in an organisation, these behaviours, values and attitudes are likely to be different, resulting in conflict-resolution challenges. For example, when those with collectivist values (e.g. Chinese cultures) work with employees with individualistic values (e.g. American culture), there are likely to be disagreements as a result of not only communication style differences, but also different goals and expectations. The potential for conflict is heightened even more when employees with these different cultural values work together in teams to achieve organisational results. However, a recent study found that organisations that embraced cross-cultural

differences and integrated values from diverse cultures achieved a greater sense of collectivism, resulting in more cooperative approaches to managing conflicts.[38] The clear message here is that cross-cultural awareness is integral not only to workplace harmony but also to organisational success.

These cultural differences also have a significant impact on the way in which the dual concern model for conflict management styles, as discussed earlier, is adopted and utilised. For example, Asian countries will be more likely to utilise yielding or avoiding in dealing with conflict (as identified in **International perspective 11.1**), while many Western cultures will adopt more contending and problem-solving styles.

International perspective 11.1

Conflict management in China – when avoidance is not avoidance

China is an economic powerhouse, with almost every business in the world having a relationship either with a Chinese-manufactured product or Chinese organisation. There is now more potential than ever for global exchanges, such as doing business with the Chinese or working for/with the Chinese. Not only are international corporations interested in gaining access to the vast Chinese market but also Chinese workers themselves are more likely to work in multinational or international companies.

More than ever, the need to understand cross-cultural differences is imperative to successful business and working relationships. Many of the existing conflict-management models, including the dual concerns model discussed earlier in this chapter, are based predominantly on a Western approach. For example, an avoidance strategy in a Chinese organisational setting may not have the same meaning in a Western setting. Avoidance for the Chinese may indeed not be due to a low concern for others and for themselves, but rather due to cultural values and organisational norms that dictate how an employer should interact with employees.

A recent study involving Chinese workers suggests that they perceive workplace conflicts in a positive way, framing them from the perspective of providing opportunities for self-improvement and growth. It's seen as a 'ladder of personal growth' or an 'accumulation of experiences'.

The study found that the way in which Chinese employees *dealt with* workplace conflict was subtly different to the way a Western organisation would. What an Australian organisation would perceive as an avoidance strategy, the Chinese would see as a two-step process known as 'strategic silence': a private exchange of information followed by silence at the right moment. So, Chinese workers do not necessarily avoid direct communication, rather they simply use it at the appropriate moment in a culturally appropriate manner.

Open communication is seen as a skilful integration of directness and indirectness. Silence contributes to effective communications, particularly in cases where the conflict has emotional elements: 'silence on the scene, open communications afterward.' The silence serves as a strategic approach to prevent the situation from worsening.

Self-reflection, perspective-taking and a positive attitude are also key steps in conflict resolution in a Chinese organisation. Tolerance and mutual understanding are also important. Clearly, a broader perspective and an ability to both recognise and prioritise shared goals was considered critical for handling conflicts.

Maybe our Western counterparts could learn something from the Chinese approach.

Source: Adapted from Guo, Y. and Cionea, I. A. (2017), 'Do it this way, not that way': An exploration of Chinese workplace conflicts. *International Journal of Conflict Management*, 28(2), pp. 202–21. doi: 10.1108/IJCMA-10-2015-0073.

cross-cultural awareness
The ability to be aware of differences between one's cultural values and beliefs and those of others

Given the impact of cultural differences in the ways in which people interact, negotiate and resolve conflict with others, it is no surprise that national and international companies are rating the need for **cross-cultural awareness** and cross-cultural communication skills training as one of the most important competencies required of senior managerial staff (see **HRM in practice 11.4**).

HRM in practice 11.4

Cross-cultural disputes: the impact of language

Australia is a multicultural country, in an increasingly well-connected global community. In any negotiation, the parties come together with their own unique set of values and interests, informed by their experiences, circumstances and cultural origins. Even individuals with similar backgrounds can have difficulty resolving a dispute, but added complexities arise where the parties do not share linguistic and social communication norms.

Through shared experiences over time, members of a cultural group learn about acceptable ways to behave, and appropriate means of communicating their needs and beliefs. Culture is not static – it adapts over time.

It is also important to note that not all cultural groups are homogenous. Chinese and Aboriginal and Torres Strait Islander peoples, for example, are made up of an enormous number of diverse cultural subgroups. This means that traditional behavioural norms in these cultures will differ according to the subgroup membership.

Language is a powerful tool and parties may feel they are losing power in a dispute by being forced to communicate in a medium with which they are not familiar. Dropping jargon and focusing on clarity and simplicity in language can help to make non-native speakers feel more comfortable and relaxed.

Language also reflects values and social structures, which can vary enormously across cultures. For example, English has a single word to address a second-person subject, 'you', whereas many Asian languages have multiple alternatives, the choice being dependent on the level of respect, deference and familiarity a speaker wants to show to their addressee. Clearly, the choice of which 'you' has implications across the different negotiation stages.

A well-known phenomenon of Aboriginal English and traditional Aboriginal language speakers is 'gratuitous concurrence', where a listener indicates consent or agreement to a person in a position of authority, even when they do not agree with what is being said (or they may not understand what is being asked). This can pose problems in mediations and negotiations where a major goal of communication is to understand the participants' underlying feelings and beliefs about the dispute.

There are many cultural aspects to human communication, and these can affect the negotiation process in a mediation. Misunderstandings between the parties can exacerbate conflict. Without necessarily adopting the parties' means of communicating for themselves, a mediator's sensitivity to these potential issues can help to prevent and manage the communication issues that might arise.

Source: Adapted from Waterford, K. (2017), Cross-cultural disputes: Guidance for Australian mediators. *Precedent*, 141, July/August, pp. 17–21.

SUMMARY

The underlying assumption of much of the public discussion about industrial relations rests on a dualistic notion of either conflict or cooperation, when in reality both are present in workplaces and society. Conflict is a part of everyday life and can have positive as well as negative influences and outcomes. The same is true of workplace conflict. The increasing trend towards leaner, more globally competitive organisations can lead to higher levels of conflict, particularly over issues such as workloads, the provision of resources, remuneration and reward packages. It is important for managers to realise that conflict can never be completely eliminated, but that it can be effectively harnessed and managed.

Conflicts between employees and employers are often described as being either industrial or workplace disputes. Industrial disputes are where unresolved workplace conflicts have escalated, whereas workplace disputes are often the result of differences of opinion, usually during bargaining or periods of significant change. For HR practitioners, the resolution of workplace conflict is a central HR function, and it is vital that HR staff work with line managers to ensure they possess the necessary skills to facilitate successful conflict resolution.

The use of alternative dispute resolution processes, involving third parties, is increasingly popular as a way in which to resolve organisational and interpersonal conflict. The third party is seen as an independent voice in the dispute who can provide the stability that may be required to deal with issues, particularly when emotions are high. The key to successful ADR is to first recognise the dispute and then to determine the type of process to use. Mediation is increasingly popular in ADR due to the control the parties to the dispute have over the outcome, making them more committed to the process. It can also be used internationally, but it is important that mediators are trained and possess the necessary skills. Negotiation remains an integral part of industrial relations and HRM and is an essential process in resolving conflicts between employers and employees that revolve around terms, conditions and organisation of work.

The conflict management style adopted in conflict resolution is based upon the dual concerns model, where a balance between concerns for meeting one's own needs is measured against meeting the needs of others. The model identifies five main styles: contending; yielding; inaction; compromising; and problem solving. A critical skill for managers and employees alike is to understand which one of these styles is most appropriate and effective to use in any given situation.

Cross-cultural awareness is an essential skill to possess in today's global environment. The different value and belief systems that exist between cultures need to be acknowledged, as do the way in which different cultures approach conflict resolution and problem solving.

This chapter has outlined a range of conflict management styles as well as describing new forms of alternative dispute resolution methods that better suit these new working arrangements. Only time will tell if they achieve workplace harmony.

KEY TERMS

- alternative dispute resolution (ADR) 486
- cross-cultural awareness 502
- distributive bargaining 493
- dual concerns model 496
- emotional intelligence (EI) 495
- integrative bargaining 494
- knowledge workers 481
- mediation 487

EMERGING ISSUES

1 Negative aspects of workplace conflict

Costly consequences of conflict also include absenteeism, often in the form of sick leave, legal action against the organisation and a loss of productivity. The impact on the organisation's bottom line can be significant.

a   Consider and list other negative aspects of workplace conflict.

b   Discuss the differences between industrial and workplace conflict.

2 Third-party dispute resolution

Both the causes and nature of workplace conflict are changing in response to industrial and organisational changes, and although the use of formal industrial tribunals is reducing, the use of alternative dispute resolution (ADR) techniques, involving mediators and facilitators to resolve conflicts, is increasing.

a   'Third-party involvement is undesirable in the employment relationship because it demonstrates a sense of failure on the part of the organisation in dealing with the issue.' Do you agree with this statement? Justify your response.

b   The use of mediators and facilitators is more expensive for the organisation than attending an industrial tribunal. Debate this statement.

3 Mediation

Mediation is described as a situation where a third party helps the disputing parties to achieve agreement by guiding them. This is becoming a popular method for resolving workplace disputes.

a   'Mediation can only be facilitated by independent, third parties from outside the organisation.' Debate this statement.

b   Outline what you believe to be the essential skills a competent mediator should possess.

4 Skills for successful negotiations

One consequence of the increased reliance on direct negotiation and bargaining between the employer and employee has been increased attention on the competencies of managers to successfully participate in these processes, and the acquisition of a range of skills to enable them to do so.

a   Reflect on your own negotiation successes. What skills do you believe assisted in achieving such success?

5 Recognising conflict management styles

A critical skill for managers, employees and HR professionals alike is not only to understand each of the conflict management styles, but to know which one is the most appropriate and effective to use in any given situation. In addition, managers, employers and HR professionals must acquire the skills and abilities necessary to effectively change to another style when factors in the conflict change.

a   Describe each of the conflict management skills outlined in the dual concerns model. What is your own preferred style? Why do you think this is the case?

b   'Once a conflict management style has been selected for a conflict situation, it cannot be changed as this will confuse the parties and change the outcome of the conflict.' Debate this statement.

6 Cross-cultural awareness

The global workplace is one in which the importance of cross-cultural negotiation and conflict resolution skills – for employers and employees – is high on the agenda. Indeed, jobs are designed to demonstrate the importance of this, and staff members are employed with cross-cultural communication skills and are trained and performance-managed against these criteria. The inclusion of cross-cultural mediation and negotiation mechanisms is therefore essential to successful business relationships.

Emerging issue 6
Cross-cultural awareness

a   Is it possible to ever develop a true understanding of cultural issues and differences in a workplace environment?
b   Why do conflict and dispute management styles differ between cultures?

ETHICAL CHALLENGE

Ethical dilemmas in the Sarawak oil and gas industry

The first oil discovery in Malaysia was in 1910 in Miri, Sarawak. A modest production of 83 barrels per day 109 years ago has now expanded into a multi-billion dollar industry. Now, Miri serves as the centre of a fully integrated multinational domestic and international oil and gas industry in the Asia Pacific region, with exploration and production operations currently existing in over 22 countries.

Negotiating with government and industry forms an integral part of business negotiations within the oil and gas industry. However, negotiating oil production agreements with foreign oil companies is a challenge which governments of natural resource-rich countries often encounter. Often, at the point of signing development contracts, predictions regarding the amount of oil or gas likely to be recovered is often a mere deduction, or guess, based on geological knowledge. Indeed, nine of out 10 exploration efforts result in a loss. As a result, contract negotiations require skilful bargaining to reach a reasonable and mutually acceptable balance between the interests of the investor and a government. The fact that these negotiations are for the most part cross-cultural adds a further level of complexity to the process.

A recent study involving interviews with senior employees within the Malaysia oil and gas industry raised a number of ethical dilemmas faced on a regular basis. All employees agreed that negotiation across cultures would require a longer-term framework than negotiating domestically. They further suggested it could take up to six times longer to successfully negotiate a deal.

Those interviewed also experienced a range of ethical dilemmas in negotiating oil and gas deals with different cultural groups. In one case, the senior level employee was invited by a top-level politician (in an unnamed country) to visit him to discuss the contract at his home. When he arrived, he was told by the politician that unless the company made large contributions to his personal assets he would not allow the deal to go forward. This was seen as the norm in some countries the employees dealt with – particularly those that had a history of civil unrest and extreme poverty. In these countries, bribery was deep rooted, so when a large multinational oil company arrives to do business, it is seen as an opportunity for corruption.

Cultural misunderstanding was also commonplace. One employee shared an experience of negotiating in a Middle Eastern country, where the negotiations were running longer than usual and they started to run out of time. As such, a letter was sent to the Middle Eastern negotiators advising of a withdrawal from the discussions: a normal process when negotiations reach an impasse. Unfortunately, this was considered extremely offensive by the Middle Eastern negotiators and created major difficulties with future negotiations in the country.

In both cases, awareness of the skills required for negotiation in an intercultural environment would have been advantageous for the negotiators. Effective negotiators understand the predisposition of their own culture as well as that of the business counterpart's and strive to bridge the gap tactfully.

Source: Adapted from Nordin, S., Vassekaran, S. and Grover, G. S. (2014), Intercultural negotiations: Issues and challenges in the oil and gas industry from Malaysian perspective. *International Review of Management and Business Research*, 3(3), pp. 1385–93.

1   What ethical dilemmas does this ethical challenge raise?
2   What would you have done in each of the two situations?
3   What training could the company have provided to the employees to avoid such a situation from occurring?

CASE STUDY 11.1

Generation Me: implications for workplace conflict management

For the first time, up to four different generations are working together side-by-side. Supervisors are managing people with an age difference ranging up to 40 years. Conflict and tension naturally arise when people with such differing backgrounds work together. Recent research suggests up to one in three managers waste up to five hours per week dealing with conflict between co-workers of different generations.

Technology plays a role in the way in which Gen X and Millennials communicate: they have been 'talking' via technology their entire lives, so it's no surprise that social networks and more informal styles of communication are their preferred options in the workplace.

Growing up in a digital era with information at their fingertips, these younger generations expect and appreciate frequent and in-time feedback. They are also more loyal to their skill than they are to their employer. For Baby Boomers, loyalty means that personal sacrifice for career achievement and the company are the norm.

The younger generation of employees also value work–life balance and believe productivity matters more than time spent working. Autonomy and freedom to complete tasks how they want, when they want and by what means they want is important. 'Why?' is a frequent response to a workplace request.

The following statements are often heard in the office corridors: 'Millennials are always on their phones and never pay attention' or 'The younger generation don't understand the meaning of loyalty'.

Source: Adapted from Calvert, L. (2016), How to manage generational differences in the workplace. *Feed & Grain*, 56(2), pp. 72–7. Adapted with permission.

Questions

This case study is representative of the workplace of today and the future – a workplace that is increasingly diverse in terms of age, gender and culture, which makes the conflict management and negotiation processes increasingly complex.

1   How would you skilfully manage different age groups with widely different expectations in the workplace?
2   What strategies need to be put in place to deal with these different expectations?
3   What training and development strategies need to be developed by an organisation to deal with the challenges of managing a generationally diverse team?

CASE STUDY 11.2

New online tool makes it easier for small businesses to find dispute resolution services

Australian small businesses in a dispute are set to benefit from the launch today of 'Dispute Support', a new, simple to use, online dispute resolution information and referral tool.

There are a lot of dispute resolution services available to help resolve business disputes without going to court. However, small businesses suggest that it can be difficult to find alternative dispute resolution services and to work out which one is most suited to their needs.

Dispute Support has been established to save small businesses time and money, and to help small businesses identify the most appropriate low-cost dispute resolution service for their dispute.

Dispute Support was developed by the Australian Small Business Commissioner in conjunction with representatives from state and territory governments, including the state Small Business Commissioners.

