

# HR practices: what does the latest research say?



*Prof Piet Grobler is head of human resource management in the Department of Business Management at Unisa.*

**A**lthough there are many ways by which companies can gain a competitive advantage, one which is often overlooked is through their human resource management practices.

These practices enable them to gain a competitive advantage in two major ways. One is by helping themselves and the other by helping others.

There is no doubt that significant benefits can be derived from having human resource management considerations represented in the strategy formulation stage within a company rather than just at the implementation stage.

Once the strategy is formulated and the appropriate HRM thrust identified, specific HRM practices need to be developed. These practices such as staffing and compensation, are the ones that actually create the competitive advantage for the company.

In addition to using these practices on themselves, companies can also gain a competitive advantage through using them on others. Specifically, companies can gain a competitive advantage by helping their suppliers, customers or service distributors with their practices.

The fact of the matter is that a company is stronger and healthier if its particular suppliers, distributors and customers are robust and competitive.

Since the dawn of our new democracy, many South African companies have attempted to become more competitive as a result of the threats of foreign competition.

However, when we look at the latest World Competitiveness Yearbook, we find that we have not been so successful at all, especially with our people component.

As a result of the important role that HRM practices can play in achieving this goal, our department recently became a member of the prestigious Centre for European Human Resource Management at the Cranfield School of Management in the UK. The Centre is at present the acknowledged leader in all aspects of HRM, both theoretical and practical with a distinguished reputation worldwide.

Every three years the Centre undertakes a survey on a worldwide basis on HR policies and practices within companies. Whilst constantly evolving to reflect the most urgent issues, the core content of the survey covers the following areas:

- ❖ the HR function,
- ❖ HRM strategy,
- ❖ flexibility, training and development, remuneration and performance management,
- ❖ employee relations and communication,

- ❖ recruitment and selection,
- ❖ equal opportunities and
- ❖ international issues.

As the Cranfield representative in South Africa, we were approached to undertake the survey and some of the results are reported below.

The Centre provided the following guidelines for each country participating in the survey:

- ❖ the survey frame should represent all sectors of the economy (private manufacturing, private services and the public sector),
- ❖ countries should aim for a sample of respondents with more than 200 employees and
- ❖ the response rate should be at least 20%.

Due to cost and time constraints, it was impossible to conduct the survey in all companies in South Africa.

Hence it was decided to find a suitable database which would make it possible to conduct the survey under the guidelines provided. This was possible with the database at the Bureau of Market Research at Unisa.

A total of 2 700 companies were sampled and 551 responded, resulting in a response rate of 20,4%. The questionnaire which was addressed to the HR directors, consisted of the following eight sections:

- ❖ Section I: personnel/HR function,
- ❖ Section II: staffing practices,
- ❖ Section III: employee development,
- ❖ Section IV: compensation and benefits,
- ❖ Section V: employee relations and communication,
- ❖ Section VI: organisational details,
- ❖ Section VII: personal details and
- ❖ Section VIII - international travel.

There is no doubt that HR managers are expected to make a contribution to the management of their organisations by creating added value to improve their competitive advantage. They are supposed to manage the most crucial asset of any organisation – its people.

The focal point of this process is to determine the best practice in various HR related decisions, if indeed there is any 'best practice.' Well known writers in HR such as Cappelli and Crocker-Hefter claim, however, that no such solution is feasible.

Baruch also indicates that people are the most difficult asset to manage – they are unpredictable (at least to some extent), have their own will and plans (which do not necessarily fit in with those of the organisation) and they are affected by the external and internal environment.

Despite these issues, there is no doubt, as mentioned earlier, that people are the source for the com-

petitive advantage of any company.

However, it is an undisputable fact that some companies are more successful than others to attract and retain talented people. In order to find out why, the McKinsey researchers compared the HRM practices of highly successful companies with those that were not so successful.

The results show that the following practices allowed talent winning companies to perform better than their competitors:

- ❖ they recruit continuously rather than simply filling openings when they are about to occur,
- ❖ they are good at specifying the type of people and qualities they need for their business,
- ❖ they put talented people in challenging jobs before they are ready for them,
- ❖ they view mentoring and coaching as essential to offering effective training and career development,
- ❖ they do not allow poor performers to stay in positions for long.

