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Sustainable enterprise promotion through good workplace practices and human resource management

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Sustainable Enterprise Promotion Through Good Workplace Practices & Human Resource Management

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& Human Resource Management

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Chapter 1: Enterprise environment: Trends and challenges

1.1 Introduction: A new role for enterprise in society

Significant changes in the business environment have been taking place worldwide since the middle 1980s, brought about by the end of the Cold War with the breaking-up of the bi-polar world, reassessment of the roles of government in the economy and the rapid pace of globalization[1].

Throughout the world a general shift towards more market-based economies has been occurring, with a trend towards public sector reforms and a balance between the role of the state, of the society and of the market. Private enterprises are assuming dominant presence in national economies, and multi-national enterprises have created global production-distribution systems that span across the various regions of the world. The increased presence and power of private enterprises at national and international levels have highlighted their tremendous influence and impact on the local and global societies.

Not only are enterprises expected to generate wealth for their shareholders and owners, but also, they are more and more expected to have a greater contribution to the improvement of the quality of life of a wide range of groups in society including many who traditionally have been excluded from economic activity. Without minimizing their core function of wealth creation that underpins economic growth and development, enterprises are now looked upon to play greater roles in social and ecological spheres.

Workforces have become more diverse and women participation in particular has significantly increased in most countries (associated with increased levels of education for women and changes in family structures). Enterprises are confronted with the challenge of ensuring equitable participation by women and other diverse (e.g. ethnic) members of their workforce. This needs to take place in work design, workplace safety and remuneration and benefits, as well as freedom from discrimination.

While clearly still being expected to be productive and competitive towards attaining economic sustainability, businesses are now expected to contribute to social development through their ethical and socially responsible operations, and also to invest in the physical environment by using environment-friendly ("green") production processes. This all takes place amidst competitive pressures and a constantly changing, often turbulent, business environment brought about by rapid globalization. Globalization has compounded the economic, social and environmental challenges facing enterprises today.

So, the term "globalization" is used in several different contexts. Given its complex nature and multidimensional processes, it means many different things to many different people. Seen originally as an economic phenomenon it is now recognized as having significant social and environmental implications. The financial crisis starting in 2008 has introduced a further set of profound issues.

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[1] *The promotion of sustainable enterprises*, 96th ILC Session, ILO Geneva 2007

Box 1.1.1
TRENDS IN A RAPIDLY GLOBALIZING ECONOMY

1. Increasing liberalization and integration of markets
2. Freer flow of capital
3. Rapid advance of ICT and other technologies
4. Global communication
5. Rapid changes in customer preferences
6. Flexible and globalized manufacturing
7. New forms of enterprise
8. New forms of work organizations
9. Ageing workforce
10. Concern for sustainable development
11. Increased migration flows
12. Increased participation by women in the workforce

Important economic features of globalization are:

- National markets are integrating into global markets for products, services and factors of production.
- Corporate strategy is now based more on outsourcing.
- Developing country exports in manufacturing have increased significantly.

National markets are integrating into global markets for products, services and factors of production, and ARE becoming increasingly interdependent due to new patterns of trade, and flows of capital and technology. Since the 1980s this integration of markets has accelerated, fuelled by governments adopting free-market economic systems and new international trading agreements. Advances in technology, particularly in information and communication, transport and manufacturing has made possible large-scale systems of global production and distribution.

- As production systems are broken down into component parts, *corporate strategy is now based more on outsourcing*: the production of intermediate goods is sourced internationally wherever the best deal can be found.
- In contrast to the past, where trade from developing countries was mainly in raw materials and primary products, since the early 1980 trade between industrialized and developing countries has been increasingly in competing manufactured products. The present wave of globalization is characterized by increasing trade in manufactures, where the world share of the developed countries in manufacturing exports of has declined.
- *Developing country exports in manufacturing have increased*: first in labour intensive products such as textile and garments and subsequently in electronics, office and telecom equipment and automotives. While in 1955 developed countries accounted for 85 percent of world export of manufactured goods, in 2006 the share was only around 67 percent[2]. Not all developing countries and regions have been able to participate in this increased trade because many of them lack the minimum physical and social infrastructure to meet the competitive conditions of production.

[2] [7] World Trade Report 2008: Trade in Globalizing World, World Trade Organization, Geneva 2008.

Box 1.1.2 Facts about globalization

Increase in global exports. There is a significant shift between trade volumes and production outputs: between 1980 and 2004, global exports increased from approximately $2 billion to approximately $7.2 billion and the share of exports and imports within global GDP increased from 28 per cent in 1970 to 44.5 per cent in 20042[3].

Importance of large emerging economies. The rapid entry of the large, low-wage countries Brazil, China, India and Russia (the BRICs) into the world economy has raised anxiety about the future competitiveness of traditional industrial countries. These four countries now represent 45 per cent of the world labour supply, compared with less than 20 per cent for the 30 OECD countries and are increasingly opening up to trade and investment. In the past 15 years, total trade as a proportion of GDP grew by over 50 per cent in Russia, nearly doubled in China and more than doubled in Brazil and India[4].

Rapid use of information and communications technology (ICT). The use of ICT services continues to grow worldwide. By the end of 2009, there were an estimated 4.6 billion mobile cellular subscriptions, corresponding to 67 per 100 inhabitants globally. Mobile cellular penetration in developing countries has more than doubled since 2005 and reached an estimated 57 per 100 inhabitants at the end of 2009. Internet use has also continued to expand, albeit at a slower pace. In 2009, an estimated 26 per cent of the world population (or 1.7 billion people) were using the Internet (46 per cent in developed countries compared to 14 per cent in developing countries)[5].

Sharp increase in foreign investment. Between 1970 and 2008 annual foreign direct investment (FDI) increased from approximately $13 billion to $1.7 trillion. However, this has been severely affected by the economic and financial crisis. Inflows were expected to fall from $1.7 trillion to below $1.2 trillion in 2009, with a slow recovery in 2010 (to a level up to $1.4 trillion). Investments to developing and transition economies surged, increasing their share of FDI to 43 per cent in 2008: record inflows to Africa, the fastest in West Africa (a 63 per cent rise over 2007); a 17 per cent expansion to South, East and South-East Asia, a new high; to West Asia, a rise for the sixth consecutive year; to Latin America and the Caribbean a increase of 13 per cent[6].

Global foreign direct investment (FDI) flows have risen steadily over the past 30 years, with some declines in the early 1980s, 1990s and 2000s. In 2006, global FDI inflows rose for the third consecutive year to reach $1.306 trillion, close to the record level of $1.411 trillion reached in 2000. The growth of FDI occurred in all regions and was partly driven by increasing corporate profits worldwide and resulting higher stock prices that raised the value of cross-border mergers and acquisitions (M&As).

FDI inflows in developed countries rose by 45 per cent, well over the rate of the previous two years, to reach $857 billion, flows to developing countries and transition economies of South-East Europe and the Commonwealth of Independent States (CIS) attained record levels of $379 billion and $69 billion, respectively. The United States regained its position as the largest single host country, followed by the United Kingdom and France. Among developing economies, apart from traditional largest recipient as Hong Kong (China) and Singapore, Turkey ranked fourth after large FDI increase in 2006, while in the transition economies, inflows doubled to $29 billion in the Russian Federation[7].

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3 European Trade Union Confederation (2007), Overview of Restructuring in Europe. Consolidating worker involvement in restructuring operations, Hamburg, 2007.

4 European Trade Union Confederation (2007), Ibid.

5 Measuring the Information Society (2010), International Communication Union 2010. Geneva, 2010.

6 UNCTAD (2009), World Investment Report. Transnational Corporations, Agricultural Production and Development. Geneva, 2009.

7 UNCTAD (2009), Globalization for Development, Facts and Figures, Geneva, 2008.

Box 1.1.3 Facts about exports from developing economies

- Between 1960 and 2006, world merchandise exports in the world GDP increased from 10 per cent to 35 per cent. In 2006 the value of total merchandise exports from all countries of the world was $12,065 billion (in current United States dollars). 64.4 per cent of these exports were from developed countries compared to 31.1 per cent - from developing countries. Since 1995, world merchandise trade has been growing at an annual average rate of 7.5 per cent.
- Developing countries participation in world trade dramatically increased in the last two decades. Exports from the South in 2005 were $3.7 trillion, 36 per cent of world exports. The share of exports to developed countries declined in the period 1995 005 from 56 per cent to 48 per cent, but exports to other developing countries in the same period rose from 40 per cent to 45 per cent; the volume of exports in 2005 showed a three-fold increase from the level in 1995.
- This phenomenon of dynamic growth in trade among developing countries (or South-South trade) has been coined as the "new geography of international trade". The sectoral analysis of South-South trade reveals that the industrial products dominate this trade, with 73 per cent exports market share. The most traded industrial sectors include electrical machinery and equipment (including electronics), where exports value more than tripled in the period (1995-2005) and the respective market share rose from 18 per cent to 22 per cent.

Source: UNCTAD (2009), Globalization for Development, Facts and Figures, Geneva, 2008.

In broader political, social, cultural and environmental terms, globalization is viewed as:

- A political phenomenon where decisions and policies of vested interests (e.g. of multinationals and trade blocks), reinforce further globalizing processes,
- An intensification of worldwide social relations whereby distant localities are affected by events many miles away from each other,
- A way of thinking about the world, that causes more and more individuals to think of their place in society or politics, in global terms,
- The reality that ideas, people and material things, are being spread rapidly around the world, causing more parts of the world to depend on each other.

All these elements form a series of "pushes" and "pulls" that acts on enterprises and influences the way they are managed. Some of the results of this are seen as harmful and are expressed in two main streams of criticism:

- Labour critics point to dangers of abuse of human rights in the workplace, in particular within the supply chains of multinational enterprises (MNEs);
- Environmental critics, point to unrestrained economic activity accelerating global warming and depleting natural resources, such as forests in developing countries.

Anxieties about the negative economic, social and ecological impact of the present forms of globalization are rising in both developing and developed worlds. In developing countries, globalization is seen as leading to increased inequality, exploitation, environmental degradation and the breakdown of social cohesion. In developed economies the anxieties are about job displacements, wage stagnation, and rising inequality. These concerns threaten a backlash against further liberalization of trade and investment[8].

Thus, some observers see the speed of globalization slowing down and its nature

[8] UNCTAD 2008, Globalization for Development: The international trade perspective, United Nations Conference on Trade and Development, Geneva 2008.

changing.[9] On the one hand, they see that while the technological revolution, e.g. in ICT, will continue to spur the internationalisation of MNEs operations. On the other hand, they see the increasing reluctance of policy makers both in developed and developing countries to open up their borders any further partly because of their publics outcries at the perceived negative economic, social and environmental impacts of globalization. The breakdown in July 29, 2008 of the Doha trade negotiation and the export restraints of some exporting countries in response to rising prices of food and commodities in the early part of 2008 are indicative of this trend. A more restrained globalization is therefore foreseen in some quarters.

The following trends and challenges in the business environment might bring about significant changes to enterprises:

1. More competitive economic environment due to trade liberalization and deregulation.
2. Rapid advance in information and communication technology and in soft and hard technologies.
3. Changes in the structure of production and the organization of work.
4. Growth in the service sector.
5. Legal and regulatory reforms.

Box 1.1.4 The social dimension of globalization

Globalization has set in motion a process of far-reaching change that is affecting everyone. New technology, supported by more open policies, has created a world more interconnected than ever before. This spans not only growing interdependence in economic relations trade, investment, finance and the organization of production globally but also social and political interaction among organizations and individuals across the world.. The potential for good is immense. The growing interconnectivity among people across the world is nurturing the realization that we are all part of a global community. This nascent sense of interdependence, commitment to shared universal values, and solidarity among peoples across the world can be channelled to build enlightened and democratic global governance in the interests of all. The global market economy has demonstrated great productive capacity. Wisely managed, it can deliver unprecedented material progress, generate more productive and better jobs for all, and contribute significantly to reducing world poverty.

But we also see how far short we still are from realizing this potential. The current process of globalization is generating unbalanced outcomes, both between and within countries. Wealth is being created, but too many countries and people are not sharing in its benefits. They also have little or no voice in shaping the process. Seen through the eyes of the vast majority of women and men, globalization has not met their simple and legitimate aspirations for decent jobs and a better future for their children. Many of them live in the limbo of the informal economy without formal rights and in a swathe of poor countries that subsist precariously on the margins of the global economy. Even in economically successful countries some workers and communities have been adversely affected by globalization. Meanwhile the revolution in global communications heightens awareness of these disparities.

These global imbalances are morally unacceptable and politically unsustainable. What is required to change this is not the realization of a Utopian blueprint in one swoop. Rather it is a series of coordinated changes across a broad front, ranging from reform of parts of the global economic system to strengthening governance at the local level.

Report of the ILO World Commission on Social dimension of globalization, ILO, Geneva, 2004

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9 See for example: Abdelal, R. and Segal, A. *as globalization passed its peak* in *Foreign Affairs, January/February 2007.*

6. Globalization and changes in global capitalism.
7. "Flexibilization" and/or "Informalization" of work.
8. The heightening of social and environmental concerns.
9. Ageing population and global migration issues.
10. The international financial crisis.

As early as 2004, The ILO World Commission on the Social Dimension of Globalization extensively examined the concern for the social impact of globalization. The Commission came with a number of observations and recommendations, an example of which is quoted in box 1.1.4.

1.1.1 The new competitive environment

With globalization, enterprises are now faced with a new competitive environment: Globalized competition. Trade liberalization and deregulation have brought about a closer integration of domestic and international markets. Enterprises now face not only increased competition in export markets, but also in their domestic markets as waves of imported products easily enter their countries. Electronic or "e-commerce" further contributes to integrating markets.

Better-informed and more discerning customers. These advances in communication have led to an internationalisation of consumer tastes. Discriminating customers now demand greater product differentiation and specialization. Fads and fashion not only spread rapidly across the globe but shift and change very quickly. The rapid advance in information and production technology makes product obsolescence occur at a faster rate. Product variety increases while the product life cycle decreases. In addition, customers are looking much more at a product lifecycle costs, increasingly concerned not just with the costs of the initial purchase but also of the use and eventual disposal of the product.

Increasing awareness of social and environmental concerns. Customers purchasing decisions are increasingly influenced by the social performance of enterprises, domestic and multinational alike. It is no longer just the price and utility of the product but also what the producer/seller stands for, that influences buying decisions.

1.1.2 Advances in ICT, and in soft and hard technologies

Rapid advance in information and communication technology (ICT) (which includes computers, phones, audio-visuals, telecommunication, etc.) and in both soft and hard technology enables more enterprises to adopt production and organizational systems that improve their capacity to produce products and services at lower costs, improved quality and increased flexibility and speed of delivery. New business models, organizational and managerial tools and techniques are being developed in phase with the accelerating pace of business development. Similarly, new developments in electronics, biotechnology and physical sciences are resulting in an increased flow of new materials, products and services that change or replace existing ones further accelerating product obsolescence.

These advances in ICT are one of the major drivers of rapid globalization in all its facets. It continues to radically change the way people work, structure their economic activities, and exchange ideas and information. The exponential growth in processing and storing data and the sophisticated ways that it can be used, present enterprises with major opportunities to organize and manage production and take advantage of new markets.

Box 1.1.5 Facts about information technology

The number of personal computers in the world was estimated to have reached one billion by the end of 2008, and will reach two billion by 2015[10]. By the end of 2007, almost one out of two people had a mobile phone. In Europe penetration had surpassed 100 per cent mark. More than one out of 4 Africans and 1out of 3 Asians had a mobile phone.[11]By the end of 2009, there were an estimated 4.6 billion mobile cellular subscriptions, corresponding to 67 per 100 inhabitants globally. Mobile cellular penetration in developing countries had reached an estimated 57 per 100 inhabitants. Internet use has also continued to expand, although at a slower pace. In 2009, an estimated 26 per cent of the world population (or 1.7 billion people) were using the Internet (46 per cent in developed countries compared to 14 per cent in developing countries)[12].

ICT is seen as a general-purpose technology and as such has a pervasive impact on the economy.[13] Its impacts, due more to the effects of its application in other sectors of the economy than its direct contribution as a production sector, are:

- contributing powerfully to economic development by enabling new kinds of organization and consumption, more efficient transactions and better communication between economic agents
- democratizing ICT by reducing the cost of access and allowing poorer people to use it to improve their livelihoods. Mobile phone and Internet usage is spreading in even the poorer segments of developing countries
- generating new business services such as e-commerce, e-government, and e-finance
- expanding the knowledge economy by demanding and facilitating new skills and capabilities
- enabling new models of sharing knowledge with open access leading to new ideas and collective innovation.[14]

The application of ICT in business has led to major improvements in production-distribution systems and in business operations and management that were quite simply not possible earlier. Its use is credited with:

- Enabling the transition from mass production to flexible manufacturing systems,
- faster and more direct communication with suppliers and customers thus improving value-chain performance,
- decentralized decision making, and
- greater ease of coordination and within the firm.

Its use has facilitated the development of new production systems, e.g. just-in-time systems and networked and disaggregated value-chain production-distribution systems based on outsourcing and off-shoring of service and production activities. The development of new tools such as open-systems and the "Web 2.0" applications enables better collaboration around ideas and innovations, for example, through involving both customers and external experts in developing new products.

Advances in ICT on the other hand, require the responsible use of technology, respecting the physical environment and avoiding negative social impacts such as in areas of privacy and confidentiality. Advances in other technological fields such as nanotechnology and biotechnology are coming-up with new materials and products which result in faster obsolescence of both products and processes. The product life cycle is shortened and the production cycle is accelerated. Competitiveness starts to depend on speed to market, flexibility and agility.

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10 Forrester Research www.science-portal.org/in71

11 ITU at www.itu/ITU-D/ict/statistics/index.html

12 Measuring the Information Society (2010), International Communication Union 2010 Geneva, 2010

13 UNCTAD 2008, nformation Economy Report 2007-2008- Science and Technology for Development: the new paradigm of ICT UNCTAD, Geneva 2008

14 UNCTAD 2008, Ibid.

1.1.3 Changes in the structure of production and the organization of work

The confluence of rapid technological development, heightened competition, easier movement of capital, and the need for flexibility and agility have made enterprise develop and adopt new forms and structures of sourcing, production and distribution:

New forms of enterprise

The network form of enterprise, where the product or service is produced and distributed by a network of enterprises, each contributing to the production and distribution according to their respective core competencies is the emerging production system. Global production systems and disaggregated production-distribution system are now the norms for most of the MNEs. This trend towards increasing off-shoring is indicated by the data showing that since 1988, trade in intermediate goods and services has grown faster than trade in final goods and that growth in services off-shoring has accelerated since 2000.[15]As will be discussed in more detail in the next section, value-chains and clusters upgrading through approaches such as LED are increasingly important to an enterprise productivity and competitiveness.

New forms of work organisation

The need for fast cycle time, flexibility and agility calls for a flexible production structure based on a lean and "just-in-time" production system that makes use of work teams, cells, job rotation, outsourced work, part-time and contingent work, among other things.

Powerful new imperatives are now guiding the way business is conducted. In the recent past, cost and quality were the common mantras, and they are still important. With increased competitive pressure and the availability of new technology, *cycle time* is now important. *Cycle time* is the amount of time it takes to create and produce a new product. Who is first into the market with a new product usually has first-mover advantage.

In order to decrease cycle time, organizations are closely examining the way they conduct business. Reengineering is basically a method of examining processes and how they fit together to accomplish the desired end result, rather than just accepting the traditional collection of jobs required to do the work[16]. The function of workplace practices and Human Resource Management has become a key in re-examining and revising how jobs and processes fit together to gain efficiency and reduce cycle times. This process of reengineering requires also a critical analysis and the overcoming of many underlying assumptions about women and men attitudes, capacities and skills at work.

In the traditional departmentalized structures, sometimes referred to as "functional silos", departmental boundaries were obstacles to the smooth flow of information and processes, creating barriers between people who needed to interact. As a result, re-engineering has led to a much wider use of "team-based" structures such as cross-functional teams, which replace rigid structures with more flexible ones. Such teams cut across narrow specialties to focus on better ways to create value in their various activities[17].

To have more flexibility and improve its ability to respond to market challenges and opportunities, enterprises are adopting approaches of qualitative and quantitative labour flexibility. Qualitative flexibility means increasing the ability of people working for an organization to perform a variety of tasks. This comes in various forms: multi-tasking, multi-skilling, new form of group working, etc. This requires individuals to be well trained, have diverse skills and strong motivation to perform. Quantitative flexibility on the other hand means the ease with which the quantity of personnel or the amount of hours work can be adjusted. This often involves flexible hours, part-time and temporary work and contracting to freelance contractors, e.g. specialists.

15 WTO 2008, World Trade Report 2008: Trade in Globalizing World, World Trade Organization, Geneva 2008

16 Hammer M. and Champy J., Reengineering the corporation: A manifesto for business revolution, London, Brealey, 1993.

17 Kraut, A.I. and Korman, A.K. (eds), volving practices in human resource management: Responses to a changing world of work San Francisco, CA, Jossey-Bass, 1999

In a market environment where productivity and competitiveness are dependent on innovation and continuous upgrading in products, processes and organization, a skilled and motivated workforce employees and management alike - are key to the competitiveness of the enterprise; hence, the increasing importance of human resource management and development, including diversity management.

1.1.4 Growth in the service sector

The service sector is currently growing, and the knowledge content of products is increasing.

The nature of employment has changed significantly in the last half century.

This shift has greatly reduced the number of lower skilled jobs and dramatically increased the number of knowledge workers with high-level technological skills. This gap, sometimes referred to as "the digital divide", is occurring within developed countries as well as between both developed and developing countries.

Box 1.1.6 Facts about service sector growth

- The service economy continues to expand. Between 1980 and 2006 its share in GDP has grown from 60 to 73 per cent in developed countries and from 41 to 51 percent in developing countries. The service sector accounts for 70 per cent of employment in developed countries and around 35 per cent in developing countries. World trade in services nearly tripled with the share of developing countries increasing significantly, growing by 8 percent average annual rate compared to 6 per cent that of developed countries. Thus, the share of developing countries in world export of services has climbed from 19 to 24 per cent. Travel (including tourism) and transport continue to represent the major proportion of the services exports of developing countries while business services (including ICT, financial and insurance services) now account for about one-third of all services. Foreign direct investments inflows to developing countries are increasingly targeting the service sector, rising from 32 per cent of FDI inflow in 1990 to 50 per cent in 2005.[18]
- The service economy continued to expand during the last decade. World exports of commercial services rose from US$ 1.4 trillion in 2001 to US$ 3.7 trillion in 2008 (in the meantime estimates for merchandise export for the same period constituted US$ 5.9 trillion and US$ 15.7 trillion, respectively). In 2008 the amount of service exports rose 11 per cent compared to 2007; the fastest growing of the major services categories was transport (15 per cent growth), followed by travel (10 per cent) and other commercial services (10 per cent)[19].
- Developing countries have recently achieved double-digit growth in exports of most services categories, with particularly strong growth in computer and information (33 per cent) and construction services (16 per cent). The top five exporters of financial and insurance services Hong Kong (China), Singapore, India, Taiwan Province of China and the Republic of Korea accounted for nearly 70 per cent of all developing country exports in this category in 2005[20].

18 UNCTAD 2008, *Globalization for Development*, Geneva, 2008.

19 WTO (2009), World Trade Report. Trade Policy Commitments and Contingency Measures. Geneva, 2009.

20 UNCTAD (2009), Globalization for Development, Facts and Figures. Geneva, 2008.

1.1.5 Legal and regulatory issues

- The daily practices of enterprises are greatly influenced by national laws which in turn are shaped by the attitudes and expectations of leaders, interest groups and people at large. These laws and regulations relating to setting-up, operating and dissolving businesses form a very important element of the business and investment climate of a country. With the advent of greater market liberalization and greater efforts to attract investment inflows, many countries have embarked on legal and regulatory reforms.
- ***Deregulation*** The deregulation of protected industries and state-owned enterprises has played a significant role in the globalization of business. One of the most common examples is that of Telecom companies. In the past countries were particularly reluctant to deregulate their telecommunication sector, dominated by state enterprises and a source of protected revenue. Following the break-up of AT&T in the U.S.A, many countries deregulated that industry or, as in Australia, partly privatized it, leading to greater competition and lower prices for services. Similarly, deregulation of financial services changed an entire industry, leading to new organizations offering full banking, stock-broking and insurance services where formerly there existed completely separate industries. Deregulations have spawned entirely new entities, many created by mergers and some crossing traditional sector boundaries, e.g. mass media and entertainment, transport and travel. The acceleration of mergers, acquisitions and strategic alliances presents serious challenges for workplace practices and HRM systems making it difficult to integrate different organizational structures, cultures and managerial styles.
- ***Codes and voluntary initiatives.*** With the increasing concerns for social and environmental issues, intergovernmental organizations and coalitions of non-governmental organizations have come up with guidelines and codes related to the pursuit of Corporate Social Responsibility. Multinationals with global supply chains have come-up with voluntary codes that are intended to guide their suppliers and distributors in pursuing ethical and environmentally friendly practices.
- ***Increased regulatory interventions.*** Over the next decade, governments will likely increase regulatory requirements as a result of economic. socio-demographic and ecological developments.[21] Heightened regulations relating to the environment (e.g. restrictions in carbon dioxide emissions), health and wellness, corporate reporting and transparency, and CSR are likely to increase. Similarly, with the heightened interest in the social aspects of business operations, more attention is given to laws and regulations governing the treatment of employees. These include legal acts referring to conditions of employment, minimum age, minimum wages, payment of overtime, hours of work, freedom of association, the right to organize and occupational health and safety (OHS). Most countries have such laws, although they are not uniform across countries and the degree of enforcement may vary.
- ***Attitudes and values.*** Attitudes to work and worker mployer relationships have changed dramatically in the last two decades. Several trends contribute to attitudinal shifts between employees and employers especially to the nature of the employment relationship.
- ***Labour legislation.*** Anti-discrimination laws are fairly common in developed countries and were

[21] Global Commerce Initiative, Capgemini, Intel, *2016 The future value chain. 2006.*

originally intended to protect minority groups. Today, the focus extends to women, people with disabilities and older workers and legislation covers a broader spectrum of workers. Units in charge of HRM must ensure compliance with legislation and keep a company up to date on new laws and enforcement issues relating to safety and health, medical benefits, retirement funding, educating employees, or formulating new practices. In addition HRM units are responsible for keeping detailed records and reporting to monitoring agencies. Laws are continually being enacted on matters like employee privacy, genetic screening and HIV/AIDS.

Box 1.1.7 Facts about sexual harassment

The number of grievances filed with the U.S. Equal Employment Opportunity Commission (EEOC)[22] gradually decreased over the last decade. In 2008, EEOC received 13,867 charges of sexual harassment (compared to 12,510 in 2007 and 16,000 in 1997). 15.9 per cent of those charges were filed by males. EEOC resolved 11,731 sexual harassment charges in FY 2008 and recovered $47.4 million in monetary benefits for charging parties and other aggrieved individuals (not including monetary benefits obtained through litigation).

Source :
http://www.sexualharassmentsupport.org/SHworkplace.html

1.1.6 Globalization[23] and changes in global capitalism

Several writers have analysed these changes in the context of what is happening to the practice of capitalism. Jan Aart Scholte argues that on the one hand capitalism has been a primary cause of globalization, but on the other that global (that is, supraterritorial) capitalism has been one of its main consequences. Globalization has greatly strengthened capitalism to the extent that it is the prevailing, and largely unchallenged, structure of production and exchange across the globe. Surplus accumulation has been extended to the consumer, finance, information and communications sectors. The extension of surplus accumulation into these sectors has been accompanied by "major shifts in the organization of capitalism, including the rise of offshore centres, trans-border companies, corporate mergers and acquisitions, and oligopoly" (Scholte, 2000, p. 111).

Herman Knudsen observes that Multinational Enterprises (MNEs), or Transnational Corporations (TNCs), are increasingly responsible for the initiation and organization of global economic activities. In 1996, it was estimated that there were about 44,000 TNCs in existence worldwide (Global Governance Reform Project, 2000, p. 34). These are "parent" TNCs that controlled about 280,000 affiliated organizations, of which "37,000 were "home-based" in the fourteen major developed OECD countries," 90 per cent having their headquarters in the countries of the developed world (Hirst and Thompson, 1999, p. 68). Fifty of the 100 largest economies are not nation states but TNCs. Only the largest developing country economies, such as India and the People's Republic of China, are included in the 50 largest economies. Moreover, "1 per cent of TNCs now account for 50 per cent of world FDI" and "70 per cent of global trade is controlled by a mere 500 TNCs" (Malhotra, 1998). The global dominance of large corporations is also reflected in employment figures, with approximately one in five employees in the developed countries directly employed by TNCs. When the subcontracted and franchised operations of TNCs are factored in, the proportion rises to about two-fifths (Knudsen, 2001, p. 2).

Cross-border mergers and acquisitions account in large part for the spectacular growth in size and influence of TNCs over the last several years. Such acquisitions and mergers have direct and profound implications for a TNCs workforce in all the countries in which it operates. Knudsen (2001, p. 3)

22 The U.S. Equal Employment Opportunity Commission (EEOC) describes sexual harassment as a form of gender discrimination that is in violation of Title VII of the 1964 Civil Rights Act.

23 See also ILO (2004) World Commission on the Social Dimension of Globalization A Fair Globalization: Creating Opportunities for All, Geneva, 2004.

points out, "by becoming multinational and by acquiring additional plants, a company increases its ability to apply "divide and rule' tactics and practices in its dealings with the workforce" (2001, p. 3). These tactics are particularly effective in situations where a company produces the same or very similar products at different sites. Using techniques such as benchmarking, a company collects comparative information on productivity and performance at its several plants and on this basis makes decisions on levels and types of investments. Not surprisingly, investment decisions favour those sites where productivity and performance are best, while the poorer performers face disinvestment or even closure.

In most OECD countries the period from 1946 to the early 1980s was characterized by long-term, stable employment relationships where workers could expect continuous employment with one or a few employers, over the course of their working life, with gradual advancement up the corporate hierarchy. In return for this job security, the employee gave loyalty and commitment to the employer and made sacrifices if required for the good of the company.

In this environment companies invested in the training and development of their employees, as they expected them to stay long enough to recoup the investment. Beginning in the early 1980s, though, massive downsizing changed that relationship. As giant mainstream companies scrambled to become more flexible and agile in the face of intense competition, many were forced to sacrifice job security; contractual relationships became the norm. Long-term employment security is no longer promised, implied or expected; mutual commitment is no longer a cornerstone of the employment relationship.

This presents a paradox for many companies that want to let go of workers when they are no longer needed, but at the same time retain valuable employees for as long as possible. As Kraut and Korman[24] point out" employees who know they have no long-term security are often busy looking for better opportunities. Instead of a long-term relationship or even a "marriage", both employees and companies can wind up in a "dating game" as they look for short-term, selfish advantage".

Other new forms of employer-employee relationships are coming-up. New contractual forms, such as agency working, corporate outsourcing to freelance contractors, temporary workers contracting, and other arrangements for the enterprises to achieve quantitative and qualitative employment flexibility are being resorted to. Contingent work is rising with its attendant organizational systems and practices.

On the other hand, there is a growing body of evidence that the use of high performance work practices can have a significant impact on the financial performance of a company[25]. Many practices such as comprehensive recruitment and selection procedures, incentive compensation, performance management systems and extensive involvement in training and development, are long-term investments in human resources that contradict the notion of contractual relationships. The shifts in the attitudes towards employment relationships discussed above seem to be out of alignment with what is known to be best practice based on more permanent relationships.

Another attitudinal shift has occurred regarding family and non-work commitments. There is now greater appreciation of the need for balance between work demands and family and non-work commitments. This in turn requires awareness of the different but complementary roles of women and men in both the workplace and the home. Enterprises are now challenged to ensure family and work-life balance in their workplaces and employment relationships.

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24 Kraut and Korman, op. cit.

25 Summary of these findings could be found in N. Rogovsky and E. Sims, orporate success through people: making ILS work for you ILO, Geneva, 2002.

1.1.7 Globalization and the 'flexibilization' or 'informalization' of work[26]

As Scholte (2000, p.222) observes, "Accelerated globalization in recent decades has affected not only the opportunities for waged employment, but also the conditions of work". What he calls the 'flexibilization,' what other commentators have termed the 'informalization' of work has been a particularly insidious development. The manner in which human resources are deployed in the workplace, working practices and wages, labour mobility, and the range of tasks an individual worker is routinely called on to perform have all been affected by flexibilization. Indeed, while labour flexibility has many forms, these can all generally be fit into one or other of the following categories:

1. Reducing the core of permanent workers
2. Increasing the proportion of temporary and casual employees [peripheral workers]
3. Increasing the use of women, apprentices and migrants
4. Subcontracting production of components previously manufactured within the factory
5. Subcontracting services like transport, packaging, maintenance, security, etc., which are carried out on factory premises.
6. Increasing the number of shifts per day or the use of overtime; replacing pay systems based on working time and length of service by systems based on piece rates and bonuses
7. Introducing internal training systems which facilitate redeployment of workers within the factory or enterprise and
8. Reducing influence from external trade union organization by either eliminating unions or establishing a controllable (company) union.

The version of globalization with which we all have had to become familiar owes much to the hold which neo-liberal ideas, strategies and policies have had over governments and policy makers in the developed world, and increasingly in the developing countries as well. As far as work and employment are concerned, the growing global demand for flexible labour which has accompanied globalization has been generated by "the deregulation of labour markets, fragmentation of production processes, de- industrialization and emergence of new areas of export specialization" (Kanji and Menon Sen, 2001, pp. 1-2). But this is only half the story. The increased demand for flexible labour has meant the feminization of labour – the growth in the numbers of low-paid, flexible female workers around the world. Jobs growth in the advanced industrial economies over recent years has been predominantly in the area of part-time and casual work. Women's employment opportunities have increased with such jobs, divided mostly into the unskilled or semiskilled category. Flexible jobs as mentioned above have proliferated in leading sectors of the global economy, such as retail, hospitality, information and communications, and banking and finance. They have also proliferated in the traditional trades and industries, such as textiles and clothing, and increasingly in the industrialized countries as well. Flexibilization has also accompanied the deindustrialization of the older industrial cities and regions, and relocation of process, assembly and other labour-intensive operations to the low-wage countries.

The introduction or relocation of production facilities to greenfield sites in cities and regions with no prior history of labour activism and union militancy has been a parallel development. Flexibilization has also become more widespread as has the widely perceived need for enterprises; industries and national economies to remain globally competitive become more and more imperative. Managers and workers alike have generally had to accept that improved wages and working conditions and more stable employment arrangements would undermine the competitiveness of the firm and lead to production and other operations moving offshore (Scholte, 2000, p. 224).

26 This section is largely taken from: Chowdhury I.A. and Rahman A: Labor Flexibilization and Globalization: Changes in Traditional Human Resources Management Daffldil International University Journal of Business and Economics Vol. 2. No. 2 July 2007.