Source: The Commonwealth of Australia (2014), Media release by Minister for Small Business, The Hon Bruce Billson MP, 24 June, http://bfb.ministers.treasury.gov.au/media-release/036-2014/. Licensed under CC BY 3.0 AU.

Questions

1. Outline the advantages and disadvantages of using an online tool to source a dispute resolution service.
2. Given your understanding of ADR mechanisms and techniques, advise where such a service would be deemed inappropriate. Why?

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THE EFFECTIVENESS OF SHRM: TOWARDS THE FUTURE

Evaluating SHRM: towards the future

End-to-end talent management platforms integrated with payroll and performance systems, data analytics to improve employee engagement and retention.

Deloitte Access Economics (2018), *The future of work: Occupational and education trends in HR in Australia*, p. 4.

(Technology) is merely a decision support system that should enhance, not replace, the role of managers and HR professionals in organisations.

Stone, D. L., Deadrick, D. L., Lukaszewski, K. M. and Johnson, R. (2015), The influence of technology on the future of HRM, *Human Resource Management Review*, 25, p. 227.

OBJECTIVES

After reading this chapter, you will be able to:

1 evaluate human resource management (HRM) strategies, policies, plans and programs in relation to desired organisational outcomes

2 demonstrate an understanding of the importance of good HRM accounting

3 appreciate the value of both quantitative and qualitative measures

when looking for indicators of HRM performance

4 consider the theory and practice of evaluating particular components of the HRM program

5 discuss the compliance and governance aspects of HRM practices

6 identify the likely roles of SHRM theory and practice in future workplaces.

Emerging issues

1 Strategic HRM evaluation

2 HRM evaluation theory

3 Quantitative evaluation methods

4 Effects of the Fourth Industrial Revolution on jobs

5 Future of SHRM

INTRODUCTION

Throughout this book, we have discussed the crucial role of HR professionals, senior and line managers in ensuring that organisational objectives are achieved through the effective and efficient management of human resources. In the past, employees and human resource departments were often regarded as necessary but expensive overheads, the costs of which simply had to be borne by the organisation. A more modern view is that HR departments can manage their own budgets and structure all SHRM activities to ensure that they contribute cost-effectively to, and account for, the achievement of organisational objectives. In addition, they should add value to the ethical and legal compliance and corporate governance requirements of their organisation.

The key aims of this chapter are to analyse the various strategies, processes and techniques that are used to evaluate the effectiveness and contributions of all HRM functions to organisational goals and objectives; and to explore potential future changes in all workplaces and their implications for strategic human resource management (SHRM) theory and practice. The two aims are inherently interconnected, as external factors inevitably influence the nature of internal HRM systems and processes, together with the responsibilities and roles of HR professionals.

In essence, if HRM is strategic in its focus and managerial in its operations, it will account for its activities in similar ways to the managers of production, finance and marketing. The notion of human capital, which may be defined as 'an element of intellectual capital along with social capability, consisting of the relationships and networks that enable the creation and transfer of knowledge and organisational capital',[1] reflects a quantifiable approach to the management of HR. On the other hand, the impact of qualitative measures on an organisation's multiple stakeholders are of equal importance. These qualitative measures include employee and customer satisfaction, ethical and legal compliance, **corporate governance** and **corporate social responsibility (CSR)**. Some HR thought leaders have also suggested that complementary measures might include the level of employees' innovative capabilities and risk management capacities and the depth of their 'collaborative social networks'.[2]

Professional tip 12.1 illustrates the key roles and competencies required by HR professionals to successfully undertake HRM evaluation, according to the Australian Human Resources Institute (AHRI) Model of Excellence (see Figure 1.2 in Chapter 1).

corporate governance
Refers to the responsibility of all organisations to comply with all financial, legal and ethical requirements

corporate social responsibility (CSR)
Focuses on organisations' environmental, social and community obligations

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Professional tip 12.1

Key HR roles and competencies

The key HRM behaviours (or roles) that drive HRM evaluation are those of *critical and enquiring thinker*, *future oriented*, *resolver of issues* and *professional*. The associated HRM capabilities include *business driven*, *strategic architect*, *workforce and workplace designer* and *culture and change leader*.

A strategic approach to HRM evaluation

At the strategic level, the Chartered Institute of Personnel and Development (CIPD), Baron, and Dulebohn and Johnson suggest the use of a broad HRM evaluation framework based around a 'Human Capital Bridge Framework', which encompasses the effectiveness, efficiency and impact of all HRM activities.[3] The latter authors suggest that such a perspective, implemented through comprehensive HR measurement systems, 'hold[s] out the potential for HR managers to communicate HR's value and further transform its image [as] a fully-fledged strategic and business partner',[4] a key theme of this text. Others suggest using Kaplan and Norton's balanced scorecard as an integrative mechanism for linking all organisational functions with overall business strategies through four broad perspectives; namely, the financial perspective, the internal business perspective, the customer perspective, and the learning and growth perspective.[5] Both approaches clearly link business and HRM strategies and goals, acknowledge multiple organisational stakeholders and their (often conflicting) interests, and recognise the value of both quantitative and qualitative evaluation techniques. However, some other authors caution that HR systems (e.g. job design, staffing programs, performance management, learning and development, and rewards and remuneration) should be 'targeted toward some strategic objective and operate by influencing (a) employee knowledge, skills and abilities; (b) employee motivation and effort; and (c) opportunities for employees to contribute'.[6]

HRM in practice 12.1 provides an example of one multinational company that consciously attempts to align its human resource systems with its business strategy through a 'global, world-class analytics function' focused on improving productivity.

HRM in practice 12.1

HR strategy and HR analytics at Chevron US

A good example of the new role of people analytics is the journey Chevron has taken to build a global, world-class analytics function. Falling oil prices in recent years has required Chevron to find new ways to maintain its above-average profitability and revenue per employee. To achieve this goal, the company used analytics to focus more deeply on understanding workforce productivity.

Chevron began with a small, centralized HR analytics group that provided reports and standardized people metrics at headquarters. Previously, there was little sense of community among the various HR specialty areas and business units, leading to great variability in their practices, operating procedures, and capabilities. Different areas of the business were duplicating data collection and analysis methods to generate the same reports.

To solve these problems, the team redefined its mission: 'to support Chevron's business strategies with better, faster workforce decisions informed by data.' This expanded vision led Chevron to reinvent its analytics team as a company-wide community of practice and establish a global process to prioritize all people analytics projects in the company.

The community of practice totalled 295 members, across all important divisions of the company, including HR business partners, specialists, and analysts from around the world. It provides a forum for interested analytics professionals in the organization to gather virtually and discuss data models, share data, showcase new techniques, design standardized metrics, and develop analytics programs. The core team also developed an in-house workforce analytics curriculum aimed at developing critical analytics competencies in both HR and non-HR stakeholders. Because analytics involves a range of skills—from problem solving and data analysis to visualization and statistics—this curriculum helps team members gain a common level of understanding and capability.

The results have been significant. Only two years after the reinvention of people analytics, the team is now performing dozens of analytics projects. Chevron's people analytics practice has dramatically reduced time to complete an analytics project and increased reliability for all people-related decisions; the company now has standard reports across the business for all talent metrics; and the team is widely consulted for decisions on reorganization, restructuring, and other strategic business decisions. Compared with the prior decentralized model, the new model operates at significantly lower cost yet achieves 30 percent higher productivity, doing more work with significantly fewer people and in significantly less time. One business unit alone eliminated nearly 100 hours of redundant reporting work in 2015.

Source: Collins, L., Fineman, D. R. and Tsuchida, A (2017), People analytics: Recalculating the route. *Deloitte Insights*, 28 February, http://www2.deloitte.com/insights/us/en/focus/human-capital-trend/2017/people-analytics-in-hr.html.

Purposes and outcomes of SHRM evaluation

There is general agreement among HRM academics and professionals that the main purposes of evaluation are to assess and promote the contributions of HRM systems, processes and practices to overall organisational performance. The three key dimensions of such activities are:

1 measuring the efficiency of the HR function
2 measuring the effectiveness of HRM systems and processes
3 measuring the impact of these factors on their organisations.[7]

Emerging issue 1
Strategic HRM evaluation

All of these dimensions may be measured in qualitative or quantitative ways. Thus, efficiency may be assessed through such components as labour costs, HR expenses and absenteeism rates together with customer and employee feedback; effectiveness, by applicant selection and retention trends, and by the competitiveness of rewards systems combined with customer satisfaction surveys; and impact factors, by assessing the overall return on investment (ROI) from the expenditure on HRM systems (which is reflected in broad measures such as productivity and profitability).

Vokic suggests that there are three desirable outcomes for HRM evaluation systems. These are improving HRM activities, demonstrating that HRM is a strategic business partner, and producing hard evidence of the value of HRM to the organisation.[8] Reflecting the current global priority of HRM on talent management in a highly competitive labour market
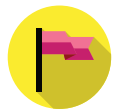
(see Chapters 1 and 6), some authors have observed that the focus of such evaluation systems should be on:

- talent attraction, recruitment, retention and rewards
- the ways in which employees are motivated and developed
- how overall employee knowledge and performance are managed within organisations.[9]

One practical system for undertaking HRM evaluation is the so-called 'Six HR Domains Framework', which focuses on six HR functions: staffing; learning and development; appraisal; rewards; organisational governance; work health and safety (WHS), diversity and industrial relations; and communication. Each 'domain' then has four 'assessment elements': the nature of the HR activity; perceptions of customer value; cost–benefit issues and the assessment of HR contribution.[10] These strategic and operational frameworks clearly reflect and reinforce SHRM theory, as illustrated in **Figure 12.1** and throughout the text.

FIGURE 12.1 SHRM and evaluation
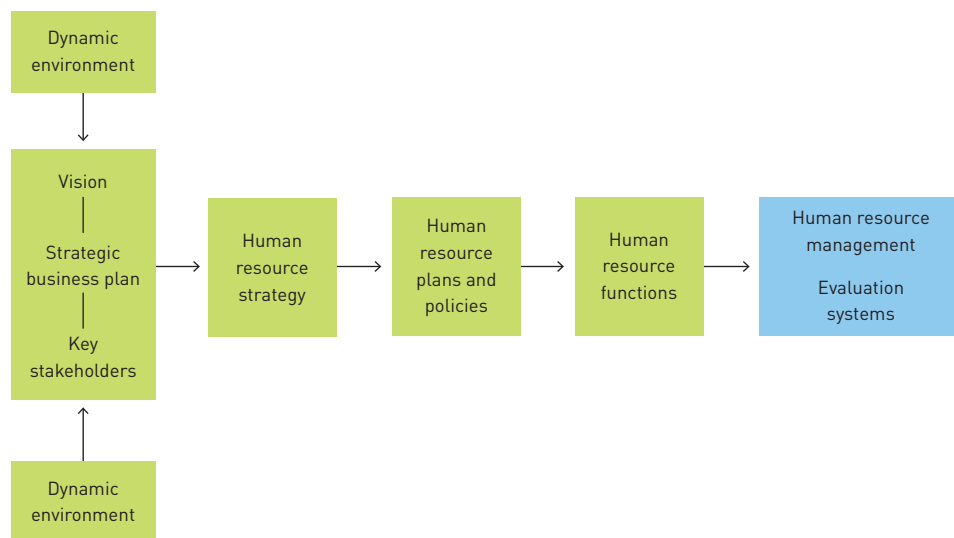
SHRM EVALUATION: THEORY AND PRACTICE
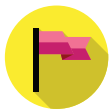
Emerging issue 2
SHRM evaluation theory

The challenge for HR professionals is to account for the short- and long-term costs and justify the benefits of specific HR processes (recruitment, training, performance management), overall HR systems and proposed HR strategies in relation to broad organisational goals and targets. Many HR activities are difficult to quantify. While the costs of recruitment, training or WHS programs can be effectively quantified, their benefits in productivity or performance terms are more difficult, although not impossible, to measure. Proactive HR professionals endeavour to

measure the effectiveness of their programs and future plans in similar terms to those of their finance, production and marketing managerial counterparts.

Such measures are probably most useful when compared with similar industries, or in the same organisation over historical periods. Broader cost–benefit measures of SHRM may include considerations of the dollar value of the resources needed to implement programs, the 'number of person–years of workforce value affected … [or] the change in the workforce value of those affected by the strategy, program or process'.[11] Some HRM academics have suggested that the future of HR lies in 'understanding and supporting activities that create sustainable capability and external shareholder value',[12] and improving both employee and shareholder satisfaction; and that 'organisational capabilities such as talent, speed, collaboration, accountability, shared mindset, learning and leadership are the deliverables of HR … [which] contribute to an organisation's market value'.[13]

Challenges and opportunities of SHRM evaluation

HR cost–benefit analyses can:

- aid overall HR planning and control
- emphasise the nature (and value) of people to the organisation
- provide a valid and reliable method of reporting cost and value
- assist senior and line managers to measure their own performance.

However, even the most proactive HR professionals will readily admit that measuring the costs and benefits of SHRM activities is difficult, time-consuming and heavily dependent upon the accuracy of employee data from a well-designed HR information management system (HRIMS; see Chapter 4). Despite the considerable advantages that accrue from the effective measurement of HR activities, some practitioners are reluctant to reduce the complexities of managing employees to a dollar contribution to organisational performance, or are dissuaded from so doing by workloads and/or lack of interest by senior management. It should also be noted that 'dollars are not the only barometer of the effectiveness of HR activities. The payoffs from some activities, such as affirmative action and childcare, must be viewed in a broader social context'.[14]

Quantitative and qualitative measures

Modern approaches to the evaluation of the effectiveness of SHRM adopt broader perspectives that simultaneously encompass quantitative measures and such qualitative assessments as: 'managing talent … being involved in major change matters such as mergers and acquisitions … enabling staff to understand the business';[15] knowledge management; ethical compliance; corporate governance and corporate social responsibility. Some authors caution against relying on 'short term and easy to measure' performance criteria alone, suggesting instead that HR

professionals should also focus on developing higher levels of employee engagement and providing support to line managers.[16]

Others suggest that *predictive* rather than *descriptive* measures should be HR priorities in the future; for example, linking observed employee attitudes to customer service; identifying future sources of talent from previously untapped labour markets; and focusing on 'learner applications' of HRD programs rather than merely 'learner satisfaction'[17] – in other words, 'turning complex data into simple measures … focused on decisions'.[18]

However, the failure to measure the costs of such activities both prior to and after implementation would be foolhardy. The benefits of these programs may be more difficult to measure. Despite these difficulties, it should be remembered that the overall purpose of all these measures is to comprehensively account for, and subsequently persuade management of, the value and contributions that well-managed human resources can make to an organisation. Some authors suggest that not only can specific HRM processes (e.g. recruitment, HR development, performance management) be assessed for their costs and contributions to organisational effectiveness, but that the value of 'knowledge capital' can and should be included on annual organisational balance sheets.[19] As Howes urges, 'the challenge for the HR professional is to develop processes to measure the value of the human capital of the firm'.[20]

Human capital management

The concept of human capital management has been discussed throughout this text, which has emphasised both its critical importance to organisational flexibility, competitiveness and profitability and the inherent difficulty of measuring it. Human capital has been defined as the 'sum total of all your employees' talents and capabilities (knowledge, skills, know-how and ability to innovate) serving to add value to the goods and services a company produces'.[21] Gallo and Thompson suggest that 'the use of HRM measures presents the greatest challenge. Credible, meaningful HR measures will be essential to the development of effective accountability systems and the ultimate acceptance of the concept of HRM accountability'.[22] Some of these measures may include: 'human capital ROI' (the profit generated through investment in employees); revenue (or profit) per employee; labour cost as a percentage of revenue or the voluntary separation rate.[23]

Gallo and Thompson also note that human capital management is the result of a shared responsibility between HR, senior and line managers, as well as between the HR and finance departments. It incorporates ethical and legal compliance, together with measures of the efficiency of HRM service delivery and the effectiveness of all HRM programs. These measures need to focus on HRM programs that clearly contribute to and support strategic organisational goals and objectives. Jac Fitz-Enz provides some interesting

observations on the reasons why SHRM has often failed to adequately account for its activities in the past.