According to Jean-Marie Hiltrop, these findings place enormous pressure on organisations to improve the ways in which they manage their human resources. The key challenge thus is to create policies and practices that enhance the company's ability to attract and keep talented employees.

Further research undertaken by Hiltrop in 115 multinational and 204 domestic companies in Europe recently indicated that in finding and keeping good and talented employees, they adopted a number of strategies and practices which include:

- ❖ employee security,
- ❖ opportunities for training and skill development,
- ❖ recruitment and promotion from within,
- ❖ career development and guidance,
- ❖ opportunities for skills development and specialisation,
- ❖ autonomy and decentralisation of decision making,
- ❖ opportunities for teamwork and participation,
- ❖ equal benefits and access to perquisites for all employees,
- ❖ extra rewards and recognition for high performance,
- ❖ openness of information about corporate goals, outcomes and intentions,
- ❖ pro-active personnel planning and
- ❖ strategic human resource management.

Although these findings do not prove the connection between HR management practices and the ability to attract and retain talented people, they are consistent with the view that there is a link between organisational capability and the way an organisation manages its human resources.

## Results

The data obtained was entered into a computer and a statistical software programme (SPSS) was employed to generate diagnostic information. A number of statistical techniques were used for the interpretation of the data which included amongst others, frequency distributions.

### *Personnel/HR function*

From the study it is clear that the majority of companies (69%) have both an HR department and an HR manager. Only 5% have an HR department with-

out an HR manager.

The underlying reason for this could well be the result of a cost decision where the HR department reports to a director responsible for another department in the company.

It is interesting to see that only 8% of the companies have an HR manager and no HR department. This can possibly be the case with smaller companies where all the HR activities are performed by one individual. Of the respondents 18% indicated that they have neither an HR department nor an HR manager.

Two reasons could possibly be identified here. Firstly, the company has outsourced all of its HR activities and secondly the companies participating in the survey such as firms of accountants, advertising agents, architects and attorneys take charge of their own HR activities.

From the study results it was found that 70% of the HR departments use external providers in the area covered by training and development, 53% in the area of recruitment and selection, 25% in pay and benefits and 18% in work force reduction.

The data further indicated that in 32% of the companies the use of external providers has increased over the last three years while 35% have indicated that it has stayed the same and 14% that it has decreased.

For the HR function to play any significant role in the company, it is essential that the function should be represented at the key decision making forums of the organisation (e.g. boards of directors). If this is not the case, the function will fall back into its old ways of being reactive instead of proactive.

The results showed that at least 51% of the HR directors serve on the board of directors. This percentage is rather low if South African companies are truly to become winners.

On the other hand, it is heartening to see that the companies in the survey to a very large extent, have policies for

- ❖ management development (72%),
- ❖ pay and benefits (93%),
- ❖ recruitment and selection (90%),
- ❖ training and development (86%),
- ❖ equal opportunity (86%),
- ❖ employee communication (79%) and
- ❖ to a lesser extent a policy on flexible work practices (56%).

In view of the heightened attention being given to flexible work practices worldwide, this low percentage is somewhat worrying.

The results indicate that in the majority of cases these policies are written. The importance of the integration of the HR function at the strategic level of the company has been widely reported in the literature.

The evidence gathered in this regard presents a fairly positive picture regarding the importance of strategic planning at organisational level. It is significant that the strategy development process is indeed quite formalised with the vast majority of companies (77%) having a written mission statement and 64% a written corporate strategy.

The figure for a written HR strategy is lower at 50%, but still represents a positive finding particularly in light of the fact that a further 21% of the companies had an unwritten HR strategy.

*A fairly positive picture exists regarding the importance of strategic planning at organisational level. It is significant that the strategy development process is indeed quite formalised with the vast majority of companies having a written mission statement and a large percentage have a written corporate strategy.*

*It is interesting to note that senior management positions are less often filled internally than management positions lower in the hierarchy. Apparently for senior management positions, external applications are better qualified than those from inside the company. This suggests that for top management positions experience within the company is less important than experience outside the organisation.*

This contradicts the argument advanced in the business community that the HR function is reactive, undermined by a short term attitude, that it operates on an ad hoc basis and shows little evidence of strategic awareness.

An important emerging theme in the HR management literature is the evaluation of the HR function. Only 49% of the companies systematically evaluate the performance of the HR function while 47% said they did not and 4% said they did not know. These figures are somewhat low and shows a lack of development of the function.