The workforce of the global enterprise is increasingly divided into core workers and peripheral or flexible workers. The core workers are generally highly skilled professionals directly employed by the enterprise in its global headquarters, usually located in one of the advanced industrial countries. These workers are usually, fulltime, permanent employees who are relatively well paid and receive other attractive rewards and entitlements. In contrast, the peripheral workers are not employed by the enterprise itself, but by its sub-contractors and suppliers. They are generally part-time or intermittent workers on low casual rates of pay. Employment growth in the less developed countries over the past several decades, as well as in the advanced industrial countries over the same period has seen a spectacular increase in the size of the flexible, female labour force rather than in the ranks of full-time employees.

In the case of Bangladesh, part time or temporary workers are increasingly dominant in the business environment. For example, most of the banks and insurance companies employ temporary executives for selling or promoting their services (i.e. telephone banking, credit cards and insurance policies etc.). Mobile phone companies are hiring part-time employees to provide customer services. For example, part-time workers are employed in the call centres of some major telecommunications companies such as Grameenphone for dealing with customer enquiries. IT companies employ part time data entry operators, graphic designers and website developers etc. Fast food and restaurant industry are also employing part time workers for rendering services and working as kitchen hand. Pizza Hut and KFC are two such examples of franchises in the country that are successfully using this peripheral workforce. The employees of these fast food companies normally perform one particular type of activity throughout the whole day for five to six days of a week; usually working as front line employees dealing with customer orders or being hired as a waiter. In other institutions like universities, colleges and sports clubs, part time professional employees also play a part where they work two or three days in a week.

Many private universities in Bangladesh for example seem to show a growing trend towards part time workers with such educational institutions gradually using the concept of flexi time in organizing working hours for both full time and part time workers. Employees have the freedom of making their own decisions in managing and organizing their time and on when to start and finish on a particular day. This allows them to divide their time between their professional lives and personal lives and also finding the time to spend with their families. This increases motivation and productivity at work and in turn, less absenteeism, lower turnover, and higher morale in workplaces.

1.1.8 The heightening of social and environmental concerns

The various processes and dimensions of globalization have an impact on the social and environmental well-being of societies. With better access to information and the activism efforts of issue-oriented civil society organizations and consumer groups there is heightened awareness of the social and environmental impacts of globalization:

- *Social issues*: The movement of people and capital has created numerous social issues for communities and countries, such as how to cope with the upheaval of communities, how to ensure that all people have equal access to education and employment, or what safety nets should exist to help people adjust to these rapid changes.
- *Marginalization*: Not all countries and sectors of society in a particular country benefit equally from globalization. Global exclusion as well as exclusion of disadvantaged groups is one of the undesirable features of current trends in globalization, resulting in greater inequality of income and access to social services.
- *Sustainable development:* There is a growing expectation that in addition to good economic performance, enterprises should contribute to sustainable development through good social and ecological performance.

Improving social and environmental performance is becoming a competitive challenge to enterprises. Social and economic concerns are increasingly influencing customers' purchasing decisions. As concerns for the social and environmental impacts of globalization mounts, it is expected that issues such as climate change, bio-diversity, and new health and safety regulations, access to environmental goods and services and sustainable production methods will be a challenge to enterprises in days to come.

1.1.9 Demographic trends

The world's population is aging as a result of reduced fertility, better health care and longer life expectancy. In the developed countries, the size of the elderly population has already surpassed that of the 12-24 age group; in the less developed countries this is expected to happen by 2045 [27]. This aging population phenomenon has a number of implications on business: shift in the nature of the customer base, an increasingly aging workforce, increased labour migration and higher participation of women, among others.

- Older workers are increasingly a feature of the aging population in many regions of the world, such as Australia, Europe, Japan, New Zealand and North America. With the removal of a mandatory retirement age in such countries as Australia and the United States, organizations will need to consider how they can best use the skills and experience of older workers. In fact, many organizations are beginning to see them as a valuable resource. The challenge to HRM is to use their knowledge to the best advantage while minimizing the limitations of age. An important element in deploying older workers effectively is to eliminate the anti-age bias of younger managers and co-workers. Drawing up an age/experience profile to reveal the age distribution across jobs can identify gaps and serve to identify where older workers can best make a contribution. The predicted shortage of skilled labour in the coming years will need, in part, to be filled by this group.

Box 1.1.8 Facts about the ageing of populations

- The population aged 60 or over is increasing at the fastest pace ever (growing at 1.9 per cent annually) and is expected to increase by more than 50 per cent over the next four decades, rising from 264 million in 2009 to 416 million in 2050.
- In 2009, an estimated 737 million persons were aged 60 years or over and constituted the "older population" of the world (one out of every nine persons in the world), nearly two thirds of whom lived in developing countries. Their number is projected to increase to 2 billion in 2050, by which time older persons will outnumber children (persons aged 0 to 14 years). Today, more than half of the older population lives in Asia (54 per cent) and a fifth lives in Europe (21 per cent).
- The world has experienced dramatic increases in longevity during the last five decades. Globally, life expectancy at birth has gained more than 20 years since 1950, to reach its current level of 68 years. At current mortality rates, men surviving to age 60 can expect to live another 18 years; women surviving to age 60 can expect an additional 21 years.
- Countries with high per capita income tend to have lower labour-force participation rates among older persons. In developed countries, just 24 per cent of men aged 60 or over are economically active, whereas 47 per cent of older men are economically active in developing countries. Among older women, 14 per cent are economically active in developed countries but 24 per cent work in developing countries. Older persons in developing countries work until advanced ages because they are not covered by existing social security systems or because, even when covered, they receive relatively low pensions.

Source: United Nations (2009). Population Ageing and Development, New York, 2009.

- The shortage of skilled workers and the decline in the growth of the labour force in many countries

[27] "Global Demographic Trends" in Finance and Development, September 2006 v43, N3.

have increased the migration of workers. This a pattern that has developed over the last two decades as skilled workers have been lured from developing countries to the more established market economies. Developed regions gained 2.6 million a year in 1990-2000 with about half going to North America. Asia was the largest source of migrants (1.5 million a year) followed by Latin America and the Caribbean (0.8 million a year) and Africa (0.3 million a year).[28] increased levels of investment in rapidly developing economies has created demand for managerial talent often met by relocating managerial staff from MNE home countries. This movement results in greater diversity of the workforce, requiring cross-cultural management skills and international human resource management.

Box 1.1.9 Facts about global migration

- The world is expected to have 214 million international migrants in 2010, i.e. 19 million more than in 2005. In 2010, international migrants will constitute 3.1 per cent of the world population. Most of the world's migrants currently live in Europe (70 million in 2010), followed by Asia (61 million) and Northern America (50 million).
- Data on the inflow of foreign migrants indicate that most legal migrants in the more developed regions originate from the less developed regions. During 2000-2007, more than 80 per cent of the immigrants arriving in Canada and the United States originated from the less developed regions. In Australia, Spain and the United Kingdom of Great Britain and Northern Ireland, this proportion ranged from 50 to 60 per cent[29].
- International migration consisted of 191 million people in 2005, 115 million of which lived in developed countries and 75 million in developing countries. About a third of world migrants have moved from one developing country to another, and another third have moved from a developing country to a developed country[30].

- Increasing numbers of women are now entering paid employment in jobs and professions formerly dominated by men. As organizations move to flatter structures, the "glass ceilings" that frustrated women's mobility in traditional hierarchies may disappear allowing women to play more prominent roles. Dual-career, dual income families, will challenge enterprises to provide family-friendly work arrangements: flexible scheduling; telecommuting, flexitime, childcare, and family care time-off.

Box 1.1.10 Facts about women's participation in employment

- Between 1980 and 2008, the rate of female labour force participation increased from 50.2 to 51.7 per cent. In the meantime, male labour force participation rates have shown a tendency to decrease slightly from 82.0 to 77.7 per cent. As a result, the gender gap in labour force participation rates has narrowed slightly from 32 to 26 percentage points.
- The share of women in wage and salaried work grew from 42.8 per cent in 1999 to 47.3 per cent in 2009 whereas the share of vulnerable employment (i.e. the share of employees who are contributing family workers and own-account workers) decreased from 55.9 to 51.2 per cent.

Source: ILO (2010), Women in Labour Markets: Measuring Progress Identifying Challenges Geneva, 2010.

1.1.10 The international financial crisis

The most recent impact of globalization has been the international financial crisis, which started in earnest in late 2008, and the huge bail-out of the banking system that followed. The things that went wrong had a lot to do with faith in the systems by which banks and investors measured both value and risk, and despite understanding some parts of the process of globalization were in denial about the fact that risks could not be quarantined within single sectors or countries.

28 Finance and Development, 2006, Ibid.

29 United Nations (2009), International Migration, New York, 2009.

30 UNCTAD (2009), Globalization for Development, Facts and Figures, Geneva, 2008.

The implications of these events will be played out for years to come. The problem was "people reading meters rather than reading reality". "If you take your eyes off the meter reading and ask what's actually happening here – What are we doing? – you find you're making money by transferring funds into relatively unknown kinds of structures that your own designers can barely explain and that the rating agencies don't understand" "Our basic doctrines of how we manage things need revision"[31].

The ILO has developed resources on International Financial Crisis issues including the following:

1. Recovering from the crisis: A Global Jobs Pact. Adopted by the International Labour Conference at its 98th Session. Geneva, June 2009[32].
2. Tackling the global jobs crisis Recovery through decent work policies International Labour Conference. 98th Session. Geneva, 2009[33].
3. ILO Declaration on Social Justice for a Fair Globalization adopted by the International Labour Conference at its Ninety-seventh Session, Geneva, 10 June 2008[34].

[31] Management Lessons from the financial crisis: A conversation with Lowell Bryan and Richard Rumelt. The McKinsey Quarterly, June 2009

[32] http://www.ilo.org/public/libdoc/ilo/2009/109B09_192_engl.pdf

[33] http://www.ilo.org/public/libdoc/ilo/P/09383/09383(2009-98)28.pdf

[34] http://www.ilo.org/public/libdoc/ilo/2008/108B09_191_engl.pdf

Box 1.1.11 Facts about the international financial crisis

Extent of the crisis

The financial crisis was triggered by events in the United States housing market, it has spread to all regions of the world with dire consequences for global trade, investment and growth[35]. It has resulted in the collapse of large financial institutions, the bailout of banks by national governments and downturns in stock markets around the world.

It is considered by many economists to be the worst financial crisis since the Great Depression of the 1930s. It contributed to the failure of key businesses, declines in consumer wealth estimated in the trillions of U.S. dollars, substantial financial commitments incurred by governments, and a significant decline in economic activity. The International Monetary Fund is forecasting that global bank losses from the financial crisis will total $2.28 trillion.

As a result of the financial crisis, the world economy is facing a deep downturn. The January 2009 update of the World Economic Outlook projects global growth to slow from just under 3½ per cent in 2008 to about ½ per cent in 2009 before recovering somewhat in 2010[36].

Impact of the crisis on developing countries

The current financial crisis affects developing countries in two possible ways.

First, there could be financial contagion and spillovers for stock markets in emerging markets. The Russian stock market had to stop trading twice; the India stock market dropped by 8 per cent in one day at the same time as stock markets in the USA and Brazil plunged. Stock markets across the world – developed and developing – have all dropped substantially since May 2008. We have seen share prices tumble between 12 and 19 per cent in the USA, UK and Japan in just one week, while the MSCI emerging market index fell 23 per cent. This includes stock markets in Brazil, South Africa, India and China.

Second, the economic downturn in developed countries may also have significant impact on developing countries. The channels of impact on developing countries include:

Trade and trade prices Growth in China and India has increased imports and pushed up the demand for copper, oil and other natural resources, which has led to greater exports and higher prices, including from African countries. Eventually, growth in China and India is likely to slow down, which will have knock on effects on other poorer countries.

Remittances. Remittances to developing countries will decline. There will be fewer economic migrants coming to developed countries when they are in a recession, so fewer remittances and also probably lower volumes of remittances per migrant. Foreign direct investment (FDI) and equity investment. These will come under pressure. While 2007 was a record year for FDI to developing countries, equity finance is under pressure and corporate and project finance is already weakening. The proposed Xstrata takeover of a South African mining conglomerate was put on hold as the financing was harder due to the credit crunch. There are several other examples e.g. in India.

Commercial lending. Banks under pressure in developed countries may not be able to lend as much as they have done in the past. Investors are, increasingly, factoring in the risk of some emerging market countries defaulting on their debt, following the financial collapse of Iceland. This would limit investment in such countries as Argentina, Iceland, Pakistan and Ukraine.

[35] United Nations (2009). The global financial crisis: impact, responses and way forward. Economic Commission for Africa, 2009

[36] IMF (2009) Impact of the Global Financial Crisis on Sub-Saharan Africa. African department.

Aid. Aid budgets are under pressure because of debt problems and weak fiscal positions, e.g. in the UK and other European countries and in the USA. While the promises of increased aid at the Gleneagles summit in 2005 were already off track just three years later, aid budgets are now likely to be under increased pressure.

Other official flows. Capital adequacy ratios of development finance institutions will be under pressure. However these have been relatively high recently, so there is scope for taking on more risks.

Source: Overseas Development Institute (2008). The global financial crisis and developing countries. October 2008. London, 2008.

The impact of the crisis on Africa:

The foreign exchange markets of African countries have been under enormous pressure since the onset of the crisis. In the first quarter of 2009, the Ghanaian cedi depreciated against the United States dollar by 14 per cent and the Nigerian naira declined by 10 per cent. The Zambian kwacha also lost 13 per cent of its value relative to the United States dollar over the same period.

The financial crisis is having a negative effect on trade for African countries. In particular, there has been a significant decline in the prices of key commodities exported by African countries since the second half of 2008. The most affected commodity has been crude oil, which experienced price declines of more than 50 per cent between February 2008 and February 2009. The prices of copper, coffee, cotton and sugar also declined by more than 20 per cent over the same period.

The slowdown in economic growth in three key export markets - Europe, the United States and China - has affected the demand for exports from Africa. The growth of Africa's exports in real terms fell from 4.5 per cent in 2007 to 3 per cent in 2008. Import growth fell from 14 per cent in 2007 to 13 per cent in 2008. Although trade figures for 2009 are not yet available, forecasts by the World Trade Organization indicate that the volume of global trade was expected to decline by 9 per cent in 2009.

Stock market volatility has increased since the onset of the crisis and wealth losses have been observed in the major stock exchanges. In Egypt and Nigeria, the stock market indices declined by about 67 per cent between March 2008 and March 2009. Significant losses have also been observed in Kenya, Mauritius, Zambia and Botswana.

Source: United Nations (2009). The global financial crisis: impact, responses and way forward. Economic Commission for Africa, 2009.

1.2 Value chains, clusters & local economic development

1.2.1 Introduction

Another major development in the business environment is the rapid growth of global, national and region-specific value chains as production-distribution systems are becoming increasingly disaggregated geographically. ICT and the development in transport industry make it possible to break-up the value chain and perform the value-adding activities in any location that can help reduce costs, gain market entry or access strategic resources. To be competitive, flexible and agile enterprises are outsourcing and off-shoring the components and services they need to other enterprises, whether located in the same locality or country or in other countries. The production-distribution process does become a chain, network or cluster of supplier-user enterprises, starting from the supply of basic raw materials to the selling to the end user, sometimes even to the final disposal of the end product. Figure 1.2.1 shows a simplified illustration of wood furniture value chain, for example.

At the same time, faced with increased competition in the globalized market, enterprises form, or are encouraged to form, enterprise clusters. With sectoral and geographic concentration, the enterprises benefit from agglomeration advantages such as access to specialized suppliers of raw materials, components, machinery, skills and technology and support services. Their cooperative and competitive interactions and linkages result in better collective learning and innovation. Thus, many countries, including Japan in 2002, have adopted industrial clusters as industry development strategy.

Definitions.

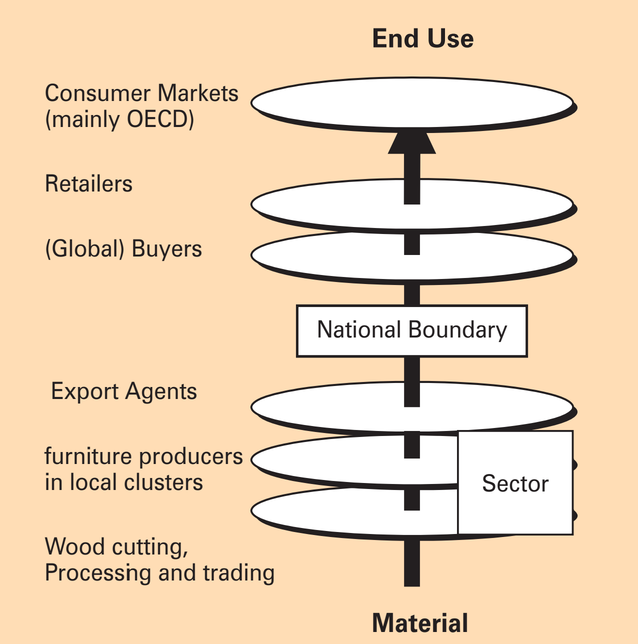
Value Chain (VC) – The sequence of all value-adding activities required to make a product and bring it to the consumer, or to provide a service to the consumer.

Enterprise Cluster (EC) - Agglomeration of interconnected enterprises and institutions in a geographical territory, with the firms sharing market, technology, skills or resources thereby providing them opportunities for cost savings and improved value addition.

Local Economic Development (LED) – A process that facilitates local government, the private and not-for-profit sectors, and local communities to work together in finding ways to improve the local economy by focusing on enhancing enterprises' competitiveness resulting in sustainable growth.

Thus, the competitiveness and productivity of enterprises are now very much dependent on the efficient use of value chains. Such efficiency is further enhanced by cluster dynamics. Value-chain improvement and cluster upgrading become an important strategy to improve the economic performance of enterprises. At the same time, the ecological impacts and the social impacts of an enterprise need to be examined from value-chain and cluster perspectives. The improvement in the economic, ecological and social performance of the enterprises in the VC and cluster can be improved better if the local government, private sector and stakeholders in host communities support and assist with the use of Local Economic Development processes in such an effort.

Figure 1.2.1
Wood furniture value chain



Source: ILO Value Chain Guide, Geneva 2006.

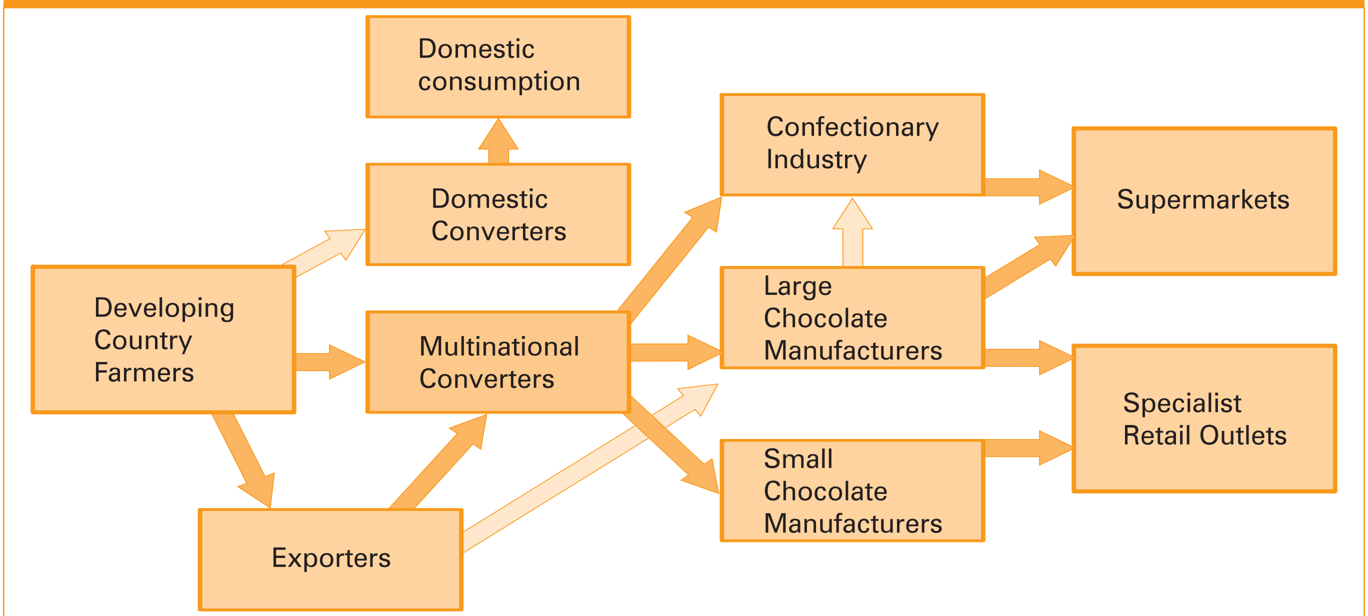
1.2.2 Value chains

For enterprises to prosper in the value chain, they have to upgrade themselves through constant improvement in their products, in the efficiency of their operations and in moving up to more value adding activities in the chain. Moving up along the value chain is a strategy that concerns not just enterprises themselves but also policy makers because of the following:[37]

- Various activities being located in different parts of the world makes participation in the global value chain a potent industrial development strategy;
- Some activities in the chain add more value and are more lucrative than others, with the share of overall returns shifting more and more to the upstream end of the chain; so the further you move up the chain the more opportunities there are for higher returns;
- Some actors have power over others in the chain, e.g. multinationals have more power, whether as the main buyers or leading producers in the chain.

These features are illustrated well by the chocolate value chain shown in Figures 1.2.2 and 1.2.3[38].

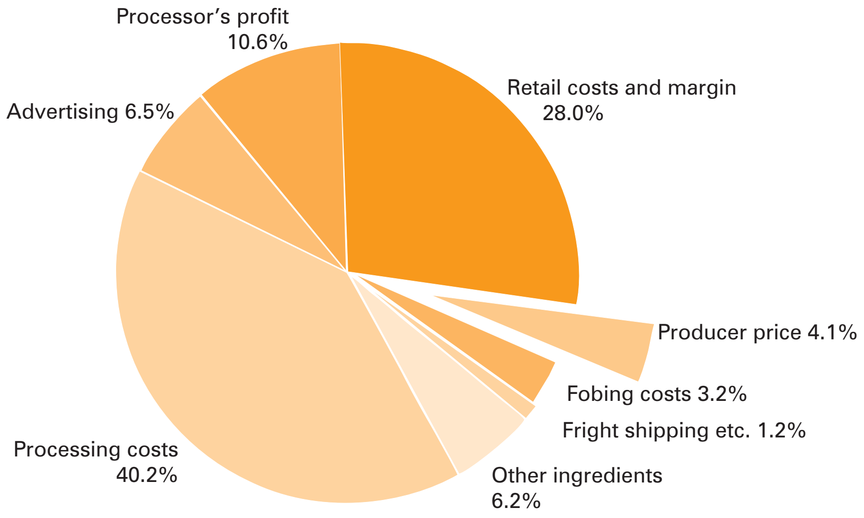
Figure 1.2.2: The cocoa/chocolate commodity chain



[37] See for example, Gilbert C.L. (2006) op.cit.

[38] Figures 1.2.2 and 1.2.3 are taken from Gilbert C.L. (2006), "Value chain analysis and market power in commodity processing with application to cocoa and coffee sectors", Discussion Paper 5, 2006, Dept. of Economics, Universita'Degli Studi di Trento, 2006

Figure 1.2.3 Indicative cost breakdown, UK milk chocolate 2004



The competition between chocolate manufacturers is some of the fiercest in the whole food industry. New products, tastes and designs are continually created by various competing firms to stimulate consumption. Cocoa and chocolate manufacture and distribution is oligopolistic, with two or three companies accounting for over 58 per cent of production in each of three different areas. This oligopoly results in the rising share of processors and manufacturers in the sale price of chocolate, and the declining share of the growers. One study showed that whereas in 1960 growers received about 18 per cent of the final price of a bar of chocolate sold in France, and still around 16 per cent until the end of the 1980s, their share then fell rapidly to around 5 per cent in 2002; the share of manufacturers has moved from 56 per cent to 70 per cent over the same period, and that of retailers from 12 per cent to 17 per cent [39].

Other analysts maintain however, that the seemingly lopsided shares of the final price of chocolate should not be attributed mainly to the controlling power of the processors and manufacturers.[40] The argument is that the shares in the price are significantly affected by the distribution of production costs at the various stages of the commodity chain.

The chocolate value chain however is a good example of how a chain can be very much dominated by the producers and retailers of the product with differing shares of value addition as well as of revenue. Various models of value chain relations may exist in different subsectors or even in the same product lines.[41] Certain key actors in the value chain, i.e., the lead firms, have the capability and power to define and impose the parameters of contracts and subcontracts in their supply chain. Such power, referred to as chain governance, may be based on owning a well-established brand name, proprietary technology, or exclusive information. A distinction is made between buyer and producer-driven chains. In the buyer-drive chains, the big buyers, e.g. international brand name and retailing companies ("buyers") define the "rules of the game" in the value chain and take the largest share of the gains from the production-distribution system. Buyer-driven chains have low barriers to entry in production (e.g. garments, shoes, toys).

39 Agritrade. 2008, "Cocoa Executive Brief" May 2008, Technical Centre for Agriculture and Rural Cooperation, ACP-EU, The Netherlands.

40 See for example, Gilbert C.L. (2006) op.cit.

41 Geriffi, G. and M. Korzeniewicz (eds), "Commodity Chains and Global Capitalism", Greenwood Press: Westport, Connecticut, 1994

Producer-driven chains, in contrast, are characterized by high technology and capital-intensive production facilities, e.g., in the automotive industry. In this case of producer-driven chain, the main producer, e.g. the automotive manufacturer governs the chain.

Value chain upgrading

Value chain upgrading of enterprises aims at higher value addition and competitiveness through efficient management of production processes along the supply chain of contractors and subcontractors (buyers and suppliers), as well as the positioning of the products and services in the market. By using a sub-sector approach, economic upgrading of a value chain typically includes the following[42]:

1. **Process:** improving productivity by steps such as modernising production technology, enhancing worker skills and working conditions, improving organizational efficiency, shortening delivery time to buyers, improving information flow, and increasing transactional efficiency along the chain.
2. **Product:** producing higher value products especially in quality and design.
3. **Function:** moving up the value chain carrying out higher level and greater value adding functions; e.g.: doing the design, instead of only assembling the products.

Gender analysis of value chains[43]

Using Value Chain Analysis can clarify why many of the benefits of globalization fail to reach the very poor, and why particular countries or types of enterprise find it difficult to enter certain sectors. Within the ILO, Value Chain Analysis is now increasingly used to identify points of intervention to provide opportunities for a greater number of people to obtain decent and productive work in conditions of equity, freedom, security and dignity.

- Analysis highlights the social, cultural and economic factors involved in value chains:
- Large parts of the value chain, which are essential to upgrading, are often ignored - particularly home working, out-sourcing, and temporary work.
- Enterprises are assumed to be male-owned even when women and other family workers may be very important to their management and operation.
- Gender inequalities cause poverty for both women and men and may explain why different parts of the chain fail to interact efficiently and are resistant to growth.

For enterprises to participate in value chains, they will need new skills and competencies to manage production, innovation and improvement across networks of supplier firms, including communication and negotiation skills, skills to participate in virtual and inter-organizational teams across networks of supplier enterprises. These new

Box 1.2.1 Value chain analysis methodology

A PVCA (Participatory Value Chain Analysis) has five steps:

1. Selecting enterprises with the greatest development potential
2. Analysing the factors influencing competitiveness
3. Developing a participatory competitiveness strategy
4. Developing an implementation action plan
5. Establishing a system to monitor performance and assess impact

Source: Altenburg, 2006

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42 ILO (2009) Value Chain Development for Decent Work. A Guide for Development Practitioners, Government and Private Sector Initiatives. Geneva, 2009.

43 ILO (2009) Making the Strongest Links: A Practical Guide to Mainstreaming Gender Analysis in Value Chain Development. Geneva, 2009.

skills are a blend of behavioural and communication skills and specific technical skills and knowledge.[44]

1.2.3 Enterprise clusters

Entry and continued participation in value chains, whether local or global, present enterprises with many challenges. They require a new business philosophy and outlook (e.g. from parochial to global), high productivity and competitiveness, and new enterprise competencies (e.g. information and communication capabilities, networking competencies and innovation management). Small and medium enterprises are particularly challenged by these requirements due to their inherent characteristics, e.g. smallness, shallow management bench, limited finance, etc.

SMES can overcome these constraints through vertical and horizontal inter-linkages in enterprise clusters. Through these linkages, SMEs can achieve cost effectiveness through joint actions like volume purchasing of needed inputs such as raw materials, machinery and equipment, finance and business services, Transfer of knowledge and information vertically and horizontally will facilitate acquisition of information, knowledge and technology. They can resort to joint production to meet large orders, and engage in specialized production to meet exporting standards. Indeed, through participation in cluster dynamics, SMEs could gain substantially from the benefits of agglomeration.

With segmented value chains, most internationally competitive enterprises source their materials, components or services from various locations around the world. For instance,

- design, finance and marketing may be carried out in the parent firm;
- minerals might be mined and processed in Latin American countries;
- key components may be manufactured in key locations while assembling may take place in China or some other destination; while
- software development and back office services may take place in India. Data from the Massachusetts-based Forester Research estimates around 1.5 million jobs in the services sector in Europe will be off-shored to lower-waged economies in the next 10 years. India and China are the favoured off-shoring destinations for high-end telecommunications, software development and research and development[45].

All of this local and international sourcing may induce the agglomeration of supplier enterprises in certain geographical areas for cost and other operational advantages. On the other hand, multinationals' buyers are more inclined to purchase from supplier enterprises clusters that are able to provide more economical and reliable supply arrangements. Cluster, -variously known as enterprise cluster, industrial cluster, or industrial district, although there are some differences implied in these terms - is of major interest given the opportunities and challenges posed by globalization. Policy makers in both developed and developing countries are looking for better ways to develop new clusters and strengthen existing ones.

Cluster dynamics

> *"The enduring competitive advantages in a global economy are often heavily local, arising from concentrations of highly specialized skills and knowledge, institutions, rivals, related businesses, and sophisticated customers"*
>
> Michael Porter

The literature[46] on cluster development shows several themes of cluster dynamics:

1. Clusters are a dynamic phenomenon. The interaction and functional relationships between firms and industries are what characterize a cluster.

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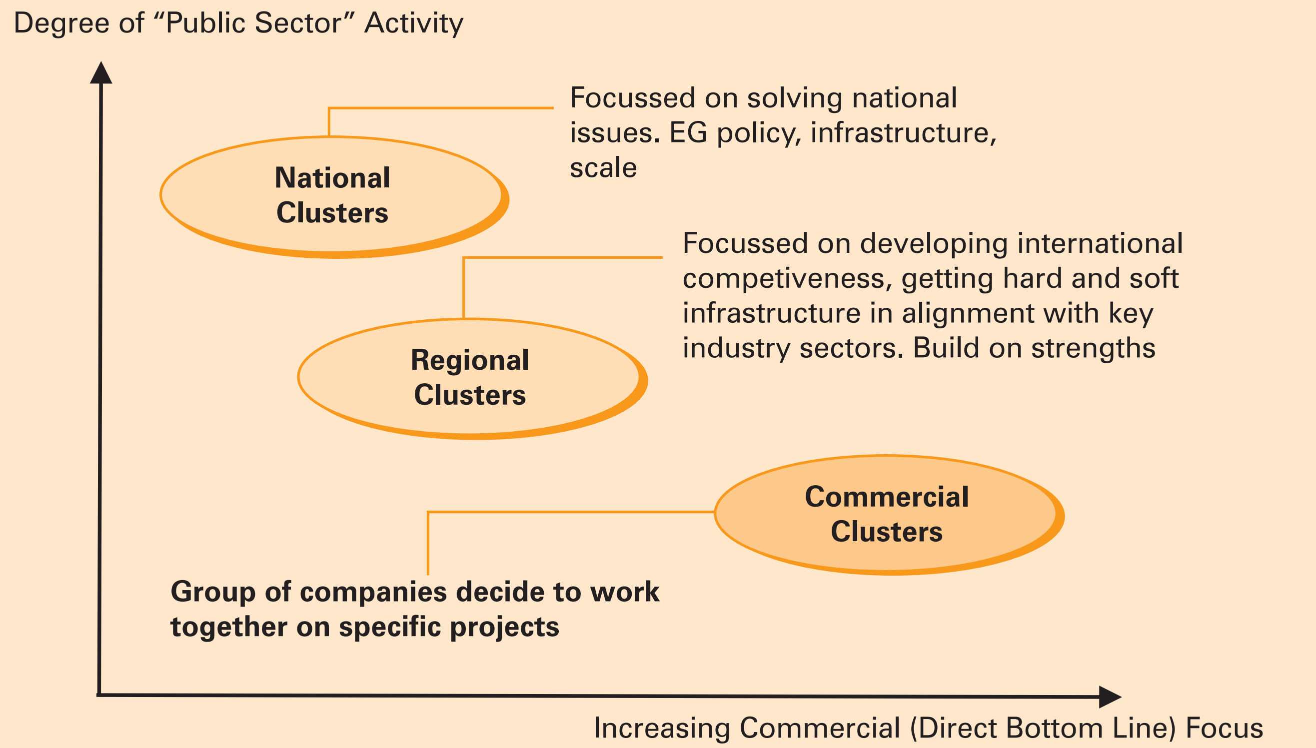
[44] ILO 2008, kills for improved productivity, employment growth and development ILO Geneva , June 2008

[45] Ernsberger R., (2005), The Big Squeeze, Newsweek, 2005.

[46] LeVeen, J. "Industry Cluster Literature Review," Prepared for *Urban and Regional Development,* Plan 261, March 1998, online: http://www.planning.unc.edu/courses/261/leveen/litrev.htm

Figure 1.2.3: Forms of cluster collaboration



Source: Cluster Navigators Ltd, 2001.

2. Most definitions of industry clusters refer to the geographic scope of the cluster, and the importance of spatial proximity. However, every cluster has different geographic requirements.

3. Individual firms are part of a much larger industrial system, defined by both horizontal and vertical relationships, and direct and indirect linkages. The dynamic functional relationships between industries characterize these clusters.

4. The role of social infrastructure in defining industry clusters is a common theme. Information flow is critical in an effective industry cluster, and needs strong social infrastructure to achieve this.

Human and social capital and the conditions of employment are very important in cluster development. The success of a cluster is in a large part due to people networking to achieve results. These linkages are informal, and are supported by more formal organizations/institutions. They work best at a community level where participants in the local industry already have formed a wide variety of relationships, and there is already some degree of dialogue and trust. Three different clustering approaches have emerged in developed economies over recent years (see Figure 1.2.3 below).

1. National Clusters - collaboratively addressing development issues for the cluster, i.e., policy, infrastructure and scale related issues.