- HR people do not know how to measure the costs of behaviour – many practitioners have little training, interest or encouragement in the use of quantitative techniques or statistics.
- Top management has accepted the 'myth' that HR activities cannot be evaluated in quantitative terms.
- Some HR managers do not want to be measured.
- A number of HR managers would like to apply some measures to their functions, but they have not been able to do so.[24]

Research on SHRM evaluation

Some research reinforces Fitz-Enz's assertions introduced above. For example, one Australian survey found that one-fifth of the respondents did not measure the link between human resource development and ROI; and 13 per cent were unaware of how ROI is measured.[25] Another reported that while nearly 80 per cent of its participants considered that HR and talent metrics were 'urgent' or 'important', only 14 per cent reported that HR had 'analytics capability', as contrasted with more than 80 per cent in finance, 77 per cent in operations and nearly 60 per cent in both sales and marketing.[26] A study by the United Kingdom's CIPD suggests that many HR professionals lack the will or competencies to analyse data effectively in order to properly evaluate the contributions of their systems and processes.[27] These findings suggest that HR needs to develop these capacities rapidly in order to maintain or enhance its credibility with its multiple stakeholders.

HRM ACCOUNTING

From an accounting perspective, employees were traditionally considered primarily as expense items and HR departments as costly overheads. The anticipated benefits of HR departments were vague and difficult to measure. With increasing HR professionalism and the recognition of employees as human capital or value-added assets, together with growing employer acceptance of the ongoing costs associated with employment, HRM accounting has become a higher priority.

Emerging issue 3
Quantitative evaluation methods

Several strategies have been adapted from accounting practice and applied to the effective management of an organisation's human resources. These include the original cost, replacement cost, opportunity cost and economic value approaches.

- *Original cost* measures the accumulated costs associated with recruiting, selecting, inducting and training each employee or groups of employees at any time. In this approach, wages, salaries and employee benefits are considered expenses while training outcomes are expressed as benefits. Current value estimates are relatively easy to calculate.

- *Replacement cost* estimates the dollar value of replacing any employee, including separation payments and subsequent training costs. This approach fails to effectively distinguish between assets and expenses.
- *Opportunity cost* gauges the maximum value of the employee in an alternative use (i.e. what someone else would pay for the particular HR asset) – a somewhat impractical approach.
- *Economic value* is based upon a goodwill method. This approach attempts to predict the value of employees in terms of likely future earnings.

These approaches measure the economic consequences of employee behaviour rather than their accumulated costs to the organisation. Other common quantitative methods include:

- HR metrics (or 'analytics')
- employee absenteeism analysis
- turnover and wastage analysis
- HR program evaluation.

All of these techniques are discussed later in this chapter.

The role of the HR professional here is to manage the portfolio of HR programs and processes (e.g. staffing, HR development, performance management, rewards systems) in relation to the organisation's strategic priorities with clear financial and ethical accountability.

However, such approaches need to be included within one of the strategic HRM evaluation frameworks, such as those proposed earlier in this chapter, and illustrated in **Figure 12.2**.

FIGURE 12.2 The HRM model

Source: From Lewin / Mitchell, Human Resource Management, 2E. © 1995 Cengage.

employee turnover
A measure of the movement of employees through the organisation through such processes as job rotation, internal transfer and promotion

employee wastage
A measure of the number and types of employees who leave organisations within a defined period. Usually focuses on analysing the reasons for their departure, with a view to retaining valued employees

INDICATORS OF HRM PERFORMANCE

It is possible to assess the quality of the work environment and therefore the effectiveness of HRM by studying a range of indicators. These include employee turnover and employee wastage rates, absenteeism rates, injury and illness records, ethical compliance, corporate governance, the responses to employee attitude surveys and exit interviews. Gibbs suggests that there are

two main dimensions of HRM program effectiveness – their 'internal fit' with organisational objectives and their 'external fit' with industry best practice.[28] They should encompass both quantitative performance indicators and the qualitative assessments of HRM's internal 'customers' – managers and employees – obtained through consultation, communication and internal surveys.[29]

HRM in practice 12.2 illustrates a successful contemporary Australian instance of such HRM evaluation programs.

HRM in practice 12.2

Accounting for HR at GMHBA

GMHBA is a small health fund with 180 employees across Australia. Its Executive Manager of Human Resources (EM – HR) is a member of the company's senior executive group and manages a human resources team of four. All HR functions are regularly scrutinised by the senior executive group and any new programs require a specific business case in order to receive funding. The EM (HR) says that such business cases should 'be clear about the expected results', while acknowledging that this can sometimes be difficult.

Using the example of learning and development programs, he suggests that new proposals should be accompanied by specific statements reflecting such outcomes as improved customer satisfaction, better implementation of new IT systems or reductions in the time taken to complete projects. By doing so he believes that HR can overcome the (natural) resistance of smaller companies to spending money on training activities.

He also thinks that metrics on all aspects of HRM – for example, WHS, absenteeism, employee leave and turnover statistics – are persuasive tools for organisational credibility and accountability. Apart from these quantitative measures, he also suggests that all organisations should use complementary qualitative methods including employee attitude, opinion or climate surveys.

Source: Anon. (2014), Special feature: HR effectiveness for SMEs. *HRMonthly*, July, p. 37.
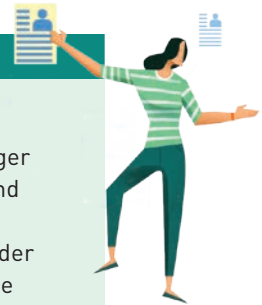
The following section details the nature and types of quantitative HR measures – known as HR metrics (or 'analytics') – that are used by organisations to evaluate and demonstrate the value of their HRM activities.

HR analytics

HR metrics (or analytics) are quantitative measures of the costs or benefits of aspects of HR processes and are becoming crucial to the strategic management of HR towards organisational effectiveness. They provide measurement standards and benchmarks that demonstrate how HRM contributes to the desired organisational goals and outcomes. As Fitz-Enz explains, 'to move to the center of the organisation, HR must be able to talk in quantitative, objective terms',[30] with others going further to suggest that HR metrics need to be customised to, and consistent with, the strategic goals of particular organisations. Accordingly, the term 'HR

analytics' is now more common, in order to emphasise the active use of such measures for the prediction of future HR challenges and opportunities – 'the synthesis of qualitative and quantitative data and information to bring *predictive insight and decision-making* support to the management of people in organizations'.[31]

Consequently, many organisations have developed indices and benchmarks of HR analytics, including KPMG's Strategic Workforce Framework, which focuses on five associated factors: cost, capacity, capability, compliance and connections.[32]

HR analytics stakeholders

HR analytics are used by a broad variety of organisational stakeholders, including investors and fund managers, executives, HR managers, line managers and even employees, sometimes for different purposes. As examples, investors and fund managers use HR analytics to compare their HR functions with those of competitors; executives can assess the congruency of HR processes with overall business strategies; HR professionals use such measures to account for and promote the efficacy of their activities; line managers can ensure budgetary, operational and customer outcomes; and employees can better understand their individual and collective value to their organisations. Despite these benefits of HR analytics, not all organisations have recognised their strategic value. A global survey of senior managers, for example, found that 85 per cent of the participants felt that their HR professionals did not 'excel at providing insightful and predictive analytics', while more than 30 per cent intended to invest more heavily in HR data collection and analysis.[33]

An interesting practical illustration of the types of HR analytics used by some organisations is provided by UBS, a global investment company based in the United Kingdom. It has developed a comprehensive series of measures for each component of its HRM system. For example, in the area of talent acquisition it divides the appropriate measures between: HR directors (percentage of staff hired by rank, performance management ratings by position and turnover by job level); functional managers (candidate retention by position, overall candidate satisfaction and time to accept an offer); and regional managers (direct costs per recruitment source, time to interview, time between interview, offer and the manager's perception of the quality of applicants).[34]

Efficiency–effectiveness–impact and HRM analytics

Reflecting the *efficiency-effectiveness-impact* components of HRM evaluation systems discussed at the beginning of this chapter, particular forms of HR analytics are chosen to measure each of these factors. *Efficiency* measures may include costs per new recruit, HR expenditure per employee, or 'yield ratios' (e.g. number of applicants from each recruitment source); and *effectiveness* measures may encompass such measures as comparisons between company and competitor salaries, or the proportions (and costs) of employees who have undertaken development programs. *Impact* measures attempt to measure the links between

HR costs and their demonstrable effects on organisational finances, customer satisfaction or competitive performance.[35]

Table 12.1 shows some of the specific HR analytics commonly used in many Australian organisations.

TABLE 12.1 HR analytics

Headcount	Labour % of revenue	Discretionary labour expenditure
Workforce ratios	Unplanned turnover	Unplanned absenteeism
Training course ratios	Training expenditure	Training hours
Workers' compensation	Leave liability	Internal communications
Performance appraisals	Exit interviews	Remuneration
Demographics	Employee sourcing	Succession planning
Talent management	Flight risk	Knowledge management
Payroll adjustments	Performance-related pay	Skills and competencies
Vacancy duration rates	Vacancy fill rate	Work health and safety

Source: Contributed by Lyle Potgieter and Peter Vlant, http://www.peoplestreme.com.

Measuring the contributions of people and linking HR analytics to organisational effectiveness is quite a complex task, and perhaps the most difficult issue is that of causality (cause and effect). While most observers would agree that a well-managed workforce is more likely to result in a more effective and competitive organisation, clear linkages between HR analytics and organisational profitability are difficult to substantiate, as different interpretations of the data may occur. For example, if annual employee wastage is calculated to be 15 per cent, should the company be concerned and take actions to reduce it? The response will inevitably depend on comparisons with:
- wastage rates in competitor organisations
- overall labour market rates
- the historical rates of the organisation.

Similar dilemmas exist in relation to accident rates, absenteeism, sick leave and training. These are all strategic and operational issues that require comprehensive analyses of the data from HR analytics, subsequent discussions between executives, HR professionals and line managers.

Some of the pitfalls associated with the use of HR analytics include:
- the failure of HR professionals to clearly understand or promote the linkage between HR analytics and the organisational strategy
- a lack of understanding of the potential value of HR analytics by senior executives and/or line managers

- overly complex and difficult–to–implement measures
- fragmented or dispersed databases.[36]

HRM in practice 12.3 illustrates the ways in which the British Telecom Group (BT) uses HR analytics to link its HR and business strategies.

HRM in practice 12.3

Valuing human capital – BT's new initiatives

BT is the world's leading provider of voice and data communication solutions throughout Europe, America and the Asia Pacific. In recent years it has undertaken sophisticated measurement techniques to assess the value of its human capital assets and measure its contributions. While some measures have been employed throughout the business, BT introduced a comprehensive program which ranged from HR initiatives such as reducing absenteeism to value-orientated measures. It built a human capital balance sheet, applying financial reporting to its employee base. The analysis enabled BT to view employee value through fixed and variable cost perspectives. From the analysis, BT determined that employee absence was on average 13 days per year (approximately 89 million British pounds), but that sick leave (as a significant component of absence) could be reduced to three days a year when work–life balance or remote working options (see Chapter 2) initiatives were implemented.

In addition, BT established 13 HR metrics to be used by all business units. These included the following:
- human investment ratio
- wealth created per full-time employee (FTE)
- profit created per revenue created per FTE
- cost per FTE
- ratio of remuneration to revenue
- average remuneration
- absenteeism rates
- voluntary resignation rates
- executive stability rates
- FTE per department as a proportion of total FTEs
- HR departmental cost per FTE
- graduate retention rate.

BT also adopted a technique it called Economic Value Added, which aimed to measure the overall organisational performance against the cost of employed capital.

Source: Contributed by Lyle Potgieter and Peter Vlant, http://www.peoplestreme.com.

absenteeism
A measure of individual or organisation-wide trends in authorised and unauthorised leave taken by employees

Absenteeism

Trends in employee absences from the workplace may provide useful data on the state of the work environment and the effectiveness of HR programs, as employees often signal their dissatisfaction with their jobs, workplaces, colleagues and supervisors by taking considerable amounts of authorised or unauthorised leave. Absenteeism is difficult to define, as it can be

authorised (sickness or accidents) or unauthorised (long lunch breaks or long weekends), single or repeated, and measured in minutes, hours, days or longer periods. Perhaps the most embracing definition of absenteeism is that it is 'any failure of an employee to report for, or to remain at, work as scheduled regardless of the reason'.[37]

This definition excludes programmed holiday or jury duty leave but includes absences due to sickness and accidents. The task for supervisors and HR practitioners is to separate uncontrollable from controllable causes of employee absence, to measure the relevant rates and to reduce the frequency and associated costs of unnecessary or avoidable absence. Some employers have changed their absence recording systems from daily to hourly periods to discourage unnecessary leave and to allow easier costing of its impact. Others have established unlimited sick leave systems, based on trust between employers and employees. Some of these systems have resulted in significant reductions in the frequency and costs of leave taken. The success of such systems will inevitably depend on the culture of the organisation.

Costs of absenteeism

Traditional accounting and HR information management systems often do not generate data that accurately reflect the costs of absenteeism. To call management's attention to the severity of the problem and to promote HR accountability, absenteeism can be translated into dollar costs.

Some national surveys of absence rates in Australian industry indicate the extent of the problem in many Australian workplaces. According to the Department of Health Services (DHS), absenteeism costs the Australian economy more than $33 billion in wages and lost productivity every year; and in 2016–17, 'In total, with 10 million workers approximately in the economy, we are looking at about 150,000 extra work days. Each day costs on average $360 to employers. This means $54 million for the day'.[38] The Australian Chamber of Commerce and Industry has put the figure at $62 million.[39] Public holidays that fall on Tuesdays or Thursdays especially encourage some employees to take the in-between day as a 'sickie', thus causing disruption, reduced productivity and increased costs for the period.

It has been noted that absenteeism is considerably more prevalent in some industry sectors than others. The costs of absenteeism include the pay and benefits of the absent employee, associated supervisory costs involved in counselling frequently absent employees, writing relevant reports and, in extreme circumstances, recruiting and training replacement employees.

The key assumptions underlying the effective responses to employee absenteeism are that modifications to HR practices, such as work–job design, or supervisory, training and career or remuneration systems, will yield improved results in employee satisfaction and therefore absenteeism, which will in return reduce associated levels of eventual turnover and wastage. There is often a clear relationship between absenteeism and wastage.

Reducing absenteeism

While an employer may find that absenteeism rates and costs are within an acceptable range, it is always advisable to monitor trends in employee absence and to isolate areas of high absenteeism. Overall absence trend analysis is most effectively carried out by HR managers, using a comprehensive HRIMS (see Chapter 4), but supervisors play a crucial role in identifying frequent individual and group absentees and effectively correcting their attendance by timely and appropriate intervention. Such action may involve individual counselling, job and work redesign, supervisor training, career development programs and improved pay or working conditions.

Workplace injuries and illnesses

We noted in Chapter 10 that all Australian organisations are required by legislation in all states and territories to ensure that employees work in safe and healthy workplaces. The legislation also requires consultation with employees and their unions, and substantial record-keeping of accidents, workers' compensation claims and associated costs.

As WHS issues cause immense costs to industry, the analysis of accident and illness trends should be a significant focus of HRM cost measurement and cost containment activities. Features of such programs may include the number of accidents occurring, their frequencies, locations, causes and cost consequences. Workers' compensation claims, insurance premiums, legal and medical expenses, rehabilitation program costs (and dollar benefits), leave and replacement expenses also need careful monitoring, preferably at both supervisor and HRM levels.

Reductions in any, or all, of these areas provide evidence of HRM effectiveness and its overall contribution to corporate goals and profits.

Incidence rates can help to provide a basis for making comparisons with other organisations doing similar work, or for the same organisation over different periods. Sections, departments and branches of organisations can be similarly compared.