Development and improvement are only possible if performance is assessed against feasible criteria from which aims, objectives and goals can be created and evaluated.

The people who were used the most to evaluate the performance of the HR function is top management (45%), line management (33%), employees (18%) and lastly the HR function itself (4%).

The survey data indicates that the most frequently used methods to evaluate the HR function include performance against objectives (50%), internal measures of cost effectiveness (23%) and lastly external benchmarking of cost (8%).

#### *Staffing practices*

Only a few companies are experiencing difficulties with the recruitment as well as retention of manual and clerical workers. Problems, however, appear to be experienced with the recruitment and retention of management employees, IT staff and other professional employees.

One of the underlying reasons for this is the brain South Africa is experiencing at the moment. The results indicate that 49% of the companies have reduced their staff complement over the past few years while 27% have increased staff numbers and 24% have had no change.

The most popular methods to reduce staff include a recruitment freeze (65%), early retirement (55%), voluntary redundancies (52%) and compulsory redundancies (51%). Unpopular methods, appear to be redeployment and outplacement.

It is interesting to note that senior management positions are less often filled internally than management positions lower in the hierarchy. For example, in only 59% of the companies, senior management positions are filled internally while for middle management it is 70% and for junior management it is 76%.

Apparently for senior management positions, external applications are better qualified than those from inside the company. This suggests that for top management positions experience within the company is less important than experience outside the organisation.

In the area of selection, the results indicate that the most frequently used selection methods include application forms (68%) followed by references (55%), one-on-one interviews (52%) and the interview panel (33%). Methods not used include graphology (92%), assessment centres (66%) and psychometric tests (48%).

One reason for this trend could be the concerns about cultural bias. It is interesting to note that only 32% of the companies target the disabled group for recruitment while 71% target women (of all races) and 82% target blacks, coloureds and Indians (men/

women).

This high percentage can be directly related to the implementation of the employment equity legislation.

Older people (50 and older), the long term unemployed and women returning to the job market receive significantly less attention.

The working arrangements within companies also seem to be interesting. Significant use is made of subcontracting/outsourcing (70%), fixed term contracts (75%), temporary/casual work arrangements (74%), overtime (70%), weekend (70%), shift (62%) and part time work (58%). Little use is made of flexitime (38%) and job sharing (30%).

On the other hand use is hardly made of teleworking (10%) and home based work (20%). It therefore appears that true flexibility has not yet reached the South African work force.

#### *Employee development*

The majority of companies (52%) spend between 2% and 5% of their salary/wage bill on training their employees. This compares favourably with the findings in the UK where British companies invest on average 2,7% of their salary budgets on training.

It also appears that on average a larger portion of employees are trained internally than externally. The reason for this could be the high cost of training employees outside the company.

The good news is that the investment in training and development is distributed equally. Manual and clerical workers as well as managers and professionals each receive approximately seven days training per year.

In the majority of cases (64%) the companies systematically assess their training needs while 34% indicate that they do not and 2% indicated that they do not know.

Approximately 71% of companies monitor the effectiveness of their training while 27% indicate that they do not. The results pertaining to the evaluation of training programmes were also interesting. The data indicates that the 'learning' criteria is the most unpopular (53%) amongst companies.

This is understandable as most training is nowadays developmental and as such formal tests or examinations are thus not appropriate to test effectiveness.

The most popular criteria seem to be 'reaction' (84%), followed by 'behaviour' (82%) and results (75%). The results show further that few companies go without some type of appraisal system.

However, the increasingly popular 360 degree appraisal system is not widely used. The survey suggested that the use of performance appraisal results by companies is fairly widespread ranging from identifying training needs (85%), promotion potential (83%), career development (83%), training needs (69%) and individual performance related to pay (68%).

#### *Compensation and benefits*

Although both non-monetary benefits as well as variable pay options are quite popular with the companies, the results indicated that at least 35% of participants have increased their variable pay share option within the total reward package over the past three years.

In terms of the non-monetary benefits, the in-

crease has been in only 20% of the companies. A shift in variable pay can therefore be detected.

There also appears to be a larger decline in non-monetary benefits (9%) than in variable pay options (4%) over the past few years. Approximately 19% of the companies do not use any of the two options.

It is interesting to see that despite the fact that women are becoming more active in the job market, companies are not providing any support to help their employees combine work and family life.