2. Regional Clusters - the classic clusters with specialized, networked environment.

3. Commercial Clusters - consortia of companies collaborating in several areas.

Clusters provide enterprises located in the cluster with a number of advantages that enable them to be more productive and competitive:

- *Access to knowledge* – through their interactions, transactions, collaboration and even rivalry, enterprises transfer and acquire both tacit and explicit knowledge among them. These knowledge spillovers provide them with, for example, operational, technical and market information that help them speed-up innovation in their organizational management, products and processes and to take advantage of new market developments.

- *Access to specialized inputs* – with the spatial concentration of similar and related businesses, providers of specialized inputs also tend to co-locate in the cluster. Thus, labour with specialized skills, industry specific services, specialized raw materials and intermediate goods become more easily available.
- *Common infrastructure* – because of the concentration of enterprises with similar needs, providers of support, e.g. government agencies, technical institutions and utilities organizations, find it justifiable to set-up common facilities such as storage and warehouses, technical testing and certifying laboratories, specialized and dedicated transport facilities, etc.
- *Economy of scale and scope* – meeting volume and product variety and specificity requirements becomes more feasible as enterprises with the technical specialization and production capacity work together more easily.
- *Transactional efficiency* – the close interactions of the cluster develop human and social capital developed which results in business transactions being facilitated quickly, flexibly and economically.
- *Specialized customers* – buyers needing reliable supply of a particular product go to clusters known for such products. Customers looking for reliable suppliers of sporting goods for example, will go first to a sporting goods cluster.

Cluster upgrading

Most clusters start naturally, but their growth and development have taken different routes, some induced by external factors and others as a result of deliberate public policies. The garment industry in Bangladesh may be an example of an externally induced agglomeration. The development of the Lampang ceramics cluster in Thailand is a case where a cluster that started naturally was provided support by both the government and the private sector to improve productivity and export competitiveness.[47]

[47] Kamnungwut, W. and Guy, F., 2007, "Varieties of Cooperation: the ceramic tableware district of Lampang, Thailand", Dept. of Mgt., Birkbeck college, University of London, 2007

Box 1.2.2
Lampang ceramic cluster

More than 30 per cent of Thai ceramic firms are located in and around Lampang City, about 600 km. from Bangkok. The city is close to large sources of lignite and kaolin (white clay), which makes it ideal location for ceramic manufacturing. Within a radius of 20 km from the centre of Lampang there are 258 registered ceramic products manufacturer, around 80 per cent of which employ less than 100 people. Also located in the area are suppliers of raw materials and other inputs and agents of machinery, moulds, glaze, gas, etc. In addition, there are a number of public and private institutions providing technology and design, financial, export promotion, management and skills training and other support services to enterprises in the cluster.

The cluster was started in 1957 by 3 Chinese immigrants from Taipu, a ceramic centre in China. They established a small ceramic factory producing bowls called "chicken bowls". During the period 1959-1967 the industry expanded with a number of Taipu Chinese immigrants relocating from Bangkok and establishing their own ceramic manufacturing enterprises. In the early years, Lampang's ceramic products were known more for their low quality. In 1967 however, the Thai government started to support the Lampang enterprises by providing advice on production and marketing. In 1974, the 18 enterprises comprising the nascent cluster formed themselves in a local ceramic club whose main aim was to exchange information on markets, price and materials costs.

Starting late 1970s, the cluster began to develop rapidly when new kiln technology was introduced and some factories began to export. The new technology enabled the enterprises to improve and standardize quality and to develop a wider range of products. The cluster continued its rapid development during the 1987-1997 boom period of the whole Thai ceramic industry. The number of enterprise in the cluster increased rapidly, new technologies were introduced, and new products and designs were developed to meet demands of domestic and international markets. Some firms even produced and exported solely according to specifications of particular international buyers.

During the period, the Thai government intensified its support to regional industries. The Lampang ceramic cluster was targeted with productivity improvement and exporting assistance. In 1987, the Lampang Ceramic Development Centre, under the Ministry of Industry, was established to serve as centre of ceramic knowledge, innovation and design. At this time, the local ceramic club was formally registered as Lampang Ceramic Association. Since its beginning as a club in 1975, the Association has served its members with information, knowledge transfer, training, joint production and representation with local and national government agencies.

In 2002, the Lampang Cluster Development Programme was launched with the help of UNIDO and the Industrial Finance Corporation of Thailand as implementing arm. Both public and private sector support were mobilized to improve productivity, outputs and exports, aiming to make the Lampang ceramic cluster as the ASEAN ceramic hub by 2012.

Key actors in the cluster development programme were the Ceramic Development Agents (CDA). These CDAs work as coordinators between the firms and supporting public and private institutions. They also encourage firms, particularly SMEs, to cooperate among themselves to address common problems. The CDAs helped firms to establish networking groups to develop common projects such as joint purchasing of inputs, joint development of new products, sharing of volume orders, etc.

From: Kamnungwut, W. and Guy, F. 2007, "Varieties of Cooperation: the ceramic tableware district of Lampang, Thailand", Dept. of Mgt., Birkbeck college, University of London, 2007

The history of collaboration across the products or services and/or cluster structure influences its development path. What works for one cluster may be inappropriate for another; each cluster will have its own opportunities, roadblocks, traditions and culture. Some clusters can quickly move into substantive development initiatives, others take time to develop the necessary trust. The following eight-stage process for local cluster upgrading is based on a country experience (in New Zealand) and the best international practices from around the world (Cluster Navigators Ltd, 2001).

Step 1. Analyzing Local Economy for identifying the priority areas

Step 2. Initial Cluster Stocktaking for gathering information about the cluster in the local economy

Step 3. Establishing the Team Leadership

Step 4. Developing a Cluster Vision for establishing the preferred future for the cluster

Step 5. Identifying the Stepping Stones - key steps to the preferred future

Step 6. Developing an Immediate Action Agenda - highlighting the short-term projects

Step 7. Setting up institution/organisations for the Cluster – for sustainable cluster upgrading

Step 8. Upgrading the Strategic Agenda - longer-term, more substantive projects.

How does cluster upgrading result in enhanced human capital and improved technological capacities of enterprises? A key process of change within clusters comes through local upgrading leading to enhanced competitiveness of firms with improved ability to appropriate a larger share of value added, and advances their position within global value chains. These come about through distinct forms of upgrading—product, process and function. Raising human capital improves productivity and leads to rising incomes and wages as well as sustained employment growth.

It is only through a systematic pattern of upgrading, often aided through national innovation and learning systems that clusters are able to compete in global markets on the basis of the high road to growth.[48] While relying on local and external linkages, cluster upgrading also has consequences for such linkages. This implies that clusters have to be seen in the context of dynamic trajectories—where certain types of producers and workers gain and others lose. For example, as firms upgrade, does the demand for new skills affect all workers uniformly, or do some categories of workers (say women) become marginalized by not being provided with the requisite training and skills? Moreover, within a dynamic process of change, how can negative effects be minimized and positive effects maximized through better policy initiatives?

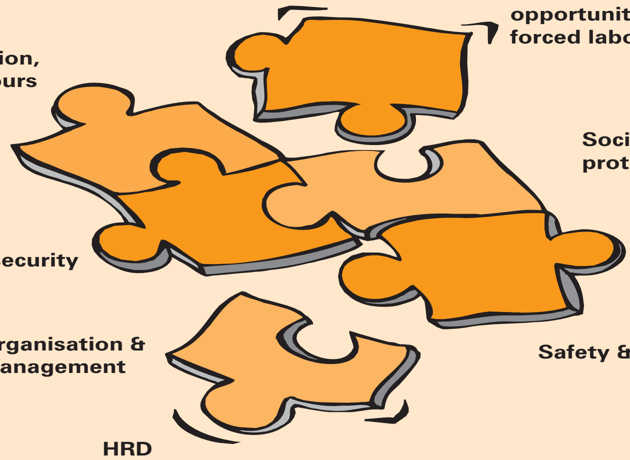
Importance of job quality in value chains and enterprise clusters

Improvement in job quality means improving working conditions and workplace and business practices in the manner that productivity gains are made, and firm competitiveness is enhanced. Often, competitive pressures encourage the firms to desist from making investments on human capital and improving working conditions. But the extent of enhancement of competitiveness and productivity of the 'lead firms' is often determined by the technology, skills, working conditions and business practices at the lower levels of hierarchy of supply chain, often embedded in clusters as sub-sub-contractors or even as home-workers.

Job quality (JQ) is multi-dimensional (as shown in Figure 1.2.4) in nature, incorporating working conditions, occupational safety and health (OSH), social protection, HR (human resource practices), etc. All the elements indicated below in the figure contribute to advancing the ILO's Decent Work (DW) Agenda, which aims to promote productive, remunerative work under the conditions of protection, rights and equality for all workers.

[48] Nadvi, K. and Barrientos, S. Industrial clusters and poverty reduction, UNIDO Vienna 2004

Figure 1.2.4: Dimensions of Job Quality



Improvement in Job Quality in terms of improving working conditions, providing opportunities and **incentives** for skills development or installing new equipment in the smaller sub/contracting enterprises are often perceived as costly propositions by entrepreneurs. But the longer-term benefits of productivity and profitability are not readily understood among micro and small enterprises operating in a cluster environment.

If the cluster predates the supply chain linkages to international sourcing firms, the old practices of operating under poor working conditions with outdated equipment are even more likely to be entrenched and will need change in entrepreneurial and work culture. Policy makers and local government authorities; 'lead firms' and the private sector; stakeholder institutions and the local community together with development agencies will need to develop an environment with mechanisms that encourage the MSEs — along the supply chain and in clusters — to improve Job Quality and so upgrade the cluster.

An example of cluster upgrading through Job Quality is described in Box 1.2.3 below.

Box 1.2.3 Upgrading clusters by improving job quality

The Moradabad brassware cluster in India is known for producing and exporting very attractive brassware products with various other wood or glass materials. The cluster consists of various-sized enterprises dominated by exporters/manufacturers with direct contact to overseas sourcing firms. Many of the enterprises operating at the lower rung of the sector are micro and small enterprises, mostly informal.

The working conditions for the workers are bad: smoke from the fireplaces where the brass is melted fills the small rooms where several workers work during the day, and sleep at night. The air is full of dust from grinding the brass. The workers often work in uncomfortable positions and many fall sick and have to miss work.

An ILO project aiming at upgrading the Moradabad brassware cluster, has convinced the entrepreneurs to improve the working conditions for their labour force through work along the value chain and building a coalition of stakeholders in the community. This has resulted in an effort by all, including the local government authorities, to improve working conditions and productivity. This includes a health insurance scheme funded by the exporters and the workers with municipal help and special arrangements with local health clinics.

Adapted from the ILO Guide for Value Chain Analysis and Upgrading, 2008.

Involvement of the local government and the community along with the local stakeholders and institutions assume a greater importance while attempting to upgrade the existing cluster. In attempting to change and improve the behaviour and attitude of the community in the entire cluster, micro level interventions may not prove adequate. Local economic development (LED) approach allows working with the local stakeholders – local government, private sector, non-profit organizations and the community.

1.2.4 Local economic development

LED for cluster upgrading

Clusters often are intertwined with the lives of the communities where they are situated. In many small towns, local governments and local institutions are preoccupied in interacting with the clusters. Without the involvement of the local stakeholders, it would be nearly impossible to upgrade and upscale the clusters.

LED encompasses a range of disciplines including physical planning, economics and marketing. It also incorporates many local government and private sector functions including environmental planning, business development, infrastructure provision, real estate development and finance.

There is a broad consensus among academics and practitioners on the following key characteristics of LED:

- Set within a **territory** with a scope for frequent social, economic and political interaction among local stakeholders possessing a superior knowledge of the needs and resources of their locality;
- Building on **competitive advantages,** targeting sectors with economic potential also taking advantage of outside growth opportunities with links to the local economy through national and global value chains and markets;
- A **participatory** approach to upgrading with a wide cross-section of local stakeholders working together alongside regional and national governments to realise a locality's economic potential; and
- A **locally owned and managed** process allowing supporting agencies to act as facilitators responding to the local demand.

The practice of local economic development can be undertaken at different geographic scales. LED is about communities building a coalition with local government, local institutions, private sector and non/profit organizations for improving business environment, enhancing competitiveness and productivity through JQ improvements, improving the infrastructure, and increasing overall awareness among the community members in regard to the direction in which the cluster upgrading should take place. Local communities respond to their LED needs in many ways, and a variety of approaches could include[49]:

- Ensuring that the local investment climate is functional for local businesses;
- Supporting small and medium sized enterprises;
- Encouraging the formation of new enterprises;
- Attracting external investment (nationally and internationally);
- Investing in physical (hard) infrastructure;
- Investing in soft infrastructure (educational and workforce development, institutional support systems and regulatory issues);
- Supporting the growth of particular clusters of businesses;
- Targeting parts of a city for regeneration or growth (areas-based initiatives);
- Supporting informal and newly emerging businesses; and
- Targeting certain disadvantaged groups.

The ILO pays special attention to marginalized and disadvantaged groups often active in the informal economy. While some enterprises in the informal economy offer reasonable livelihoods and incomes, too many people engaged in informal activities in a

[49] Swinburn G., Goga S., Murphy, F. Local economic development: a primer developing and implementing local economic development strategies and action plans. The World Bank, 2006.

cluster are faced with insecure incomes, bordering on the poverty level, and work under extremely poor conditions. In the social dimension, LED provides opportunities to correct social inequities and injustices. LED offers several entry points to address labour standards, non-discrimination, workers' rights and social dialogue as main pillars of decent work. These activities for social regeneration foster conditions in which business can flourish.

Gender-sensitive local economic development approaches

Local economic development approaches need to incorporate an understanding of women's potential as economic participants. Unless this is done in a systematic and explicit manner, women run the risk of remaining excluded from mainstream economic planning. Local economic development decision-making needs to acknowledge that women represent 50 per cent of the pool of potential entrepreneurs and workers. Given that almost everywhere there are gender imbalances in access to decision-making and economic and financial resources, it is important to put in place specific strategies to ensure that women contribute to and benefit from local economic development.

Local level gender responsive budgeting and planning initiatives have now been implemented in several countries:

- UNIFEM's Local Level Gender Responsive Budgets program (LLGRB), supported by the European Commission, (2003 - 2006) provided support to local initiatives in India, Morocco, Uganda and the Philippines. The project focused on supporting women's effective participation in budget processes, strengthening women's representations in local bodies, building awareness of gender budget analyses, as well as advocating for adequate allocation towards local women's priorities.
- In Europe, guidelines for using the European Fund for Regional Development need to include a gender sensitive analysis and specific measures to support women's participation in employment and entrepreneurship promotion activities.

Box 1.2.4 Early results from the LED approach

With a total investment of US $1.3 Million, ILO supported the creation of six Local Economic Development Agencies (LEDAs), which have created 2100 new jobs in 500 new small and micro enterprises. An evaluation of PRODERE undertaken by the Oscar Arias Foundation and the OECD found that the LEDAs have been a crucial factor in the success of the programme.

More than 8.000 new jobs were generated between 1995 and 2001 within the framework of the ACLEDA project in Cambodia. Five LEDAs were established to identify business opportunities, to provide training in elementary business skills, and micro financing to small businesses.

Source: van Boekel and van Logtestijn, 2002

The local economic development process

The entry point for the LED process can be the establishment of an effective LED forum or public-private-partnership (PPP) platform that would be responsible for the identification, selection, planning, coordination and implementation of cluster upgrading interventions.

The ILO's approach to LED premises are: (a) that local stakeholders are the change agents, (b) development of LED strategies should be informed by proper analysis and assessment of local conditions and economic potential, and (c) that public-private-partnerships are crucial for initiating and sustaining development processes. The LED strategy follows the six-step principles of the approach:

1. Consensus building among public and private stakeholders that may also include territorial diagnosis, institutional mapping, sector and sub-sector analysis and value chain analysis to assess overall economic potential of the cluster.
2. Sensitization of various stakeholders and institutions through social marketing and

public events directed toward understanding how cluster upgrading and upscaling could be undertaken.

3. Forming a LED Forum for coordination endorsed by all stakeholders and managed by local stakeholders (possibly with a secretariat) for a limited period.

4. Designing the LED strategy and work plans for the types of interventions required.

5. Creation of implementation structures and the roles and responsibilities as well as actions needed from various stakeholders.

6. Evaluation and impact assessment of the specific interventions and activities in support of the LED strategy.

In addition, the LED process would involve carrying out selected baseline data, impact assessments and thematic reports to assess its impact on growth and on the reduction of inequity among women, youth and marginalised communities in a given geographical territory. The number and variety of studies and assessments depend on the identified and prioritized interventions, but the studies mentioned below may be useful:

- Territorial diagnosis
- Sector and sub-sector mapping
- Market potential assessment
- Value chain analyses
- Gender audit
- Skills, technology and productivity review
- Infrastructure feasibility assessment
- Other baseline studies .

Implementing LED

As it becomes committed to cluster development a community must decide how and for what purpose it will apply the LED process There are many options: as simple as providing a directory of services for local businesses or as complex as attracting foreign direct investment. The strategies will be influenced by issues such as[50]:

- Where do the urgent priorities lie?
- What resources can be made available to support the strategy?
- What options are relatively inexpensive to implement?
- What options offer immediate benefits?
- Does the community have the capacity to implement the option?
- What are risks? Can the risks be minimized?

Many times, process may overtake the implementation. LED has also this similar potential unless the community is dedicated to learn from the actions it takes in upgrading the clusters. The implementation of the LED process should lead to:

- Improving the local business investment climate
- Investing in hard strategic infrastructure
- Improving availability of higher quality business sites
- Investing in human capital and soft infrastructure of technical capability and skills
- Supporting business growth and encouraging new enterprises
- Promoting inward investment
- Developing linkages
- Developing regeneration strategies
- Integrating lower income and marginalized sections of the society

Each of these actions involves several steps with tools available for carrying out those activities. Developing linkages for example may involve[51]

- *Developing broker and network agencies* **–** for jointly marketing the goods and also inter-trading with each other.
- *Supporting joint research* **–** supporting higher institutions to undertake research for the benefit of the cluster.
- *Developing cluster-focused public procurement and local purchasing agreements* – developing a supplier network in order to cater to government requirements while also advocating or the positive policy for local sourcing.
- *Providing cluster specific information* - about businesses and institutional support systems in the cluster and then produce it so that it can be shared.

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50 The World Bank, 2006, Ibid.

51 The World Bank, 2006, Ibid.

Box 1.2.5 LED examples

Incheon Free Economic Zone Authority South Korea

Created with the aim of improving the business enabling environment for foreign enterprises and workers, the Incheon Free Economic Zone is a specially designated area that is managed by the Incheon Free Economic Zone Authority (IFEZA). As an independent administrative body, IFEZA provides various types of administrative services for businesses. IFEZA provides an example of a spatially targeted approach to facilitating economic and private sector development.

Vietnam Competitiveness Initiative

Devised as an economic growth project to improve the competitiveness of small and medium-sized enterprises (SMEs) throughout Vietnam, the Vietnam Competitiveness Initiative (VNCI) supports the development of the Vietnamese private sector providing assistance in policy reform as needed emerging business sectors, and facilitates the development of SMEs and improved access to credit.

Source: The World Bank, 2007.

- *Developing cluster related marketing efforts* - promoting business opportunities externally for cluster members.
- *Developing demand-led skills and education training programs* - understanding the skills needed when a number of businesses express the need for these skills.

1.3 Corporate governance and International Labour Standards (ILS)

1.3.1 Corporate Governance

The challenges such as globalization, trade liberalization, technological developments and others call for a re-thinking and possible restructuring of the system of corporate governance. With increased power and influence of private enterprise on society, the processes and structures with which their behaviour, actions and operations are governed are put in greater scrutiny[52].

Corporate governance can be defined in different ways. Traditionally it has been defined as "the relationship between the shareholders, directors

"There will be those who say that fairness, transparency, and accountability are not as critical so long as the business continues to perform well. While firms that do well could see their stock rewarded in the capital markets in the short term, their ability to sustain this performance is nevertheless significantly impaired when there exists an inherent conflict between the interests of the corporation as a whole and those of the controlling shareholder. It is ironic, that when controlling shareholders misappropriate the assets of the corporation and try to get a disproportionate piece of the pie, the overall pie shrinks in the long run, leaving them worse off particularly when compared with the potential heights that they could have earned had they focused instead on building the corporation as a whole.

On the other hand, corporations that adopt a high level of transparency, accountability, and fairness, will have a strong and sustained impetus to perform well and create value for the long term. With greater transparency, there is little room for sweeping problems under the rug, making imperative prompt corrective actions when performance falters. In the fast changing world of business, this can spell the difference between survival and continuing decline.

With accountability, managers and controlling shareholders view their stewardship of the firm not as an entitlement but rather as a privilege that must be constantly earned through excellent performance and results. With fairness, we ensure that the fruits of the corporation's endeavours are equitably shared by all, in accordance with the risks taken and the efforts extended by the various stakeholders of the firm."

Ramon R. Del Rosario, Jr., Chairman of the Board of Advisor of the AIM-RVR Center for Corporate Responsibility, Asian Institute of Management

52 Poor corporate governance is viewed as one of the structural weaknesses responsible for the outbreak of the Asian Crisis in 1997. Such crisis caused not only huge financial losses to enterprise in the countries affected but also caused immense loss of employment – hence a lot of social hardships.

and management of a company, as defined by the corporate charter, bylaws, formal policy and rule of law[53]."

As recently as a few decades ago, many companies viewed business ethics only in terms of administrative compliance with legal standards and an adherence to internal rules and regulations. Today the situation is rather different. Attention to business ethics is on the rise around the world, and many companies realize that in order to succeed they must earn the respect and confidence of their customers. Like never before, corporations are being asked, encouraged and prodded to improve their business practices with an emphasis on legal and ethical behaviour. Companies, professional firms and individuals alike are being held increasingly accountable for their actions, as demand grows for higher standards of corporate social responsibility.[54]

"We cannot talk about good governance without talking about social responsibility and accountability. And we cannot talk about social responsibility without talking about sustainability. At the heart of social responsibility and sustainability lies good governance."

John Capel, Bench Marks Foundation

Thus, very often, corporate governance is defined now from a broader, more socially-oriented point of view. For example, Monks and Minow emphasize the role that different stakeholders (including employees) can play in corporate governance that they define as "the relationship among various participants [chief executive officer, management, shareholders, employees] in determining the direction and performance of corporations"[55].

Sir Adrian Cadbury goes even further by suggesting that "Corporate governance is concerned with holding the balance between economic and social goals and between individual and communal goals. The corporate governance framework is there to encourage the efficient use of resources and equally to require accountability for the stewardship of those resources. The aim is to align as nearly as possible the interests of individuals, corporations and society"[56].

Finally, Demb and Neubauer look at corporate governance only from the point of view of the stakeholders' model: "Corporate governance is the process by which corporations are made responsive to the rights and wishes of stakeholders[57].

"Corporate governance is more than the way in which a company is run. It means that a company complies with local and international laws, transparency and accountability requirements, ethical norms, and environmental and social codes of conduct... Corporate governance is how a company behaves when nobody is looking. Without good corporate governance, no other form of corporate engagement is credible."

Klaus Schwab, Executive Chair,
World Economic Forum

Such expanded views of corporate governance have gained adherents. For example, in the Companies Act 2006 of the United Kingdom, Boards of Directors of publicly listed companies are mandated to report on the social and environmental activities of their companies. Furthermore, company directors have the duties to consider the interests of the workers, local communities and the

53 Source: the Corporate Governance site http://corpgov.net.

54 http://www.dti.gov.uk/ministers/archived/byers070600.html

55 R.A.G. Monks and N. Minow, "Corporate Governance", 2003, Blackwell.

56 Sir Adrian Cadbury, "Global Corporate Governance Forum", The World Bank, 2000.

57 A. Demb, F.F. Neubauer, "The Corporate Board", Oxford University Press, 1992.

environment when they make decisions.[58] All companies, other than small, are already required to produce a business review. In the case of quoted companies, the directors will be required – to the extent necessary for an understanding of the business – to report on environmental matters, the company's employees and social/community issues.[59]

Good corporate governance improves company performance, and developing this governance to a high standard is an important factor in a company's effort to attract investments. Investors are obviously attracted more to well-governed companies, because poor governance practices negatively affect return on investments. Also, as mentioned earlier, it contributes to larger, structural and systemic problems at national and regional levels - as the experience of the Asian crisis showed.

In recognition of the need to introduce standards of corporate governance and build greater transparency in the global marketplace, various multilateral organizations and banks have come up with principles that can guide companies and countries in developing these higher standards of corporate governance. The OECD has articulated in 1999 a set of core principles of corporate governance practices. These are:

- Fairness
- Transparency
- Accountability, and
- Responsibility.

These were updated in 2004 as OECD Principles of Corporate Governance 2004 (full text available at http://www.oecd.org/dataoecd/32/18/31557724.pdf.) The principles are non-binding and do not aim at detailed prescriptions for national legislations. Rather they seek to identify objectives and suggest various means for achieving them. Their purpose is to serve as reference point. They can be used by policy makers as they examine and develop the legal and regulatory frameworks for corporate governance that reflect their own economic, social, legal and cultural circumstances, and also by companies as they develop their own practices.[60]

The Asian Development Bank has also developed a set of principles for higher standards of corporate governance.[61] Various countries have also their own codes guiding corporate governance. The European Corporate Governance Institute gives an Index of corporate Governance codes of several countries in their website: http//:www.ecgi.org/codes/all_codes.php

1.3.2 International Labour Standards

The broader definitions of corporate governance that take into account the social and environmental impacts of a company's behaviour and operations are generally inclusive of labour-management cooperation, employees' participation, relationships with stakeholders (including shareholders), and particular systems of management. The International Labour Standards (ILS), developed by the International Labour Organization (ILO), can help enterprise management improve these components of governance and, as a result, bring their system of corporate governance in line with the current challenges that the enterprises are facing.

The idea of international standards for labour came in part from the business community at the beginning of the twentieth century. Successful entrepreneurs wanted to develop an international framework that would allow conscientious employers to improve the quality of life for their workers and still be competitive. The ILO was formally established in 1919 under the Treaty of Versailles.

The ILO is a tripartite organization. This means that all decisions are made by representatives of governments, employers and workers.

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58 As reported by One World Trust, March 2007 http://www.oneworldtrust.org/?display=accnewsmar07

59 BERR, 2007, Explanatory Notes on Companies Act 2006, Department for Business Enterprise and Regulatory Reform. UK, 2007 at http://www.opsi.gov.uk/acts/acts2006/en/ukpgaen_20060046_en.pdf

60 OECD Principles of Corporate Governance 2004 at http://www.oecd.org/dataoecd/32/18/31557724.pdf

61 ADB, 2003, Corporate governance Principles for Enterprises, Asian Development Bank, Manila, 2003. http://www.adb.org/documents/brochures/corporate_gov/corporate_gov_principles.pdf.

Consequently, a "reality check" is built into international labour standards. From its inception the ILO recognized the importance of creating win-win strategies for workers and employers, as well as for society as a whole.

The ILO works to promote equality of treatment, social justice, and improved working and living conditions for all. It does this through:

- international labour standards (ILS) which are benchmarks for good governance in both the public and private sectors;
- technical assistance to help governments implement ILS; and
- education and promotional activities to raise awareness and understanding of ILS.

International Labour Standards come mainly in two forms — Conventions and Recommendations. Conventions are legally binding on states that ratify them, while Recommendations are intended simply as guidelines. Conventions and Recommendations are supplemented by other documents that set out general principles and values that all states should follow, and codes of practice for areas such as occupational health and safety that are highly technical and change rapidly with new scientific information.

Almost all ILS directly address only the actions of states, not workers or employers, since generally only states are the subject of international law. [62]

But ILS implicitly require or recommend action on the part of employers. For example, most ILS set out only general principles; therefore, governments usually need to consult with employers' associations and workers' organizations on the details.

Although ILS do not address enterprise management directly, the principles underlying the standards can add a new dimension to management philosophy, policies and practices. The values shared by successful enterprises mirror the values upon which ILS are based — treating workers with dignity and respect, trust and fairness.

At the same time, the ILS are global, universally accepted principles, supported by governments, employers and workers from almost all countries of the world. Therefore, they can help companies to transcend both country- and culture-specific values.

Any system of corporate governance based on the principles underlying the International Labour Standards should include labour-management cooperation as one of its key components.

1.3.3 Multilateral guidelines and voluntary codes of conduct

In addition to the *ILO Declaration on Fundamental Principles and Rights at Work* and the *ILO Tripartite Declaration of Principles concerning Multinational Enterprises and Social Policy,* corporate governance is now informed by a number of guidelines, voluntary codes of conduct and framework agreements.

The *OECD Guidelines for Multinational Enterprises*[63] are recommendations for responsible business conduct addressed by governments to multinational enterprises operating in or from the 33 adhering countries. The OECD guidelines cover areas of disclosures, employment and industrial relations, environment, combating bribery, consumers' interests, science and technology, competition and taxation.

62 However, the ILO adopted the Tripartite Declaration of Principles concerning Multinational Enterprises and Social Policy in 1977, which was updated in 2001. This document affirms the importance of multinationals adhering to basic ILS, regardless of where production takes place.

63 http://www.oecd.org/dataoecd/56/36/1922428.pdf

Box 1.3.1 Good practice on gender equality

The EU Social Partners Framework of Actions on Gender Equality (2005 – 2010):

In 2005 the EU Social Partners made a specific commitment to enhancing gender equality in the labour market and in the workplace. The Framework of Actions on Gender Equality set the priority lines of actions for the period 2005-2010:

- Addressing gender roles
- Promoting women in decision-making
- Supporting work-life balance
- Tackling the gender pay gap

For each of these priorities, the document suggests practical measures that can be taken by employers, trade unions and governments. The annual follow-up reports on implementation of actions in each country under the four broad headings offer a rich overview of the initiatives undertaken and of the benefits gained by all parties involved.

In addition to the intergovernmental guidelines, there is a plethora of codes of conduct to guide companies in pursuing their business operations. These codes range from relatively general aspirational principles to more specific company codes and trade association codes which are adopted by trade bodies within a sector or geographical area, such as the Kenya Flower council code, the common code for the Coffee Community, and the Electronic Industry code of conduct, and third party, sector-based codes such as the World Health Organization (WHO) Ethical Criteria for Medicinal Drug Promotion. There are also supply-chain codes adopted by major multinational companies to guide the operations of their suppliers and distributors. Reporting and transparency are key elements of responsible business. A prominent reporting mechanism is the Global Reporting Initiative (GRI) which seeks to promote reporting on economic, environmental and social performance by organizations (not just businesses) with the goal that this becomes as routine and comparable as financial reporting.[64]

Framework Agreements on the other hand are agreements reached through social dialogues and negotiations between global trade union federation and multinational enterprises. These framework agreements reflect shared principles that will guide the multinational and its supply chain. The main purpose of a framework agreement is to establish formal on-going relationships between the dialogue partners to resolve specific problems and to cooperate on broader issues.

1.4 Stakeholder pressures on the enterprise

1.4.1 The dynamics of the business environment

As discussed above, and to reprise this first chapter, the environment within which the enterprise is operating is constantly changing. The globalization of the economy is going on at a faster pace than globalization in earlier periods of history. This rapid move towards a greater integration of the world economy is fuelled by a number of distinct yet interdependent forces: the policy decisions by many countries in favour of market liberalization, the freer flow of capital both direct foreign investment and portfolio investment, rapid developments in production and information technology, the advance of global telecommunications, and vast improvements in transport systems.

The forces fuelling globalization are creating new production and market structures. The phenomenon of globalized manufacturing characterized by global commodity and value chains is now widespread. Products or services are produced and distributed by a network of enterprises, each contributing to production and distribution according to their respective core competencies. Flexible production processes are increasingly required by dynamic markets where product life can be short and where discerning customers with higher purchasing power and more differentiated and international tastes are demanding much more product variety, quality and value for money.

64 The Promotion of Sustainable Enterprise, Report IV ILC 96th Session 2007, ILO Geneva.

Thus, in the increasingly globalized economy, the competitiveness of the enterprise means the ability to constantly take the most advantageous position or niche in the rapidly changing market environment. The major determinants of the ability to sell products and services in the international market are no longer primarily relative cost advantages alone.

More and more, competitiveness is based on quality, speed, technical superiority, service, and product differentiation. Increasingly also, social and environmental impacts of the sourcing, production-distribution processes utilized and of the use and final disposition of the products are becoming major customers' consideration whether to patronize or not a product or service.

1.4.2 Stakeholders' expectations of their enterprise

These changes in the business environment and the consequent network and chain-based structure of production-distribution system of enterprises have increased the both the spectrum and expectations of an enterprise's stakeholders. An illustrative list of these expectations is given in Table 1.4.1.

1.4.3 How stakeholders' expectations are met through sustainable enterprise

Clearly, these changed expectations on an enterprise indicate that increasingly it is not just the enterprise's final outputs, e.g. products and services and financial outcomes that are important to its stakeholders. Equally important are the social and environmental impacts of the processes used in the sourcing of the inputs, in the transformation of these inputs into products and services and of the use and final disposal of the product. To meet these expectations, the enterprise must have good economic, social and environmental performance, in short, be a sustainable enterprise.

A ***sustainable enterprise*** operates a business so as to be viable, grow and earn profit, recognizes the social aspirations of people inside and outside the organization on whom the enterprise depends, as well as of the impacts on the natural environment of its operations and of its products and services.

Case study 1.4.1 Influence of corporate social responsibility

There is increasing evidence to show that what customers feel about a firm's global people management affects their purchasing decisions. Surveys conducted by the national opinion poll organization MORI between 1999 and 2002 show that 7 out of 10 British people think that firms do not pay enough attention to corporate social responsibility (CSR) and 9 out of 10 take CSR into account when making a purchasing decision. The top three factors influencing a purchasing decision are quality (98 per cent), value for money (98 per cent) and customer service (97 per cent) but the treatment of employees comes next (83 per cent) and ahead of both convenience (82 per cent) and impact on the environment (79 per cent). Under the treatment of employees customers care, in order of importance, about health and safety abuses, child labour, forced labour, discrimination and sweatshop wages.

Source: Wild, A. (2003) Pressure point. People Management 9 (14), 2003.

Long-term enterprise sustainability implies that the management of the enterprise is aimed at achieving the three pillars of sustainability: good economic, social and environmental performance. Table 1.4.1 illustrates how the expectations of stakeholders are met through sustainable enterprise performance. Sustainable enterprises are productive and competitive, prepared to innovate and adopt technologies and organizational and business processes that enable them to provide product and services at prices and quality and timing that meet the expectations of discerning customers. Their business models, systems and processes give due recognition to their human resources as a key source of business success, and so take appropriate steps to bring the best out these resources. They see the importance of being good citizens of their local and global communities, contributing to economic and social development and ecological well-being. In June 2007, the International Labour Conference discussed the promotion of sustainable enterprise. The conclusions of the discussion[65] identified the necessary conducive environment for sustainable enterprises.