Employee wastage and turnover rates

There is considerable debate about the meaning of the terms 'employee wastage' and 'employee turnover'. Sometimes they are used interchangeably, but at other times wastage is not considered separately. *Employee wastage* generally refers to the rate (or ratio) of employees who leave an organisation, through resignation, retirement or death, during specified periods (i.e. movement *out of* an organisation). *Employee turnover*, on the other hand, concerns HR movement *within* organisations (i.e. employees moving from job to job through transfer, promotion or relocation). Both measures can indicate the effectiveness of HRM programs and activities as well as the overall health of an organisation in satisfaction, morale and productivity terms.

The difficulty with both measures is that each organisation will have different healthy and unhealthy rates of both turnover and wastage. Industry standards, often provided by industry associations (such as the Australian Chamber of Commerce and Industry, Australian Industry Group and the Australian Bureau of Statistics), can be helpful in making comparisons, but internal wastage and turnover analyses over historical periods are more useful because these indicate employee trends in response to organisational changes.

It may, for example, be healthy to have high wastage levels in harsh economic times or when many senior managers are simultaneously nearing retirement age. Opportunities for improved career paths, the introduction of new blood, or job rationalisation and cost reductions may therefore be provided. On the other hand, highly competitive industries can suffer from abnormally high wastage rates due to more attractive salary packages being offered elsewhere. Similarly, employee turnover can be too high or too low depending on career development programs, unsatisfactory working conditions and supervision, reduced promotional opportunities and high unemployment levels. HR managers, in consultation with senior and line management and employees themselves, need to establish healthy levels of both turnover and wastage, in the context of internal and external factors. They also need to determine relevant costs and benefits and design programs to ensure that wastage and turnover levels are kept within optimal limits.

Costs of wastage

Replacing an employee can be time-consuming and expensive. Costs can generally be broken down into:
- separation costs for the departing employee
- replacement costs
- training costs for the new employee.

Several studies have estimated wastage costs at two to three times the monthly salary of the departing employee. As an example, a study by PricewaterhouseCoopers (PwC) found that unnecessary wastage in Australian organisations cost around $3.8 billion in lost productivity and $385 million in avoidable recruitment costs in 2016.[40] It suggested that the key causes were lack of role clarity (see Chapter 5), employees' lack of confidence in their jobs, and inadequate 'social acceptance' from their workplaces. These costs do not include indirect costs such as low productivity prior to departure, lower morale and overtime for other employees. Consequently, reducing wastage levels can result in significant savings to an organisation. On the other hand, some organisations may wish to refresh their workforces by encouraging a limited amount of wastage, in order to remove 'deadwood', to attract 'new blood', to enhance skills sets or to change their workplace cultures (see Chapter 6).

Determining causes of turnover and wastage

Many theoretical models attempt to explain the reasons employees choose to leave their organisations, such as unfavourable jobs or workplaces, or more attractive alternatives. The common themes are that:

- employees generally take some time to decide to leave, during which time astute employers can deal with their concerns (if so desired)
- the intention to leave usually derives from dissatisfaction with the job itself (e.g. status, career opportunities, rewards systems, supervision or communication)
- wastage is clearly related to the availability of alternative employment opportunities outside the organisation.

However, relevant causal factors may be quite complex, and some employees may choose psychological withdrawal rather than actual departure. This decision can cause even more harm to their organisation, including underperformance, psychological sabotage or adverse effects on colleagues and teams.

Two principal methods are available for organisations and their HR managers to determine actual (and potential) causes for employee departure. These are:

1   employee attitude surveys
2   employee exit interviews.

Many of the quantitative indicators and measures discussed above can be complemented with qualitative information from employee attitude surveys and exit interviews. Together, these techniques enable HR professionals and their organisations to build a comprehensive snapshot of the effectiveness of HRM activities while at the same time engage employees with the organisation.

While there are many ways in which HR professionals can reduce employee wastage and enhance retention, a survey by the AHRI suggests the key levers used by HR professionals to achieve these important objectives (see **HRM in practice 12.4**).

HRM in practice 12.4

The most effective ways for organisations to retain workers

A recent AHRI Pulse survey revealed the ways in which employees can be retained.

Effective management and leadership (47%), offering opportunities for career progression and promotion (44.83%) and providing a positive workplace culture (43.17%) were most commonly identified by respondents as the most effective ways to retain employees.

Pay and benefits was selected by around a quarter (28.67%) of respondents as an effective retention method while coaching and mentoring programs (6.33%), comprehensive induction programs (2.83%), health and wellbeing programs (2.83%) and recognition programs (4.5%) were identified the least frequently as the most effective ways to retain workers.

Source: AHRI (2015), *AHRI Pulse survey: Turnover and retention.* Melbourne: AHRI, p. 19.

Employee attitude and engagement surveys

A qualitative method of gathering information about employee levels of satisfaction while people are still in their jobs involves the use of **employee attitude surveys (EASs)**, also known as employee climate, or culture or opinion surveys. Such surveys can provide information on factors such as poor job design, inadequate supervision and communication. By identifying and rectifying problem areas, the tide of future resignations may be effectively stemmed.

EASs are usually conducted on an organisation-wide or workplace basis and may involve the administration of a questionnaire or the use of interviews to audit employee attitudes towards organisational issues such as communication, motivation, the quality of supervision, pay and benefits. Such surveys are usually conducted by external service providers, for both cost and confidentiality purposes.

Substantial benefits can accrue from a well-conducted EAS, including a large number of usable development suggestions, and evidence for changes in HR policy and practice. Perhaps most importantly, such surveys represent 'a clear demonstration of management concern and willingness to involve staff in the decision-making processes of the company'.[41] In an era of increasing employee consultation and participation on industrial relations issues, such surveys can aid employee commitment and enhance productivity.

However, to be effective, EASs need to be more than simply window dressing. Poorly planned or administered surveys can be counterproductive. An EAS requires a genuine commitment on the part of management and unions to survey objectives and consequences. Objectives must be clear, participants guaranteed confidentiality and outcomes seen to be acted upon. The timing of EASs and the subsequent implementation of remedial schemes is also crucial. EASs naturally arouse employee expectations. If such expectations are not soon satisfied, employees may become even more cynical and less receptive to subsequent activities. Additionally, Lake suggests that many EASs fail to achieve their objectives because they focus on the collection of information at the expense of consideration of its uses; the information collected is not adequately shared with line managers who must implement any required changes; and, due to their concentration on employees' attitudes, they sometimes neglect important practical issues such as the quality of customer service, delivery systems and operational processes.[42]

A more contemporary application of attitude surveys is the use of **employee engagement benchmarks**. Many organisations employ these studies in order to assess the extent of their employees' commitment to their jobs and workplaces. Such studies are often conducted in an attempt to evaluate the alignment between individual employee and organisational goals and performance. They may indicate absenteeism or turnover intentions, which may be addressed by remedial interventions. Employee engagement drivers often include such dimensions as empowerment, commitment, the nature of the job, workplace relationships, work–life balance, performance management, career growth and reward systems.

employee attitude surveys (EASs)
Qualitative surveys that aim to elicit the degree of satisfaction of employees with jobs, employment conditions, workplaces and managers; also called morale or climate surveys

employee engagement benchmarks
These are usually qualitative indicators of employees' (positive or negative) commitment towards their organisations, including their feelings of empowerment and inclusion, or their intentions to leave

Employee exit interviews

exit interviews
Qualitative interviews conducted with all departing employees or critical categories of employees who have chosen to resign from an organisation

Some organisations conduct employee **exit interviews** with those who have notified the company of their resignation. Exit interviews may be conducted with all such employees or only the most crucial categories of employees.

Unfortunately, a large number of organisations fail to analyse why employees resign, either because an employee's decision to leave is often regarded as a sign of infidelity or even treachery or through fear of confrontation. If exit interviews are not routinely conducted, the organisation may lose valuable feedback on its overall functioning and the identification of problem areas. Exit interviews also provide an opportunity to coax back a good employee who may be reluctant to leave but is being driven by financial or career reasons.

Exit interviews are usually divided into two distinct phases: administrative and fact-finding. Administrative issues include details of severance payments and the return of computers, mobile devices, identity cards, passes and keys. Fact-finding strategies, usually standardised for all interviews, cover areas such as:

- reasons for departure (positive and negative)
- relationships with supervisors
- fairness of pay, training, career development and performance appraisal programs
- working conditions
- things liked best (and least) about the job and the organisation
- communication issues
- suggestions for improvement.

A combination of open-ended, hypothetical and probing questions is likely to elicit the most useful responses from departing employees. The choice of exit interviewer is also important, as the difficulty of obtaining accurate feedback from disgruntled employees is compounded if the exit interviewer is perceived as biased or inconsistent. Generally, the HR department, rather than the employee's immediate supervisor, is more suitable for conducting such interviews due to its perceived neutrality and ability to collate information from many exit interviews.

Exit interviews can be costly and time-consuming, but extensive and invaluable information can be collected by the astute HR practitioner for use when developing subsequent programs. It is also a way of gathering qualitative data, to be used in conjunction with quantitative information, for future and more effective HR planning and management. The validity of the reasons given by employees for their resignations must be treated with some caution. Many employees prefer to leave on good terms and may consider frank discussion detrimental to their interests.

Some organisations conduct post-exit interviews several months after employees leave, to overcome this problem. Yet response rates to such post-exit interviews, by mail or telephone, are often low and unrepresentative.

HR PROGRAM EVALUATION

This section briefly considers the theory and practice of evaluating particular components of the HRM program. In broad terms, HR program evaluation (or HR audits) refers to methods and techniques intended to assist managers to make *judgements* about the value or worth of the design, implementation and outcomes of, for example, the strategic or structural initiatives, policies or procedural practices, programs or processes adopted by an organisation. It aims to achieve this by generating reliable, timely and useful information that reveals the impact of decisions – beneficial or otherwise – on organisational performance. Unlike descriptive analysis, evaluation requires the determination and rigorous application of explicit and justifiable standards and criteria to facilitate the judgement process.

Essentially, HR program evaluation is a systematic process of obtaining and evaluating evidence about the performance of HRM to ensure clear relationships between its goals and its outcomes. It can enhance the professionalism of the HR function and demonstrate its specific contributions to organisational effectiveness, productivity and profitability. HR program evaluation provides an opportunity to:
- evaluate the effectiveness of HR functions, including cost–effectiveness
- ensure compliance with laws, policies, regulations and procedures
- assure ethical standards (see later in this chapter)
- promote change and creativity
- assess the financial advantages and disadvantages of HR functions against national and industry benchmarks
- bring HR and line functions into closer alignment with each other
- improve the quality, image and contributions of the HR function and its staff
- focus HR staff on crucial HR issues.

If an organisation is to remain competitive, it must undergo continual change. An evaluation of its HR program can help managers to identify variations between actual and expected or desired conditions. It becomes a database stimulus for change. The outcomes of HR program evaluation can assist HR planners (see Chapter 4) by providing answers to the following questions:
- Should all current HR functions be maintained as they are, modified or even eliminated?
- Should such functions be kept in-house or outsourced?
- Should any, or some, of the functions be centralised or decentralised?
- How can HR processes be improved by automation or streamlining?
- How can technology be applied to enhance productivity, quality or efficiency?

Table 12.2 illustrates the general types of questions that should be answered. As an example, an evaluation of employment contracts may reveal rigidity in their provisions, which makes it difficult for the organisation to recruit as flexibly as it may need to do in future economic and operating conditions. Similarly, a review of employee disciplinary procedures may indicate that supervisors do not understand or apply them effectively, and therefore impede organisational

HR program evaluation (HR audits) Methods used to assess the worth or effectiveness of particular HRM functions or activities; analyses of all components of the HR program

TABLE 12.2 Evaluating the major HRM programs

HRM PROGRAM	SOURCE OF INFORMATION
PLANNING AND RECRUITMENT	
• Do job descriptions contain bona fide occupational qualifications? • Are job descriptions accurate, periodically reviewed and updated? • Are there any HR that are not being fully used? • Is the affirmative action program achieving its goals? • How effective is the recruiting process? • How productive are the recruiters?	• HR budgets • Recruitment cost data • Job descriptions and person specifications • Hiring rate
SELECTION	
• How valid are selection techniques? • Is there evidence of discrimination in hiring? • Are interviewers familiar with the job requirements? • Can interviewers recognise those questions that are unacceptable in a job interview? • Are tests job-related and free from bias? • How do hiring costs compare with those of other organisations?	• Employment interview records • Applicant rejection records • Transfer requests • Discrimination complaints
TRAINING AND DEVELOPMENT	
• How effective are training programs in increasing productivity and improving the quality of employee performance? • Are there sufficient opportunities for women and minorities to advance into management positions? • What is the cost of training per person hour of instruction? • What is the relationship between training costs and accidents?	• Training costs data • Production records • Accident records • Quality control records
PERFORMANCE APPRAISAL	
• Are the performance standards objective and job-related? • Do the appraisal methods emphasise performance rather than traits? • Are the appraisers adequately trained and thoroughly familiar with the employee's work? • Are the appraisals documented and reviewed with employees? • Are the performance appraisal data assembled in such form that they can be used to validate tests and other selection procedures?	• Performance appraisal records • Production records • Appraisal interview records • Attendance records • Disciplinary action results

SALARY AND BENEFITS	
• Does the pay system, including incentive plans, attract employees and motivate them to achieve organisational goals? • Is the choice of weights and factors in job evaluation sound and properly documented? • Do benefits and costs compare favourably with those of similar organisations?	• Data on wages and benefits • Wage survey records • Turnover and wastage records • Cost of living surveys
INDUSTRIAL RELATIONS	
• Are supervisors trained to handle grievances effectively? • Is there ongoing preparation for award restructuring and enterprise bargaining? • What is the record of the number and types of grievances, and what percentage of grievances has gone to arbitration? • What percentage of dismissals has been challenged?	• Grievance records • Arbitration data • Industrial action records

Source: Suggett, D., Goodsir, B. and Pryor, S. (2000), *Corporate community involvement: Establishing a business case*. Canberra: Centre for Corporate Public Affairs, p. 57. Courtesy of Centre for Corporate Public Affairs, http://www.accpa.com.au.

growth and development by maintaining negligent or inefficient employees. The sources of in-house information, usually records and reports that are available for use in the evaluation, are also included in the table.

As valuable as the information sources listed in **Table 12.2** are in measuring the effectiveness of the major HRM functions, overreliance on quantitative measures may yield conclusions that seem objectively valid but fail to assess whether HR clients are really satisfied with the services they receive. Supplementary evaluation methods may include periodic studies of clients' perceptions of HR services. Clients may include line and senior managers, employees, applicants, customers or even union officials. User reactions may be obtained through employee and customer attitude surveys, discussions with employees, group meetings or manager and supervisor comments.

CORPORATE GOVERNANCE AND CORPORATE SOCIAL RESPONSIBILITY

As a consequence of a number of company collapses (due in part to mismanagement or unethical behaviour) and a growing recognition that companies also have responsibilities to the wider communities in which they operate, the twin issues of corporate governance and corporate social responsibility (CSR) have become important in Australia over recent years. An evaluation of HRM programs such as job design, recruitment and selection, HR development, performance management, remuneration and WHS would be incomplete, and even potentially negligent, without the evaluation of their adherence to good governance principles.

There have been numerous examples of problems caused by abuses in the payment of CEOs and their boards, including unjustifiable bonuses, shareholdings and separation payments. These unethical and often illegal activities were evident following the Global Financial Crisis (GFC; 2008–09) in companies such as Enron, Freddie Mac, Fannie Mae and Goldman Sachs in the United States; and more recently in Australian financial institutions such as the Commonwealth Bank, Westpac, National Australia Bank, ANZ and AMP, as revealed in the 2017–18 Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry.[43] To help prevent such occurrences in the future, the Australian Securities Exchange (ASX) released a set of good governance principles for business. In addition to these ASX principles, Standards Australia has developed guidelines to 'assist HR practitioners to evaluate whether to implement a particular practice and to assist them in locating further information to build a business case'.[44]

CSR is a concept that describes the commitment of business to contribute to sustainable economic development and to work with employees, their families, the local community and society at large to improve their quality of life. It implies that companies should contribute to the economic sustainability of communities by considering the social and environmental consequences of their business decisions and practices. Typically, CSR strategies and policies are supported by 'triple bottom line' evaluations that include the financial, social and environmental impacts of organisations. There is now a global reporting initiative[45] and an international Fair Labor Association (http://fairlabor.org). **International perspective 12.1** illustrates the way in which some regional multinational organisations have implemented CSR programs.