For example, support for child care through work place nurseries can be seen as an important part of family friendly policies. Only 2% of the companies, however, provide this benefit.

The only issues that appear to be popular are a pension scheme (94%), education break (64%) and better maternity leave benefits (57%). Unpopular issues include more paternity leave (31%) and a career break scheme (5%).

#### *Employee relations and communication*

Trade union membership still appears very popular amongst workers. More than 65% of the companies have membership figures ranging from 26% to 100%.

This is not surprising as union membership has more than doubled since 1985 and was more than three million at the end of last year.

From the findings it appears that only 37% of the companies have established work place forums while 62% have not. Various reasons can be attributed to this like

- ❖ the lack of knowledge on how to implement the forums,
- ❖ the lack of unions to pursue the matter eagerly,
- ❖ workers' lack of knowledge about the role of forums within companies,
- ❖ the additional administrative burden and
- ❖ possible delays caused by the forums in decision making.

Some interesting findings were made regarding communication within companies. More than 56% of them for example have increased their computer mail system. Electronic and computerised mail is now firmly part of the downward communication process.

However, 24% of the companies still need to enter the new age of communication. The use of upward communication channels, on the whole, have not grown significantly.

Direct communication with senior managers has only grown in 43% of the companies with team briefings in 38% of the companies and meetings with the work force in 36%. Attitude surveys as a means of upward communication is used in only 50% of the companies.

#### *Organisation details*

The approximate number of people employed by the companies is 2 100 with women still being in the minority. The results indicate an annual staff turnover of less than 10% with an absenteeism rate of approximately seven days per employee per year.

Regarding the age of the companies it was found that 28% were between 50 and 100 years old, 37% between 20 and 49 years, 13% between ten and 19 years and 22% between one and nine years.

Regarding ownership, 86% of the companies are privately owned, 8% state owned and 5% partly

state owned. In 25% of the cases, companies see their markets as growing, 41% as remaining the same while 34% see a decline in their markets.

#### *Personal details of the respondents*

The survey results show that 63% of the respondents were senior personnel/HR managers. The balance consisted mainly of chief executives (8%), company secretaries (7%) and other senior managers (11%).

It appears that a fairly large percentage of the respondents (42%) have been working between ten and 20 years for their companies with 58% having been employed for up to nine years.

Forty nine per cent have spent between 11 and over 21 years in a specialised HR job and 51% between one and 10 years with 69% being male and 31% female.

Regarding educational qualifications, 72% have a university degree and 68% of them have their qualification in a suitable field of study for their job e.g. 43% have a qualification in the social sciences and 25% in business studies.

#### *International travel*

The data indicates that a fairly large percentage of companies (48%), have less than four employees travelling to other countries frequently while 32% have up to 10 employees and 18% more than 10 employees travelling abroad.

The survey also showed that the largest group of companies (58%) employ up to five expatriates, 15% up to 10 and 25% more than 10 employees. It would thus appear that companies in South Africa (probably only the larger ones) at this stage have only limited international involvement.

#### **Recommendations**

Based on the findings, the following recommendations can be made:

- ❖ a more formal integration between the HR function and top management is necessary,
- ❖ a formal HR strategy, integrated with the company strategy, is required,
- ❖ the performance of the HR function needs to be evaluated better,
- ❖ flexible work practices must become an integral part of company strategy,
- ❖ a greater effort should be made to recruit people with disabilities,
- ❖ women must play a bigger role,
- ❖ better analysis of training needs is necessary,
- ❖ better use of 360 degree appraisals is required,
- ❖ better benefits need to be offered to working mothers,
- ❖ work place forums need to be established more widely and
- ❖ attitude surveys amongst workers must be used more freely.

From the study it has become clear that in truly progressive companies, HR management will in the future not merely be viewed as a set of policies and practices, nor will it be defined as just a department or function.

It will be a way of thinking that is interwoven into the very fabric of organisations and integral to all of its decisions and actions. Unfortunately South African companies still has a long road ahead. ■

*From the study it has become clear that in truly progressive companies, HR management will in the future not merely be viewed as a set of policies and practices, nor will it be defined as just a department or function. It will be a way of thinking that is interwoven into the very fabric of organisations and integral to all of its decisions and actions. Unfortunately South African companies still has a long road ahead.*