[65] ILO, 2007, "Conclusions concerning the promotion of sustainable enterprise", ILO Geneva, 2007

Table 1.4.1 Stakeholders' expectations and how these expectations are met through sustainable enterprise's performance

Stakeholder	Expectations	Expectations met through sustainable enterprise's performance		
		Economic	**Social**	**Ecological**
Customers	■ Products and services meeting needs and expectations in terms of quality, price, timeliness, aesthetics, convenience, reliability, etc. ■ Good customer serviceSafe and healthy products ■ Environment-friendly products and services as well as production-distribution system ■ Socially responsible production-distribution system	Value for money products and services accessible and relevant to different social groups	Safe and healthy products and services produced and delivered in socially responsible ways	Products and services environmentally friendly produced, distributed, used and disposed off
Owners/ Shareholders	■ Fair return on investments ■ Surplus for re-investments ■ Good business reputation and public image	Higher return on investments License to operate Fair return relative to risk Management capability Fair regulatory environment	Good enterprise reputation	Good enterprise reputation
Employees	■ Fair wages and remuneration ■ Decent jobs: productive, remunerative, with healthy and safe conditions in atmosphere of respect and non-discrimination, and fundamental rights respected. ■ Job security and increased employability ■ Fulfilling jobs with learning and growth opportunities ■ Non-discrimination and equality ■ Working for "good" company	Remunerative jobs Employment and employability Marketable skills Responsive Management	Decent and good quality jobs	Good working conditions Non polluting and environmentally degrading business operations
Suppliers	■ Fair trading and business relationships ■ Transparency and openness ■ Partnership relationship	Stable business relationship	Ethical business trading practices Socially responsible practices along the value-chain	Environmental friendly purchasing and distributing specifications

Distributors	■ Timely availability of products and services meeting customers' needs and expectations ■ Technical support ■ Fair trade and business practices ■ Partnership relationship	Stable business relationship	Ethical business trading practices Socially responsible practices along the value-chain	Environmental friendly purchasing and distributing specifications
Competitors	■ Fair competition practices ■ Compliance with legal and regulatory requirements and other standards	Fair competition	Ethical business practices	Environment protection part of competitive strategy
Host community	■ Decent jobs creation and sustenance ■ Contribution to community well-being ■ Protection and safeguarding of the local environment	Jobs Skills Local taxes and revenues	Social development including social and economic empowerment of traditionally marginalized groups	Clean environment
Host Government	■ Taxes and revenues ■ Employment ■ Compliance with legal and regulatory environment ■ Contribution to economic development	Tax revenues Employment Economic growth	Social services upgrading capability; compliance with labour and non-discrimination laws	Clean environment
Society at large	■ Contribution to wellbeing and better quality of life ■ Nurture of the environment ■ Economic development	Economic sustainability	Social sustainability	Ecological sustainability

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Chapter 2: Principles of improving sustainable enterprise performance

2.1 Improving economic performance

2.1.1 Competitiveness, productivity and quality

Significantly changed expectations on an enterprise indicate that the company performance today is measured along 'triple bottom line' approach. The company is expected to perform well in terms of three dimensions – economic, social and environmental.

The most important requirement for enterprise sustainability is economic and financial viability. A sustainable enterprise must be productive and competitive if it is to remain in business. It must be able to sell its products and services with sufficient profitability, generating surplus for the re-investments needed for upgrading and expansion. Enterprise **competitiveness** means that it is able to meet the target customers' expectations –quality, price, timeliness, environmental friendliness, social impacts, etc.-better than or at the same level as other enterprises offering same or substitute products and services. It is able to provide better buyer value more efficiently than competitors or able to perform activities at comparable costs but in unique ways that create more buyers' values than competitors and hence able to command premium prices. To meet the customers' expectation better, the enterprise must offer products and services of quality that meets the customers' needs and fancy, produce and distribute them most efficiently using processes that are consistent with social and ecological expectations. In short, for an enterprise to be competitive it has to be productive and of good overall quality.

Productivity is the efficient and effective use of resources- labour, capital, land, energy, materials, time, information, etc. – in the production and distribution of good and services that meet users' needs and requirements. As an efficiency measure, high productivity implies that the inputs are fully utilized and that waste is minimized. Effectiveness on the other hand, means that outputs (and activities and processes) contribute to the attainment of the organization's specific goals, whether these be meeting customers' needs and giving them satisfaction, the achievement of business aims, or a contribution to attaining the social, economic and ecological objectives of society. Productivity therefore means creating more value for consumers, workers, employers, enterprise owners and society at large from the processes and resources employed in the production and distribution activities of the organization.

This broad concept of productivity reveals its close link with ***quality,*** which measures the degree to

which the product, service (or business operations, systems and processes) meet the standards, specifications and/or expectations as to their nature, properties, functions, performance, costs, social and environmental impacts, etc. relating to their intended use and application. Productivity improvement involves the use of high quality inputs and processes to produce outputs that are of high quality. Improved quality should therefore mean improved productivity; and improved productivity would mean improved quality.

Productivity and quality are two of the most important and closely interlinked objectives of enterprises and are key determinants of its competitiveness. And, like any other results of human endeavour, they are achieved through the well-planned, well-organized, well-managed and concerted efforts of everyone in the organization. Productivity and quality improvement should be an organization-wide concern in which everyone at all levels of the organization, from the members of the board to the rank and file workers, and in all units and departments, participates. Everybody should contribute to the achievement of clearly defined improvement targets through involvement in the implementation of coordinated strategies and programmes.

Improved productivity and high quality do not happen by accident or chance. They are the result of conscious, deliberate and managed process. Bottlenecks and possible areas of improvement must always be identified; productivity improvement targets and the desired quality level must be set and the plans and strategies for their attainment prepared. The organizational system and operating environment necessary to encourage a continuous search for improvement must be developed, the attitudes and competencies of everyone in the organization must be built-up thru training and human resource management, and mechanisms for organization-wide involvement and participation must be put in place. Productivity and quality improvement programmes must be implemented and constant monitoring and evaluation of productivity and quality achievements must be undertaken to identify the areas where additional improvements must be made. The financial and non-financial gains from the productivity and quality improvement have to be fairly and equitably shared among the key stakeholders of the enterprise.

2.1.2 Competitiveness and its management

COMPETITIVENESS:

The ability to produce goods and services that can meet the tests of [domestic and] international markets while promoting and maintaining a high living standard and quality of life of people.

2.1.2.1 Improving the competitiveness of enterprises

With globalization enterprises are now faced with new competitiveness requirements. As discussed in Chapter 1, these are brought about by:

- The globalization of competition.
- Better-informed and more discerning customers.
- Increasing number of competitors.
- Rapid advance in both soft and hard technology.
- Advances in new scientific fields.

In such an environment, speed, product differentiation, technical innovation, organizational flexibility, and good customer orientation are increasingly becoming important competitive tools in addition to costs and quality focus. To meet these new terms of competition, enterprises must build competitive advantage based on innovation in soft and hard technology, industrial upgrading, flexibility, agility and adaptability, and improved total productivity.

As Michael Porter puts it, an enterprise's competitive advantage is developed through improvements in the way it organizes and performs its sourcing, production and distribution activities.[1] It acquires strong competitive position by creating and offering products and services of better or superior value to its customers. This it can achieve through better management and performance of

[1] Porter, M., *The Competitive Advantage of Nations*, The Free Press, 1990

what is called the value-chain of the enterprise: the sourcing and organizing of inputs, the production operations which transform these inputs into products and services needed by the target markets, the organization and management of distribution, marketing and sales, and the provision of after-sales services to ensure customers enjoy the full value of the products and services.

Strategies to improve productivity and competitiveness

An enterprise can select from a wide range of competitiveness strategies:

- Competitive positioning: markets and product mix upgrading, customer orientation
- Structural change: networking, outsourcing, organization and process re-engineering
- Technology and processes upgrading
- Innovation management
- Entering into alliances and building learning networks
- Human resource management and development
- Introduction of productivity and quality management systems
- Labour-management cooperation
- Improve working conditions
- Improve environmental performance
- Management development

Customer orientation

The improvement of the enterprise's value chain starts from determining what the customer wants. Thus, having more discerning and demanding customers with more varied and rapidly changing requirements, enterprises have realized the importance of increasing their customer orientation. They must always be able to meet the needs, desires and expectations of their customer. This may call for rapid product development, frequent changes in product models and types, a broader range of products, and even customized production according to specifications of a particular buyer. With the rapid change of technology, and the fast spread of communication and information, the needs and requirements of customers, whether industrial or end-consumers, are constantly changing. An enterprise must have the flexibility and competence to cater to this very dynamic market.

Flexibility and agility through structural and work organization adjustments

Enterprises develop and acquire the flexibility and competencies needed for improved competitiveness through strategies that involve:

(a) the development and strengthening of internal core competencies and capabilities, simplifying organizational structures and improving interactions and coordination among the different organizational units and processes, building of human and social capital, and improving communication;

(b) the outsourcing or off-shoring of both standard and specialized competencies through practices such as outright purchase of standard parts and subcontracting specialized parts and services, including the use of business service suppliers, temporary workers, home-workers and geographical relocation of particular jobs and activities; and

(c) the acquisition and quasi-internalization of complementary competencies and capabilities through various forms of cooperative relations with other enterprises such as partnership, networking and alliances.

Developing distinctive competence and proprietary technologies

In an era of rapid technological development, enterprises gain competitive advantage in very many circumstances through offering unique product and services, development of distinctive competence and proprietary technologies. A strategy towards productivity and competitiveness therefore is promoting organizational capacity and adaptability to exploit the full potential of new technology to improve efficiency, develop new products and services and unleash the creativity and innovation of the workforce. Efforts need not be just in research and development to develop cutting-edge technologies, but it must also be in the adaptation of already existing hard and soft technology to build-up distinctive technical competence. Introducing technology alone however, is not sufficient. More than ever before, people are the most important resource in the new knowledge-based economy. The benefits of new technology can only be fully realized if it is introduced together with new forms of work organization and continuous training. However investment in new technology and training, like any commercial decision must be carefully appraised for its likely return given the nature of the product, the characteristics of its accessible markets and the capital raising capacity of the business.

Better supply chain management

The product or service that an enterprise sells to a customer is the result of a series of activities involving bringing together the inputs required, transforming these inputs into the enterprise's products, transporting these products to wholesalers and distributors, bringing them to the customer through retailing and other outlets, and providing after sales services as required.

The supply chain is made up of segments: the up-stream segments made up of suppliers of raw-materials, components, services, consumables, etc., the internal supply-chain is made-up of the various departments and units involved in the

production of the products or services, and the down-stream segment is made-up of distributors, wholesalers, retailers and providers of after-sale service. Improved value to customers can be achieved through improvement in the various segments of the chain, as well as in completely redesigning the supply chain. The social implications of subcontracting parts of the value chain must be up-front: from ensuring unlawful use of child labour is not taking place at lower levels of the chain to ensuring that piece work done women in the home does not reduce time needed for the welfare of the family.

An enterprise can significantly improve its internal productivity by focussing on those things it can do well and subcontracting or outsourcing the other activities to other firms who could do them better. In the situation where an enterprise relies on network of suppliers and service provider, the effectiveness and efficiency of the enterprise is very much affected and is very much dependent on the way it manages the supply chain.

Networking and alliances

One way an enterprise can improve its flexibility, acquire new technical and managerial competencies, increase leverage of their internal resources, and achieve speed in bringing product to market from market research; product development to distribution and retailing is through entering into networks and alliances with other enterprises. Through cooperation and collaboration with other enterprises – even with those in the same business and competitors -, and taking actions that are consistent with competition legislation in the country concerned, an enterprise could access new market opportunities and sources of needed inputs; concentrate and perform only those activities and functions that it can do most productively and quickly; have better access to new technology and innovation; learn and access new managerial practices and organizational systems; increase speed of the product cycle; and improve overall productivity.

The networking relationships between and among firms can be formal or informal. It can be vertical

relationships such as those formed by firms engaged in complementary activities and thus form supply chain relationships, and horizontal relationship involving firms engaged in similar or competing activities. Strategic alliances can be entered into, agreeing with other firms to combine efforts to pursue a competitive advantage that neither of the parties to the alliance could accomplish nor achieve alone. The partners in the alliance contribute complementary products, market presence, distribution networks, production facilities, skills and technologies, etc. Strategic alliance is usually limited in space (e.g. for activities in a specific country), in time (i.e. for a specific period only), and purpose (e.g. they may be on technology but not on markets, or vice versa).

To obtain maximum benefits and minimize the risks and hidden costs of networking and alliances the enterprises entering into the relationship must undertake careful analysis and address a number of critical questions such as what the enterprise's core competencies are, its strength and weaknesses and what peripheral capabilities must it seek from the external environment; how the network will be governed, share influence and responsibilities; and where the competitive advantage will be created through networking.

Finally it must examine the imbalance between different social groups' abilities to create entrepreneurial networks e.g. access to customers, suppliers, finance and permissions from those in authority. This disparity can be between men, or men of a dominant ethnic group on the one hand, and women in general or women and men of particular ethnic or geographical groups. This includes their ability to access technology, the education to operate it and the finance to buy it.

2.1.2.2 Sustaining the enterprise's competitive advantage

The sustainability of the competitive advantage of an enterprise is dependent on the nature of the major source of its present advantage over the competitors. There is a hierarchy or level of sources of competitive advantage in terms of sustainability.

Lower order sources of advantage such as low labour costs or cheap raw materials are relatively easy to imitate or acquire by competitors. Higher order advantages such as proprietary processes and technology, product differentiation based on unique product or services, brand reputation based on cumulative marketing efforts, and customer relationships protected by high costs to the customer of switching vendors, are more durable. These higher-order advantages are created through sustained and cumulative investment in physical facilities, human resource development, research and development, and/or marketing activities.

Competitive advantage is therefore sustained through constant improvement and upgrading. In order to sustain its competitive advantage, an enterprise must become a moving target, creating new advantages at least as fast as competitors can replicate old ones. To remain competitive, an enterprise must constantly destroy old advantages to create new, higher-order ones. [2]

[2] Porter, M., (1990), Ibid

Even in the near future, the basis of competition will be creativity and innovation in all aspects of the manufacturing enterprises. Companies must be able to bring new ideas and innovations to the marketplace rapidly and effectively. They must be able to rapidly restructure their value-chain organization – suppliers' and distributors' network, production and other business systems and processes - to meet the very dynamic and fluid markets. Closer integration and collaboration of all parties in their value chain will be a defining competitive advantage.

Underlying all of these is human and social capital of the enterprise. The different perspectives and experience that women, and older or younger people, can bring to the business should be encouraged in order to generate creativity in designing new products and production processes. An example of how this can be achieved by a wide group of stakeholders was a Memorandum of Understanding to promote women's entrepreneurship and improve work-life conciliation that was signed by the network of small business, craft and commercial farmers' associations in the Piedmont Region. It was part of the Regional development plan funded by the European Structural Fund.

2.1.2.3 Human resource dimension of competitiveness management

It is clear from the above, that enterprise competitiveness is based more and more on the quality of the human resource of the enterprise. Good human resource management (HRM) thus becomes a cornerstone of an enterprise competitiveness strategy. Being an integral part of the strategic management of the enterprise, the various HRM policies, functions and practices should contribute to the creation and sustenance of the enterprise's competitive advantage. Thus, the development of the culture of productivity and creativity, the building-up of mutual trust and shared values, initiative and self-management, and multi-skilling and skills upgrading and continuous learning must always be priority goals of the various HRM functions of human resource planning, staffing, and allocation; human resource utilization; human resource development; and motivating and commitment-building. Further discussions of these HRM functions are covered in Chapter 4.

Trust and shared values can be advantageous for work coordination and control in a flexible and innovative enterprise. Depending on the circumstances and where work becomes complex and requires continuous adjustment businesses can

Figure 2.2.1 Sources of competitive advantage

find traditional rigid control systems and standardized procedures impede productivity.

Such organizations may find they have to rely more on “self-management” A form of internalized control that requires greater mutual trust and confidence, shared values, and common understanding and acceptance of the organization’s or corporate objectives, philosophies, priorities and norms. In this sense, information sharing becomes very important. Committed, motivated and capable employees at all levels are essential to gaining sustained competitive advantage

2.1.3 Productivity improvement and its management

2.1.3.1 What is productivity?

As briefly discussed above, productivity is a measure of how efficient and effective the resources – labour, capital, materials, energy, water, information, etc. - are used to produce the goods and services needed by the customer. Technically, it is defined as the ratio of the outputs to the inputs used. Thus one can say, in a strictly mathematical sense, that productivity is improved by producing more with less — or at least with the same amount — of inputs, by maintaining the current level of outputs with reduced inputs, or by increasing the outputs with a less proportionate increase in inputs.

In this sense productivity is viewed just as an efficiency concept. This deceptively simple view of productivity however, hides the complex interrelationships of factors involved in a process of increasing productivity levels which cannot be ignored.

Productivity improvement has long been recognized as a main determinant of development. It improves people’s standard of living. Through productivity improvements a wide variety of goods and services becomes available to larger segments of society at affordable prices. Countries with sustained productivity growth enjoy higher incomes and create the basis for greater investment in physical amenities such as roads and transport facilities, safe water and other utilities, and parks and recreation facilities. Investments in education and health are made possible, and social security and safety nets are made financially sustainable. Support for the arts and cultural activities becomes affordable. Greater investment is also possible in additional productive facilities enabling the economy to grow and create new job opportunities. The growth and decline of economies is traced to changes in productivity.

For enterprises, productivity improvement is essential if they are to remain competitive and viable. Under conditions of increasing competition, productivity improvement enables companies to offer to their clients quality products and services at competitive prices. Enterprises with high productivity are better able to create and sustain better quality jobs and are in a better position to pay good wages to their employees.

The broader concept of productivity

The globalization of the economy and other associated trends require a much broader conception of productivity and greater appreciation of the changing dynamics of the factors involved in the process of its improvement. The increased competition, the internationalization and increased sophistication of markets, the globalization of manufacturing and the increased concern about social and ecological issues make productivity improvement more important at the same time that the need for a broader meaning of productivity is required. Correspondingly, such broader conception calls for a wider set of productivity indicators to catch and reflect the new emerging elements. Among the new elements of the productivity concepts are:

Productivity is not just an efficiency concept

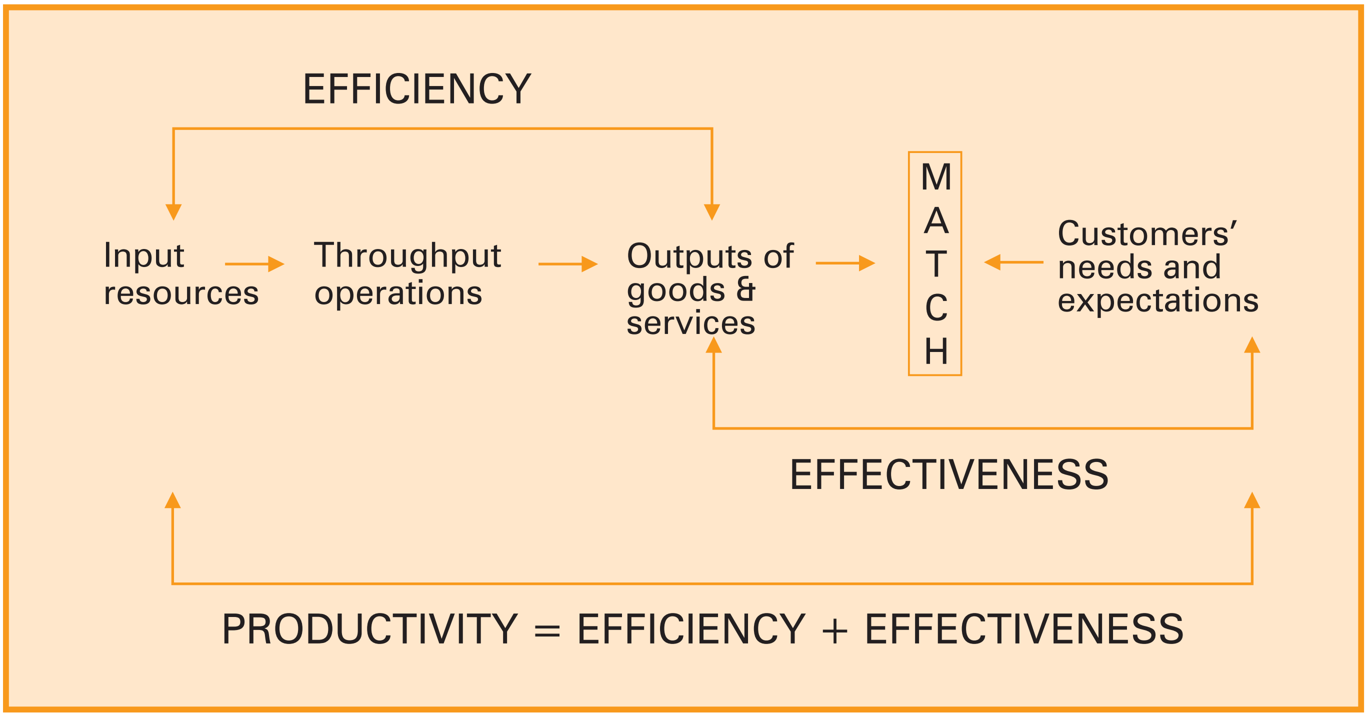
First, there is increasing appreciation that productivity is not just an efficiency concept but –equally important- is also an effectiveness concept. Productivity improvement does not just mean the efficient production of any product or service but of products and services that are needed and demanded and bought by very discerning customers and society at large. These two aspects of productivity are graphically shown in Figure 2.1.2 below. Customer orientation is now a primal consideration and superior quality is up front as indicator of good productivity performance. Productivity becomes synonymous with quality. Under the more competitive and dynamic domestic and international markets two aspects of competitiveness must be recognized: price competitiveness and quality competitiveness. Long-term price competitiveness can be achieved only through product and technical innovations, better work organization, and flexible production systems. An increasingly important aspect of competitiveness is quality competitiveness, which is a measure of how the enterprise meets customer expectations. Quality competitiveness refers not just to the high quality embodied in the attributes of the products but also encompasses quality in terms of service delivery, of timeliness, and of the production process itself not just in terms of efficiency but also with respect to social and ecological impacts as well.

Process is equally important

Second, it is now appreciated that a productivity level is not the only determinant of improvement of the quality of life but also important is the impact of the process and approaches used in improving productivity. It is not just the end results that count but also equally important are the means used to achieve the results. Many argue that high productivity level in an enterprise achieved through exploitative measures and without the equitable sharing of the productivity gains among the stakeholders will not lead to improvement of the quality of life.

An intangible output of the operations of the enterprise is the experience of employees during the process of producing and distributing the goods and services. These experiences influence the employees' attitude towards the organization and the job, which in turn affects productivity. The production process and the productivity improvement processes should provide good and satisfying experiences as well as opportunities for employees to learn new skills and competencies required for continuous innovation and improvement. Thus, the increasing use of participatory improvement approaches, high performance workplaces and learning organization processes.

Figure 2.1.2 Productivity = Efficiency + Effectiveness



Green productivity and sustainable development

Third, the important role that productivity improvement can play in the preservation, rehabilitation and enhancement of the environment is increasingly recognized. Productivity improvement through better utilization of the energy, materials, water, solvents, etc. is now seen as an effective tool in preventing pollution at source. Productivity improvement must therefore take into full consideration the impact of the production, distribution, consumption and disposition processes on the environment.

Closely related to this is the issue of sustainable development. The long term viability and sustainability of the enterprise itself will be determined by the enterprise's ability to contribute towards economic, social and ecological sustainability of human development. Under the various policy and administrative measures being adopted and enforced by many countries, access to lucrative markets will be determined by the environmental friendliness of products and production processes.

Case study 2.1.1 Maintaining growth through recruiting workers and building teamwork in Thailand

During the bird flu crises the poultry business of Betagro faced the problem of lower consumer confidence and oversupply. In spite of unfavourable conditions, the company set the goal of expanding its business in the following 3-5 years. Knowing that two of their major problems were lack of professional and qualified workers, the company developed measures to address these issues.

To solve the lack of professional workers, the company approached college students at several universities in Thailand to introduce the company and persuade students to join it after graduation. As a result some outstanding students were recruited even before finishing their degree. To deal with the lack of qualified workers, the company provided an internship programme and training courses. The training courses were in two categories: production and management. Production training focussed on technical skills through on-the-job-training. Management training aimed to improve skills in management, leadership, and communication.

To increase productivity, the company developed the Total Productivity Management (TPM) system, applying it to all divisions of the company. While the production line was responsible for project management, the human resource management line took responsibility for leadership and skills management. The human resource team worked with the production line by providing information on food safety to the production team and offering additional training based on the specific needs of each establishment.

In addition, Betagro applied the "Kaizen System for 5 years to increase the efficiency of each production line and to set up a production plan for the entire system. This approach started by observing the effectiveness of workers as they carried out their tasks and ended with a design for completing all tasks with the maximum results in the shortest time. The same system has been applied to the production process to reduce production costs. This led to changes in work patterns and the relocation of tools and machines within the production line. In addition, to increase work incentives, a salary system based on personal performance evaluation was introduced. Salary increase was made as a result of both Key Performance Index (40 per cent) and Competency or Behaviour (60 per cent) assessments.

After continually expanding into the agricultural sector and related sectors, Betagro Group has earned its current position as one of the leading companies[3] in integrated agricultural business, covering chicken and pig farming, and animal health products and food. High capacity from animal farming and breeding resulted from over 25 subsidiaries contributing capacity in production and distribution of processed and frozen food. The company has employed about 18,000 workers in local and overseas offices with a turnover of skilled and professional workers of only 6 per cent. By the end of 2010 Betagro Group has planned to increase the production of chicken products by 40 per cent and expects to increase exports from 46,000 to about 54,000.

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[3] The Betagro holding company ranks top 150 companies in food industry while Betagro Food Product International Co. Ltd, one of their subsidiaries in poultry business, ranks top 50 companies in food industry

Focus is also on productivity through better value-chain, supply-chain management

Fourth, the changing structure of the production-distribution system shifts the focus from just looking at the organization's internal processes to those of the extended value-chain, supply chain, clusters and networks of the organization. An enterprise can significantly improve its internal productivity by focussing on those things it can do well and subcontracting or outsourcing the other activities to others who could do them better. In a situation where increasingly, the enterprise relies on network of suppliers and service providers, its effectiveness and efficiency are very much affected and very much dependent on the way it manages its supply chain and value chain. The upgrading of value chains and enterprise clusters is discussed in more details in Chapter 1.

The human factor is key

Fifth, the importance of the human factor as the main determinant of sustained productivity improvement is getting to be widely appreciated. The productivity improvement impacts of technological advance would not be fully realized without a human resource capable to exploit its potentialities and make new technologies work in a production environment. A human resource that is able to adapt the production system and work organizations to the rapidly changing technologies and markets is the foundation of long-term competitiveness.

2.1.3.2 Why measure productivity?

Productivity measurement is not an end in itself. It is a means towards being able to take actions that will improve the situation. Basically indicators are used to serve two purposes: to understand what is happening and be able to do comparisons, and ultimately, to take the corrective, remedial or follow-through actions that will increase or sustain the productivity improvement.

Productivity indicators and measures help in goal setting. They help identify the best course of action in terms of resource utilization and cost-effectiveness. They can show what factors influence the results the most so that emphasis can be placed on them. An analysis of past productivity trends and development can help decision making for the future.

Productivity monitoring and analysis ensure that decisions take into account inputs and their costs as well as the results of their utilization. They help in deciding on the most cost-effective use of the resources. At the enterprise level, they create the climate of productivity consciousness in the organization or enterprise. Productivity indicators raise questions of good or bad performance that require explanations. They help identify the reasons for outstanding performance from which others can learn. They also reveal uneconomic activities, wastage, and unutilized capacities.

Productivity measurement allows comparison of performance. Productivity is a relative concept thus productivity measurement involves comparison. This comparison is often made in three distinct ways:

a) Comparison of current performance with a historical performance, which does not necessarily indicate whether performance is satisfactory. It only shows whether performance is improving or deteriorating and to what extent.

b) Comparison of performance between one unit, e.g. individuals, machines, economic activity, etc. with another. Such comparison indicates relative achievements or results.

c) Comparison of actual performance with a target. For example, an enterprise could set a target of 10 per cent increase in productivity for the following year. The enterprise will then pursue productivity improvement programme that could involve a comprehensive improvement strategy from skills training, capital investment, production restructuring, etc. After a year, the productivity performance is measured and compared to the target set.

Productivity indicators:

- Productivity can be measured at different levels, e.g. whole national economy, economic sector such as manufacturing, enterprise, and organizational unit, even at individual level.
- Productivity measures and indicators can be grouped into the following major categories:

Partial productivity indicators

Partial productivity indicators relate the output to a single particular input e.g. labour, capital, energy, or raw materials. There are at least as many partial productivity measures as there are factors of production: labour productivity, capital productivity, energy productivity, etc. Partial productivity measures are relatively easier to derive. While they appear simple however, it is necessary to understand their limitations and possible misinterpretation. For example, as resources are stated in isolation, the effects of factor substitution could easily be overlooked. A lumber company may decide to invest in a power saw that speeds-up cutting timber into planks. There would be an increase in labour productivity, but this increase would primarily be due to increase in capital inputs.

Labour productivity is of particular interest to policy makers, economists, and managers, among others. Labour productivity has a direct relationship with the returns to labour input e.g. wages and income. Another set of partial productivity measures that is often used is capital productivity. They are of interest as they provide useful information related to returns to capital and on relative efficiency of its alternative uses. Just like labour productivity, there could be more than one measures of capital productivity that could be developed because capital inputs could be defined in different ways. It could be in terms of capital flow, gross stock or specific equipment used in the production process.

Other single factor productivity indicators such as output per unit of energy input (energy productivity) or output per unit of material input (material productivity) are relevant for factories or industries where these inputs are of critical importance in the production process or are very expensive or scarce. In a clay brick factory, energy is a major input so energy productivity e.g. tons of bricks produced per ton of coal used will be a very useful indicator of how efficiently energy is being used in the production process.

It is very important to keep in mind that although single factor productivity indicators relate output to a single input, they do not measure just the contribution of the particular input to the sources of the improvement in productivity.

Rather, they reflect the combined effects of various elements that influence the efficiency and effectiveness of the use of the particular input in the production process. For example, labour productivity can increase due to changes in production process and equipment, use of better quality raw materials, better layout, improved production planning and control in addition to improved skill and application of the workers.

Multi-factor productivity indicators

These indicators compare the output to the aggregate of two or more inputs. The methodological difficulty here is how to aggregate the various inputs. The more common multi-factor measures are those that relate outputs to combined labour and capital inputs. In these measures, outputs are measured in terms of value added i.e. the value of the outputs minus the costs of the purchased intermediate inputs such as energy, materials, etc. When these expenses are subtracted from the gross value of the outputs what is left is the "value added" by the firm.

Another set of measures is "total factor productivity" which gives the relationship of the total gross output to a combination of all the inputs including labour, capital, purchased materials, energy and other outside services.

Generally speaking, the measurement of total factor productivity requires relatively highly developed statistical information. Not only must there be good data to measure outputs and the various inputs but additional statistical information that will allow the meaningful aggregation of the inputs e.g. relative income shares of labour and capital.

Multi-criteria productivity indicators

The productivity of an enterprise or an economic activity is affected directly or indirectly by a number of concerns e.g. timeliness, wastage, rework, rejections, safety, attendance, down time, house-keeping, attitudes, yield, etc.

Also, with the increasingly broader meaning given to productivity, e.g. green productivity, simple measure of ratios of output to input is no longer sufficient. Thus, it is now common to have a "family of indicators" that will give useful information on various areas and aspects related to the over-all productivity performance of the organization of sector. Included in this "family" are:

a) efficiency indicators such as productivity of labour, materials, machinery, energy, water, space and other important inputs;

b) quality of work indicators such as scrap rate, level of rework, rejection rate;

c) timeliness indicators, for example number of times of missed delivery dates;

d) pollution and environment friendliness indicators such as volume of wastes, effluents and discharge;

e) customer satisfaction indicators such as number of complaints received, number of returned orders; number of repeat orders;

f) health and safety indicators such as lost time due to accidents, number and nature of accidents, absenteeism due to illness;

g) relationship with suppliers and distributors/retailers indicators such as timeliness of deliveries, quality of deliveries, information sharing;

h) workplace cooperation and partnership indicators, such as number of joint projects undertaken, consultation sessions held,

A family of measures or indicators is very useful in managing the productivity performance of an enterprise as they are related to operational aspects of the enterprise. Improving productivity through reducing wastage of materials, energy, and time is more effective when performance indicators related to these goals are monitored.

2.1.3.3 Internal and external influences on productivity

The productivity of an enterprise is influenced by factors that are both external and internal to the enterprise. As emphasized in chapter 1, the productivity and competitiveness of an enterprise are very much affected by the business environment within which the enterprise operates. Figure 2.2.3 lists some of the factors external to the enterprise that have major effects on its productivity performance.

External factors are largely beyond the control of enterprise's managers in the short run. However, through representations and collective actions, e.g. through employers' organizations, chambers of industry and sectoral associations, the enterprises could exert some influence in creating the policy, legal and regulatory framework, and business environment to make them conducive to the

Figure 2.2.3 Factors influencing enterprise productivity

What determines or affects productivity

Internal conditions

Product design and mix

Good management and entrepreneurship

Good enterprise-level labour-management relations and social dialogue

Good technologies, processes and equipment

Safe and healthy workplaces

Access to resources

- Healthy and skilled workers
- Finance (credits and investments)
- Physical and natural resources: e.g. land, energy

Endogenous factors of productivity

External and structural conditions

Effective sectoral and national social dialogue and strong employers' and workers' organizations

Macro-economic, trade, regional and sectoral policies

Growing markets, effective demands

Environmental conditions

Infrastructure: transport, telecommunication, etc.

Effective state institutions and public policies

- A conducive business-enabling environment:
- Respect for property rights and freedom of association
- Clear, stable, predictable rules
- Regulatory and legal environment
- Quality of value-chain, related industries and business services

Exogenous factors of productivity

Systemic competitiveness

Adapted from: "*The promotion of sustainable enterprises*", ILO 2007

development of sustainable enterprises. The trend towards more private-public partnership in addressing issues affecting the economy is a healthy development in this regard.

On the other hand, enterprise managers have direct control over the factors internal to the enterprise. In fact, it is the responsibility of managers to ensure that these factors are managed to achieve the desired performance of the enterprise.

2.1.3.4 Generic enterprise-level ways of improving productivity of an enterprise

To be relevant in the dynamic and changing environment, productivity improvement effort must focus on

- Doing the **right things** (know "what" to produce and distribute) by continuously reviewing and identifying changing customer and societal needs and expectations
- (economic, social and ecological) and developing and designing products and services to best satisfy the needs and meet the expectations. Create more customer value.
- Doing **things right** (know "how") by constantly improving production and distribution processes to produce and deliver the goods and services in the most efficient way while at the same time minimizing their negative social and ecological impacts.

Because of dynamic markets, rapid advance of production and information technology, changes in resource availability and constantly changing customer expectations, on-going innovations in products, processes and organizations are essential for productivity. Productivity improvement must now focus on value creation rather than on minimization of inputs.