International perspective 12.1

CSR in some Indian companies

The Tata Group

The Tata Group is India's largest private sector conglomerate, with nearly one hundred associated companies, revenue exceeding US$30 billion and seven major business interests – namely ICT, engineering, materials, services, energy, consumer products and chemicals. Almost two thirds of the equity in Tata Sons is held by philanthropic trusts, including the Sir Ratan Tata Trust (1918), the Sir Dorabji Tata Trust (1932), the MK Tata Trust (1958), the Tata Social Welfare and Tata Education Trust (1990) and the current CEO, Ratan Tata owns less than 1 per cent of group shares.

Tata's corporate vision is expressed as 'striving for leadership and global competitiveness in the business sectors in which we operate', and its heavily promoted values include integrity, understanding, excellence, unity and responsibility. These values are pervasive throughout Tata's systems and policies, together with a strong emphasis on innovation and CSR. Innovation is associated with its products and services, and CSR is enshrined through both the corporate equity structures as discussed above and enormous social funds. The two are blended in the company's concept of 'frugal innovation' – a conscious effort to develop new products for poor people such as small benevolent trusts and the Nano, or 'people's car'.

> ### The Aditya Birla Group
>
> The Aditya Birla (AB) Group has been a continuously family-owned conglomerate for more than a century, since it was established by G. D. Birla in the early 1900s. The founding father developed industrial operations in sectors such as textiles (Eastern Spinning Mills, Calcutta); energy (Hindustan Gas); chemicals (Indo-Gulf Fertilisers and Chemicals Ltd); engineering goods and the manufacture of viscous staple fibre (Grasim). The AB Group established and maintains a strong CSR, imperative under the umbrella of the Centre for Community Initiatives and Rural Development, and later on, the AB India Research Centre at London Business School.
>
> The company's values include: integrity ('honesty in every action'); commitment ('doing whatever it takes to deliver as promised'); passion ('a missionary zeal arising out of an emotional engagement with work'); seamlessness ('thinking and working together across functional silos, hierarchical levels, business lines and geographies'); and speed ('one step ahead always'). All of these values are symbolised in the corporate logo which reflects Aditya as the 'Rising Sun'.
>
> Source: Nankervis, A., Cooke, F. L., Chatterjee, S. R. and Warner, M. (2012), *New models of HRM in China and India*. London and New York: Routledge.

Good corporate governance and CSR can add considerable value to HRM functions, such as recruitment and retention (especially in the global 'war for talent'), and can contribute to the minimisation of the adverse reputational impacts of corporate indiscretions. HR professionals will usually be involved in both issues in collaboration with other organisational managers.

Professional tip 12.2

Marketing HR

Much of this chapter is concerned with the ways in which HR plans and programs may be measured and how HR professionals might account for the efficiency and effectiveness of their activities, especially in relation to their contribution to organisational goals. An equally important skill is the ability of HR professionals to promote their contributions, or to internally 'market' the value of their programs, such as the:

- capacity to form effective relationships with senior, middle and line managers, and with employees more generally and their unions
- foresight to prepare and present supportive materials
- willingness to review and reformulate HR plans and programs.
  These are important tools in an effective HR professional's repertoire.

THE FUTURE OF WORK

This section explores the likely future challenges for HRM professionals preparing for the impacts of changes in the global business environment. While it is not possible to predict the future of jobs, workplaces, industry structures, and political and social developments with any degree of certainty, there are some indications that permit consideration of
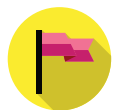
Emerging issue 5
Future of HRM

the future nature, responsibilities and characteristics of SHRM. Thus, we first briefly summarise the key future global industry and business environmental challenges and their implications for industry sectors, workplaces, jobs, employee skills and competencies that have been discussed throughout the book. The final section then considers how these challenges are likely to transform SHRM theories and models, HR professional roles and competencies.

Global industry trends

Traditional industry sectors such as agriculture. mining and manufacturing in most developing countries have been largely aggregated and subsumed into large-scale and often foreign-owned operations, and many retail sectors have become increasingly online e-business entities. Other important factors include the effects of new trade agreements, on the one hand (e.g. the Trans-Pacific Partnership and the ASEAN Economic Community (AEC)), versus indications of increased protectionism (or anti-globalisation) in the United States, on the other; the withdrawal of the United Kingdom from the European Union (i.e. Brexit); and the economic resurgence of China, and to a lesser extent, India. The gig economy (see **The future of work 12.1**), the services sector (banking, finance, health, education, tourism and hospitality) and professional services (medical, legal, management) are beginning to emerge as the dominant forms of organisations in many countries.

The future of work 12.1

Employers and the gig workforce

Economic imperatives, lifestyle preferences and social obligations are driving the boom in 'gigging', with an estimated 4.1 million Australians now performing freelance work, according to an Upwork survey. Yet it's unclear whether Australia is ready for this, with questions around superannuation provisions, work safety laws, and Uber making headlines for unfair work practices. New federal protections for vulnerable workers have raised the stakes considerably, with penalties increasing tenfold under certain circumstances.

This more flexible and transient workforce means HR professionals must play a greater role in protecting intellectual property, client relationships and other business interests, says AHRI convenor of the South Australia ER/IR Network, Will Snow – 'if employers are engaging someone part-time or casually, they need to understand that person may also be doing work for other people, which raises difficult questions about conflicts of interest'.

Of course, the HR profession itself is not immune from the shift towards greater flexibility and gigging. For the HR professionals taking on contract work, it's extremely important to have good systems in place to protect yourself if you're consulting, freelancing, job-sharing or part-time, says Snow – 'you need excellent communication, great record-keeping and file notes. The less formal those systems are, the more it creates real risks around gaps in knowledge where significant compliance issues and financial penalties can arise'.

Source: Cowie, T. and Barbeler, D. (2018), Once more into the breach. *HRM Magazine*, http://hrmonline.com.au, p. 23.

Employment trends

The three key challenges facing the future nature and organisation of work are globalisation, the impact of new technologies and demographic change. We have discussed the effects of globalisation throughout the book. As **Figure 12.3** illustrates, the Fourth Industrial Revolution (4IR, or Industry 4.0) is distinguished from earlier industrial transformations by its speed, scope and broad global impacts, most of which include the 'transformation of systems of production, management and governance'.[46] Emerging technology, such as artificial intelligence, robotics, machine learning (integrated components of the Fourth Industrial Revolution, or 4IR), the Internet of Things, autonomous vehicles, 3-D printing, nanotechnology, biotechnology, materials science, energy storage and quantum computing, represent just the tip of this technology iceberg. New technological applications include driverless cars, trucks and trains, 'cashier-less' shops, robotic doctors, lawyers, farmers, mechanics, construction workers, tutors, insurance agents and bank tellers, among many others.

FIGURE 12.3 The Fourth Industrial Revolution

1st	2nd	3rd	4th
Mechanisation, water power, steam power	Mass production, assembly line, electricity	Computer and automation	Cyber physical systems
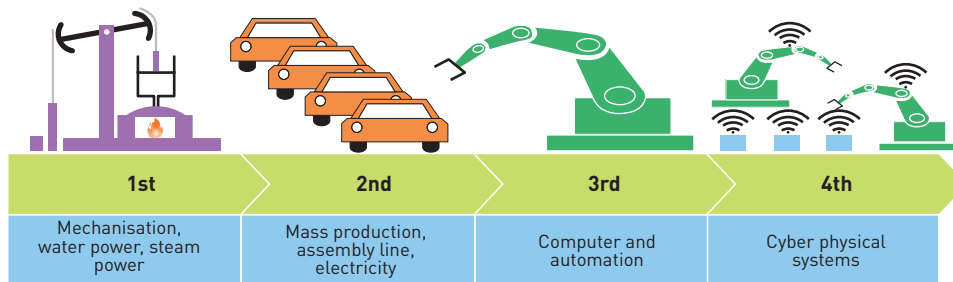
Source: Diagram by Christopher Roser at AllAboutLean, licensed under Creative Commons Attribution ShareAlike Licence 4.0.

Challenges and opportunities presented by 4IR include the potential to raise global income levels, improve quality of life, and lead to supply-side benefits such as long-term business efficiency, productivity and national economic growth. On the downside, significant workplace changes and the replacement of (particularly) low- and medium-skilled jobs by robots are anticipated. McKinsey Global Institute predict that half of all existing work activities could be automated by currently existing technologies, saving some US$16 trillion in wages. They suggest that revenues from artificial intelligence will increase to more than US$47 billion by 2020. Occupations attracting the most investment include automated customer service, quality management and recommendations, medical diagnosis and treatment, and fraud analysis and investigation.[47] Schwab and Davis suggest that the 4IR will have four main impacts on business – namely, 'on customer expectations, on product (and service) enhancement, on collaborative innovation, and on organizational forms'.[48]

While some observers focus on the replacement of jobs by artificial intelligence, robotics and machine learning technologies, others are more sanguine, suggesting that employees will be relieved of boring and repetitive job functions, allowing them to undertake more creative
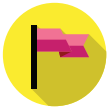
and innovative projects. As Stone et al. assert, most technology is 'merely a decision support tool that should enhance, not replace' job roles.[49] Either way, HR professionals will be pivotal in managing the impact of these challenges through their HR planning, work design, learning and development, and rewards programs.

The internet and the looming new technologies have produced the industry sectoral shifts discussed above, and radically changed the job skills mix, with decreases in clerical, semi-skilled and machine operator jobs, and increases in professional and service positions. An Australian study found that the proportions of professionals in the workforce had risen from 7 per cent in 1911 to 22 per cent in 2014, administrative and trades positions constituted approximately 15 per cent of the total workforce, while labourers represented 10 per cent.[50] As examples of these changes, some nursing, travel agents, florists, pharmaceutical and medical services have been complemented or replaced by internet services, and are staffed by fewer and more specialised service providers, either onshore or offshore. The highest-paid positions are those of medical professionals, mining engineers and general managers; the lowest-paid being sales assistants, hairdressers and waiters who usually work in casual or part-time jobs with minimal employment conditions[51] – often called 'flexible' work by managers, but 'precarious' or 'vulnerable' employment by employees and their unions. A recent McKinsey Global Institute report identifies four industry sectors and associated job clusters that will benefit from the technological changes taking place; namely, aged care, energy efficiency and climatology, goods and services for the growing global consumer markets, infrastructure and the new technology itself.[52] In contrast, a report from the UK Institute for Public Policy Research (IPPR) identified three of the 'most at risk' sectors; namely, wholesale and retail trade (approximately 65% reduction in jobs), transportation (63%) and manufacturing (58%).[53]

Demographic trends

The most important demographic trends include the ageing workforce and population in most developed economies, contrasted with the youthful labour markets in regional countries such as India and Indonesia; significant increases in female workforce participation and increasingly diverse workforces; and rising educational levels in most developed and emerging countries. As evidence of these trends, some studies have predicted that the proportion of older people in the population will rise from around 13.5 per cent (2010) to nearly 28 per cent (2050), while the proportion of younger people will decline (from 19% in 2010 to only 17% by 2050).[54] In some countries, youth (under 20 years) unemployment rates are approximately four times higher than their peers aged over 20 years, and it is estimated that nearly 70 per cent of young people are engaged in casual, part-time or contract jobs, sometimes by choice, but more often because they cannot acquire their desired full-time jobs.[55] The diversity of the workforce is growing in almost all regional countries, in particular, women, different ethnic groups and new migrants.

Emerging issue 4
Effects of the Fourth Industrial Revolution on jobs

The cross-border migration of highly skilled employees is increasing in many regional countries, encouraged by the formation of the AEC. The most effective and innovative organisations and their HRM professionals seek to attract, retain and engage with diverse workforces, as they realise the value of different values, ideas, skills and attitudes (human capital management) in creating dynamic and competitive organisations.

Finally, educational (vocational and higher education) levels are on the increase in almost all countries. The Australian Government, for example, expects that 40 per cent of employees aged between 25–34 will have an undergraduate degree by 2025. More diverse and more highly educated workforces provide challenges to organisations and their HRM professionals; while they bring with them sophisticated knowledge and new skills, they also tend to demand fulfilling jobs, learning and development opportunities, career progression and higher salaries – a significant issue, especially for the growing number of small and medium size organisations.[56]

New forms of employment

The CIPD's 2016 *Megatrends* report discusses the decline of collective workplace institutions (mainly unions) and significant changes in standardised forms of employment.[57] Most developed countries traditionally had strong industrial (or workplace) relations systems, which provided for the protection of employees' work conditions (hours, wages and salaries, benefits, WHS), usually through nationally regulated and often adversarial arbitration, negotiation and consultative processes, with employers (and employer associations) bargaining with trade unions that acted as employee representatives[58] (see Chapter 3). However, in many countries, productivity factors, revised industrial relations legislation and different generational expectations have led to more individualised, less formal and more cooperative negotiations between organisations and their employees.[59]

This trend has had both positive and negative consequences. On the one hand, the decline in union membership and influence has enabled more harmonious and less time-consuming negotiations on issues such as job tasks, salaries and benefits, WHS, and even more flexibility in work–life balance matters, a key expectation of many younger employees. On the other hand, it has significantly reduced the security of many jobs and the consequent employee protections. It has certainly aided the decline of standardised employment forms and facilitated the development of a more 'flexible' workforce – numerical (number of staff), hours (start and finish times, less or more hours), work patterns (job-sharing and split shifts) and location (telecommuting, 'hot desks' and mobile work).

Other work trends predicted by the CIPD 2016 report include ongoing wage restraint, a corrosion of trust (and loyalty) between employers and their employees, increases in the hours of work (both formal and informal) and a significant reduction in perceived (and actual) job security.[60]

New job skills and competencies

Although it is not yet clear which jobs, work competencies, skills and personal capabilities will result from all the significant external changes discussed above, it is almost certain that they will be considerably different from those of today.[61] It is also clear that all organisations, their HR professionals and employees will need to be prepared for significant future changes requiring flexibility, adaptability, innovation and a willingness to undertake continuous or lifelong learning. As Hajkowicz et al. suggest:

> Individuals who need to re-skill or who are making important educational investments need to understand where there is demand for workers, the type of skills required for these jobs and the income earning potential associated with these jobs. While STEM [science, technology, engineering, mathematics] skills will certainly be in demand, current concerns about the participation in STEM might require some effort from decision makers and educators to make STEM subjects attractive to current and future students, especially females, and integrate them in a wider curriculum for all levels of education.[62]

Many observers have attempted to predict the new jobs that will represent the future of work and the skills required to perform them.[63] Some have proposed entirely new types of jobs reflecting the human-technology interface – blockchain banking engineer, national identity conservationist, public technology ethicist, remote robotic surgeon and superstructure printer, among others. Regardless of the specific job titles, it is clear that HR professionals, in consultation with all levels of management, will need to adopt more dynamic and innovative approaches to HR planning, work design, talent attraction and retention, learning and development, and rewards systems to proactively transform their organisations within these new business scenarios.

THE FUTURE OF SHRM

Our model of SHRM (outlined in Chapter 1 and applied throughout the text) suggests that both external and internal factors should drive associated HRM strategies, plans, policies and processes. In turn, these should be evaluated constantly and comprehensively to ensure their ongoing congruence with organisational directions. The outcomes of such evaluations provide crucial information for the formulation and re-formulation of innovative HRM approaches in relation to HR planning, job design, talent attraction and retention, HR development, rewards, career development and performance management programs.