Higher customer value is created when the products and services meet customer needs for utility, timeliness, esteem, service, etc. This is what customers buy and pay for. With the rapid advance of technology and greater access to information, customer expectations are constantly changing and becoming more demanding.

For long-term productivity and competitiveness therefore, enterprises must constantly innovate (come-up with new and better products and develop better ways of doing things), be flexible and agile, respond rapidly to the increasingly sophisticated customer needs, which are constantly changing, and be able to anticipate and adjust to the very dynamic market conditions.

Table 2.1.1 Ways of improving an enterprise's productivity

Ways of Improving Enterprise's Productivity	
Improvement Areas	**Example of possible action**
Improve the **outputs** and their distribution	■ Improve match with the needs and expectations of all customers, women and men, young and old. ■ Improve product designs ■ Increase sales and markets ■ Move to higher value-added products ■ Improve product mix ■ Better CRM (customer relations management) ■ Manage better the distribution system
Improve the **processes**	■ Restructure the processes for higher efficiency and agility ■ Upgrade technology ■ Improve working condition, safety and health ■ Enable people: develop skills and competencies, provide opportunities for involvement, provide the necessary tools, ■ Reduce wastes of materials, energy, ■ Introduce more efficient lay-out ■ Introduce better work methods ■ Improve maintenance and repair of equipment ■ Reduce stocks and inventories ■ Improve management of functional areas e.g. production, finance, purchasing, stores, HRM
Improve the **inputs and their sourcing**	■ Shift to better quality inputs ■ Improve supply chain management ■ Use more environment-friendly inputs
Improve the **system management**	■ Improve strategic management ■ Improve coordination among functional areas like marketing, production planning and control, sourcing, stores and inventory, HR, etc. ■ Improve communication and information system ■ Improve productivity and quality management

2.1.3.5 Human capital and social capital are now among the main sources of productivity and competitive advantage

Where continuously innovation is required, an enterprise must have the competent, motivated and dedicated people who are working together in an atmosphere of mutual respect, trust and confidence, partnership and collaboration which facilitate cooperation and coordination. Sustained productivity improvement depends on the enterprise's human capital (the skills, knowledge, competencies and attitudes that reside in the individual employee of the enterprise) and its social capital (trust and confidence, communication, cooperative working dynamics and interaction, partnership, shared values, teamwork, etc. among these individuals as well as among the different parties the enterprise interacts with in its supply-chain and value-chain including the host community of their operations). Thus, it is also increasingly being recognized that human and social capital of the enterprise are the sources of long term competitive advantage of enterprises. New product designs get easily imitated or copied and new technology are easily accessed or bought. It is the unique human capital and work systems and relationships that are much more difficult to copy.

Human capital and social capital of the enterprises are complementary.[4] Social capital enables employees and the enterprise's extended network to act together consistent with the relevant competition laws where these exist, to create synergies and build teamwork and partnerships. It also sets the context in which human capital can be developed through various learning processes: developing, sharing and transferring, and applying knowledge. It is the foundation on which a learning organization's processes and good knowledge management are built. On the other hand, human capital helps to produce social capital through competencies and attitudes that enable individuals to participate and build the trust and relationships essential to be able to participate effectively as members of various teams, work groups and other elements of the enterprise's networks.

The building of these unique human and social capitals transcends the traditional boundaries of the enterprises. In an era characterized by production distribution systems based on extensive outsourcing, disaggregated value chain, and alliances and partnerships, the productivity and competitiveness of an enterprise depend on the human and social capital of its extended enterprise system.

Building the internal human and social capital of the enterprise through good workplace practices

Hire the right people irrespective of their sex, ethnic origin, status or other social characteristics that are not relevant to performing the necessary tasks; enable them through good work organization, work environment and management practices; continuously build and upgrade their knowledge and capabilities through formal and informal learning, develop a culture of mutual trust and confidence, and hold on to them by making them committed, motivated and engaged. These are the ways enterprises build the internal human and social capital it needs for long-term productivity and competitiveness.

Through good workplace policies and practices the enterprise builds the internal human and social capital essential for sustained productivity improvement. These workplace policies and practices are referred to under different names: "'high-road' productivity and competitiveness improvement", "high performance working", "people-oriented management", etc., but they are all based on the same principles such as involvement and participation; labour-management partnership; respect and recognition; equality and non-discrimination; enabling the human resource through good work design and organization; competency and skills development and providing good working conditions; sharing gains; etc. The importance of learning (individual and organizational) experience as well as of the team building and partnership effects in the course of productivity improvement is recognized. Human capital and social capital are the results as well as the source of high-road productivity improvement and good workplace practices.

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4 *Background Paper for the International Symposium on the Contribution of Human and Social Capital to Sustained Economic Growth and Well-being*, OECD, Quebec, Canada, March 2000

Principles of the "High Road" to Productivity	
Integrated and Holistic	Productivity improvement explicitly part of company mission and philosophy, the achievement of which is integral to its management systems and processes Total organization view Value-chain improvement
Focus on Total Productivity	Productivity improvement of all inputs not just on labour productivity
Focus on outputs and results	Customers needs and improved customer values Minimized negative impact on the environment Concern for the social impacts Improvement in the quality of work life Maximizing stakeholders' value
Participation, consultation and involvement, social partnership	Employee involvement Labour-management partnership
Communication and information sharing	Communicating productivity improvement priorities Sharing of company performance measures and results
Enable the human resource / focus on people	Continuous development of skills and competencies Work organization and design encourages learning and creativity Mechanisms for individual and group-based participation in improvement Good working condition and environment Enabling management styles and practices Sharing of information and ideas thru social dialogue Respect for human dignity and fundamental principles and rights
Good monitoring and feedback	Productivity monitoring and measurement system whose results available to all

2.1.4 Improving quality performance

2.1.4.1 The concept of quality

Quality, as defined earlier, is the degree to which the product, service (or business operations, systems and processes) meet the standards, specifications and/or expectations as to their nature, properties, functions, performance, costs, etc. relating to their intended use and application. Central to the concept of quality is the meeting the needs and expectations of the user or customer.

Improving the quality performance of an enterprise therefore starts with determining and understanding the wants, desires and expectations of the target customer of the enterprise's products and services. With globalization of markets, the increased access to information and increased awareness of social and ecological issues, the customer's needs and expectations has broadened. Not only does the customer want products/services that meet his or her functional and aesthetics requirements but increasingly, the customer is now also expecting that the products/services are environmentally

Case study 2.1.2 Productivity incentives in India

New Look, a company in Delhi engaged in the export garment industry, has been working on developing innovative solutions for sustainably improving working conditions in their supply chain. The projects demonstrated that improving working conditions can result in more productive and profitable factories, as well as happier and better-rewarded workers.

The initial assessment on working conditions at the company found the situation typical of the Delhi export garment industry - casual and contract workers working long hours with few rest days, low pay, and high levels of absenteeism and worker turnover. Workers were not particularly loyal to the factory and had no real incentive to work productively or stay for the long-term.

The factory developed two work streams in order to improve its performance: (1) regularizing employment terms and (2) motivating workers to improve productivity. A welfare officer was employed to implement several changes:

A system for workers to apply for leave, rather than taking unannounced days off;

The transfer of 320 tailors from daily casual status to formal contracts with social security and provident fund benefits;

Including on pay-slips details of social security and provident fund contributions;

Assisting individual workers to sort out problems with local government departments to ensure their access to benefits and provident fund savings.

In order to provide incentives to workers to improve productivity, the factory established a trial line to test new ways of working. Workers on the trial line had set days off and shifts limited to around 10 hours. They were set higher productivity targets and they were offered a Rs 500 bonus if targets were met. No changes were made to planning or line balancing, although management worked hard to ensure that the line feeding was as smooth as possible.

These changes proved highly successful. The first order was completed two days ahead of schedule, and the line met or beat its target on 14 out of 24 days. Workers worked on average 2 hours less per day than the rest of the factory. Absenteeism halved. Management was so pleased with the results of the trial line that they paid a double bonus of Rs 1,000. This meant that workers on the trial line earned 21 per cent more per hour than they had been able to under the factory's traditional way of working.

Source:http://www.impacttlimited.com/case-studies/new-look-case-productivity-incentives-in-india/ (2009)

friendly to use and dispose of and are produced and delivered using processes that are socially responsible and not harming the environment. This change in the customer wants and expectations clearly links the enterprises quality performance to the social and ecological dimensions of its business operations.

This broader conception of quality is now entering into widespread application. For example, two of the well-known awards for excellence, Malcolm Baldridge National Quality Award and the European Foundation for Quality Management (EFQM) Excellence Award include social and environmental issues in their criteria for assessing the excellence of enterprises.

Quality products and services result from an enterprise-wide, total approach to quality. It starts from a corporate or business philosophy that is customer-focused. This focus on the customer is reflected in top-level policies and strategies and embedded in the performance goals, systems and processes of all the departments and units of the enterprise. Everyone in the enterprise is involved, from the members of the Board, to the CEO down to the rank and file workers in production floors and offices. Quality is not just the responsibility of the quality control department or unit, but it is everyone's responsibility. It is the responsibility of marketing, research and development, production, human resource, finance, purchasing, stores, services, etc. The quest for quality extends beyond the gates of the enterprise, ensuring that the enterprise's supply-chain and distribution-chain

contribute to meeting the customers' needs and expectations.

A quality management system, integral to the over-all enterprise management system is needed to manage these enterprise-wide efforts of harnessing all the enterprise resources towards meeting customer's needs and expectations.

2.1.4.2 Key characteristics of quality management system

A good quality management system is anchored on a business orientation to meet or even surpassing the customer's needs and expectations. It is understood that the viability of the business depends on meeting customer's needs while also meeting the financial goals of the enterprise. Everybody in the organization – employees and managers, women and men alike - are made aware of this quality orientation because it is built into the practices, systems and procedures of the business. Quality is reflected in the performance goals of all functional units of the enterprise. Good communication and information systems constantly convey this concern for meeting customers' needs and expectations. The whole organization is thus mobilized towards attaining quality goals.

Programmes and mechanisms for enabling the full range of people in the workplace to participate in continuous quality improvement are put in place and pursued actively. Workplace cooperation and labour-management partnership are harnessed to address improvement needs. Employees' participation is made possible through regular meetings, task forces, suggestions systems or small group activities such as the QCC. These can include, in addition to the actual work units or management teams, occasional meetings of different subgroups – older or younger employees, women or men, ethnic or locality based groups. Continuous training and capability building is undertaken to provide the employees with the skills and competences required for meeting the quality performance goals. A good two-way communication is integral part of a quality management system.

A quality management system thus has these basic elements:

1. Customer focus
2. Engagement and involvement of people
3. Continuous process improvement
4. Performance is measured

Customer focus

Looking at your business from the customer's perspective is the cornerstone of quality. Delivering quality requires you understand your customers' needs and expectations, and taking deliberate actions to meet them. Clearly identify who are the enterprise's customers and what are their needs, preferences and expectations.

The enterprise has two types of customers:

- Internal customers – Everyone and each process in the enterprise has a customer and is a supplier of a product or service to that customer. The next person or process that uses one's outputs as inputs to his or her own processes is a customer. The internal public of the enterprise, i.e. its employees, also constitutes an important group of the enterprise's customers.
- External customers – The distributors, retailers and the end users or the final destination of the enterprise's products and services constitute the external customers of the enterprise. Similarly, the external public who are impacted by an enterprise's decision is also a very important group of customers.

The enterprise is made up of networks of supplier-customer relationships. If the requirements of the internal customer are met, then the requirements of the external customer are met.

People involvement

When people are given continuous education and training, are allowed to get involved in matters regarding their work and are recognized for any contribution to the improvement of products and the enterprise, they are energized.

The employees of the enterprise must therefore be enabled to effectively contribute to the improvement of the quality performance of the enterprise. They should be well informed on the enterprise's goals, the customers' requirements, and their own job requirements as well on the current levels of performance. They should be provided with the requisite skills and tools for effective participation and involvement.

They should be given the opportunity to participate through various workplace cooperation schemes such as regular meetings and discussions, suggestion systems, task forces and problem solving small group activities. For example, all of the well known quality improvement systems e.g. Total Quality Management (TQM), Quality Control Circle (QCC) and Six Sigma make use of workplace cooperation in their continuous improvement programme. Workplace cooperation schemes are discussed in Chapter 3.

The employees' involvement in and contribution to continuous improvement activities should be recognized and rewarded. Recognition can be given in various ways, e.g. featuring them in the newsletters and information boards, sending them to outside training/conventions, honouring them during assemblies, giving them special gifts and monetary awards, etc. Recognition can come in any form, what is important is that the reason for the reward is clearly explained A good test of company's quality approach is to check whether it is using the gender resources within an enterprise to link to the gender components of your market.

Box 2.1.1 What is your marketing style?

This exercise will help you assess if you are capturing the needs of women and men customers, as direct marketing targets and as they influence others' purchasing decisions.

In small groups answer the following questions:

- Do you have a male and female customer base / market share?
- How has this share been evolving in the last 5 years (at least)?
- Which groups of women and men are you targeting and what their expectations are?

In relation to your consumer surveys, irrespective of whether you have an internal survey group or use external consultants, do you address the following aspects:

- Is the research designed to take account of gender?
- Are the focus groups gender balanced / gender specific?
- Are the teams of researchers gender balanced / gender specific?
- Who writes the questions?
- Is the data gender-disaggregated?
- Is the information gender-differentiated?
- In relation to your product development process:
- Are there women and men in your product development unit? How many?
- Are there women and men involved in design? How many?
- Are there women and men involved in innovation? How many?
- Are there women and men involved in customer relations? How many?
- Are there women and men running these departments/units?

Having assessed your approach to marketing to women, how would you call yourself?

Eyes Shut	Our marketing style is not influenced by the gender of our customer base
Stereotyped	We market on the basis of certain "pre-set" ideas of what my women and men customers "should be or like"
Think Gender	We target women and men specifically, using highly targeted products or marketing
Oriented and prioritised across genders	We actively survey women's and men's needs and expectations and use this knowledge to rethink my entire business and marketing approach for my core customers – both male and female.

Process improvement

A process is a series of activities linked together to produce an output called a product or a service. The operations of an enterprise are a network of input-process-output units.

The customers require that their needs and expectations are continually met and even exceeded. To do this, an enterprise must focus on improving its processes.

Processes must be managed and improved. A process can be improved in small increments or in quantum leaps. The process improvement involves the following steps:

- Defining the process – clearly specifying the process to be improved, including the identification of critical performance indicators.

- Measuring process performance – collection of performance data;
- Reviewing process performance – comparing process performance to desired levels and identifying performance shortcomings;
- Analyzing process problems – Identification of the root causes why the process performance is not meeting the desired levels, or of the variations and defects in the process outputs;
- Making a process change – Identifying the alternative ways to address the root cause of the variations or defects in process performance and selecting the most feasible and effective solution; trial implementation of the improved process;
- Measuring the effects of the process change – Monitoring the performance of the improved process to see whether the expected improved performance is attained;
- Adoption of the new process – Once the efficacy of the improved process is confirmed, it is finally installed and the employees concerned are trained on the requirements of the new process.

Performance measurement

There is an adage that says, "If you cannot measure it, you cannot improve it". Facts help confirm effectiveness of processes and any attempts to improve. A major requirement therefore in change management is the selection and use of performance measures.

Performance measures quantify how well activities within a process achieve a specific goal or performance level. Activities and processes that consistently do not meet the specified performance goal – either the current performance goal or a revised higher goal - are obvious targets of improvement efforts.

The improved process must be monitored to see if it is performing at the expected level. If not, further improvements are required.

Performance measurement is therefore essential to continuous quality improvement. The measurements provide critical data and information about key processes, outputs, and results; and their collection should be part of the enterprise's standard procedures.

The Quality Oriented Enterprise:

- Focuses on the customer and defines quality from the customer's point of view
- Is process oriented, believes that good results come from a good process
- Is focused on daily improvement, no matter how small, involving everyone
- Enables its employees to contribute to quality improvement by continuously building skills, sharing information and facilitating workplace cooperation
- Develops good relations with its suppliers and distributors; awards contract based on quality and assumes joint responsibility for quality
- Thinks that all departments are responsible for quality

2.1.4.3 The Problem-solving/improvement process

Central to the efforts of continuous quality improvement is the problem-solving or improvement process. It is applied by task forces doing a specific improvement assignment and by small group activities of systems such as QCC and Six Sigma.

It is a systematic approach and uses various statistical and analytical tools. It is done in a series of stages: identification of a process or product needing improvement, gathering data on current on current quality performance level, analyzing the data to determine root causes of the problem, developing solutions and new ways of doing things, test implementation of the improved process, monitoring the performance of the new process, and then standardization and continuous monitoring of the improved product, process or procedure.

In QCC the process is called the **PDCA** cycle:

Plan: Identify the product, process or situation that needs improvement; collect data on its current state; analyze the data, find the root causes of the problem; develop counter measures/solutions or new ways of doing things to improve the situation.

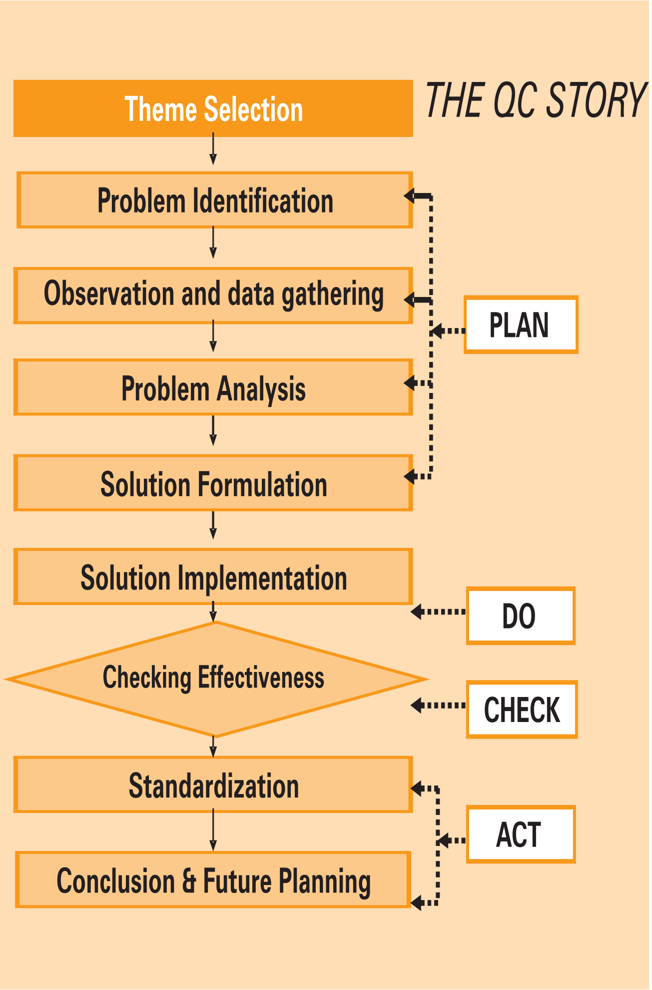
Do: Implement the "better way".

Check: Monitor/measure the performance of the "better way". Get feedback from the customer i.e. people who are affected by the new process. Any improvement?

Act: If there is an improvement, then standardize this "better way" and endorse it as the new standard operating procedure. Train those concerned. Continue to monitor performance, then again ask"Is there a better way?" and turn the PDCA wheel again

In Six Sigma it is called **DMAIC**:

- **Define**: Identify the process to be improved, setting improvement goals
- **Measure**: Select product characteristics, map current process, collect relevant data
- **Analyze**: Analyze and benchmark the data and key performance indicators
- **Improve**: Develop improvements in the process and verify their effectiveness
- **Control**: Ensuring that the new process are operating within control



Case study 2.1.3 Service-oriented personnel (SOPS) circle

Example of QCC application of the problem-solving process

The Japanese, who originated QCC, call the improvement process Quality Control Story. They liken it to a story because it starts with a quality problem and ends with a list of benefits of solving the problem. It follows a series of steps applying the PDCA cycle.SOPs was a QCC Circle composed of customer service personnel assigned at the counter of the Mortgage Release Section of the BQP (Bank of Quality Practitioners). Their main function was to serve the request of customers for 1) the release of their loan documents when they have fully paid their loan and 2) certification that the original Certificate of Registration (CR) of their vehicle was being safe kept in the Bank.

The BQP Bank has a bank-wide QCC programme since August 2002. QCC circles have been formed in the various units the Bank and have been undertaking quality improvement projects. The Land Transportation Office of the country where the QPB operates requires that vehicle registration be renewed every year. A requirement for the renewal of registration is a proof of the initial registration of the vehicle. So every year, auto loan customers of QPB request the Bank to issue them a certification that the original copy of the CR is in the safe keeping of the bank. The turnaround time (TAT) for customer service personnel to provide this certification was 10 minutes and the goal was to do this at least 90 per cent of the time. The goal was not achieved all the time.

The SOPs circle chose to address this problem. They collected data for 10 days. Their source is the request slip that customers fill out. This slip indicates the time the request was made and the time the request was served. (Table 1)

Table 1. Performance vs. TAT In January 2005

Data collector: Juan Miguel Agustin		Source: Request Slips	
Day	Total Requests	Total Requests w/in TAT	%
1	25	20	80
2	28	26	93
3	20	16	80
4	22	16	73
5	25	20	80
6	26	24	92
7	28	21	75
8	30	27	90
9	25	24	96
10	26	22	85
Total			

The SOPs Circle analysed the causes of delay using tools like the cause and effect diagram, and after lengthy discussion, agreed that the major root cause of the delays was that they have no way of knowing immediately whether a copy of the CR was on file.

The original CR was kept by the Bank's Securities Section and a copy was kept at the Mortgage Release Section. When a customer asked for a certification, the staff attending to the request looked for the copy of the CR in a filing cabinet, photocopied this in a pre-formatted certification letter and typed the date and the name of the signatory.

There were cases when the copy of the CR was not on file because the auto dealer, who was responsible for registering the vehicle, had not submitted the original CR to the Bank. The personnel spent much time looking for the copy only to find that there was no copy on file. This irritated the customers.

The SOPs Circle brainstormed on what they could do. Several ideas came up, but one idea stood out as the most effective: have a monitoring system similar to the system they used in monitoring the turnover of land titles from the Securities Section to their section.

They met twice to work out the detail on how they could implement this system which they called Collateral Monitoring System for Auto (CMS-Auto). They implemented the new system and monitored their performance collecting data over 10 days. (Table 2)

Table 2. Performance vs. TAT In March 2005

Data collector: Juan Miguel Agustin		Source: Request Slips	
Day	Total Requests	Total Requests w/in TAT	%
1	25	24	96
2	22	20	91
3	25	23	92
4	24	23	96
5	22	22	100
6	25	24	96
7	25	24	96
8	26	24	92
9	20	19	95
10	24	24	100
Total			

The new system was made standard procedure and was installed in all branches of QPB.

2.1.4.4 Examples of quality management systems and incentives

Quality management systems focus on issues affecting all members of a workplace but it also necessary to understand the diversity within the workplace. The most common quality management systems are the following:

- ISO 9001:2000
- Malcolm Baldridge National Quality Award (MBNQA)
- EFQM Excellence model
- Total Quality Management (TQM)
- Six Sigma

ISO 9001:2000

ISO 9001:2000 is an international standard that gives requirements for an organization's Quality Management System ("QMS"). It is part of a family of standards published by the International Organization for Standardization ("ISO")

The requirements cover a wide range of topics, including top management commitment to quality, its customer focus, adequacy of its resources, employee competence, process management (for production, service delivery and relevant administrative and support processes), quality planning, product design, review of incoming orders, purchasing, monitoring and measurement of its processes and products, calibration of measuring equipment, processes to resolve customer complaints, corrective/preventive actions and a requirement to drive continual improvement of the QMS. There is a requirement for organizations to monitor customer perceptions about the quality of the goods and services it provides.

A current development is the Draft ISO / DIS 26000 on Social Responsibility, which refers to gender equality as a fundamental human right and – among others - includes guidance on non- discrimination and equality of opportunity and treatment of women, girls and other groups.

The standard recalls that *"an organization can take a positive and constructive view of diversity among the people with whom it interacts. It could consider not only the human rights aspects but also the gains for its own operations in terms of the value added by the full development of multifaceted human resources and relations."*

Malcolm Baldridge National Quality Award (MBNQA)

The Malcolm Baldridge National Quality Award is the premier award for business excellence and quality achievement in the United States. Since 1988, 49 organizations have received this recognition for demonstrating ever-increasing value to their customers, organizational effectiveness and learning. Along the way, thousands of companies have used the Baldridge criteria to assess performance and measure their progress relative to a recognized compilation of best practices.

Malcolm Baldridge National Quality Award (MBNQA) was established by Congress in 1987 to enhance the competitiveness of U.S. businesses. The award is named after Mr. Malcolm Baldridge, who served as Secretary of Commerce from 1981-1987, and whose managerial excellence contributed to long-term improvement in efficiency and effectiveness of government. The award promotes quality awareness, recognizes the quality and performance achievements of U.S. organizations, and publicizes successful performance strategies, which ensure business excellence. It has five categories: manufacturing, service, small business, education and health care. The award is not given for specific products or services.

The Award is given to U.S. organizations that have exemplary achievements in key areas/categories. For the 2007 Awards, the areas and their corresponding points were:

Areas/Categories	Points
Leadership	120
Strategic Planning	85
Customer and Market Focus	85
Measurement, Analysis and Knowledge Management	90
Workforce Focus	85
Process Management	85
Results	450
Total	**1000**

The Criteria are designed to help organizations use an integrated approach to organizational performance management that results in delivery of ever-improving value to customers, contributing to marketplace success improvement of overall organizational effectiveness and capabilities organizational and personal learning. They are built on the following set of interrelated Core Values and Concepts:

Visionary leadership – senior leaders should set directions and create a customer focus, clear and visible values, and high expectations balancing the needs of all stakeholders. The leaders should ensure the creation of strategies, systems, and methods for achieving performance excellence, stimulating innovation, building knowledge and capabilities, and ensuring organizational sustainability directions.

Customer-driven focus – the organization must take into account all product and service features and characteristics and all modes of customer access that contribute value to customers.
Customer-driven excellence has both current and future components: understanding today's customer desires and anticipating future customer desires and marketplace potential.

Organizational and personal learning – learning needs to be embedded in the way the organization operates. This means that learning (1) is a regular part of daily work; (2) is practiced at personal, work unit, and organizational levels; (3) results in solving problems at their source ("root cause"); (4) is focused on building and sharing knowledge throughout the organization; and (5) is driven by opportunities to effect significant, meaningful change.

Valuing employees and partners – an organization's success depends increasingly on the diverse backgrounds, knowledge, skills, creativity, and motivation of its workforce and partners, their satisfaction, development, and well-being. Increasingly, this involves more flexible, productive work practices tailored to varying needs of workplace and homes.

Agility – success in today's ever changing; globally competitive environment demands a capacity for rapid change and flexibility. Major improvements in response times often require new work systems, simplification of work units and processes, or the ability for rapid changeover from one process to another. A cross-trained and empowered workforce is a vital asset in such a demanding environment.

Focus on the future – in today's competitive environment, creating a sustainable organization requires understanding the short- and longer term factors that affect their organization and marketplace. Pursuit of sustainable growth and market leadership requires a strong future orientation and a willingness to make long-term commitments to key stakeholders— customers, workforce, suppliers, partners, stockholders, the public, and community.

Managing for innovation – innovation means making meaningful change to improve an organization's products, services, programs, processes, and operations and to create new value for the organization's stakeholders. Innovation should lead the organization to new dimensions of performance.

Management by facts – organizations depend on the measurement and analysis of performance. Such measurements should derive from business needs and strategy, and they should provide critical data and information about key processes, outputs, and results. Performance measurement should include customer, product, and service performance; comparisons of operational, market, and competitive performance; supplier, workforce, cost, and financial performance; and governance and compliance.

Social responsibility – an organization's leaders should stress responsibilities to the public, ethical behaviour and the need to practice good citizenship.

Focus on results and creating values – an organization's performance measurements need to focus on key results. Results should be used to create and balance value for key stakeholders—customers, workforce, stockholders, suppliers, partners, the public, and the community.

System perspective – the Baldrige Criteria provide a systems perspective for managing the organization and its key processes to achieve results and performance excellence.

EFQM Excellence model

The European Foundation for Quality Management (EFQM) was founded by the presidents of 14 major European companies in 1988. Its mission is to stimulate and assist organizations throughout Europe to participate in improvement activities leading ultimately to excellence in customer and employee satisfaction, influence society and business results; and to support the managers of European organizations in accelerating the process of making Total Quality Management a decisive factor for achieving global competitive advantage.

The EFQM Excellence Model is a non-prescriptive framework that recognizes that there are many approaches to achieving sustainable excellence. The model's framework is based on nine criteria against which to assess an organization's progress towards Excellence. Five of these are 'Enablers' and four are 'Results'. The 'Enabler' criteria cover what an organization does. The 'Results' criteria cover what an organization achieves. 'Results' are caused by 'Enablers'. The nine criteria are:

Leadership – excellent Leaders facilitate achievement of the mission and vision. They develop organizational values and systems required for sustainable success and implement them via their actions and behaviour. In times of change they keep a constant purpose; and are able to change direction of the organization and inspire others to follow.

Policy and Strategy – excellent organizations implement their mission and vision by developing a stakeholder-focused strategy taking account of the market and sector in which it operates. Policies, plans, and processes are deployed to deliver strategy.

People – excellent organizations manage, develop and release the full potential of their people at an individual, team-based and organizational level.

They promote fairness and equality and involve and empower their people. They care for, communicate, reward and recognize, in a way that motivates staff and builds commitment to using their skills and knowledge for the benefit of the organization.

Partnerships and Resources – excellent organizations plan to manage external partnerships, suppliers and internal resources in order to support policy and strategy and the effective operation of processes. During planning and whilst managing partnerships and resources, they balance the current and future needs of the organization, the community, and the environment.

Processes – excellent organizations design, manage and improve processes in order to fully satisfy, and generate increasing value for, customers and other stakeholders.

Customer Results – excellent organizations comprehensively measure and achieve outstanding results with respect to their customers.

People Results – excellent organizations comprehensively measure and achieve outstanding results with respect to their people.

Society Results – excellent organizations comprehensively measure and achieve outstanding results with respect to society.

Key Performance Results – excellent organizations comprehensively measure and achieve outstanding results with respect to the key element of their policy and strategy.

Total Quality Management (TQM)

Total Quality Management (TQM) is a participative management system that stresses total enterprise commitment to “customer” satisfaction.

It is based on a philosophy that quality is everybody’s concern and responsibility of all departments and units of the organization. It is an integrated management system for creating and implementing a continuous improvement process—eventually producing results that exceed customer expectations.

TQM places responsibility for quality problems with management rather than on the workers.

The objective of TQM is the continual improvement of processes, achieved through a shift in focus from outcomes (or products) to the processes that produce them.

TQM achieves its objective through data collection and analysis, flow charts, cause and effect diagrams, and other tools, which are used to understand and improve processes.

Some of the underlying **principles** of TQM are:

1. The customer determines quality
2. Everyone in the organization has a customer and therefore is a supplier
3. Improving quality requires a good performance measurement system
4. People working on the enterprise’s processes create quality; they must therefore be enabled to produce good quality and continuously improve processes.
5. Improving quality involves sustained continuous improvement
6. Focus is on prevention of defects and variations rather than detection and correction
7. Top management must lead and support the organization’s quality improvement efforts. Quality must be integral part of the enterprise’s management system.

Six Sigma

Six Sigma is a company-wide management strategy for the improvement of process performance with the objective of improving quality and productivity. Its main focus is to minimize variability of outputs of processes, aiming for a performance level of below 3.4 “defects” per (one) million opportunities. It was developed building on earlier methodologies and approaches such as Statistical Quality Control, Total Quality Control, Total Quality Management, Quality Control Circle. It was developed and launch by Motorola in1987. Six Sigma is based on the following precepts:

- Continuous efforts to reduce variation in process outputs is key to business success
- Manufacturing and business processes can be measured, analyzed, improved and controlled
- Succeeding at achieving sustained quality improvement requires commitment from the entire organization, particularly from top-level management

The Six Sigma framework has five key elements:

1. Top management commitment
2. Training scheme
3. Project team activities
4. Measurement system
5. Stakeholders' involvement.

Key to the Six Sigma is the operation of the interdisciplinary and cross-functional Project Teams. These teams are the ones undertaking improvement projects utilizing the basic problem solving methodology DMAIC.

The basic methodology consists of the following five steps:

- *Definition* – identification of the process to be improved, setting improvement goals
- *Measurement* – selecting product characteristics, mapping the current process and collecting relevant data
- *Analysis* – analyzing and benchmarking the data and key performance indictors
- *Improvement* – improvement in the process are developed and their effectiveness are verified using well designed experiments
- *Control* – ensuring that the new process are operating within control.

Variations of this methodology have been adopted to address particular needs such as for product design and development, hence acronyms: e.g. DMADV, IDOV, DIDES.

A comprehensive training scheme is the backbone of Six Sigma, made up of different level courses corresponding to the competencies needed by the different ranks (with ranking names taken from martial arts) of practitioners: White Belt, Green Belt, Black Belt, Master Black Belt, and Champion.

2.2 Improving ecological performance

2.2.1 The ecological impacts of enterprises

Another hallmark of a sustainable enterprise is its stewardship of the environment. A sustainable enterprise is expected by its stakeholders to safeguard and nurture the physical environment while it pursues its business interests. A total of $155 billion was invested in companies and projects globally in sustainable energy in 2008; it is a more than four-fold increase on 2004. Due to the economic crisis new investments in sustainable energy in 2008 was only slightly (5 per cent) higher than 2007's ($148 billion)[5].

A business enterprise is, at basis, a sourcing-production-distribution system. It takes in inputs of labour, equipment, money, materials, utilities, energy transforming them into products and services which it distributes them to the end users through distributors and retailers. Its customers use the products or services during their economic life, finally re-selling or disposing of them All through this process, from extraction of raw materials to final disposal of the products, the enterprise and its supply and distribution chains interact with the physical environment, often in ways that are damaging and degrading the environment. Some examples of the negative environmental impacts of an enterprise are:

[5] UNEP (2009), Global Trends in Sustainable Energy Investment 2009. Analysis of Trends and Issues in the Financing of Renewable Energy and Energy. France, 2009.

	Environmental Impacts
Inputs	Depletion of the natural resource; deforestation, destruction of the landscape, pollutions generated during the production of the inputs, etc.
Processes	Solid wastes, effluents and emissions, dusts, radiation, heat, noise, etc.
Outputs	Solid wastes and pollutions generated by using the product, non-degradable packaging, high energy consumption, heat, noise, toxic materials, wastes and pollution generated during final disposal, etc.

The enterprise's impacts on the environment are not all negative though. A tree farming business could result in a sustainable forest. Eco-tourism businesses help local communities to safeguard and maintain the natural resource that attracts tourists. A rising number of green and climate-friendly projects are up and running or being planned across Africa under the Clean Development Mechanism (CDM) – the main market mechanism of the UN Framework Convention on Climate Change (UNFCCC). The latest CDM update shows that some 112 CDM Africa projects – worth a total of □212 million a year – are at the "validation, requesting registration or registered" stage[6].

To achieve high ecological performance, an enterprise should understand and manage its impact on the physical environment. Often referred to as environmental management, aim is to minimize the negative environmental impacts of the enterprise's sourcing-production-distribution and after-sales operations. Just like productivity management and quality management that put productivity and quality consideration as priority concerns of the enterprise, environmental management puts the environmental concerns as a priority key results area of the enterprise. It is possible that there are no negative impacts of a business on the environment, but as sometimes these are not immediately apparent a responsible business will check carefully. It is also possible that high productivity and quality will still have a negative effect on the environment. The aim should be to strike a balance: high productivity and quality results with no or reduced negative environmental impacts.

Effective environmental management follows the following principles[7]:

1. *Corporate priority* – Recognize protecting and nurturing the environment as among the highest corporate priorities and as a key determinant to sustainable development; to establish policies, programmes and practices for conduction operations in an environmentally sound manner.
2. *Integrated management* – Integrate these policies, programmes and practices fully in each of the functional areas of the enterprise.
3. *Process of improvement* – Continue to improve corporate policies, programmes and practices to enhance environmental performance, taking into account technical development, scientific understanding, consumer needs, community expectation, and business viability concerns.
4. *Employee education and training* – Educate, train and motivate employees to conduct their activities in an environmentally responsible manner and to participate in the improvement processes.
5. *Prior assessment* – Assess environmental impacts before starting a new activity or project, and before decommissioning a facility or leaving a site.
6. *Products and services* – Develop and provide products and services that have no undue environmental impacts and are safe in their

[6] UNEP (2009), Seizing the Green Opportunity. Annual Report 2009. Kenya, 2010.

[7] North, K., *Environmental Business Management,* 2nd ed., ILO Geneva, 1997.

intended use, that are efficient in their consumption of energy and natural resources, do not use polluting packaging, and that can be recycled, reused, and safely disposed of.

7. *Customer advice* – Advise and, where relevant, educate customers, distributors and the public in the safe use, transportation, storage and disposal of products provided; and to apply similar considerations to the provision of service.

These are systematized in what is called Environmental Management System.

2.2.2 Environmental Management System (EMS)

An environmental management system is a systematic approach that an enterprise uses to manage its environmental impacts. EMS offers organizations a method and opportunity to systematically establish and achieve environmental protection objectives for superior environmental performance. It provides a structure for applying the management principles and functions to environmental concerns of the enterprise. Through EMS, environmental stewardship becomes the responsibility of all employees, not just the environmental department, and is integrated into everyday business operations. An enterprise that has a productivity and quality management system in place already has some of the elements of EMS.

Having an EMS benefits the enterprise in a number of ways. It can result in:

- Improved productivity
- Increased competitive advantage
- Reduced liability
- Improved environmental performance
- Reduced production costs
- Organized and accessible environmental records
- Improved employee and community health
- Improved cooperation and environmental awareness among employees
- Improved customer trust
- Improved public image

An enterprise can set-up its own EMS following the basic principles listed above or it can structure it along well known models such as those provided in ISO 14001. Basically, the EMS must embody an environmental policy, a system for determining and monitoring the enterprise's environmental impacts, measurable environmental performance improvement targets, improvement systems and processes, education and training programs, record keeping system and EMS review mechanisms.

Or an enterprise can opt to pursue formal ISO 14001 certification. ISO 14001 is an internationally accepted framework for an environmental management system. It details the specifications for the various EMS elements and components mentioned above.

2.2.3 Life Cycle Management

Various tools and approaches are available to analyze and improve the environmental impacts of

the enterprise. The improvement process is the same as the productivity and quality improvement problem-solving process and involves workplace cooperation. A very essential tool/approach is Life Cycle Assessment and Management.

In Life Cycle Management all the phases in the entire life cycle of the product from extraction, through manufacturing to product use and disposal is considered when evaluating the environmental burden of a product. This approach is considered as the most holistic approach to eco-friendly product development.

Life cycle assessment (LCA) is the process of evaluating the effects that a product has on the environment over the entire period of its life cycle. LCA sets out to provide objective answers and its aim is to suggest more sustainable forms of production and consumption. It uses a scientific approach in which the quantification of effects plays a dominant role. A complete LCA is composed of three separate but interrelated components:

Life-cycle inventory: which is an objective data-based process of identifying and quantifying the environmental loads involved – the energy and raw materials used, and the emissions and wastes consequently released (e.g. air emissions, liquid effluents, solid waste) throughout the life cycle of a product, process or activity.

Life-cycle impact analysis: A technical quantitative and/or qualitative process to characterize and assess the effects of the environmental loading identified in the inventory component. The assessment should address both ecological and human health considerations as well as such other effects as habitat modification and noise pollution. A simplified analysis table is shown in Figure 2.3.1.

Life-cycle improvement analysis: A systematic evaluation of the needs and opportunities to reduce the environmental burden associated with energy and raw materials use and environmental releases throughout the whole life cycle of the product, process or activity. This analysis may include both quantitative measures of improvements such as changes in product, process and activity design; raw material use; industrial processing; consumer use and waste management.

Using LCA, the environmental impact of processes, product cycles, and economic activities can be minimized by reducing the material flow through cleaner processes, cycles, and activities. If the reduction in material flow occurs without loss of service or quality of the product as required by the consumer, then it leads to improvement in the material efficiency of those processes.

Together with information on costs, convenience, and consumer safety, the information obtained from an LCA can be used by organizations to make decisions on how to develop, improve, and produce products.

Efficiency improvement can occur at various points in this cycle. In production processes, improving the material efficiency could mean for example avoiding leaks and spills, better materials handling, closing internal material loops for auxiliary materials and designing and redesigning processes for improved material and energy efficiency. It is important that material efficiency should include energy efficiency, because energy supply is either explicitly or implicitly dependent on material flows.

In terms of consumption patterns, improved materials efficiency means improving the utilization of products, designing products for longer service life and maximum materials recovery and recycling when finally disposed of, and reversing the throw away mentality of the consumer society. By adopting the life-cycle approach and focusing on efficiency of processes leading to productivity improvement, Life Cycle Management moves upstream and downstream of a product. It encompasses the environmental impact of not only raw materials but also the usage of the product by the consumer. Therefore it integrates the supply chain into the strategy for environmental improvement.

Figure 2.2.1 Life-cycle environmental impact analysis

Impact / Life Cycle	Design	Raw materials handling ▪ Raw materials inputs ▪ Transport ▪ Storage	Construction site preparation	Manufacturing ▪ process 1 ▪ process 2 ▪ etc.	Storage of finished products	Distribution	Selling	Use	Maintenance	Repair	Storage with user	Accident	Disposal	Recycling
Explosion Spills and leaks Solid waste Non-biodegradable waste Hazardous wastes														
Dust and particles														
Noise & vibration Odor														
Landscape damage Erosion Forest depletion														
Air pollution Toxic gases														
Energy consumption Electric Gas Oil Firewood, etc.														
Use of water Waste water Effluent liquids Pollution of ground water Effects on sewage treatment system														
Radiation														
Persistent substances														
Euthropication														
Acidification														
Ozone depletion														
Contributes to greenhouse effect														

2.2.4 Green Productivity (GP)

As mentioned earlier, productivity improvement, quality improvement and environmental improvement are close linked together. A strategy and approach that consciously and deliberately sets-out to the simultaneous achieves productivity, quality and environmental improvement is Green Productivity (GP).

Green Productivity is a strategy for enhancing productivity and environmental performance of an enterprise. It is the application of appropriate productivity and environmental management policies and strategies, tools, techniques and technologies in order to reduce the environmental impact of an organization's activities. It was conceptualized and launched by the Asian Productivity Organization in 1994.

Previous approaches to environmental protection have tended to ignore economic performance. Traditional 'end-of-pipe' technology has proved costly and ineffective. Many other prevention oriented environmental management solutions are not productivity-focused. On the other hand, conventional productivity improvement programs have generally ignored environmental issues and have given companies little opportunity to make such issues central to their business strategies.

GP overcomes the constraints inherent in these old approaches and combines environmental protection with quality, cost-effectiveness and technological innovation to bring significant competitive advantage.

Triple focus of Green Productivity

GP aims to ensure environmental protection while making business profitable. In view of this, it focuses on Quality, Profitability and Environment (Q-E-P) – called the Triple focus of GP.

As discussed in Section 4, quality is meeting the needs and expectations of the customer. Such expectations not only include the expectation that the products and services will meet the utility and aesthetic needs of the customer but that these products and services are produced and delivered in the most environmentally a and socially responsible manner. GP works at ensuring quality by promoting the use of newer and safer materials, increasing processing and production efficiency and improving working conditions.

The intent of GP is thus to provide the consumer with better performance and value with the use of less resources, including energy, and the creation of less waste. Essentially the practice of GP results in using material resources and energy more efficiently and effectively in a sustainable manner – "doing more with less".

This makes sense both for the environment and for business. Natural resources are conserved thereby reducing environmental degradation. Reducing the amount of material and energy used to make or supply goods and services can directly cut the cost of doing business thereby ensuring profitability*:*

The practice of GP is characterized by four distinguishing characteristics:

Environmental compliance: The heart of GP is environmental protection, the first step for which is compliance. It is today one of the most challenging tasks facing industry, can be achieved through the practice of GP by pollution prevention and source reduction. It will require residues to be managed using end-of-pipe treatment measures. While achieving environmental compliance, it is the unique characteristic of GP that productivity will also improve. These practices may lead to a situation *beyond compliance* with the ultimate aim of ensuring *quality of life.*

Productivity improvement (includes Continuous Improvement and Preventive Approach): The other side of the GP coin is productivity improvement. The *kaizen* approach of continuous improvement forms the basis. This has to accompany environmental protection. The concept of continuous improvement achieved by adopting the tenets of the PDCA (Plan, Do, Check and Act) cycle is aimed at ensuring not only productivity improvement unlike in classical productivity improvement programs but also environmental improvement. This is a dynamic and iterative process. Inherent in the PDCA cycle is the preventive approach – anticipating the possible negative impact of an activity and being proactive in generating strategies to address it.

Integrated people-based approach: One of the strengths of GP is its worker involvement and team based approach. Its people based approach extends to improved working environment, worker health and safety, non-discrimination and related social welfare issues. The approach adopted is methodology based and involves multi-stakeholder participation. This enables a step-by-step approach, systematic generation of options and solutions, contribution by all the members in an organization to the GP process. The people involvement also ensures transparency and accountability.

Knowledge-driven improvement: Documentation and reporting are the strengths of GP drawn from systems such as Quality Management Systems and Environmental Management Systems. The adage "*What gets measured gets done*" is one of the driving forces of GP. Performance of an organization after establishing a GP program would be continuously measured and evaluated using a set of defined GP performance indicators.

Case study 2.2.1 Improving performance through better environmental management in China

The ILO project on "CSR (Corporate Social Responsibility) in the Chinese Textile Industry" was run in China in 2009 to build capacity in businesses from developing countries to meet international and national labour and environmental standards and regulations. The Wujiang Fuhua Weaving Co., Ltd. (Fuhua) deals with the research, development and production of chemical fibre cloth, its printing and dyeing, and the treatment of high-end textile fabrics. It employs over 2,500 people, operates two large weaving centres, and produces over 250 million metres of high-end chemical fibre cloth each year. While increasing the scale of its business, Fuhua was facing the challenge of balancing its substantial output with environmental sustainability.

The project experts helped Fuhua to see the gaps in their managerial organization and environmental planning. Older equipment like light bulbs, cleaning supplies, leaky valves, exposed steam pipes, and other machines needed updating to improve energy efficiency. There was also excessive noise pollution and heat emission in the workshops. Management's understanding of cleaner production was limited to simple solutions instead of taking an integrated approach and there was a lack of effective support and cooperation from supervisors and managers who misinterpreted the concept of cleaner production as meaning doing sufficient cleaning work and implementing the 5S program, rather than taking a forward-thinking environmental strategy. Also the company lacked staff with technical expertise in cleaner production.

After training in cleaner production and environmental management, an environmental management team was established to implement continuous improvement plans. It comprised the deputy general manager (production), senior management, and relevant functional staff and held regular information and co-ordination meetings between relevant departments. Provision was made for every operator entering the workshop to wear protective earplugs. In terms of energy conservation, all lamps in the workshop were replaced by energy-saving luminous tubes, steam valves were equipped with thermal shrouds where necessary, and all leaks in the steam pipes were repaired on a regular basis. A factory-wide education programme was run to disseminate knowledge of environmental management and cleaner production. All employees were educated about resource conservation and energy saving in their respective activities.

These actions have achieved monetary, environmental, and efficiency benefits:

- replacing fluorescent tubes by energy-saving fluorescent tubes has led to electricity savings of 59,000 Yuan every year;
- waxing shop floors of workshops has increased production rate by 0.26 per cent;
- coal consumption dropped from 0.43 tons to 0.41 tons - efficiency increase of 4.9 per cent.

Source: ILO, UNIDO and CNTAC (2008), Corporate Social Responsibility in the Chinese Textile Industry. Improve Enterprise Competitiveness and Productivities through CSR Training. ILO Beijing Office, 2008.

2.2.5 Improving environmental impact performance, productivity and quality[8]

2.2.5.1 Preventing waste

1. Operating procedures

A lot of wastes are the results of poor operating procedures. Thru the workplace cooperation practices and participative problem solving, the waste generating aspects of procedures can be analyzed and improvements made.

Improved operating practices can be implemented in all areas – production; maintenance; raw material, product, and waste handling and storage. Because improvement in operating practices can often be implemented at low cost, they usually have a high return on investment.

Material handling and storage

All production facilities store raw materials, intermediates, products, and industrial wastes and transfer these items from one area of the plant to another. Proper material handling, transfer, and storage minimize the possibility of spills, leaks, fire and/or explosion, or any other losses that could result in waste.

Material and energy consumption

Industry and sector norms could be used to ensure that the consumption of resources and energy are within limits.

Scheduling and sequencing

Batch production of a variety of products using common equipment plays an important role in generating wastes. Sequencing has a special significance in batch production operations, where the amount of waste from equipment clean up is directly related to the cleaning frequency. To reduce cleaning frequency, batch sizes should be maximized or followed with a similar product, which may not require cleaning between batches. This action requires diligent managerial scheduling and planning as it may affect inventories of raw materials, finished products, and shipping deliveries.

2. Waste segregation

Waste segregation refers to the separation of waste streams according to points of generation, composition, volume or media. This results in improvements and savings in the recycling, reuse, treatment and disposal activities of the enterprise.

For example, segregation at the source can reduce the quantity of disposal of hazardous wastes. For example, when a non-hazardous waste is mixed with hazardous waste, the entire mixture is classified as hazardous; not allowing hazardous and non-hazardous wastes to mix reduces the amount of hazardous waste disposal and yields substantial savings. Furthermore, isolating hazardous waste by contaminant (i.e., by segregating wastes) often reduces disposal requirements.

Incompatible hazardous waste types should not be mixed. For example, segregating spent solvents used in metal parts cleaning and used motor oil enables the reclamation of each.

[8] This section is largely adapted from *APO Handbook on Green Productivity*, APO, Tokyo, 2006.

3. Good housekeeping/5S Programme

Good housekeeping refers to a number of practical measures based on common sense that organizations can undertake to improve their productivity, obtain cost savings and reduce the environmental impact of their operations. The 5S programme[9] is one good workplace cooperation practice that has good housekeeping as one of its key results.

4. The Seven (7) Wastes

Often, waste is thought of as physical things like material, water, electricity, etc. However, in the context of productivity, waste is defined as any form of work that does not add value to the final output. In the famous Toyota Production System, there are ways of classifying wastes, called “7 wastes” to include things like excessive stocks, waiting, movement or transport, etc.

i) Waiting

This refers to a work stoppage or interruption due to a prerequisite or precondition that has not been met. For example, waiting occurs due to:

- Machine breakdown
- Delay in arrival of materials
- Delay in submission of a report
- Late arrival of attendee/s in a meeting

The causes of such wastes are often poor planning and organization, insufficient training, lack of control and sometimes laziness and lack of discipline.

ii) Transporting

This means transporting or moving things from one place to another. This does not add to the value of the product. Hence it should be eliminated or reduced as much as possible. There are two aspects to be considered:

- Eliminate the need for transport by better layout
- Improve the method of transport by using materials handling equipment

iii) Processing

These are wastes inherent in the process or design. Unnecessary delays can be located and eliminated through Methods Study using techniques such as Flow-Process Charts.

iv) Inventory

When excessive inventory are carried, they tie up valuable financial resource and may deteriorate with time. They also take up space in the factory. Proper production planning and control could lead to reduced in-process and finished goods inventory. Just-in-time production system is claimed to result in minimal inventories.

v) Movements

All physical work can be broken down into basic movements or motions. Motion Study is one aspect of Industrial Engineering that assists to reduce wasted motions. Usually, improving the workplace layout, practicing good housekeeping and workplace organization, and introducing jigs and fixtures and low cost automation minimize wasted motion.

vi) Defects

This refers to inferior quality products, defective parts or poor service. Time is often spent in reworking defective products or addressing customer complaints. Space is wasted to store them. Last minute requirements tend to disrupt the systems and cause delays in delivery to customers. Sometimes poor quality can even cause accidents.

vii) Overproduction

Quite often, manufacturing produce more than what is actually needed. The surplus and unused products may have to be discarded when they are no longer required at a later stage. This is very costly. Over production is caused by poor planning, poor forecasting and lack of quality control.

[9] For a full treatment of the 5S Programme refer page 133

2.2.5.2 Changing the waste

i) Resource conservation

Resource conservation can be achieved thru a number of ways:

Recovery – This is the process of reclaiming valuable resources from wastes in the form of raw materials, by-products/products. Recovery normally is the preceding activity to recycle or reuse.

Recycle – refers to recycling materials and energy within the process.

Reuse – involves selling materials or waste to external dealers i.e. off-site or on-site, where the material or waste is reprocessed/ recovered and reused within the industry

ii) Energy conservation

Energy conservation at a facility or process is possible at three points:

Energy conversion

Here the focus is on the energy conversion efficiency of the units such as industrial boilers, power reactors, etc that convert fuel to steam, or fuel to electricity.

Energy transfer

When energy is transferred from the point where it is generated to the point where it is used, there could be losses. The energy transfer efficiency of the energy conduits and steam piping can contribute significantly to reduce losses in energy transfer.

Energy utilization

This refers to the actual end usage of energy in a process. Here, the energy efficiency of the individual equipment comes into the picture: not just manufacturing equipment but also energy-efficient lighting s, ventilation, material handling, transport, etc.

Energy recovery

Waste energy can be effectively recovered and recycled back to the processes. For example, hot effluents are discharged to the treatment plants. If heat exchangers are employed to draw the excess heat in the effluent, the heat can be used back in the process. Another example is using high calorific waste material as secondary fuel.

iii) Process modification

Modifying a process to reduce waste means developing an alternate process to obtain the same or better product specification, while generating less waste. Replacing inefficient or old processes with newer technology can often reduce waste. Sometimes, even just changing the sequence of operations already results in significant waste reduction. The improvement and problem-solving workplace cooperation activities discussed elsewhere in this Reader could be used to improve processes.

iv) Pollution control

Manufacturing processes do not have 100 per cent conversion efficiency. Some waste in the form of air emissions, effluents, solid waste and heat release are generated. One way to reduce pollution is to improve conversion efficiency and reduce generation of wastes.

Waste has to be treated and disposed in a scientific manner abiding by environmental legislation. This is done by setting up waste treatment and disposal facilities, either on-site or off-site. These facilities do not have 100 per cent conversion efficiency so that residues and rejects in the process of treatment must also be disposed of safely.

v) Product improvement

The conventional product design and development process emphasizes how economic value can be enhanced i.e., how to reduce production costs and achieve higher performance. Today, with the objective of minimizing negative environmental impact of the enterprise, environmental concerns are major considerations in product design.

Box 2.2.1 Companies aggressively pursuing sustainability are reaping benefits

A report from the MIT Sloan Management Review and the Boston Consulting Group finds that while the majority of companies view sustainability as a response to external pressures, some are finding profitability in its practice. Launched in 2008, the Sustainability Initiative is a collaboration of the MIT Sloan Management Review and the Boston Consulting Group (BCG). The Initiative, which studies the impact of sustainability on business management, recently completed the first of an annual series of reports on sustainable business, based on its survey of business leaders.

The report, The Business of Sustainability, found that while a vast majority of respondents described their companies as addressing sustainability in some way, relatively few had as yet developed a business case for sustainability. Especially among respondents with less expertise on the subject, sustainability was most often viewed as an obligatory response to legislative or regulatory pressure. However, the report found, the few companies that are aggressively pursuing sustainability are finding significant opportunities for profitability and competitive advantage.

SocialFunds.com spoke with Maurice Berns, a partner and managing director at BCG, and an author of the report. “We launched the initiative because we found there was a lot of activity in the sustainability space, but there seemed to be a lack of a business perspective on it,” Berns said.

According to the report, a significant number of novices defined sustainability as “maintaining business viability.” Those with greater expertise, on the other hand, viewed sustainability as an integral part of value creation. Most self-defined experts on sustainability also underscored the importance of extending sustainability criteria to supply chains.

Published in 1987, the Brundtland Report, also known as Our Common Future, defined sustainable development as “development that meets the needs of the present without compromising the ability of future generations to meet their own needs. “On the basis of the findings of the Initiative's survey, Berns observed, ”What we found was that the people who knew the most about sustainability had a bias toward the Brundtland definition." A significant finding of the report was that while the vast majority of respondents have yet to commit aggressively to sustainability, those that have acted decisively are deriving benefits from doing so. Berns said of such companies, “They were emphatic that sustainability is going to have an impact on their business going forward. It was easy to see how they should comply with legislation, but how do you profit from it or promote it?”

Berns provided some examples of companies that have profited from aggressive action on the sustainability front: “At GE, they developed the Ecomagination product line,” he said. “Going deeper, Nike actually eliminated a lot of waste in its value chain and saved $700 million over the course of a year. At the next level, Walmart takes its supply chain and is actually driving sustainability savings in supply chains other than theirs.”

Given the high profile of such successes what are some of the barriers to companies adopting effective sustainability strategies of their own? Barriers cited by the report include lack of information, the challenge of defining a business case for value creation, and flawed execution.

The report provides a framework for the majority of respondents who reported struggling to develop a business case for sustainable value creation. In the short term, companies can — and in some instances, must— take such minimal steps as regulatory compliance and cost efficiencies. Following these steps, but also short-term considerations, are such activities as transparency and reporting.

In the long term, companies can reframe their organizational priorities to differentiate themselves competitively by such steps as product innovation. Eventually, new economic models and improved relations with stakeholders will help imbed sustainability in the corporate culture.

“What should companies actually do?” Berns asked. “Engagement by senior leadership will help lead to clear vision and targets. What I'd like to see is a holistic vision of sustainability across the entire company, but we need to find a way to measure it. Clear metrics tracking is critical.” “Thinking of sustainability as a burden to comply with needs to change,” Berns said. “We need to create at the board level an attitude of outlining the opportunities.” “We have to re-orient our thinking as to how business can profit from sustainability,” he continued.

SocialFunds.com, 17 March 2010.

Design for Environment (DfE) is a design process in which environmental attributes are treated as a design objective rather than a constraint. What is important in DfE is to increase eco-efficiency i.e., lower the environmental impact and improve the performance of products. Life cycle Management is applied thus resulting in the manufacture of products whose manufacturing; distribution, use and disposal are less demanding on the environment while at the same time satisfying the needs and expectations of the customer.

Dangers of outsourcing

An enterprise does not meet its responsibilities to the environment if it is negligent in outsourcing its waste disposal activities. Generally it should handle its hazardous processes in house using a regular, trained and well paid workforce. Paying "sweat shop" wages to irregular/casual workers simply passes the enterprises costs on to the poor in the community. If private contractors are used, the enterprise still has a responsibility to know where the contractor dumps the waste (e.g. outside the city limits on public land or on areas of agricultural land where the food chain may well be polluted with wider implications for public health)

2.3 Improving social performance

Another dimension of a sustainable enterprise is how it handles the social impacts of the business on internal and external stakeholders. Its workers and managers, are impacted directly by the decisions, policies, operations, behaviour and actions of the enterprise. External stakeholders such as customers, suppliers and distributors, partners, the host community and society at large are affected by its operations. They should expect that the sustainable enterprise will conduct its business in ethical and socially responsible manner.

2.3.1 Social impacts on the human resource of the enterprise

A very important resource of the enterprise is its human resource. Sustainable enterprises are those that which truly value this resource and ensure that all those who are engaged in the activities of the enterprise have the requisite skills and competencies for them to have high performance in their jobs, and ensure that these jobs are decent jobs. They offer conditions of work that provide a safe and motivating environment, workplaces that are safe and healthy and consider work and family life balance, and allow all workers —including both women and men, and workers from all social groups — to contribute to changes and improvement. They adopt workplace practices that are free of discrimination, harassment and intimidation. They promote gender equality and equal opportunity and treatment for vulnerable groups. The relevant labour standards are respected including rejection of child labour and forced labour. Through social dialogue and workplace cooperation they address the common concerns of workers and managers and enable labour and management to work together to improve productivity and strengthen the innovativeness and competitiveness of the enterprise. Through sharing fairly the returns of the enterprise's economic activities and the gains from increased productivity, the human resource of the enterprise is equitably remunerated.

A key aspiration of the human resource of the enterprise is *decent work* (according to the ILO definition) which is to be found where there are quality jobs.

Box 2.3.1 Definition of Decent Work:

Work that is productive and meaningful, carried out in conditions of freedom, equity, security and human dignity; work which generates adequate income, where rights are protected and with adequate social protection.

(International Labour Organization)

Following are some pointers on improving the social performance of the enterprise with respect to its internal human resource:

Promotion of social dialogue and workplace cooperation

A key process towards meeting the employees' social concerns and aspirations is social dialogue and workplace cooperation. To foster and sustain the process it is important that the enterprise

- Provide labour and management the opportunity, environment and mechanisms for social dialogue and workplace cooperation;
- Develop their capabilities and competencies to engage in the process by providing them with the information, knowledge, skills and tools needed for effective dialogue and cooperation.

Chapter 3 provides a more extensive discussion of this very important and essential process of social dialogue and workplace cooperation.

Development of skills and employability

Sustainable enterprises view skilled human resource as a major resource and consider employees as both assets and agents of change. To develop and sustain the high level of competence of this most important asset the enterprise must

- Integrate human resource development in their business strategy.
- Invest in the training of workers and managers, promote a culture of lifelong learning and innovation, and encourage workplace learning and sharing of knowledge.
- Ensure that there is no discrimination in firm-level HR policies and training provided, insuring equal treatment of men and women in developing their skills, competencies and productivity.

Creating a safe working environment

The employees of an enterprise, both workers and managers alike, must be provided safe and healthy environment. Such a working environment not only meets a basic human requirement but also is conducive to productive and quality work. It reflects the enterprise's concern for the welfare and well being of its human resource. People respond to this with greater identification with the enterprise and with increased willingness to contribute better to improvement of its economic and environmental performance. The sustainable enterprise must therefore always strive to create safe and health workplaces; and in order to do this

- The enterprise should develop and implement, through the process of social dialogue a policy, programmes and mechanisms to ensure a safe working environment, e.g., establishing a standing joint committee on workplace health and safety;
- Hazards elimination should constantly be undertaken and adequate safeguards and safety equipment must be provided to the employees;
- Employees must be provided with adequate training and incentives to workers to ensure that the safety policies, programmes and regulations are substantively complied with, and that protective equipment are worn;
- Important information and instructions should be posted in conspicuous places;
- Health and safety policies and programmes should be periodically reviewed and updated in light of new knowledge and advances in scientific research;
- And the enterprise should respect the right of workers to refuse to return to work if they have a legitimate fear for their health or safety.

Ensuring equality and non-discrimination

Box 2.3.2 What is an equality policy?

An equality policy is a clear statement about an organization's commitment to respecting the right to equality of opportunity and treatment and including diversity as a company value. It should state the expected standards of behaviour that are expected from all staff, management and employees, as well as customers, in relation to these principles.

Key elements are:

- A statement on *the equality vision* of the enterprise, e.g.: the objective to encourage and value equality of opportunity for all.
- A statement on the company's commitment to ensuring a *working environment in which all people are able to give of their best*, and where all decisions are based on merit.
- A statement on the company's commitment to combat *sexual harassment, harassment, mobbing or bullying*. Some companies have a separate policy concerning harassment, and this may also vary according to national legislative provisions.
- A statement of measures, for example:
  - in relation to human resource and work organisation, setting clear, measurable objectives and targets;
  - a communication strategy for making the policy known to all workers and at all management levels;
  - training for all staff;
  - monitoring and evaluation.

The policy can also include a statement about the organisation's commitment to valuing and managing diversity among its employees, suppliers and customers.

More information and examples:
www.businessandgender.eu

Enterprises should eliminate any form of discrimination that has the effect of nullifying or impairing equality of opportunity or treatment in employment or occupation; and ensure that differentials in remuneration packages are based only on merit and responsibility, and not on discriminatory factors. To do this the enterprise should:

- Adopt an explicit policy of non-discrimination and equality of opportunity setting out the shared values, expected behaviour and practical measures involved.
- Not base decisions concerning selection of employees or apprentices, promotion, transfer or firing on any of the following criteria: race, colour, sex, religion, political opinion, nationality, social origin, or marital or family status, nor discriminate against other categories of workers, such as workers who are HIV positive.
- In cooperation with workers' organizations, take active measures to eliminate de facto discrimination at every level, e.g., providing training to all workers on the importance of eliminating discrimination in the workplace and raising awareness of subtle forms of discrimination which may not be consciously intended but still adversely affect some workers.
- Take active measures to include policies such as flexible work arrangements to accommodate varying needs of groups stemming from reasons of religion or family responsibilities, among others.
- Ensure that even apparently neutral criteria are not used to disadvantage workers in assignments and promotions.
- Make sure that inherent requirements of the job would not automatically disqualify a particular category of worker;
- Make sure that remuneration and terms and conditions of employment are not influenced by race, colour, sex, religion, political opinion, nationality, or social origin.
- Ensure that there is no harassment happening at the workplace. While there are practices that are universally seen as harassment, what constitute as harassment actions could be contextual, situational and could also be culture bound. High level of sensitivity is therefore essential. Table 2.3.1 below gives some nuances of harassment, drawn from a seminar on violence and harassment in the workplace conducted by the European Foundation for the Improvement of Living and Working condition in 2004.

Table 2.3.1 Harassment: The reality

What generally constitute harassment	What may constitute harassment	What does not generally constitute harassment
Serious or repeated rude, degrading or offensive remarks such as teasing about a person's physical characteristics or appearance, putdowns or insults. Displaying sexist, racist or other offensive pictures, posters or sending offensive e-mails.	Criticizing an employee in public	Allocating work. Following-up on work absences Requiring performance to job standards Taking disciplinary measures A single or isolated remark or abrupt manner
Repeated singling-out an employee for meaningless or dirty jobs that are not part of their normal duties.	Exclusion from group activities or assignment	Exclusion of particular individuals for a particular job assignment based on specific occupational requirements necessary to accomplish safe and efficient performance of the job
Threats, intimidation or retaliation against an employee, including one who has expressed concern about perceived unethical or illegal workplace behaviour	Statement damaging to a person's reputation	Measures taken against someone who is careless in his or her work such as in the handling of confidential document

Source: European Foundation for the Improvement of Living and Working Conditions. Seminar on violence and harassment in the workplace. Summary. 2004.

The ILO has given further definition of sexual harassment:[10]

Box 2.3.3 Sexual harassment at work

Over the last decade, the pervasiveness and the cost of sexual harassment, a manifestation of sex-based discrimination, has become a growing concern at the national and international level. The ILO defines sexual harassment as a sex-based behaviour that is unwelcome and offensive to its recipient. For sexual harassment to exist these two conditions must be present.

Sexual harassment may take two forms:

1) Quid Pro Quo, when a job benefit - such as a pay rise, a promotion, or even continued employment - is made conditional on the victim acceding to demands to engage in some form of sexual behaviour; or;

2) Hostile working environment in which the conduct creates conditions that are intimidating or humiliating for the victim.

Behaviour that qualifies as sexual harassment:

- PHYSICAL - physical violence, touching, unnecessary close proximity
- VERBAL - comments and questions about appearance, life-style, sexual orientation, offensive phone calls
- NON-VERBAL - whistling, sexually-suggestive gestures, display of sexual material.

[10] ILO (2008) Declaration on Fundamental Principles and Rights at Work. Sexual Harassment at Work. Factsheet, 2008.

According to a recent study (2009) by sociologists at the University of Minnesota, women in supervisory positions are the most likely targets of sexual harassment. After following over 1000 men and women from ninth grade through to their 29th or 30th birthdays, the researchers found that women, gays, and feminine men were the most likely to be harassed throughout their lives. Women supervisors were 137 per cent more likely to be harassed than females in non-supervisory positions. There was no correlation between supervisory status and harassment for the men in the study. Researcher Heather McLaughlin reported, "This study provides the strongest evidence to date supporting the theory that sexual harassment is less about sexual desire than about control and domination. Male co-workers, clients and supervisors seem to be using harassment as an equalizer against women in power."

Source:
http://www.sexualharassmentsupport.org/SHworkplace.html
(2010 04 16)

Improving general conditions of work—working time, holidays and minimum wages

Sustainable enterprises adequately address the physical, emotional and social requisites of their employees for their well-being. Work design, working time arrangements, leaves and days off, remuneration arrangements, etc. should provide the rest and recuperation needed and take into consideration the special arrangement required by family concerns and special groups while at the same time meeting the needs of the enterprise.

- The enterprise should ensure that employees are able to get a sufficient amount of rest between shifts; that total weekly hours are kept within reasonable limits and overtime is compensated both financially and with additional periods of rest; and that workers are given a minimum period of annual leave to recuperate and spend time with family, friends and community.
- Measure that facilitate balance between work and family concerns should be put in place fully taking into consideration that these family-friendly practices meet the needs of the enterprise whilst meeting those of its staff.[11]
- Working time policies should not be undermined by the practice of offering low wages and overtime payments, which effectively force workers to accept longer hours of work.
- Remuneration (wages, social security benefits, in-kind benefits, etc.) should be sufficient for workers to meet the basic needs of their families, but without risking the financial viability of the enterprise.
- Collective bargaining over wages and other conditions of work is encouraged.