Given the above predictions about the future of work, it is clear that theories and models of SHRM will need to change significantly in order to reflect the demands of new global and regional business environments, technological developments, dynamic labour markets, demographic issues and different employee expectations. HR systems and processes, and HR professionals' roles, competencies and skills, will also change accordingly. In this section we briefly consider some of these issues.

SHRM theories and models

While previous theories and models of SHRM will remain relevant as analytical frameworks for HRM professional practice, future refinements will likely be predicated along two main dimensions: a multiple stakeholder perspective, and more customised approaches to encompass increasingly diverse industry structures and workforces. As discussed in Chapter 1, the dominant Harvard ('soft' HRM) and Michigan ('hard' HRM) models have been revised in recent years to broaden the range of key stakeholders (shareholders, managers, employees and unions) to include local and global communities and the physical or ecological environment; and to incorporate morality, sustainability and employee wellbeing, alongside productivity and financial outcomes[64] – the triple bottom line of 'people, planet and profits'.

Thus, 'green HRM' models encompass both macro and micro aspects of SHRM – 'green performance, green behaviours, green attitudes and green HR competencies, shaped and re-shaped through the adoption of green HRM practices'.[65] Green HRM practices include functions such as 'green' HR planning, recruitment, learning and development, rewards and organisational branding, and are illustrated in the HR practices of companies such as Siemens, BASF, Bayer and the Rover Group, among others.[66] Essentially, these companies permeate 'green' awareness, practices and skills into all HRM functions from job descriptions (key performance indicators) and selection criteria to learning and development and performance review outcomes, leading to an overall culture of environmental protection and community sustainability.[67]

In addition, revisions to SHRM models have begun to focus on their 'sustainable' dimensions. According to Kramar, 'sustainable' HRM theories can be categorised into three perspectives:

1 'capability reproduction' – an internal focus on economic outcomes and business 'sustainability'
2 'promoting social and environmental health' – an external focus on community and environmental protection
3 'connections' – the incorporation of both internal and external perspectives.[68]

The third perspective is clearly the 'best fit' with SHRM and is likely to be the most inclusive for all relevant stakeholders, both internal and external.

The Harvard and Michigan models of SHRM were largely designed for middle and large size organisations in a broad range of industry sectors with centralised HR departments. The transition towards a narrower band of industry sectors, flatter and smaller organisations, and the decentralisation and distribution of HRM functions between all management levels, outsourced service providers and robotic technologies, will demand revisions to these traditional models. In particular, the Harvard model's four strategic 'HRM policy choices' – namely, employee influence, human resource flow, rewards systems and work systems – will demand new responses. As examples, organisations such as Uber, Grab, Deliveroo, Truelancer and Airtasker are fully contractor-based; and large companies such as Ernst and Young employ significant cohorts of freelancers. In such situations, the roles of HR professionals (where they exist) will be very different from those posited in traditional HR theories and models. HR professionals may become more the 'conductors' of employee 'orchestras', rather than managers of traditional organisational workforces.

Future HRM roles and practices

As already suggested, HR professionals will be faced with significant responsibilities in the future for the development of organisationally specific and strategic HR programs, predicated on continual social and organisational change and increasing productivity at all levels. There is a growing recognition that SHRM is a shared responsibility of the whole HRM community (see Chapter 1) and beyond, and that HRM processes and strategies need to be integrated and aligned with broad organisational strategies and objectives. This is problematic given the range of stakeholders both inside and outside organisations.

This section presents a variety of perspectives on the challenges and opportunities for future HRM roles and practices. **HRM in practice 12.5**, for example, discusses two of the key drivers for HRM roles into the future; namely, the effects of technological change and ethical issues.

HRM in practice 12.5

HRM drivers

The human resources area has a broad range of applications in facilitating and managing organisational change, and human resources skills and qualifications are therefore demanded across all sectors of the economy. As part of our research, Deloitte Access Economics spoke with Dr Alan Montague, the Program Director of Human Resources Management at RMIT University, about the career prospects of individuals studying a postgraduate qualification in the human resources area.

Alan suggested that there are two key drivers of growing demand for human resources management skills and qualifications. First, the significant technological change that is arising from developments such as artificial intelligence and machine learning means that businesses across all industries will need more change management and human resource development/ training skills to facilitate successful transitions, particularly given the potential magnitude of future workplace disruption. Second, there is an increasing focus on ethical approaches to conducting business across many sectors of the Australian corporate landscape given the litany of misdemeanours we read about in the media. Given this major concern, human resources professionals must perform a more prominent role as the ethical centre of organisations by developing and implementing the necessary internal and external organisation policies.

Overall, the skills required in human resources professionals go beyond knowledge of human resource management theory; Alan identifies interpersonal, communication and problem-solving skills as being critical for success, noting that workers in the human resources area need to be able to apply concepts of organisational performance, governance and employment law within the workplace.

Source: Deloitte Access Economics (2018), *The future of work: Occupational and educational trends in HR in Australia.* Sydney: DAE, p. 3.

Other observers emphasise the need for HR professionals to engage more closely with big data and digitised HRM systems in order to provide more strategic, efficient and effective information and employee functions, in conjunction with a broader range of stakeholders. **HRM in practice 12.6** illustrates how Deutsche Bank has digitised many of its HRM functions, integrating talent acquisition, learning and development, rewards, career mobility and voluntary employee turnover programs with business systems. The case suggests that HR professionals will need to upgrade their digital skills; that HRM data and functions will increasingly be distributed among multiple stakeholders; and that, consequently, their roles will become more strategic and facilitative, and less operational.

HRM in practice 12.6

Banking on strategic HR system digitisation

Deutsche Bank has decided to embark on a bank-wide digitisation strategy, involving both its client services and its HRM strategies and functions. The strategy covers the whole range of HRM services, including talent acquisition which will now employ digital online applications, selection and onboarding called 'Acquire Talent'; and new compensation systems based on 'digital tools with online, seamless processes between HR and decision-making managers', which will provide user-friendly, efficient and more accurate data management. In addition, the system will facilitate improved self-service access by employees and managers. The system, known as 'Deutsche Bank HR Connect', will be the 'primary access channel for employees to interact with HR'. Other sub-systems include 'Connect2Learn', an online learning and development platform, and an 'Internal Mobility Tool' to enhance career and succession planning.
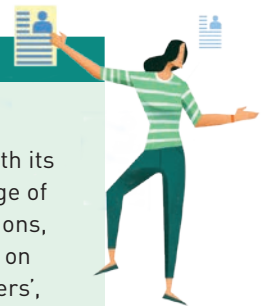
> 'Arbeiten@DB 4.0' (Working@DB 4.0) was also developed to identify more flexible approaches to career and leadership issues, accounting for the needs and requirements of people at all employment stages, including those transitioning into retirement'.
>
> Source: Deutsche Bank (2017), *Human resources report 2016*. Frankfurt: Deutsche Bank, p. 8.

Other authors have predicted HR technological applications such as 'virtual' organisational previews, job fairs and 'interactive dialogues' for talent attraction; 'e-selection' apps for job analysis, application forms, employment tests and Skype job interviews; e-learning portals; electronic performance reviews; and employee self-service systems.[69] Many of these applications are already being used by HR professionals across the world.

An interesting example of the displacement of the traditional roles of HR professionals is the employment of robots by Ernst and Young, which receive and answer employee questions and collect relevant employee data.[70] More controversially, some have suggested using robots to investigate sexual harassment and discrimination complaints, due to their objectivity and standardised data collection methods.[71]

There are several common themes that provide guidance towards the kinds of HR roles and practices which may eventuate into the future. A recent global survey by Mercer Consulting summarises the key priorities for SHRM into the future as the need to:

- build diverse talent pools
- embrace new work equations
- architect compelling careers
- simplify talent attraction and retention processes
- redefine the value of HRM.[72]

Given these drivers and the workplace trends discussed above and throughout this book, we may speculate about how HR roles and practices will change in the next few decades. We suggest that there will be four key new roles.

First, HRM is likely to increasingly become a 'shared' or 'distributed' function, involving all levels of management; outsourced service providers; big data involving cloud-based integrated internal and external information sources; and artificial intelligence systems. In this scenario, HR professionals' roles will transform from business partners to 'account managers' who provide oversight to systems and processes strategically rather than being directly involved in discrete HR functions.[73]

Second, traditional HR functional areas (e.g. HR planning, job design, recruitment and selection, performance and rewards management) will be replaced with broader responsibilities such as 'agile HR solutions' to staffing, retention, employee engagement and rewards challenges, using HR analytics and new technologies extensively towards these ends. One observer has predicted that 'by 2025, HR analytics will have become an external discipline, will have a proven impact on business outcomes and a strong influence in operational and strategic

decision-making'.[74] At the same time, changes in the nature of employment (e.g. increased contract, part-time, online and remote work) and the ongoing sophistication of employee skills requirements will demand more individualised HR services – a 'workforce of one', whether by human or technological means.[75]

Third, HR professionals will become responsible for building capability throughout large and middle-sized organisations, in particular for the establishment of physical spaces, flexible employment conditions and facilitative cultures, and leaders who will inspire and reinforce employee creativity and innovation. Contemporary illustrations of such cultures are provided by companies such as Google, Southwest Airlines, Twitter, Facebook and Chevron (see **HRM in practice 12.1** earlier). There may also be a demand for HR professionals to move from generalist to more specialist positions.[76]

Finally, several observers suggest that HR professionals will increasingly be expected to act as 'experience architects', focusing on enhancing and facilitating employee engagement and wellbeing, as part of their broad talent management responsibilities.[77] This role addresses the new work expectations of Millennials as well as the trend towards workforces with increasingly higher-level skills and competencies.

Whether these developments occur or not in all organisations, regardless of size, it is clear that the HR competencies included in the AHRI Model of Excellence are fluid and will experience modifications consonant with the changes taking place in organisations across the world. **Figure 12.4** provides a template for the analysis of such changes in HRM roles and competencies, and illustrates likely future HR roles.

FIGURE 12.4 HR roles in building a competitive organisation
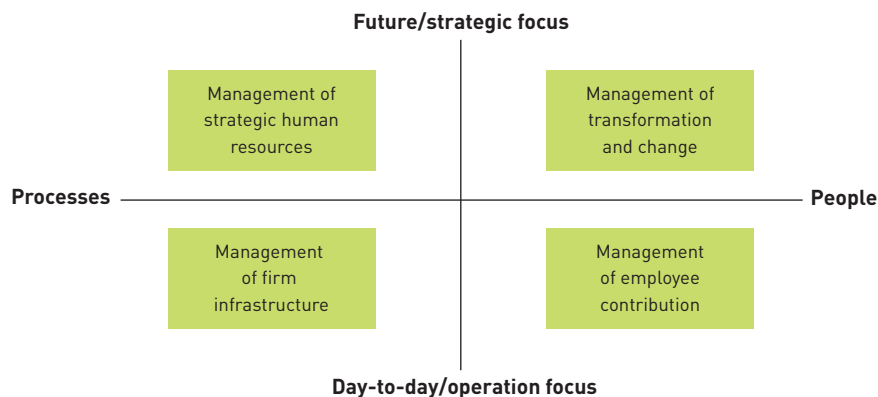
SUMMARY

This final chapter explores two crucial issues in SHRM – first, the range of methods that HR professionals can use to account for their contributions to organisations; and, second, an analysis of the impacts of future environmental challenges and opportunities for all industry sectors and their workplaces. While these two issues may not be initially seen as linked, such analyses inform HRM evaluation and provide crucial information on how HR professionals' strategies, roles and practices need to be adapted in order to effectively contribute to organisational goals and objectives.

KEY TERMS

- absenteeism 522
- corporate governance 511
- corporate social responsibility (CSR) 511
- employee attitude surveys (EASs) 527
- employee engagement benchmarks 527
- employee turnover 518
- employee wastage 518
- exit interviews 528
- HR program evaluation (HR audits) 529

EMERGING ISSUES

① Strategic HRM evaluation

Strategic HRM evaluation involves the formal assessment of all HRM strategies and processes to ensure that their outcomes directly reflect and contribute to the effectiveness of organisational goals and objectives, and to prove the value of HRM activities.

a Discuss the challenges and opportunities provided for HRM professionals by HR analytics and big data.

② SHRM evaluation theory

SHRM evaluation theory suggests that both quantitative and qualitative approaches (in combination) provide the most comprehensive approach, but that both have their problems and are often not reflected in HR practice.

a Discuss the strengths and weaknesses of quantitative and qualitative approaches to the evaluation of HRM systems and processes.

③ Quantitative evaluation methods

Quantitative evaluation methods measure such aspects of HRM as employee costs, turnover, wastage, retention, productivity and absenteeism.

a Discuss the problems associated with quantitative research methods in HRM. Do they show the whole picture?

④ Effects of the Fourth Industrial Revolution on jobs

Predictions about the impact of the Fourth Industrial Revolution on workplaces across the world suggest that between 40–60 per cent of jobs may be replaced by artificial intelligence and robotic technology

over the next two decades. Manual, administrative and some managerial jobs are reported to be the most adversely affected.

a   Consider an industry or organisation with which you are familiar (e.g. retail, tourism and hospitality, health or transportation). Identify the jobs that are most likely to be replaced. What new skills will be required to retain employees doing these jobs? How should HR professionals be preparing for the retrenchment, retraining or relocation of these employees?

5 **Future of SHRM**

The future of SHRM is difficult to predict, but likely to be influenced by: different products and services; more competitive local and global industries; greater use of technology; diverse jobs and workplaces; the gig economy; different employee expectations of jobs and careers; and new workplace issues such as environmental issues, corporate governance and CSR.

a   Which new HR roles and competencies might be expected in the future? How should universities revise their content and teaching styles to ensure that HRM students are better-equipped to fulfil them?

ETHICAL CHALLENGE

How chatbots could replace your HR department

'Please tell me everything you can remember about what happened. Try to not leave anything out, even if it seems trivial. I have as much time as you need.'

Although this dialogue may sound like something straight out of a police interview, these are prompts from a computer programme designed to combat discrimination and harassment at work. It's the voice of a chatbot called Spot. Launched in February, the free-to-use chatbot, accessed through a website, records typed responses to a series of questions. These can then be collated to create a report detailing sexual harassment or discrimination at work. If someone tells a story of sexual harassment by her boss, for example, the bot might probe for more precise details: 'Thank you for telling me about that. Please provide specifics about the month, week, day, or time this happened.'

It is hoped this rather clinical approach could remove some of the stigma associated with making a formal complaint – and could hopefully lead to a safer, more open environment for all employees. Chatbots that use artificial intelligence are designed to provide a judgement-free service that doesn't rush or fluster users. It's hoped that talking a problem through in this way with a machine rather than a senior staff member could make victims more likely to come forward. At the end of the discussion, users can choose to download a time-stamped PDF with an organised transcript of their conversation and then choose whether to use it to raise a complaint at their company or not. Chatbots may be capable of using some aspects of a cognitive interview method, a process particularly effective for witnesses to crimes.

Amina Memon, a professor of psychology at Royal Holloway University in London, says crucial techniques for a good cognitive interview include not asking yes or no, or leading questions; conveying to the witness that they have control of the pace of the interview and making sure they

feel free to say if anything is unclear, or they don't know something. 'The cognitive interview takes what we know about how memory works and basic principles of effective communication,' she says. 'And pulls them together and tries to get a detailed memory report and get as many details as possible.'

Source: Wen, T. (2018), How chatbots could replace your HR department. BBC.com, 16 March, http://www.bbc.com/capital/story/20180315-how-chatbots-could-replace-your-hr-department.

1   What might be the ethical issues associated with using a chatbot for such purposes?
2   How should they be addressed?
3   Would you feel comfortable making a complaint in this way?

CASE STUDY 12.1

The carers

By 2030 workers in health and wellbeing will in the future be more autonomous problem-solvers. The carers include surgeons, general practitioners, nurses, fitness instructors, social workers, childcare workers, aged care workers and counsellors. Caring professionals – people working in roles to improve the health and wellbeing of others – have a high degree of transferable skills, meaning that training for one job in this professional field equips a worker with the skills for many other caring jobs.

Even though many caring professions are considered at low risk of being impacted by automation in the near future, their skills profile will change by 2030. Automation is set to reduce the amount of time people in caring professions spend on management and organisation. By 2030 they will likely spend less than 2 hours a week using their organisational skills (down 5 hours a week compared to today) and 9 hours a week using their management skills (4 hours less than today).

Carers will instead use more interpersonal skills (up 2 hours a week to 13 hours), more critical thinking (up 12 hours per week) and more problem solving (up 7 hours a week). By 2030 the jobs in health and well-being will be more collaborative, entrepreneurial and intellectual.

Source: FYA (2017), *New work smarts: Thriving in the new work order.* Sydney: FYA, p. 19, http://www.fya.org.au/report/the-new-work-smarts.

Questions

1   Given the relatively low wages paid to child care and aged care workers, how will sufficient numbers of people be attracted to these jobs in the future?
2   What programs can HRM professionals design to retain these employees?
3   Do you think that robots will eventually replace these jobs? In what ways? For which alternative roles might existing care workers be re-skilled?

ENDNOTES

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GLOSSARY

360-degree feedback
A performance review method where an employee is rated by a select number of people employed above, below and alongside them, as well as by themselves and sometimes their customers and/or suppliers

absenteeism
A measure of individual or organisation-wide trends in authorised and unauthorised leave taken by employees

action plan
A personal development plan for the subsequent performance round, specifying a range of initiatives to address agreed performance shortcomings and development needs

age discrimination
This occurs when a person is treated less favourably than another person in a similar situation, because of their age

agency theory
Proposes that performance incentives are the most effective way for owners/employers ('principals') to align the actions of self-seeking employees ('agents') with owner/employer interests

AHRI Model of Excellence (MoE)
The guiding framework for HR professional roles and competencies

alternative dispute resolution (ADR)
When the parties to the conflict use a third party to assist in resolving a conflict without progression to formal arbitration or litigation

alternative workplaces
Places of work other than the traditional office setting with access to internet and email

artificial intelligence
The intelligence displayed by machines, robots or technology. They mimic functions ordinarily displayed by humans, such as asking questions, analysing or problem-solving

ASEAN Economic Community (AEC)
A regional trade grouping of 10 ASEAN countries, excluding Australia

attribution error
When the rater wrongly attributes high or low performance either to factors that are within the employee's control (internal attribution) or to factors in the performance context (external attribution)

Australian Bureau of Statistics (ABS)
Australia's national statistical agency, providing official statistics on economic, social, population and environmental matters

Australian Council of Trade Unions (ACTU)
Australia's peak national body (inter-union organisation); represents the vast majority of Australian unions and is generally regarded as the 'voice' of the Australian union movement

Baby Boomers
Those persons born between 1946 and 1964

background investigation
A check by the employer into the background of an applicant for a position. Usually in the form of a check of written or telephone referees' reports. A method of verifying the details provided by the applicant

balance sheet approach (expatriate)
An approach to expatriate reward configuration which links reward level to the home country pay structure and seeks to preserve home country purchasing power and living standards by means of compensatory financial adjustments

balanced scorecard
An integrative strategic management tool where employees, teams and business units are set goals and are assessed across four quadrants: financial, customers, internal business processes, and learning and innovation

base pay
That part of monetary reward that is largely 'fixed' or 'guaranteed' and time-based rather than performance-based and which may be configured either according to the content of the job/position or on the basis of the performance capabilities of the individual employee

behavioural coaching
A process of providing high-potential employees with one-on-one support at regular intervals over a predefined period and informed by deep dialogue and evidence-gathering to identify, test and apply initiatives to address behavioural barriers and optimise the application of capabilities

behavioural questions
Sometimes referred to as situation questions, as they seek information from the candidate about what they would do in a specific situation. Each question is normally based on at least one competency for the position

behaviourally anchored rating scale (BARS)
A quantitative performance measurement instrument covering a range of behavioural criteria, each of which is accompanied by a behavioural example or anchor

benefits
Financial entitlements that directly supplement cash base pay, including employer contributions to superannuation, health and medical insurance, paid leave, education expenses, etc.

best fit
A term used to describe the best candidate for the position. Also used when describing 'best fit' HRM strategies

'big data'
Aggregated data from both internal and external agencies analysed for strategic planning purposes

bullying
Where one or more people engage in repeated and unreasonable behaviour towards another individual

capital productivity
The output produced per capital input

career plateau
A stage of an employee's career in which few future opportunities appear to exist

casualisation
A casual worker is one who is not employed in a permanent capacity and whose contract of employment can be terminated at short notice. In Australia, casual employees are usually understood to not be entitled to paid annual or personal leave

central tendency error
A classification error in which, for personal or political reasons, the rater consciously rates all performers in the middle of the range with a view to minimising conflict

closed questions
Require only a 'yes' or 'no' answer. Should be used sparingly to bring an issue to closure

coaching
A development relationship with a more experienced person from outside the organisation. It is generally more focused than a mentoring relationship in that the employee and the coach work towards specific goals, objectives or development needs of the employee

cognitive evaluation theory
Proposes that intrinsic motivation arises chiefly from the individual's need for task autonomy and competence and that incentives that are perceived to be controlling stand to impair intrinsic motivation

collective bargaining
A method of negotiation between unions and employers, used to resolve the terms and conditions of employment

Comcare
An Australian Government agency that works in partnership with employees and employers to reduce the human and financial costs of workplace injuries and disease in the Commonwealth jurisdiction

comparable worth
Prescribes that employees undertaking work of a similar content (e.g. work requiring similar skill levels or qualifications), but in different occupations or organisational contexts, should be remunerated at the same or a similar level

compa-ratio
An index number representing the employee's position in their base pay range. Short for 'compensation comparison ratio'

competencies
The skills and abilities required by job holders to enable the desired level of performance at work

competency profile
A grouping of competencies that reflect the needs of the position and/ or organisation in order to meet organisational outcomes

competency zones
A base pay system that recognises and rewards individual employees via base pay adjustments on the basis of the development and application of abilities, 'soft skills' or 'competencies'

corporate governance
Refers to the responsibility of all organisations to comply with all financial, legal and ethical requirements

corporate social responsibility (CSR)
Focuses on organisations' environmental, social and community obligations

creativity
To have ideas that are unique and original; often it is intangible but innovative

cross-cultural awareness
The ability to be aware of differences between one's cultural values and beliefs and those of others

cross-functional team
A team of people with different functional expertise from across the organisation working together towards common organisational objectives and goals

developmental rewards
Extrinsic rewards associated with personal learning, development and career growth

direct and indirect WHS costs
All costs incurred by workers, their families, employers and the community as the result of workplace accidents and injuries

disciplinary action
Reasonable management action to ensure that expected employee behaviour and performance standards are maintained. Can be either developmental and/or punitive, leading to dismissal

discretionary bonus
An irregular lump sum award for outstanding performance made at the discretion of the supervisor and/or senior management

distributive bargaining
A competitive negotiation strategy often known as win–lose bargaining, with the purpose of determining how to distribute resources, money or wages, etc. between the parties

distributive justice
Employee perceptions about the fairness of the outcomes arising from these procedures, including performance scores, promotion outcomes, pay adjustment and employment continuity

diversity management
Creating an environment where individual differences are valued, respected, acknowledged and included

downshifting
A voluntary scaling back of one's career so as to enjoy a better mix of family/ work priorities

dual concerns model
A two-dimensional framework which identifies the different styles in conflict management across concern for one's self and concern for others

dual-career couples
A personal relationship where both individuals are either seeking work or are in work. Dual-career couples face many choices in terms of relocating due to careers and dealing with family responsibilities

e-cruitment
Online recruitment processes via the internet as contrasted to newspaper advertising

elder care policies
HR policies that recognise the responsibilities employees have for older parents and relatives and which may give them additional leave or flexibility at work to undertake their elder care duties

e-learning (electronic learning)
Learning provided, conducted and/or facilitated via the use of electronic media and technology

emotional intelligence (EI)
Refers to the ability to understand, use and interpret the emotions of others appropriately

employee assistance programs (EAPs)
A systematic approach to providing employees experiencing personal and/or work-related difficulties with confidential counselling and professional support

employee attitude surveys (EASs)
Qualitative surveys that aim to elicit the degree of satisfaction of employees with jobs, employment conditions, workplaces and managers; also called morale or climate surveys

employee counselling
A relationship where one person (usually a professional) endeavours to help another to understand and resolve work-related or personal problems

employee engagement benchmarks
These are usually qualitative indicators of employees' (positive or negative) commitment towards their organisations, including their feelings of empowerment and inclusion, or their intentions to leave

employee performance
The efficiency or effectiveness of employees' individual and collective work effort

employee referrals
Applicants are referred to the organisation by internal employees; often a reward system applies when the referral is successful

employee self-service kiosks
Intranet systems that permit employee access to their own HR records, allowing them to make changes to their personal details, freeing HR professionals to focus on more strategic functions

employee share ownership plans (ESOPs)
Long-term incentive plans that provide eligible employees with access to share ownership in the organisation that employs them

employee turnover
A measure of the movement of employees through the organisation through such processes as job rotation, internal transfer and promotion

employee wastage
A measure of the number and types of employees who leave organisations within a defined period. Usually focuses on analysing the reasons for their departure, with a view to retaining valued employees

employer of choice
A concept that describes the strategies and processes put in place to attract, retain and motivate key talent

employment interview
Usually, a face-to-face meeting between the candidate and a representative or a number of representatives of the employing organisation. Can also be conducted by tele/video conference or via the internet. Methods range from structured to unstructured

employment relationship
The acknowledged relationship between an employer and employee; it comprises a set of overlapping contracts: the legal contract, the social contract and the psychological contract

employment testing
A test that attempts to measure a person's ability against predetermined selection criteria. Examples are: personality tests, intelligence tests, achievement tests and aptitude tests. Reliability and validity of such tests are a concern

enterprise bargaining
Negotiation of the terms and conditions of employment between employers and employees or their respective representatives; a subset of collective bargaining that occurs at enterprise level

environmental scanning
Analysis of the external economic, social and business environments

equity theory
Proposes that an employee's sense of reward satisfaction is influenced, first, by whether they see their own reward received ('outcome') as being commensurate with their effort ('input') and, second, how they see their input/outcome ratio when compared to that of other employees

ergonomics
Focuses on fitting the job space and technology to the person so that work can be done more comfortably, conveniently, efficiently and safely

espoused psychological contract
The employee value proposition offered to employees by the management of the organisation, which helps frame the expectations of individual employees and their managers

executive leasing
A senior employee is contracted for a set period of time or to undertake a specific project. Usually contracted from a private consultancy

executive search
A process used by a private consultancy that aims at sourcing talent at the senior management layer of an organisation, usually by direct approach rather than advertising

exit interviews
Qualitative interviews conducted with all departing employees or critical categories of employees who have chosen to resign from an organisation

expatriate
Someone from the parent (home) country who is working for a period of time (usually more than a year) in an overseas (host) country

expectancy theory
Proposes that for a reward to be effective in motivating an employee, the employee must see the reward as valuable, must believe that they are capable of delivering the required performance, and must trust that the reward will be forthcoming if they do perform as required

extrinsic rewards
Tangible rewards (such as pay) and intangible rewards (such as developmental rewards and social rewards) arising from the factors associated with, but external to, the job that the employee does

Fair Work Act 2009
The main federal legislation regulating the employment relationship in Australia

Fair Work Commission
The Australian national workplace relations tribunal (formerly Fair Work Australia)

Fair Work Ombudsman
The compliance and enforcement arm of the national workplace system

feedforward interview
A positive performance review technique in which content focuses on instances of successful performance against both organisational and individual aspirations

financial rewards
Extrinsic rewards of a monetary/cash or near-monetary/cash nature; also known as pay, remuneration or compensation

flexibility
Changes in the employment relationship to achieve enhanced productivity, greater efficiency and effectiveness and global competitiveness

flexible benefits plans
Allow employees a degree of choice in how best to configure their benefits package within a range of options made available voluntarily by the employer. Also known as 'cafeteria' benefits plans

forced distribution
A method for addressing systemic rater error – particularly leniency – in which preliminary or raw scores are recalibrated into a normal distribution curve

Fourth Industrial Revolution (FIR, or Industry 4.0)
Interface between physical, digital and biological technologies

full-time employment
Working 35 hours or more per week

gain-sharing
A form of collective performance-related pay in which management shares with all employees in a particular production plant or business unit the financial gains associated with specific measures of improvement in the results achieved by that work group

Gen X
Those persons born between 1965 and 1979

Gen Y
Those persons born between 1980 and 1994

Gen Z
Those persons born between 1996 and 2010. Described as the 'net generation' or 'digital natives', this generation were exposed to the internet and mobile technologies as young children

gender pay gap
The difference between women's and men's average weekly full-time equivalent earnings, expressed as a percentage of men's earnings

globalisation
The expansion of organisational operations across national, regional and global boundaries, with its associated financial, marketing, operational and HRM implications

goal-setting
A method of performance management in which the employee or employee team is set a number of specific but challenging goals (i.e. future outcomes) to be achieved within a specified timeframe

goal-setting theory
Proposes that employees will be motivated more strongly by performance targets that are specific, agreed and challenging, and by feedback that is precise, automatic and continuous

goal-sharing
Bonus payments linked directly to the achievement of group performance goals over a specified timeframe

going rate approach
An approach to expatriate reward configuration, which ties expatriate pay to salary levels in the host country, partly with a view to maintaining an equitable relationship between expatriates and host country employees with whom they work

good faith bargaining
The principle that parties entering into the bargaining process will participate in a meaningful way and genuinely try to reach an agreement

graduate programs
Entry-level job opportunities for university graduates. These programs are often for a fixed term and many such positions articulate directly into other positions within the employing organisation

graphic rating scale
A simple quantitative performance measurement instrument in which the rater assigns a score within a predefined range of scores (typically between one and five)

halo error
An unintentional judgement error where one impressive factor overshadows the entire performance review. Can also be negative (horns or devil error)

'hard' HRM
The measurement and management of employee costs and outcomes for organisational benefit

harmonisation
The attempt to ensure consistency in WHS laws between Australian states and territories

harshness error
A classification error in which, for personal or political reasons, the rater consciously rates the performer less generously than is warranted

hazardous manual tasks
Defined in WHS Regulations as tasks that require a person to lift, lower, push, pull, carry or otherwise move, hold or restrain any person, animal or thing involving repetitive or sustained force

home country nationals
Managers from the organisation's headquarters sent overseas as expatriates

horizontal pay dispersion
The degree of pay inequality between jobs of the same type or with similar content or at the same level within the organisational hierarchy

host country nationals
Employees employed from within the overseas country where the company is being established

HR benchmarks
Criteria or measures used to evaluate employees' productivity and job quality, usually in comparison with those of similar industries or organisations

HR program evaluation (HR audits)
Methods used to assess the worth or effectiveness of particular HRM functions or activities; analyses of all components of the HR program

HRM community
The group or 'community' formed by HRM professionals, middle and line managers, and sometimes external service providers