Taking active measures to ensure production and supply chains do not involve child labour or forced labour

Forced labour (including abduction, bonded labour and indentured servitude) violates the fundamental principle of liberty and human dignity. Child labour robs a young person of the chance to obtain an education and to choose an occupation later in life. The worst forms of child labour threaten the child's life, physical development, and/or moral well being. Enterprises taking active measures to eliminate child labour and forced labour should

- Adopt a clear policy to not use or support child or forced labour in any form.
- Constantly review their practices that may indirectly contribute to child labour, such as payment of extremely low wages for subcontracted piecework performed at home that creates strong incentives for parents to rely on child labour.
- Take adequate steps to ensure that any product of child or forced labour does not end up in any part of their supply chain; this includes entering into agreements with suppliers and the periodic monitoring to ensure compliance with agreements.
- If appropriate, participate in voluntary labelling schemes.

[11] Various examples of measures can be found at Hein, C., "Reconciling work and family responsibilities: Practical ideas from global experience", ILO, Geneva 2005.

- To the extent possible, take proactive steps to assist the community in combating child labour, such as contributing to funding of schools.

2.3.2 Social impacts on external society

Another key performance area of a sustainable enterprise is in its dealings with its external stakeholders: the customers, suppliers, sellers, host community, the society at large, the physical environment, national and local authorities, etc. By putting into practice the concept of corporate social responsibility (or corporate responsibility or corporate citizenship), the enterprise could enhance it social performance.

An enterprise is a key member of the society. It is established for producing, distributing and delivering products and services needed by the other members of the society. It exerts strong influence in the lives of individuals, families, communities and other stakeholders affected directly or indirectly by its decisions, operations and other actions. With the increasing power and influence of business in a globalized economy, coupled with the heightened and widespread awareness and capacity to take action of various sectors of society, there is an increasing call for business to be more socially responsible in its operations. For multinationals operating in various countries, the call is for them to exercise social responsibilities not only in their home country operations but all throughout their global production networks also. This expectation on business is translated into a concept of corporate social responsibility (CSR).

A key to improving the impacts of the enterprise on the society at large is good corporate governance. A key part of corporate governance is the development and implementation of internal programmes to promote ethics, moral standards and socially acceptable practices.[12]

Corporate Social Responsibility

Corporate Social Responsibility (CSR) as defined by the ILO is a way in which enterprises give consideration to the impact of their operations on society and affirm their principles and values, both in their own internal methods and processes and in their interaction with other actors. CSR is a *voluntary, enterprise-driven* initiative and refers to activities that are considered to exceed compliance with the law[13].

European Commission defines CSR as a concept "whereby companies integrate social and environmental concerns in their business operations and in their interaction with their stakeholders on a voluntary basis."[14] The concept of socially responsible behaviour being a relative concept – different countries, different social groups, civil society groups and different business may have different expectations and apply different standards with respect to various aspects of social responsibility. Thus there cannot be a standard single view and agreements have to be reached through social dialogues and consultations with the enterprises' stakeholders.

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12 Schwab, K., "Global Corporate Citizenship: Working with governments and civil society" Foreign Affairs, January/February, 2008.

13 http://www.ilo.org/public/english/standards/relm/gb/docs/gb295/pdf/mne-2-1.pdf

14 Communication from the Commission to the European Parliament, the Council and the European Economic and Social Committee. Brussels, 22.3.2006, COM (2006) 136 final.

International guidelines and codes

Recognizing this, governmental and other official international organizations, including the United Nations, the International Labour Organization, the European Union, the OECD among others, have come-up with guidelines and codes on socially responsible business:

- The ILO has adopted the *Declaration on Fundamental Principles Concerning Multinational Enterprises and Social Policy*, the *Fundamental Principles and Rights at Work* and a number of *International Labour Standards*;
- The European Commission has published in 2001 a green paper *Promoting a European Framework for Corporate Social Responsibility*. This was followed by two *Communications on Corporate Social Responsibility;*
- The OECD has developed its *Guidelines for Multinational Enterprises* and several other instruments for corporate responsibility;
- The UN has launched the *UN Global Compact* where companies commit to pursue and give effect to 10 universal principles that covers human rights, labour, environment and anti-corruption concerns;
- The Global Reporting Initiative, a broad network of stakeholders- with the support of the UNEP has come up with *Sustainability Reporting Guidelines* the 3rd generation of which was launched in October 2006.

Private voluntary initiatives

Most major businesses have recognized the importance of corporate social responsibility either as a reaction from pressures from its stakeholders and the civil society or based on the recognition of the strategic value of CSR. Many multinational companies have developed their *voluntary code of conduct* that is to guide their own operations as well as those of their suppliers and distributors.

Non-governmental organizations have been organized to promote socially responsible and ethical business practices. These NGOs have developed guidelines and codes that they recommend companies adopt in the practice and reporting of their CSR performance. For example, the Global Reporting Initiative mentioned above is a broad coalition of NGOs. SA8000, a social accounting system was developed by an NGO. Fair trade is being promoted by coalitions of NGOs established precisely to pursue the cause of fair trade between developing and developed economies.

Social dialogues and negotiations between global trade union federation and multinational enterprises have resulted in *Framework Agreements* reflecting shared principles. The main purpose of a framework agreement is to establish formal on-going relationships between the dialogue partners to resolve specific problems and to cooperate on broader issues. As the ICFTU puts it "Although it is more useful and accurate to consider framework agreements as global industrial relations than as CSR, they are one important way that a company can carry out its social responsibilities". The content of framework agreements varies from one to the other. Each framework agreement reflects the needs of workers and companies related to characteristics specific to the particular industry and the traditions and relationships between the dialogue partners. All of the agreements though, include provision concerning respect for core labour standards.

The enterprise could give effect to its corporate social responsibility following the models discussed above. Better still, through consultation with its key stakeholders and through the process of social dialogue, identify the social expectations on the enterprise and ensure that the decisions, operations, behaviour and actuations meet these expectations, and giving feedback to the stakeholders on how their expectations are being met.

Another way by which enterprise can enhance its social impact is through corporate social entrepreneurship which turns socially and ecologically responsible ideas into products or services.

Deutsche Bank offers innovative microfinance schemes and socially responsible investment products,

Toyota Motor Corporation produces a hybrid car, Unilever empowers women to become entrepreneurs in rural India while at the same time raising awareness of hygiene and nutrition are some examples of enterprises coming up with innovative products and services along the lines of corporate social entrepreneurship.[15]

2.4 Improving economic, social and ecological performance through better workplace practices

A common element of approaches to improve the economic, ecological and social performance of an enterprise is involvement of employees, workers and management alike. As discussed above, involving employees requires:

(a) Building their skills and capabilities so that they could not only do their work better but also help in improving the processes and products of the enterprise,

(b) Communicating effectively and sharing with them the information and knowledge needed to identify opportunities for improvement, analyze improvement options and monitor the impacts of the change,

(c Giving them the opportunities and the mechanisms to contribute to the improvement efforts through representative and direct workplace cooperation,

(d) Motivating them to get involved and contribute by providing them with good work environment, respect and recognition.

(e) Sharing with them fairly the gains from the improved enterprise performance.

In short, improving the performance of the enterprise requires deliberate use and application of decent workplace practices that also make the jobs decent, quality jobs.

15 Schwab, 2008. Ibid

Box 2.4.1 Quality jobs

Productive and meaningful – the performance of the job gives a sense of value and usefulness to the person doing the job resulting in better self-respect and esteem.

Adequate and fair remuneration – salaries and other remuneration are commensurate to the value created by the job for the enterprise, are fair and equitable relative to the other jobs in the company, are consistent with prevailing levels in the sector and, when applicable, meet the legal requirements and prescriptions.

Healthy and safe environment – the job is performed in safe and healthy environment, with adequate prevention of occupational accidents and diseases, where environmental hazards are contained and where appropriate health and recreation services are available.

Opportunity for learning and growth – where the job and the employment conditions provide opportunities for the workers and employees to acquire new skills, competencies and relationships which will enable them to grow professionally and personally, and/or improve their employability.

Secure – where employment contracts and arrangements gives sense of longer-term stability to workers

Good management and organization – where good management and supervision practices are employed, sound labour-management relations exist and there are opportunities for participation and involvement for workers and employees.

Respect and recognition – where workers' rights are respected; mutual respect between workers and management and among workers; equal opportunity, with individuals recognized and appreciated.

Balance between demands of work, family and society – where provisions are made for workers and employees to be able to meet family obligations as well as obligations to the community and society; e.g. appropriate working hours, child care, maternity leaves.

Social protection – where schemes for health, life, disability as well as pension schemes are available.

Good company reputation – where workers and employees can be proud to be associated with a company that has good reputation in terms of e.g. good business practices, good products and services, socially responsible business conduct and practices, etc.

Documented studies of workplace practices that are oriented towards Decent Work show that they are good for business. The impacts are both qualitative relating to building the human and social capital of the enterprise, and quantitative, reflected in improved productivity, reduced staff turn-over, lower absenteeism, cost effectiveness, speed and agility, etc. The link however, is not automatic and management must make sure that the conditions are there for the two to be mutually complementary

Good job quality leads to higher morale of workers and a greater sense of belonging to the company. These are usually manifested in higher enthusiasm of the workers and employees in improving the operations of the company, whether it be in increasing level of production, minimizing wastage, meeting delivery targets and schedules, better quality of products and services, better dealings with customers, improved handling and maintenance of equipment and machineries, and making suggestions for continuous improvement. Good working conditions and environment means workers and employees that are physically and mentally healthy which redounds to reduced absenteeism, reduced lost working time due to accidents and less damage to work due to negligence.

Box 2.4.2 Gender sensitive occupational safety and health, and working conditions

Gender-sensitive occupational risk assessment improves working conditions for all workers

Continuous efforts are needed to improve the working conditions of both women and men. However, taking a 'gender-neutral' approach to risk assessment and prevention can result in underestimating the risks to female workers or even ignoring them altogether. When we think about hazards at work, we are more likely to think of men working in high accident risk areas such as a building site or a fishing vessel than of women working in health and social care, in a beauty salon or a call centre. Both women and men can face significant risks at work: making jobs easier for women will make them easier for men.

Some general measures to promote gender-sensitivity in OSH management include:

- Review of safety policies and relevant objectives and procedures.
- Relevant training and information on safety and health risks to male and female risk assessors: managers, trade union officers, and safety committees.
- Linking occupational safety and health to workplace equality actions
- Systematic efforts to involve more women in risk assessment and management at all levels of the process, particularly in safety committees. Are meetings held at times when women can attend? Are all workers informed, how and when?

Five steps for gender sensitive risk assessment and management:

Step 1: Hazard identification

- consider hazards prevalent in both male- and female- dominated jobs;
- look for health hazards as well as safety hazards;
- avoid making initial assumptions about what may be 'trivial';
- consider the entire workforce, e.g. cleaners, receptionists, and ask both women and men about their possible problems at work; do not forget part-time, temporary or sub-contracted workers, and those on sick leave;

Step 2: Risk assessment

- Look at the real jobs being done and the real work context; don't just make assumptions based purely on job description or title;
- make sure techniques used for assessment include issues relevant to both male and female workers. If they do not, adapt them;
- Be careful about gender bias in prioritising risks according to high, medium and low;
- Pay attention to gender issues when the OSH implications of any changes planned in the workplace are looked at.

for *stress* include: home–work interface, and both men's and women's work schedules; career development; harassment; emotional 'stressors'; unplanned interruptions and doing several tasks at once.

for *reproductive health*:

- include both male and female reproductive risks;
- look at all areas of reproductive health, not just pregnancy.

for *musculoskeletal disorders*:

- look critically at 'light work'. How much static muscle effort is involved? Does the job involve significant standing? What loads are really handled in practice, and how often?

Step 3: Implementation of solutions

- Aim to eliminate risks at source, to provide a safe and healthy workplace for all workers. This includes risks to reproductive health
- Adapting work and preventive measures to a diverse workforce. For example, selection of protective equipment according to individual needs, suitable for women and 'non-average' men; this should include the promotion of behavioural change, also in relation to sexually transmitted diseases and HIV/AIDS.
- Ensure that programmes to prevent risks of HIV/AIDS infection are implemented in a gender sensitive way addressing the needs and behaviours of both women and men.

Steps 4 and 5: Monitoring and review

- \- Make sure female workers from all posts and levels participate in review processes;
- \- Keep up to date on gender-related occupational health issues.

Adapted from European Agency for Health and Safety at Work Fact Sheet no. 43: Including gender issues in risk assessment
http://agency.osha.eu.int.

All studies here show that the best productivity and business improvement results are achieved when good workplace (decent work) practices are applied in a consistent and integrated manner and when they are used in "bundles" of mutually supportive and re-enforcing practices. Individually applied, their effectiveness may be limited or even be counter-productive. Also, their effectiveness is dependent on and contingent to the enterprise's culture, history and current situation.

Box 2.4.3 High performance work

A study of 138 South Korean firms (40 locally owned, 41 subsidiaries and joint ventures of American firms, 42 European subsidiaries and joint ventures and 15 Japanese subsidiaries and joint ventures) conducted by Bae and Lawler (2000) found that strong positive links between high involvement HRM strategies (high employee participation, extensive training programme and broad job design) and firms' competitive advantage (product differentiation and speed) as well as over-all business performance (Return on Invested Capital).

Comparing the performance of fifty eight companies identified as the best companies to work for in the USA and eighty five companies belonging to the Standard and Poor's top one hundred companies, Lau and May (1998) found statistical evidence of the win-win paradigm: companies with high quality of work life can also enjoy exceptional growth and profitability. Their findings suggest that a proper alignment of management philosophy, business strategy, and human resource policies can actually benefit all the key stakeholders of the enterprise. The findings of this study was further supported by the findings of a follow-up study conducted by May, Lau and Johnson (1999).

Vandenberg, et. Al (1999), in a study involving 3,570 employees of 49 life insurance companies found that quality job (characterized by good job design that makes jobs more meaningful, provides employee with control to adapt to changing environment, provides adequate feedback, and incentive schemes at different levels, training opportunities, information sharing, and flexibility to provide balance between job and family requirements) is positively related to the Return on Equity.

Using data from 968 firms drawn from 12,000 publicly held US companies, Huselid (1995) found a strong correlation between high performance work practices (practices that builds employees' knowledge, skills and abilities, participation, information sharing, rewards and compensation systems that recognize and reward performance, etc.) and decline in employee turnover, productivity and corporate financial performance. The returns on investments in HPWP were substantial. A one standard deviation increase in use of such practices was associated with a 7.05 percent decrease in employee turnover and, on a per employee basis, $27,044 more in sales and $18,641 and $3,814 more in market value and profits, respectively.

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Chapter 3: Programmes for improving sustainable enterprise performance

3.1 Introduction: What is change management?

Sustainable enterprises enhance productivity to remain competitive in national and international markets. They apply workplace practices based on full respect for fundamental principles and rights at work and international labour standards, and foster good labour-management relations as important means of raising productivity and creating decent work.[1] Often, pursuing these values, strategies and practices requires major transformations and change in the very nature, business models and processes of the enterprise, effectively changing the organizational culture as well.

To have better economic, social and ecological performance, the enterprise must undertake continuous improvement in all aspects of its operation: coming-up with products and services that meet better the consumers' expectations, improving business processes to be not only efficient and effective but also socially responsible and ecologically responsible, etc. Often, meeting the new competitive environment and living up to the new expectations of its stakeholders requires adopting new business models, new forms of production structure and new forms of work organization. The changes required are not just organizational in nature, but they also involve changes in the attitudes and behaviour of individuals.

In a sustainable enterprise, the desirability and feasibility of the change include considering not only economic impacts of the change but social and ecological impacts as well. When planning to introduce a new technology, its effect will not only be on productivity (e.g. more flexibility, more efficient use of labour, materials and energy) but on working conditions, on the safety and health of operators and ecological impacts such as whether it will reduce pollution produce more hazardous effluent. For change to be effective it has to be managed. A failed effort to introduce change (e.g., a new IT system, or a new organizational structure,) can be a demoralizing experience for everyone in the organization. Failure can lead to cynicism and indifference, making the introduction of other changes difficult. On the other hand, a successful change encourages people to support innovation and to welcome change.

A key foundation of effective change management is trust and mutual respect and confidence built on good communication and information sharing. In this regard social dialogue, in its various forms, is essential to achieving an improvement-oriented organization. Social dialogue helps build the human and social capital of the enterprise. The store of information, knowledge acquired by individuals through training and experience is shared better, in the process augmenting them. Workplace cooperation is facilitated, further strengthening the innovation process.

Definitions

Change, for sustainable enterprise development, means making improvements in the economic, social and ecological performance of the enterprise. The "something new" could be both at the organizational and individual levels.

[1] *Conclusions concerning the promotion of sustainable enterprises*, ILC June 2007, ILO Geneva

At the level of the organization it could mean introducing new products and services, new processes, new technology, new layout, new work organization, or new programmes for quality and productivity improvement. To meet the new social and ecological expectations of stakeholders, it could mean adopting a new business philosophy, a new organizational culture or new management system.

At the level of the individual it could mean new duties and responsibilities, new interpersonal relationships, new required skills, new attitudes or behaviour. The management of organizational change therefore puts high emphasis on the management of the people or human side of the change.

Change management is the application of the full managerial processes of planning, organizing, leading and controlling with the underlying processes of communicating, engaging those involved, enabling, facilitating, coordinating, etc. to the introduction of the "something new". Particular emphasis is on the aspects of change at the personal level. Very good examples of change management are the PDCA (Plan – Do – Check - Act) cycle of Kaizen and the DMAIC (Define – Measure – Analyze – Improve – Control) process of Six Sigma, which both involve participatory processes.

These change management processes encompass the following:

1. The need for change is thoroughly analyzed and defined with the participation of those involved and affected
2. The proposed change and the expected outcomes are fully specified
3. The implementation strategy and action plan including roles and responsibilities are laid-out in detail
4. Supportive systems such as communication, training and development, and recognition and rewards systems are put in place
5. The plan of action is rolled-out and implemented
6. The progress and results are monitored and controlled
7. Finally, the "new" is institutionalized, standardized and made part of organizational processes and culture.

An underlying change management element that is critical to the success of a change initiative is the engagement and participation of the people involved and affected by the change. Hence change management is often defined as managing the people-side of change. Effective communication, information sharing, addressing the fears and anxieties, nurturing of cooperation, skills and capability building, and creating a reinforcing environment are crucial. The importance of social dialogue, discussed more in detail in the next section, cannot be over-emphasized in this respect.

The table 3.1.1 below indicates what are involved in the change management process.

Frozen –Unfreeze – Refreeze

Kurt Lewin, founder of modern social psychology, described organizational change as a process of being in a "frozen state" moving into an unfrozen state and then refreezing. During the first stage of

Table 3.1.1 Change management process

Change Management Process	What it involves	
Planning	■ Understanding the reasons why change is needed e.g. is it need driven or opportunity driven? ■ Defining the goals and objectives to be achieved ■ Deciding the best route and ways of achieving the goals and objectives ■ Specifying the change to be introduced ■ Developing the change strategy using tools such as Force Field Analysis ■ Formulating the action plan ■ Developing the supportive systems e.g. communication, training and development, incentive and recognition systems ■ Allocating the resources needed to implement the change	Communication, Information Sharing, Engagement and Participation
Organizing	■ Preparing the change management team ■ Structuring how and where the various functions and tasks are to be done and how they will relate with each other ■ Assigning responsibilities and authorities to people and groups for carrying-out specific duties and tasks	
Leading	■ Role modelling ■ Motivating and enabling people ■ Creation of organizational climate supportive of change ■ Coordinating and facilitating of implementation	
Controlling	■ Making sure that the results and outcomes are according to expectations ■ Monitoring the progress and measuring the actual outcome ■ Taking corrective actions ■ Reinforcing change	

being frozen, all processes are examined and reviewed. During the unfreezing stage, changes are made and new systems implemented. To ensure the change is sustained, the final stage of refreezing involves embedding the change so that it becomes a normal part of the work experience and culture.

The reality is that change involves people. So there are two perspectives: organizational change and individual change. It is essential to mobilize people to appreciate the change and become its strong advocates. To gain commitment, allow people to help clarify why change is needed and develop and implement the solution. They then take an ownership of the process. If people feel they own something they are more likely to make it work.

John Kotter and Dan Cohen's 'The Heart of Change'[2] presents an eight-step model that enterprises could follow to mobilize people and achieve successful change:

[2] Kotter, J. and Cohen, D. (2002), "The Heart of Change" Harvard Business School Publishing, Boston, Massachusetts, 2002

1. *Increase Urgency*. Raise a feeling of urgency and reduce the complacency, fear, and anger that stop change from starting.
2. *Build the Guiding Team*. Pull together the right group of people, with the right characteristics and sufficient power, to drive the change effort. Help them to behave with trust and emotional commitment to one another.
3. *Get the Vision Right*. Move beyond traditional analytical/financial plans and budgets. Create the right compelling vision to direct the effort.
4. *Communicate for Buy-in*. Send clear, credible, and sincere messages about the direction of change and build gut-level buy-in that shows in how people act.
5. *Empower Action*. Remove barriers that block those who have genuinely embraced the vision and strategies.
6. *Create Short-term Wins*. Generate visible, valued, unambiguous wins, fast enough, to diffuse cynicism, pessimism, and scepticism, and to build momentum.
7. *Don't Let Up*. Help people make wave after wave of change until the vision is a reality. Do not allow urgency to sag.
8. *Make It Stick*. Ensure that people continue to act in new ways, despite the pull of tradition, by rooting behaviour in reshaped organizational culture.

It is essential to look at change from the perspective of those that will be affected by it. It is very important that those affected are made fully aware of why the change has to be undertaken, what to expect, their fears and anxieties addressed. They have to be assisted and enabled to cope with the change process and be provided with the knowledge and skills to function effectively in the changed processes, structure and work environment.

Models of change management

ADKAR Model

A well-known model for individual change management is the ADKAR model developed by Prosci[3], a management consulting company. The model presents the five building blocks that an individual needs to bring about successful change — abbreviated in the name ADKAR: Awareness, Desire, Knowledge, Ability and Reinforcement. It is management's job to create an environment in which people can go through these stages as quickly as possible:

- Building awareness of why the change is needed
- Creating desire to support and participate in the change
- Developing knowledge of how to change
- Fostering ability to implement new skills and behaviours
- Providing reinforcements to sustain the change

This model recognizes that different individuals have different rates of going through these stages. It is important to understand which stage particular individuals are at in order to use the appropriate individual approaches.

Force field Analysis[4]

A very useful change management tool is 'Force Field Analysis' using a 'Force Field Diagram'. This tool was developed by Kurt Lewin who recognized that a situation is held in balance by interaction of two opposing sets of forces: those seeking to promote change (the driving forces) and those attempting to maintain the status quo (the restraining forces). For change to occur, the driving forces must exceed the restraining forces.

The Force Field Diagram is an analytical model built on the idea that forces: persons, habits, customs, attitudes, systems, and environment, etc. both drive and restrain change. It can be used at any level:

3 http://www.prosci.com/prosci_change_series.pdf

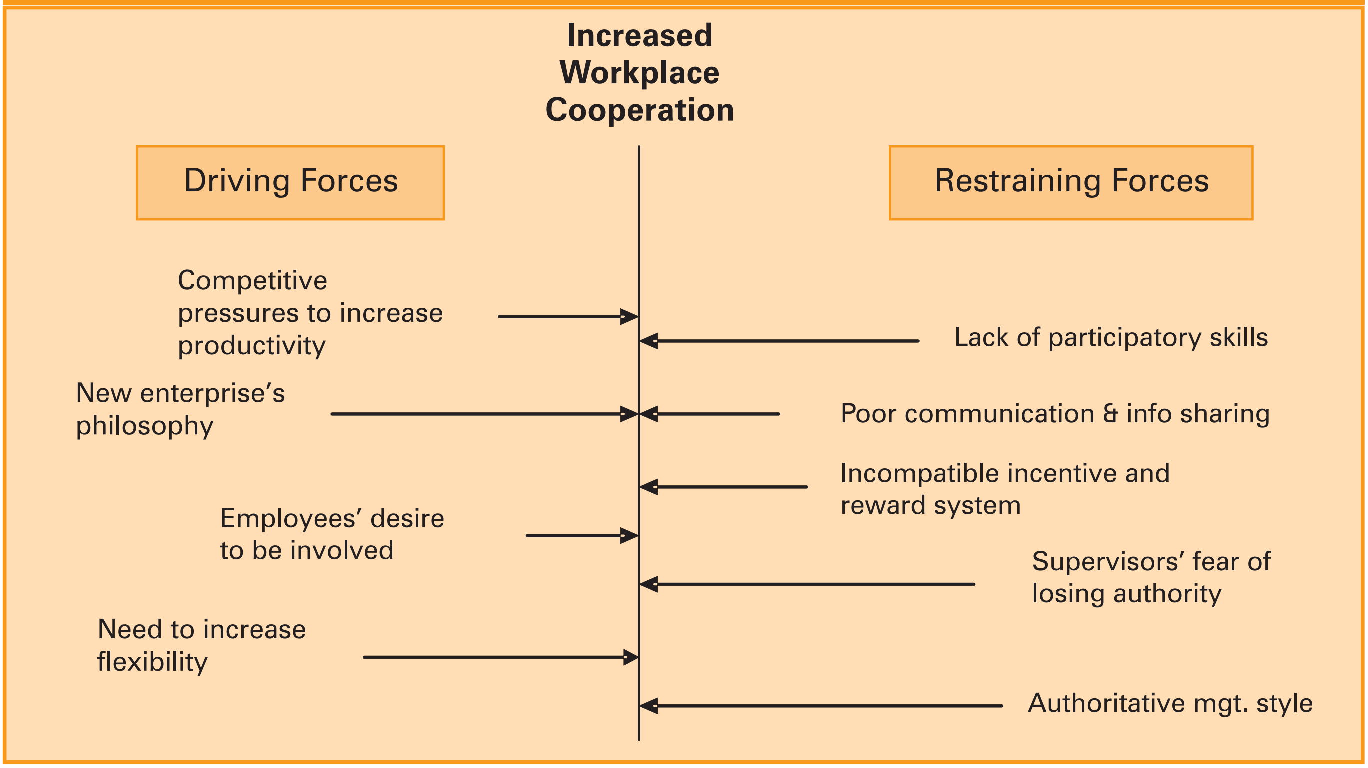
4 Write-up on FFA largely adapted from Value Based Management Net website http://www.valuebasedmanagement.net/methods_lewin_force_field_analysis.html 2008.

individual, project, organizational, networks, societal, to visualize the forces that may work in favour or against the change initiatives. The model helps the user picture the "tug of war" between the forces around a given issue. Usually the planned change is indicated at the top middle of the diagram and the forces are listed in two columns below. Driving forces are listed on the left column and resisting forces on the right column. Arrows are drawn towards the middle with longer arrows indicating stronger forces. The idea is to make explicit the forces acting on a given change issue.

How to construct and use a Force Field Diagram:

1. Describe the current situation
2. Describe the desired situation
3. Identify where the current situation will go if no action is taken
4. List all the forces driving change towards the desired situation
5. List all the forces resisting change towards the desired situation
6. Analyze all of the forces: Are they valid? Can they be changed? Which are the critical ones? etc.
7. Assign a score to each of the forces according to its strength, e.g. 1 = Extremely Weak, 10 = Extremely Strong
8. Chart the forces by listing (indicating the strength score by number and/or length of line) the driving force to the left and the resisting force to the right
9. Determine whether change is viable and progress can occur
10. Analyze how decreasing the strength of the restraining forces can effect the change and increasing the strength of the driving forces (keep in mind that increasing the strength of the driving forces or decreasing the strength of the restraining forces may increase or decrease strengths of the other forces or create new ones)
11. Based on the analysis develop the strategy and action plan.

Figure 3.1.1 Increasing workplace cooperation



3.2 Social dialogue and workplace cooperation

3.2.1 The importance of social dialogue

Labour-management cooperation

Labour-management cooperation, particularly through increased involvement of workers and their representatives in the planning and execution of organizational change is a necessary condition for coping with the adjustment process. Cases collected by the ILO in studying labour-management cooperation in dealing with change in training, technological innovation and other changes, highlighted the importance of effective communication between employers' (management) and the workers' representative, if the introduction of new technology or important organizational change is to take place without major disturbance of labour relations.[5]

Effective communication, information sharing, consultation and negotiation among the social partners at national and sector levels, and between labour and management at enterprise level, and their working together to address common problem and issues, are all essential to achieving this workplace co-operation.

Social dialogue is defined by the ILO as including all types of negotiation, consultation or simply exchange of information between, or among, representatives of governments, employers and workers, on issues of common interest relating to economic and social policy[6]. It can exist as a tripartite process, with the government as an official party to the dialogue or it may consist of bipartite relations only between labour and management (or trade unions and employers' organizations), with or without indirect government involvement. Social dialogue processes can be informal or institutionalized, and often it is a combination of the two, and can take place at the national, regional or enterprise level.

With the mutual trust and confidence engendered by bipartite social dialogue at the enterprise level, the enterprise is better able to meet the productivity and quality improvement needed to remain competitive. Through information sharing and participative problem solving, opportunities for productivity improvement including waste reduction are identified and addressed. In the same veins, social dialogue enables management and labour to address issues related to working conditions, safety and health, skills development, sharing gains and other employment conditions issues.

Social dialogue is the foundation for building the social capital that, together with the economic and human capital of the enterprise, form the basis for sustained productivity performance. Economic capital includes the physical, financial and technical assets needed for production and distribution. Human capital is the skill, knowledge and competence embedded in the enterprise's workforce. Social capital is the level of trust, communication and cooperation within the enterprise, and the ability of people to work together for common purposes.

[5] *Working Together: Labour-management cooperation in training and in technological and other changes,* A. Gladstone and M. Ozaki, eds., ILO Geneva, 1991

[6] ILO Convention No. 154, Promoting collective bargaining, 1981. http://www.ilo.org/public/english/dialogue/ifpdial/downloads/c154.pdf

The value of the enterprise's investment in economic capital depends on its level of human capital - machines are worth only as much as the abilities of people who operate and maintain them. In addition, a firm's employees are its primary source of technical and organizational innovations. More competent employees are better able to spot areas for improvement in production, quality, design, work environment, etc. and to implement changes rapidly and effectively. The value of the firm's investment in human capital, however, in turn depends directly on its investments in social capital. Without trust, communication and cooperation a firm is unable to make the most of its human capital and hence its economic capital.

Without the consent of the workforce the effective mobilization behind a change process will not be achieved. The level of mutual trust and confidence between workers and management is a determining factor in having such consent. People will support and participate in the change process if they are treated as partners. Co-operation means more than just consultation, it means co-determination i.e. working together to achieve the desired results for the enterprise. They therefore need to be informed accurately of the need for change and consulted and involved in identifying what has to be done and how it is best and most feasibly to be done.

The **pre-conditions** for constructive social dialogue are based not only on what makes for an efficient workplace but also on the rights of the parties involved. Enterprise management has rights in connection with the workers it employers. But management needs to make it clear in policy and in actions that it respects the workers' rights to freedom of association, the right to collective bargaining. This provides democratic foundations for social dialogue. There also needs to be effective dispute resolution and grievance procedures handling mechanism already place in the workplace. Absence of these affects workplace cooperation and the atmosphere that is needed for productivity improvements. Both management and worker representatives need to have or take steps to acquire the competence to meet their respective responsibilities for\workplace dialogue and co-operation.

The rights basis of this co-operation is set out in the relevant ILO Standards[7]:

- Freedom of association and protection of the right to organize Convention 87, 1949 (N°87).
- Right to organise and collective bargaining Convention, 1949 (N°98).
- Labour relations (public service) Convention, 1978 (N°151).
- Collective bargaining Convention, 1981 (N°154).
- Tripartite consultation (International Labour Standards) Convention, 1976 (N°144).

3.2.2 How workplace cooperation improves sustainable enterprise performance

Workplace cooperation and social dialogue are interdependent and mutually reinforcing.

3.2.2.1 Why workplace cooperation is essential

Workplace cooperation happens when managers and workers in an enterprise work together towards achieving a common goal or objective, or to find mutually acceptable ways of dealing with common problems and issues. It could be in the areas of labour relations and working conditions. Or it could be in meeting the environmental concerns of the enterprise, e.g. reducing wastes discharged by the enterprise into the environment. The intended results of workplace cooperation therefore are:

Increased productivity and quality performance

Through participative productivity improvement programmes, workers and managers work together to identify productivity bottlenecks such as high machine downtime, analyze the causes of such problem, identify the appropriate countermeasures, and together implement new productive maintenance procedures with the necessary skill development if poor maintenance is found to be the main cause of the problem.

[7] All Conventions of the ILO are available at: http://www.ilo.org/ilolex/english/convdisp1.htm

Safer and healthier working environment

By consulting and involving workers and supervisors in addressing housekeeping and other work related issues through programmes like 5S, better workplace layout, hazards elimination, less tedious material handling and proper maintenance could result. Safety and health concerns are often dealt with by the joint efforts of labour-management through cooperative mechanisms like Health and Safety Committees. To be effective these committees must have the powers to take decisions, implement changes that are mutually agreed. This in turn means that these committees have access to resources to implement their health & safety recommendations. Past Experience in many countries indicates that where a committee exists but has no means to implement its decisions cynicism sets in and cooperation declines.

Increased skills and competence

Through consultations and joint deliberations, skill gaps are identified and more appropriate training and development approaches arrived at. The spirit of collaboration and cooperation encourages the sharing and use of information and knowledge within and among the various units of the organization. In addition, the processes and mechanisms of workplace cooperation build among workers and managers new competencies such as communication skills, interpersonal skills, problem-solving capabilities, networking abilities, etc. which are required to have the flexibility and agility demanded by the new competitive business environment.

Increased job satisfaction, greater self-respect and sense of achievement

When people are trusted and their views and opinions taken seriously, it leads to a humanization of work and greater worker self-respect and sense of achievement.

Benefits of integrating gender issues in social dialogue

Company policies that support women often help men too;

- Facilities that appear to most help women, for example, child care, benefit both mothers and fathers, children, families and communities;
- Proposals that benefit women have effects on families and communities;
- Many proposals that support the entire union membership can have direct positive benefits for women. Better pay, increased safety measures, better lighting, etc. are measures that benefit both women and men[8].

3.2.2.2 How to achieve workplace cooperation

There are many ways to achieve workplace cooperation, from simple information- sharing to sophisticated labour-management joint committees and councils,.by representation or direct involvement. Representative cooperation takes forms, such as labour-management joint consultation committees, where representatives of labour and management consult on issues outside the collective bargaining purview, for example on improving productivity. Some say that while collective bargaining covers how to divide the pie, joint consultation on performance improvement covers how to increase the pie. It is also important to make sure that the joint consultation mechanism is not confused with grievance procedures, and that the it fully respects the roles of trade unions, and does not in any way supplant collective bargaining.

Representative workplace cooperation:

Joint Labour-Management Committees

Labour-management committees can be formed out of collective bargaining or. because an issue is of common interest and needs ongoing attention.. Health and safety committees are the most common specialized labour-management committee as they

[8] Source: Olney, S. Gender Equality: A guide to collective bargaining. ILO, 2002.

are relevant to almost all work environments: manufacturing, transportation, building and construction, and office. Where health and safety LMCs are used, there has been 40 per cent reduction in injuries and 20 per cent increase in the productivity of construction firms.[9] Other LMCs may be set up for joint training or on issues such as productivity improvement, cost savings, or environmental management. The effectiveness of LMCs vary depending on the calibre and level of the people involved, the resources and training available to them, and the commitment of the organization to the topic being addressed. Members of an LMC representing workers must be freely chosen by them through proper election processes, and enjoy their confidence. It is also important that resources are made available to the LMC to enable it to follow through with implementing actions and measures that are agreed.