HRM ethics
Includes moral, stakeholder and community accountability, governance and stakeholder responsibility issues

human resource information management systems (HRIMS)
Integrated employee databases that enable HR professionals and managers to maintain records, collate relevant information, undertake all HRM activities and plan for the future

human resource management (HRM)
The management of employees for their own benefit and for their organisations

human resource planning (HRP)
The process of estimating future labour demand and supply in order to manage an organisation's human resource requirements, in both quantitative and qualitative terms

industrial psychology
Explores the individual psychological aspects of WHS

industrial relations framework
Describes the arrangements by which the terms and conditions of work and the employment relationship are determined; includes legislation, bargaining representatives and processes

industrial sociology
Focuses on the structural and broader workplace social aspects of WHS

integrative bargaining
Win–win bargaining. A collaborative strategy where parties' needs and interests are considered

intergenerational conflict
The potential difficulties posed by the diverse attitudes and work behaviours of employees from different generations (especially the Baby Boomers, Gen X and Gen Y) in the workplace

interview questions
A range of questions put to the candidates for a position. May range from open to closed depending on the rationale for a particular question and/ or the skill of the interviewer/s

intrinsic rewards
Psychological rewards arising from the content of the job, the interest and challenge it provides, task variety and autonomy, degree of feedback given and the meaning and significance attributed to it

job crafting
Provides employees with the opportunity and the authority to customise their own work and tasks

job description
A statement that describes the job and the conditions under which it will be performed

job design
Ensuring the way in which a job is developed meets the needs of both the employee and employer

job evaluation
Involves determining relative base pay rates by relating them to the importance or relative value of the job to the organisation and is achieved by comparing jobs on a number of factors thought to be important in determining job value

key performance indicators (KPIs)
These are specific and measurable descriptors of performance against specific outcomes, accountabilities and/ or goals

key result areas (KRAs)
The job outcomes, accountabilities and responsibilities that are considered to be a key element of the job to be delivered

knowledge workers
A term that evolved during the 1990s; used to define an educated and/or a professional occupational grouping who meet their job outcomes primarily through the use of their knowledge and expertise

KSAs
The knowledge, skills and abilities required for effective performance

labour force (or workforce)
The total number of people available for work in the country. The term 'workforce' is also often used to refer to the workers of a specific enterprise or workplace

labour market
The interactions of people making themselves available for work and employers' willingness to hire

labour migration
The movement of labour from one state or country to another to explicitly fill labour shortages in the receiving state or country

labour productivity
The output produced per hour of work

learning organisations
Organisations that value and proactively facilitate employee learning and development; they are then in a position to respond to internal and external environmental changes more readily by having in place the human capital required to respond to such change

legal contract
The legal documents that detail employer and employee rights and responsibilities

leniency error
A classification error in which, for personal or political reasons, the rater consciously rates the performer more generously than is warranted

lifelong (or continuous) learning
The concept that learning should be a constant and ongoing experience at any stage of (employee and organisational) life

long-term incentive (LTI)
Awarded on the basis of individual or group performance over a period of time greater than one year, but typically over a three- to five-year period. Rewards generally take the form of company equity rather than cash, although cash payments based on multi-year performance would also qualify

male breadwinner model
The system whereby it is assumed that the male is the full-time worker and wage earner outside the home and the female is the full-time housewife and carer providing unpaid work inside the home

market surveys
Also known as salary surveys, these involve setting pay rates for particular jobs according to what other employers are paying for the same or similar jobs in external labour markets

maternity, paternity and parental leave
Legislated leave provision (paid or unpaid) for workers in some countries to support and retain workers (female and male) when having children

mediation
A third party guides the dispute/ disagreement participants to an agreement. The parties are encouraged to listen to each other's points of view

medical examination
Often given in the latter stages of the selection process to ensure that the applicant is medically fit to carry out the

range of duties and responsibilities set out in the job description

medical model
The view of WHS held by doctors and paramedics that focuses on scientific diagnoses of the causes, effects and treatment of WHS, usually from an individual employee perspective

mentoring
A development relationship whereby a more experienced employee provides guidance, over a period of time, to a less experienced employee

merit grid
Also known as merit 'matrix' or merit 'guide chart'; specifies the precise link between the assessed performance grade, the employee's compa-ratio and the percentage performance increment

merit pay
Schemes that reward individuals on the basis of formal performance appraisal scores; generally based on performance grades determined by means of formal systems of behavioural observation and assessment, typically in a previous time period – usually one year – and take the form of cumulative additions to base pay

model Work Health and Safety (WHS) Act
The model which serves as the basis for WHS laws in the Commonwealth jurisdiction and in most Australian states and territories

modern awards
An enforceable document containing minimum terms and conditions of employment relating to a particular industry or occupation

multifactor productivity (MFP)
The output produced per unit of combined capital and labour

mutual gains bargaining
Refers to an approach to bargaining between the employers and unions

where the emphasis is on defining the problems and finding solutions that benefit both parties

National Employment Standards (NES)
Ten legislated minimum standards of employment; with the minimum standards set in modern awards, they provide a safety net of terms and conditions for employees

national minimum wage
Set annually by the Fair Work Commission's Expert Panel in its National Minimum Wage Order. It provides the amount for an award-free employee based on a week of 38 ordinary hours

negative feedback
The provision of information on an employee's performance shortcomings against role-specific performance standards and ways in which these may be addressed

neo-liberalism
A set of ideas and political and economic practices which stress the importance of free markets, deregulation and individual responsibility

occupational epidemiology
Focuses on the broad incidence and causation of work-related illness or epidemics

occupational hygiene
Focuses on assessing and controlling environmental hazards at workplaces and ways to address potential risks

open questions
Often used to commence an interview. Questions ask 'what', 'why', 'how', 'when'

participation rate
A measure of the percentage of Australians of working age who are reported to be in employment or actively looking for work

part-time employment
As defined by the ABS, working fewer than 35 hours per week

pay bands
A base pay structure associated with based pay positioning and progression allowing individual employees to be recognised and rewarded via base pay adjustment for acquiring additional capabilities (skills, knowledge, competencies) required by the employer

pay equity
The broad principle that employees undertaking work of the same or a closely comparable nature should receive equal remuneration outcomes; includes eliminating sex discrimination from the wage-setting system

pay grades
A base pay structure that houses a group of jobs of similar size/value to the organisation and specifies a pay range for these jobs that defines the minimum and maximum rates of pay for all jobs in the grade

pay variability
The proportion of employee pay that is contingent on individual or group performance rather than being fixed or guaranteed

peer review
A performance review method in which one or more employees provide typically anonymous input on the performance of a fellow employee

performance management
Practices and processes to define, measure and influence employee work effort, behaviour and outcomes in ways desired by the organisation

performance management cycle
A continuous process of performance monitoring, measurement, informal feedback on performance, regular formal review and feedback, and action

planning and support for addressing identified performance shortcomings

performance management system (PMS)
An integrated set of practices and activities for defining, monitoring, reviewing and developing employee performance

performance measurement
The process of establishing performance criteria, developing metrics for gauging performance against these criteria, and collecting data via these metrics

performance rating
The process of analysing and evaluating performance data against predetermined criteria, and assigning absolute and/or relative scores to each employee and/or group of employees

performance review
The process of interpreting performance data and ratings to provide formal feedback to the employee via an interview, typically on an annual or twice-yearly basis

performance shares
The executive is able to take up shares in the company at no cost but only on condition of a performance hurdle (typically a specified threshold improvement in share price or total shareholder returns) being satisfied over a designated performance period; also known as zero exercise price option (ZEPO) plans

performance-based rewards
Also known as incentive plans, these are rewards given in recognition of past performance and in order to reinforce and enhance future performance

person specification
The skills, knowledge and personality traits that describe the 'best fit' person or ideal candidate for a position to be filled

persons conducting a business or undertaking (PCBUs)
The inclusive legal term for employers, companies, partners in partnerships, unincorporated bodies and associations, sole traders, contractors, subcontractors and franchisees

pluralist
The view that conflict is inevitable between employers and employees and therefore conflict needs to be resolved effectively

position-based pay
Base pay where payment is fixed according to the 'size' of the job or position held

procedural justice
Employee perceptions regarding the fairness of the decision-making procedures applied to their work, including how their performance is reviewed

productivity
The measure of the efficiency by which the factors of production (land, labour and capital) are combined

profit-sharing
A formal arrangement under which bonus payments are made to eligible employees on a regular (usually annual) basis, based on a formula that links the size of the total bonus pool to an accounting measure of periodic (typically annual) profit, such as net profit (total income less operating costs) or net profit after tax

psychological contract
The expectations and beliefs of employees and their managers about working conditions and relationships in the workplace

psychological tests
Attempt to objectively assess human behaviour and emotions. While historically these were in the form of paper questionnaires, such tests are now predominantly conducted via computer technology

psychometric tests
Types of psychological tests, but focus on measuring particular human attributes; for example, skills and/or knowledge, traits or abilities

rating scales
Any method of performance measurement that relies on quantitative scoring with a specified range of scores to measure an employee's performance level in absolute terms

recency error
A judgement error that can occur when performance – especially behaviour – across only the last few months of the rating period is taken into account

recognition awards
Monetary or non-monetary rewards given in recognition of outstanding performance by individuals or work groups. May also combine monetary and non-monetary rewards

recruitment
The sum of activities and processes that aim to provide a pool of qualified persons from which the successful candidate may be chosen

recruitment agencies
Include government sponsored networks, private consultants and executive search firms, each of which will provide assistance in employing qualified staff

rehabilitation
The process of assisting employees back to work safely, following accidents or injuries

reinforcement theory
Proposes that a timely reward for a given desired action will motivate employees to repeat the rewarded action, while punishment in the form of non-reward will extinguish misbehaviour

relational psychological contract
Where the espoused psychological contract centres on routine work, secure employment and modest financial rewards over the longer term

reliability
Refers to the degree to which two or more selection processes yield a consistent result; for example, consistency of results across a battery of psychological tests

resource-based view (RBV)
The theory that proposes organisations are comprised of a series of competing 'resources' that need to be effectively managed

restricted share plans
Share plans under which the employee receives the share free of charge but where vesting is conditional and contingent on certain specified conditions being met rather than guaranteed

résumé
A personal document prepared by a job applicant that outlines information such as personal details, work history, educational qualifications, competencies, professional memberships, interests and details of referees

return on (organisational) investment (ROI)
The calculated financial benefit gained from an investment. In HR terms, ROI more specifically refers to calculating and measuring the value of investment in human resources to the organisation, including cost savings

reverse mentoring
Generational or cultural mentor pairing, in order to provide both members of the developmental relationship a deeper understanding of generational and cultural experiences

reward
Tangibles or intangibles that an organisation provides to its employees in exchange for the employee's potential or actual work contribution to which individuals attach a positive value as a satisfier of certain self-defined needs

reward communication
The process of providing employees, either individually or collectively, with information about the reward system and reward outcomes

reward strategy statement
The broad role that reward practices should play in assisting the organisation to be successful and sustainable

right to request
The right to request changes of work arrangements and leave. In Australia, rights to request refer specifically to the right of employees with newborns, pre-school-aged or disabled children to request an extension to unpaid parental leave. Employees aged 55 years or over and employees experiencing family violence or caring for a family or household member who is experiencing family violence may also request a change to working arrangements

Safe Work Australia (SWA)
The federal agency that brings together industry, unions and governments to jointly determine WHS standards and strategies

scenario planning
A process of positing several informed, plausible and imagined future environments in which decisions may be played out for the purpose of changing current thinking, improving decision-making, enhancing human and organisational learning and improving performance

selection
A process that analyses and compares the applicants for a position against the selection criteria for the position

selection criteria
Those essential and desirable criteria that will be sought and measured in applications for positions

self-determination theory
Proposes that individuals who have been deriving high intrinsic rewards from their work tasks may revise their self-attributed motives for doing the work once a financial incentive is offered to them

self-managed work teams (SMWTs)
Teams characterised by a high level of autonomy in how they manage and carry out work

self-review
A performance review method where employees are asked to evaluate themselves. The supervisor and the employee discuss job performance and agree on a final review

share appreciation rights
The executive receives cash equivalent to the wealth that would accrue to ordinary shareholders via share price appreciation plus dividend earnings over the grant period without the need to own shares

share option plans
Share plans that provide eligible employees with the right but not the obligation to purchase a specified quantity of company shares at a particular price on or after a designated future date

short-term incentive (STI)
Awarded on the basis of individual or group performance over a period of one year or less. Payments typically take the form of an annual cash bonus

similarity error
A judgement error arising from the rater's subconscious tendency to favour individuals whom they see as being more like them than dissimilar to them

simulation
The replication of a real-world process, activity or situation, often without the risk of the real-world environment, to provide training to employees on actual work-related outcomes or activities

skill
An individual's level of technical proficiency at performing a particular task, as acquired through formal training or informal on-the-job acquisition

skill blocks
A base pay system that recognises and rewards individual employees on the basis of the acquisition of required technical skills and job knowledge

skills (or competency) inventories
Databases that include comprehensive information on the current skills, qualifications and competencies of employees

social contract
The mutual understanding and set of social norms that underpin an employment relationship, regarding expectations and obligations of employers, employees and the society at large

social networking sites (SNS)
Websites that enable users to build social networks or social relationships with other users of those websites

social rewards
Extrinsic rewards associated with the organisational climate, performance support, quality of supervision, work-group affinity, and opportunities for enhanced work–life balance

'soft' HRM
HRM approaches that focus on employee needs, and may include consultation, engagement, counselling and support

sorting effect
Employees sort themselves in and out of organisations depending on whether the organisation's value proposition, including how it rewards employees, attracts or repels them

strategic human resource management (SHRM)
A coordinated and integrated approach to HRM which ensures that HRM strategies and processes are aligned with broad organisational goals and strategies

strategic international human resource management (SIHRM)/strategic global human resource management (SGHRM)
The application of SHRM theory and practice to international (or global) business

strategic reward management
The design and maintenance of an integrated reward system in which reward strategy, policy and practice align with and support the organisation's overall human resource strategy, plans and policies, which, in turn, support the organisation's overall strategic goals and objectives

strikes
One form of industrial action, where groups of employees withdraw their labour

talent retention
A critical HR strategy to retain the required skilled employees within the organisation. This retention is important for not only keeping employee costs down, but also for ensuring the organisation is equipped to deal with current and future challenges

telecommuting
Working from home, the car or anywhere other than a 'permanent' physical office space

third country nationals
Employees from any country other than the home or host country where the company is being established

total reward management
A holistic approach to employee reward management, integrating intrinsic reward elements and extrinsic reward elements of a non-financial and financial nature

training needs analysis (TNA)
A process by which the gap between the skills and/or competencies required for the job and those possessed by the employee are identified

transactional psychological contract
Where the espoused psychological contract centres on interesting/ exciting/challenging work, a short-term contract and high financial rewards for high performance during the term of employment

Trans-Pacific Partnership (TPP2)
A free trade agreement between 11 Pacific Rim countries, excluding the United States

union
An organisation that provides a collective voice for employees. It is an institution whose purpose is to represent and defend those who work for someone else

unitarist
The perception that employer and employee interests are shared and that there is no need for conflict between them

upward review
A performance review method where subordinates will review and rate the performance of their manager or team leader

validity
Refers to what a selection process claims to measure and how well it is measured; for example, does a psychological test measure what it claims to measure and to what extent is this trait measured?

vertical pay dispersion
The degree of pay inequality between jobs at different levels in the organisational hierarchy, such as the difference in pay between senior executive roles and employees in lower level routine roles

virtual teams
Teams that are geographically dispersed within or outside a country. These teams utilise technology to communicate and to meet 'virtually' and interact

wage theft
Refers to the non-payment or underpayment of wages or other employment-related payments lawfully due to workers

WHS database
A component of an HRIMS that collects, aggregates and analyses individual employee and overall workplace WHS information in order to improve work health and safety

work health and safety (WHS)
A term for occupational health and safety in Australia, which includes a broad range of physical and psychological risks in all workplaces, and their management

work motivation
A person's willingness to exert effort to perform tasks within the job to which they are assigned and may vary in intensity and duration

work stress
Workers' emotional or psychological reactions to any workplace stressors

workers' compensation
The legal and administrative system that provides financial compensation for employee accidents, injuries or fatalities

work–life balance
Recognises that employees have different personal needs (e.g. child care, ageing parents), which need to be accommodated in their work patterns. Also called work–family balance

workplace accidents
Any event or incident in the workplace that causes, or could have caused, injury to a worker or other person

workplace relations
The employment relationship as it is constructed and managed at the workplace (or enterprise or organisation)

work-readiness (employability)
Perceived gaps between employers' skills requirements and potential employees' competencies and capabilities

INDEX

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