The following list summarizes the main characteristics of LMCs:

- Are an addition to existing structures for communication and problem solving
- Are not a substitute for — or alternative to — free collective bargaining
- Are advisory without mandatory powers
- Can be created to deal with general issues or specific concerns
- May or may not be called for in the collective bargaining agreement
- Can be organized at the company or plant level, area or industry level
- May consider matters related to improving an organization's performance which are not taken-up in collective bargaining
- May help employees develop themselves and improve their working lives

Box 3.2.1: Ten points for an effective labour-management committee

1. Both parties share mutual interest in the long-term survival and success of the enterprise and the community, even though they may have conflicting goals in other matters.
2. Both sides want to make the L-M committee work and have realistic expectations of what it can accomplish. Participation in regular sessions symbolizes this commitment, which is known throughout the organization.
3. Labour members of the joint committee are believed and trusted by the rank and file; management members have sufficient status and authority.
4. Maximum voluntary participation is encouraged; employees, including supervisors, are kept informed in matters considered by the L-M committee and have the opportunities to express their views on its recommendations.
5. The joint committees do not take-up matters that infringe on the rights of either party as established under the collective bargaining agreement or the grievance procedure.
6. Job security is recognized as a basic to the programmes success.
7. The parties have a mature, open relationship. Each willing to listen to the other side. Both agree to concentrate on finding answers to problems at hand and discovering opportunities for collaborating.
8. The joint committee is promptly informed of the status of their recommendations. If they are not, the committees lose interest and stop operating.
9. Numbers of channel of communication are encouraged and an atmosphere of mutual respect prevails. However, communications must be accompanied by substantive recommendations.
10. New ideas are encouraged and their value weighed objectively. The committee must pursue concrete problem of interest to both management and labour if it is to function productively.

The U.S. Department of Labour, quoted in Module on Worker-Management Cooperation by Dr. Gary B. Hansen.

[9] Hansen, Gary, "Module on Labour-Management Cooperation". ILO unpublished paper.

- Foster sharing information about the state of the organization
- Foster sharing of ideas to improve operations and conditions of employment
- Foster sharing of gains
- May be created when both parties (a) desire to improve cooperation, or (b) perceive a threat to their mutual security, e.g. through restructuring or privatisation, loss of markets, declining profitability, poor L-M relations, etc.

In using these committees, the enterprise needs to ensure the committee decisions do not cut across the process of collective bargaining. A healthy industrial relations environment — and indeed the whole system of workplace co-operation – can be undermined if workers and their union feel concerned that the company management may use these Joint forums to address issues and implement policies that would normally be taken up by the unions in collective bargaining.*Direct workplace cooperation mechanisms*

Direct participation can be through involvement and participation of workers in one-off improvement projects such as company restructuring, changing the production layout, or selection and installation of new production process. Often cooperation is through task forces set-up to deal with a specific problem or project.

Another mechanism for direct participation and cooperation is through continuing participatory productivity improvement programmes such as the suggestion system, regular meetings and discussions, 5S, and small group activities e.g. Quality Control Circles, Productivity Improvement Circles, Work Improvement Teams, etc.

i) Suggestion systems (suggestion box)

Suggestion systems enable workers to make suggestions on how improve certain aspects of the enterprise's operations. A physical manifestation of the system is the suggestion boxes. These are boxes where employees can place suggestions on how to improve operations either within their own workplace or the enterprise in general. Workers write their suggestions on a piece of paper and put them into the box that is easily accessible. A designated manager empties the suggestion box on a regular basis, e.g. once a week and reads the suggestions. The manager then takes follow-up actions on the suggestions, recognizing all those that contributed, making initial evaluation of the feasibility and efficacy of the suggestions, informing those whose suggestions were not found feasible of the reasons why, and pursuing until implementation those that are found valuable and feasible. Appropriate recognition and rewards are then accorded those whose suggestions generated the intended benefits. This recognition should also include the workforce as a whole since an individual's good idea may well have come from discussion and observation with his or her co-workers, and including them in the congratulation can encourage other workers to think about their work and come up with good ideas.

The following are required in order to make the suggestion system an effective workplace cooperation mechanism:

- Educate and train everybody on the suggestion system - Explain and clarify to all workers and managers the objectives, mechanics and the rules and procedures of the enterprise's suggestion system. Usually these cover items such as the objectives of the suggestion system, who are eligible to participate, the process and criteria for evaluating suggestions, and incentives for participating and submitting good suggestions, and who are responsible for the different aspects of the system. Let the workers and managers know that the suggestion box is there for the workers to provide feedback and ideas to management on improvement areas such as cost reduction, safety, process improvement and innovations. The managers are also to be educated so as not to feel threatened by the system and to enlist their whole hearted support. Managers who feel threatened could make the system fail.
- Encourage the workers to make suggestions for change – Show workers that management is open to, willing and interested in their ideas and suggestions.

- Make it easy to make the suggestions – Make the process of making suggestions simple, doing away with complicated forms and formats that may intimidate workers. Put the suggestion box in an easily accessible location.
- Designate a manager to be responsible for emptying regularly the suggestion box and taking the necessary follow-up steps on each of the suggestions.
- Acknowledge the suggestions – Acknowledge all suggestions, big or small. A written or verbal expression of thanks will make those who made the suggestions feel valued and will encourage the person to make further suggestions. Others will also be encouraged to participate seeing how suggestions are recognized and appreciated.
- Follow-up on suggestions – The acknowledgements and expression of thanks are just the beginning of the follow-up process. Identify those that are promising and look feasible and follow-through to see if and how they could be implemented. If a suggestion is found not feasible, identify the reasons why and share that information with the one who made it. Workers would be pleased that their suggestions are seriously considered and would be more willing to share ideas in the future. The surest way to kill a suggestion system is by not following-up on the suggestions made.
- Recognize all who made suggestions – Workers putting forward suggestions get much satisfaction from the recognition of their colleagues. Find or create occasions where recognition could be made in front of their colleagues, e.g. during general meetings, or during recognition events specially organized for the purpose. Recognize ideas that are not implemented as well as those that are.
- Reward those who made useful suggestions – A system for recognition, giving commendations and rewards should be part of the suggestion system in order to sustain interest and encourage quantity and quality of suggestions. While recognition is essential to the success of the suggestion system, it is also important to give tangible rewards, monetary or in kind, to those who made valuable suggestions. The reward could be a monetary percentage of the savings or gains generated, or it could be in kind such as home appliances, fully paid family vacation, etc.

ii) Work-group meetings and discussions

Regular discussions and meetings are another mechanism for workplace cooperation. Management could hold discussions with supervisors or workers either individually or on a group basis. In order to be effective, discussions should take place on a regular basis such as monthly for each workgroup. Discussions should be based on two-way communication, i.e. workers and managers alike should be enabled and encouraged to share their views.

In order to have this two-way communication, the workers should be able to help set the agenda for the meeting, or at least specify at the beginning of the discussion what they would like to see addressed. Similarly, workers should be encouraged and allowed to voice their thoughts and suggestions freely, without fear of management reprisal. Along the same line, managers should be able to put forth topics for discussion in manner that invites workers' comments and feedback. Managers and workers alike should look for positive, effective solutions to the problem at hand. Rather than voice threats, gripes or complaints, managers and workers should jointly analyze the problem and ask for or offer solutions. For example, if management is unhappy with the wastage level of a particular production unit, it could be helpful to call the team together to discuss the challenges faced by the workers in this unit. Soliciting workers' opinions about improvements and solutions to the problem, rather than making threats and making blames, will likely result in significant positive change. It is very important to also ensure that the immediate supervisor does not feel threatened by this consultation and problem solving process.

To make meetings and discussions effective mechanisms of workplace cooperation, it may be necessary to provide training support and develop managers' competencies in conducting meetings, brainstorming, giving and taking information, etc. It is also important that follow-up actions are undertaken to pursue and implement agreements arrived at during the meetings and discussions.

iii) 5S programme

The 5S programme is one of the basic tools used by managers to enhance the quality of the workplace. The term workplace could mean shop floor, office, manager's desk, garage, store or any other place where work is being done. It is more than just housekeeping. A well-organized workplace provides a healthy and safe environment and also improves productivity by reducing time for locating tools and materials, damage to materials, etc. The work environment influences a person's work attitudes and work habits. Having and maintaining a well-organized workplace develops quality orientation, attention to details, and engenders pride in one's work. A well-designed and implemented programme of 5S can instil discipline and change the attitude of employees toward work. It is a simple way to improve the shop floor and the workplace in general. Since it mobilizes and involves everyone in the enterprise towards improving the workplace, it is often referred to as 5S movement. Thus, 5S is the basic approach to productivity and quality improvement in all types of business particularly manufacturing plants. It is the foundation for more sophisticated productivity improvement programs like TQM, TPM, or JIT.

Productivity improvement efforts usually start with a 5S movement because the root cause of low productivity in many enterprises is poor housekeeping and work organization. High volume of rejects and spoilage, delays in delivery, machine breakdowns, low labour productivity, accidents, losses, and high level of inventory could be attributed to poor housekeeping and work organization. It is common to see shop floors and offices full of unnecessary items, dust, scattered tools and files, and cluttered aisles and corners. So much time is usually lost while searching for things, moving items, asking for instructions, on accidents, and untimely repairs. Implementing 5S can eliminate these causes of low productivity, and the programme or movement can be easily introduced in an enterprise because everybody wants to work in a clean and organized workplace. Since results are visible, workers are motivated to clean their workplaces. The 5S movement, however, has to be managed to achieve an excellent level and to sustain it.

At its initial introduction, the implementation of 5S is done in stages corresponding to its 5 key elements. Each of these elements has a specific focus labelled using five Japanese words starting with the letter S, hence the name 5S. The programme starts with a company-wide SEIRI activity where items in the workplaces are sorted-out and unnecessary items are identified and disposed of. Then come the systematic arrangements (SEITON) of the necessary thing kept. After disposing the unnecessary items, the next thing to do is to arrange the necessary items in good order. The next element is SEISO. Cleaning is the essence of 5S. But cleaning is not just cleaning to keep the workplace clean, but rather should be seen as a form of inspection to eliminate causes of problems and sources of wastes. The next element is SEIKETSU, meaning the maintenance of the organization, and the neatness and cleanliness of the workplaces. SEIKETSU is a condition of cleanliness and neatness, and is the result of the first 3S, proving that they are being faithfully carried out. In SEIKETSU, activities include those that will maintain the condition of cleanliness and neatness in the workplace. The next element is the stage where people have internalized the system and are doing the necessary 5S activities and pursuing the 5S elements spontaneously without being told or ordered. Continuous promotional and training activities are needed to sustain the enthusiasm of everybody.

Benefits of 5S

- *Productivity* - When the shop floor is organized, workers and materials can move faster without fear of slipping or damaging materials. Hence, workers' productivity is higher.
- *Quality* - When the workplace is clean and neat, the work-in-process is not contaminated or dirtied by dust and other materials. Specifications are easier to follow when everything needed is in its proper place. Errors are prevented
- *Cost Reduction* - When workers are more efficient and rejects or reworks are eliminated, then cost will definitely go down.
- *On Time Delivery* - When workers are efficient, there are no rejects and reworks, no machine breakdowns, the warehouse is in order, delivery schedules could be carried out on time
- *Safety* - When the workplace is cleaned regularly, and safety measures are implemented and followed by everybody, then accidents are prevented.
- *Morale* - Everybody wants to work in a clean, organized and safe workplace and derives a sense of pride of being part of that workplace.

In addition, 5S improves workers'

- *Creativity* - When workers are involved in continuous improvement efforts such as 5S, then they become more creative. One improvement leads to another, then to another improvement, giving outlet to their creative ideas.
- *Communication* - Since everybody is involved in the 5S Movement, then exchange and sharing of ideas happen naturally, especially when everybody shares the common goal of quality excellence.
- *Human Relations* - Human relations are improved because of better communication and more meaningful interactions.
- *Teamwork* - Since 5S is an enterprise movement where everybody participates towards improving the workplace, then teamwork is developed.

Camaraderie - The 5S movement is usually carried out as a community-like activity where everybody tries to out-do each other in an environment of healthy competition, thus camaraderie is developed among the different sections of the enterprise.

5S Elements

Japanese	English
1) SEIRI	SORT Take out unnecessary items and dispose.
2) SEITON	SYSTEMATIZE After sorting, arrange necessary items in good order.
3) SEISO	SWEEP Clean your workplace.
4) SEIKETSU	STANDARDIZATION Continually and repeatedly maintain organisation, neatness and cleanliness.
5) SHITSUKE	SELF-DISCIPLINE Do things spontaneously without being told or ordered.

iv) Small group or circle activities

'Small group activities' is the generic term for improvement programmes that involve small groups of employees in identifying improvement problems or opportunities, analyzing them and then coming up with solutions or action programmes that will improve the situation.

Small group activities are effective ways of involving the enterprise's employees and managers in the improvement efforts of the enterprise. These small group activities are referred to by different names, e.g. as Productivity Improvement Circles (PICs) or Quality Control Circles (QCCs) or Work Improvement Teams (WIT).

Quality Control Circles (QCCs) typify the operations of small group activities programmes. A QC Circle is a small group of workers from the same workshop organized to participate in self and mutual development and problem solving activities that would serve to help increase the performance or improve their workshop. QC Circles deal with problems related to quality improvement, cost reduction, methods and systems improvement, delivery schedules, machine breakdowns, energy conservation, waste reduction, housekeeping, process improvement, and delayed payments, among other things. In selecting their projects,

PIC members select only those problems that they themselves may be causing or creating or those that are within their control. They are discouraged from discussing those problems that others may be causing or creating as well as those pertaining to salaries and incentives.

Basic features of QCC:

- Voluntary in nature. Workers are not forced to participate in the program; otherwise, their participation is short lived. Rather, workers are expected to participate because they want to contribute to the improvement efforts of the enterprise and to develop themselves. In reality, participation in QCC is encouraged by management.
- Small, with members at a minimum of three and a maximum of ten. If there are more than ten members, the group should be divided into two circles. Keeping the group small makes workers know the importance of their individual role in the accomplishment of the circle's project.
- Homogenous in membership. Members are from the same workshop and therefore are familiar with the problem and know the solutions.
- Specific in task and objectives, tackling problems only within its control.
- Systematic and scientific in approach. The circle follows a step-by-step sequence in problem solving and uses scientific tools and techniques.
- The circle is a continuing activity. After it finishes solving one problem, it undertakes another problem and so on.
- The circle application is universal. It can be applied to the factory, office, and other units of an enterprise.

An example of the workings of a QCC is presented in Chapter 2 of this Reader.

Quality Control Circles differ from organization to organization, but there are some characteristics that remain the same, as is indicated above. Normally, members of a quality control circle are drawn from the same work area, which restricts the problems to the same situations. More recently, companies have started using quality control circles made up of members from different functional areas that are part of the same process.

3.2.3 Fostering and sustaining workplace cooperation

Fundamental requirement: Enabling people

Labour-management cooperation at the enterprise level means that the managers (in the case of the small and medium enterprises, the owner-managers), supervisors and rank and file workers see themselves as key stakeholders of the business, and join efforts to achieve shared goals, e.g. enterprise productivity, for their mutual benefit and the benefit of the other stakeholders. It is a continuous process of communication and information sharing, common efforts (to solve problems, address issues of concern and/or achieve common goals), and the sharing of the resulting benefits (or loss). Referred to alternatively in literature as labour-management partnership, labour-management cooperation or workplace cooperation, its key elements are shared goals, information sharing, efforts to achieve the shared goals, and the sharing of benefits and gains arising from the achievement of the common goals.

As workplace cooperation is a human-centred process, a fundamental requirement for fostering and sustaining it is enabling both workers and managers to work together and cooperate with each other. There are two aspects to enabling people: (a) providing them the opportunity and environment for workplace cooperation and (b) developing their capabilities and competencies by providing them with the information, knowledge, skills and tools needed for effective cooperation.

Developing the culture of cooperation

An important factor determining the extent and depth of workplace cooperation is the management philosophy and attitude. Initiatives for labour-management cooperation must come from management, or no one else will take them. It should start with the management philosophy that recognizes that human resource is the most important resource of the enterprise and that the performance of the company results from a collaboration and partnership between management and workers of the enterprise. It must take the form of deliberate personnel and human resources management policies, translated into management styles, systems and practices at all levels of the enterprise. Achieving effective labour-management cooperation involves not just the installation of new procedures and processes, e.g. establishment of a joint-consultation committee or of a participatory productivity improvement scheme. Experiences have shown that mere installation of a labour-management cooperation scheme in isolation from broad changes in organizational culture generally does not succeed. A participatory and collaborative culture involves developing a new kind of philosophy, values, behaviour and practices of both management and workers founded on trust, mutual respect and confidence.

The enterprise's particular management philosophy and style is shaped by the competitiveness strategies adopted by the enterprise and, vice versa, the enterprise's competitiveness strategy is determined by management's philosophy, attitude and style. A study of Labour - Management cooperation for productivity and competitiveness in food processing SMEs[10] found that the degree and sophistication of communication and cooperation practices is not exactly determined by the enterprise size. Instead, they are shaped more by the business strategies adopted by the small or medium enterprise to meet the increased competition and to take advantage of the emerging markets. Those enterprises that adopt low cost strategies focusing on reducing labour costs tended to have low level of managers' and workers' investment in promoting Labour-Management cooperation. Two-way communication and information sharing is minimal and not much opportunities for workers to contribute improvement ideas exist. Those small or medium enterprises that adopted competitive strategies based on enhanced product quality, product differentiation, customer orientation and/or move to higher end markets including export markets tended to promote more Labour -Management cooperation. They have various means of two-way communication and have in-place various participatory productivity improvement programs that even have schemes such as 5S, QCC and task forces. They even acquire certifications of systems such as HACCP and ISO to meet the requirements of the higher-end and export markets. These certification systems further re-enforce the enterprises' practice of Labour –Management partnership.

Where managers and workers operate on the basis of mutual trust and confidence, it is easier for them to agree on policies and practices designed for productivity and competitiveness improvement,

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[10] Fashoyin, Tayo, Sims, Emily, Tolentino, Arturo, *"Labour-Management Cooperation in SMES: Forms and factors",* ILO 2006.

and to implement participatory approaches for productivity improvement at the workplace. A conducive learning environment is then created, and flexibility and rapid response to market shifts become easier.

Building the skills to cooperate

Even when provided with the encouragement, opportunities and mechanisms to cooperate, workers and managers won't be able to cooperate effectively if they don't have the information, knowledge and skills needed. They will just go through the motion of cooperation, and since they are not getting the desired results will soon lose interest and motivation. It is important, in addition to providing them with the needed information and knowledge, to develop their interpersonal relations, communication, team working and problem-solving skills. Specific participatory programmes (e.g. 5S and small group activities) must have strong communication and training support.

In the study of labour-management partnership in SMES cited above, it was found that the development of the managerial and workers cooperation competence showed a two-way character. On the one hand, the business strategies based on product upgrading and targeting higher-end markets made the companies invest more on upgrading managerial and workers' knowledge and skills, including the building cooperation competencies. They undertake intensive and extensive training programs for both management and workers. And they build the competencies and systems to meet the requirements of certification schemes such as the HACCP and ISO required by the high-end and export markets. The enhanced competencies further drive the L-M cooperation. On the other hand, the recruitment of trained managers (particularly in the area of human resource management) led some of the case enterprises to invest more in L-M cooperation. The cases showed that for small enterprises, the low level of cooperation is due less to unwillingness of management to invest in cooperation than to lack of capacity.

Critical importance of good communication

Workplace cooperation will have little chance of success unless there is effective communication between managers and workers at all levels. Effective communication is not something that may just assist workplace cooperation; it is absolutely essential.

Communication is the entire two-way process of listening and sharing, verbally and non-verbally, which both parties engage in. Also it is what both parties are left with (i.e.: mutual understanding and agreement, or anger, frustration, apathy, confusion, etc.). How people communicate conveys as much as, and sometimes even more than, what they intend to communicate.

There are three main forms of communication:

- Written
- Verbal (speaking and listening)
- Non-Verbal (body language)

Two-way communication, information sharing and consultation are the foundation of labour-management cooperation. Trust and confidence are developed. Understanding is had of the common problems, challenges and opportunities facing the enterprise and its workers and management. Specific concerns, needs and difficulties of all parties are clarified, and the results of the common effort are monitored and appraised. Without good communication, cooperation is not achieved.

Sharing the gains: Recognition and rewards

To sustain and strengthen workplace cooperation, it is important that the contributions of the key participants to improving the performance of the enterprise be recognized, and that the benefits resulting from these improvements be shared fairly among those who made them happen.

Workplace cooperation is a win-win proposition. It results in improvements beneficial to both management and workers, to the enterprise as a whole, to the consumers and to the other stakeholders of the enterprise. The enjoyment of the benefits could be direct and immediate, as for instance how the employees of the company will immediately enjoy improvement in safety and health and working conditions achieved through workplace cooperation. Reduction in wastes, effluents and pollution emission results in immediate benefits not only to the people of the enterprise but also to the host communities as well. Improved productivity, quality and competitiveness benefit consumers in terms of having access to better quality products at competitive prices.

Productivity improvement results in cost reduction and savings, and in improved competitiveness leading to growth and increased profitability of the enterprise. There are a number of ways of sharing the financial gains from productivity improvement resulting from workplace cooperation. Part of the financial gains could be invested in improving the work environment, in providing better amenities for employees, and in additional social services. Or, the gains could be shared financially.

As discussed above in the case of the suggestion system, the savings could be immediately shared with those who contributed directly to the more efficient use of the resource. For example, a certain percentage of savings resulting from improved energy productivity could be rewarded to those who made the recommendations, either individually or as a group, on ways of saving energy. Savings resulting from reducing wastes of materials or recycling of wastes could be shared in the same manner.

Increased profits and financial returns can be shared through profit sharing and gains sharing schemes. The system of sharing profits and other financial gains must be suited to the particular situation and requirements of the enterprise and must be arrived at through the process of consultation and bipartite social dialogue.

3.3 Knowledge sharing and innovation

3.3.1 Knowledge sharing

What makes one enterprise different from others? It might produce the same products and services as others and use the same equipment as its competitors. The enterprise expects, however, to be able to compete because it believes that its products are of better quality, produced at lower costs and that it is providing better services to customers. If all competing enterprises have, roughly, the same endowments, what is it then that makes the enterprise different?

An enterprise's ability to compete is based on the way it is organized, the way its managers and employees work, and work together. Like any well-oiled machine, an enterprise combines financial resources, equipment and talent to survive and prosper. Survival and prosperity depends on the combined know-how of management and workers. In a globalized world, no enterprise of any size or in any sector is immune from increasingly fiercer competition. Trade liberalization, technological change, increasingly mobile financial resources, the developing trade of services and increasing availability of information about markets and processes place an increasing burden on the management of enterprises. To survive, firms must adapt rapidly, innovate and be more productive.

At the beginning of the 19th century two major cities competed for the dominance in the production of silk. In one, London, secrecy dominated. Each individual entrepreneur developed her or his own production methods and jealously protected them. In the other, Lyon, elaborate systems were developed to respond to important changes in demand and to improve productivity. Academia and municipal authorities in Lyon examined inventions. Once approved public authorities remunerated the inventors provided they taught *local* technicians how to implement their innovations. Remuneration depended on knowledge transmission. This system raised productivity in the industry as a whole and led to greater competition among inventors. The London skill industry was decimated while that in Lyon progressed significantly.

Dominique Foray and Lillian Hilaire Perez (2000)

To survive, enterprises must understand their environment, their customers, and their products; identify where their competitive advantages lie and then take appropriate actions to adapt. Invariably, the adaptation process requires that the enterprise and its employees learn. This is true for firms in developing and developed economies alike. It is also true for large and small enterprises. Globalization and the increasing pace of technological change spare no one.

To be competitive, an enterprise and its workforce - management and workers alike - must continuously learn, develop and share knowledge. Entrepreneurs and managers must engage in a systemic and organizationally specified process for acquiring, organizing, and communicating both tacit and explicit knowledge of employees so that others may make use of it to be more effective and productive. This is one standard definition of knowledge management. Knowledge management system (KMS) can be defined as "an information system designed to facilitate codifying, collecting, integrating, and disseminating organization knowledge".[11]

In an effort to improve the effectiveness of a team of copying machinery repair technicians, its manager decided to eliminate a weekly meeting held at its regional headquarters every Monday morning. He reasoned that it would be possible to organize a conference call with all his technicians so that he could share information with them while they were driving to the customers' locations to answer a maintenance issue. The rate of problem solving statistics for the group fell notoriously over the subsequent months of the introduction of this new policy. It became apparent that machinery repair technicians were using the Monday morning meetings to discuss among colleagues the problems they were facing and the solutions they had found to solve them. This is a typical example of a knowledge management problem faced by enterprises of all sizes.

Formal and tacit knowledge

Knowledge is stored and transmitted in many different forms. At one extreme, it is possible to "code" knowledge present it in an explicit, organized and understandable format. The reader does not have to talk to the author of a manual to understand its contents. This sort of knowledge is formal or "codified".

At the other end of the spectrum, the human resource director or the plant supervisor usually knows each of the workers under his or her supervision. He or she can tell what their competencies are, their key strengths and weaknesses (which could be written down if there was time to do so) and the particular ways of motivating them (which probably can't be communicated).

[11] Alavi, M. and Leidner, D., (1999), "Knowledge Management Systems: Issues, Challenges, and Benefits", Communications of the AIS, (1)7

The day the human resource director or supervisor leaves the enterprise, they will take with them most of that information. Furthermore, they can write down all the competencies of the staff (implicit knowledge) but will not be able to express formally what attitude to adopt in motivating the individual staff members (tacit knowledge). The flow chart below defines these different types of knowledge.[12]

do so. In the case of this Reader for example, the preparation of a book, a CD or a number of pages in an Intranet would suffice. This media would not work however, for transmitting knowledge that a human resource director or a supervisor has about individual staff. It might not be possible – nor desirable – to publish such knowledge.

Techniques to share formal and implicit knowledge[13]

Most explicit (formal) and implicit knowledge available within the enterprise can be made available to its staff in three forms:

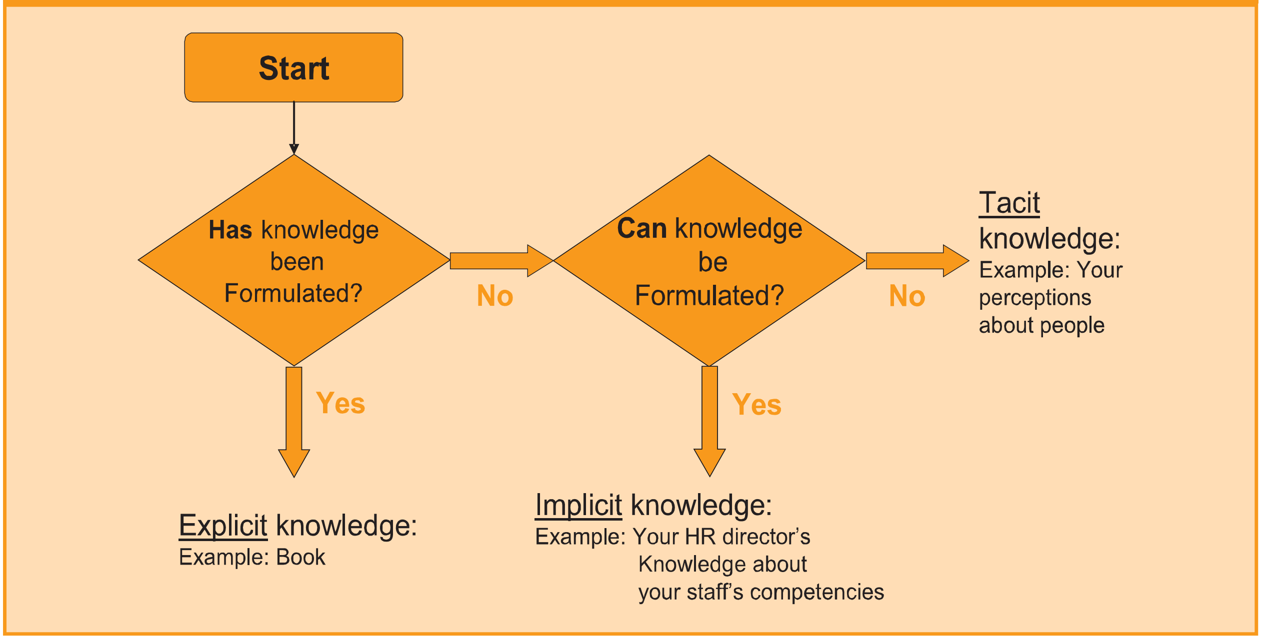
a. Manuals, rules or procedures. In many cases enterprises use these instruments already. There are manuals to explain how to operate equipment and other guides to describe how things are done in this enterprise;

b. "White" or "Yellow" pages which are the lists of the staff with brief descriptions of their competencies, their strengths and their professional interests. Such lists permit the enterprises' staff to contact colleagues when they face difficulties in solving a problem; and

c. Training packages used to train personnel in procedures adopted by the industry or the enterprise; these can include quality control procedures, explicit production methods and similar exercises.

In larger enterprises, relevant documents, like manuals, are placed on an intranet available to staff. In substance, however, the idea of sharing explicit or formal knowledge is to put at the disposal of staff all the know-how possible in an organized and readily available format. Checklists and detailed operating procedures are typical examples of distribution of formal knowledge.

Figure 3.3.1 Types of knowledge



12 Adapted from "The Knowledge in Knowledge Management" by Fred Nickols in The Knowledge Management Yearbook 2000-2001 James W. Cortada and John A. Woods (eds), Butterworth-Heinemann, 2000.

13 There are many publications about knowledge management (KM) and good KM practices. This short chapter does not pretend even to scratch the surface in this domain. Some general strategies and ideas are presented here to motivate readers to explore this field in greater detail.

It must be noted that these forms of knowledge are rarely static. Workers will use manuals to understand the working of equipment and will abandon them once they have completely grasped the workings of the machinery. They will, as they gain experience, learn about specific quirks and shortcuts in its use. In some instances, they will record what they learned in the margins of manuals. In many instances however, they will just consign their experience to their own memory. It is better if they record their experience into the manual or to specific forms designed to this effect so that other workers handling the same machine will be able to profit and benefit from their experiences.

The example of annotated manuals offers a number of lessons:

- The formalization of knowledge need not be a complex endeavour: low-tech solutions exist. There are no fast and ready rules in this area. Each business requires its own appropriate storage and dissemination techniques that can go from the most low-tech annotations in a margin to highly sophisticated information systems. This is, naturally, related to the complexity of production processes, the technological make-up of the industry, the size of the enterprise and its competitive environment.[14]
- It is important to identify the type of knowledge one wishes to make available in order to design the systems to It is important to update the learning methods as well as the knowledge content so that knowledge remains pertinent.
- The "formalization" of the learning process is not effort-free. Managers and employers cannot expect their staff to share all their knowledge: After all, *"knowledge is power"*, and if power is given up there has to be an answer to the question "*what's in it for me to do so?"*

It should be evident that knowledge management is, above all else, a question of good human resource management. It revolves around issues such as:

- employment security: a worker can legitimately feel that his or her job is secure if she or he is the only one to know how to operate a machine or handle a process;
- incentives: why should a worker share know-how unless the efforts of doing so are explicitly recognised and rewarded?

Knowledge management means sharing existing know-how and recording what staff has learned about working in the enterprise[15]

Techniques to share tacit knowledge

A Japanese firm tried for a number of years to design a bread-making machine. It adopted all sorts of technological approaches to prepare good bread (temperature of furnace, cooking time, yeast and lactobacillus, proportions of ingredients…) but the results (particularly the texture) were not very good. After a while, the team designing the bread-maker decided to study how the most reputable baker in the region prepared his bread. They noted that they had replicated the process in all aspects save one: they had not thought of the way the dough was being "stretched". The bread-making machine reproducing the mechanical stretching of the dough achieved the desired results.[16] This technique of stretching bread is a form of tacit knowledge.

As discussed, tacit knowledge is intelligence that cannot be readily communicated because it is highly nuanced or too complex or because it is not economical to formalize. So how does an enterprise to use effectively the knowledge resources that are available to its staff but not written down anywhere. Mostly this is done through teams and "communities of practice". Internships, apprenticeship and extensive mentoring are also tools to share tacit and implicit knowledge.

Communities of practice (COPs) are defined as informal groups of people seeking knowledge and information so as to solve problems in their specific

[14] It should also be evident that the nature of the knowledge repositories must depend on the type of information stored and its volume. Much of this is dealt in Management Information Systems and is outside the scope of these notes.

[15] Refer to Chapter 5 for personnel policies that encourage learning and knowledge sharing.

[16] Adapted from Harvard Business Review on Knowledge Management, 1998

fields of work.[17] The most relevant words in this definition are "informal" and "solve problems". In many enterprises such informal communities exist – frequently without any connection to management. They are formed in an *ad hoc* manner in dissolved once the problem is solved. It must be emphasized that good work-place practices favour communities of practice. When there is a commitment from workers, when there is trust and where there are win-win opportunities such communities of practice tend to improve productivity and enhance innovation.

It must be emphasized that both communities of practice and teams need not produce formal codified knowledge. They tend to be organized to solve problems and innovate or generate new knowledge. The face-to-face communication of social dialogue is excellent for sharing insights and "feels", i.e.: subjective information, on matters of common interest. Discussion and brainstorming problems provide the opportunity and the right environment for sharing tacit knowledge.

In an environment of rapid change where production technologies, marketing, occupations, markets, and economies are rapidly shifting, enterprises must adapt. They do so by learning. Individuals within the firm must learn and the enterprise as a whole must learn. One of the main challenges for all enterprises today is to ensure that the knowledge amassed by individuals is shared and used profitably by the firm.

The effective management of human resources is absolutely critical to promote learning and sharing knowledge. A learning organization fosters knowledge acquisition and sharing throughout its staff. The following Table 3.3.1 lists some of the questions that *from a worker's standpoint* would define a favourable environment towards a learning enterprise and can provide guidance to effective workplace practices:

Table 3.3.1 Some questions on learning environment

two way communication	How much time does the supervisor spend *talking* to me?
	Does he tell me about the enterprises' future projects? Does he tell me about the enterprises' difficulties
	How much time does the supervisor spend *hearing* me?
	Does she hear about my difficulties at work? Does she accept my suggestions about improving work?
	Is there an environment that promotes open, constructive and two way communications and dialogue at the plant level?
	Are we as a team aware that sharing information is a significant factor in our ability to get the job done?
Learning environment	Am I encouraged to learn new things? What form does this encouragement take?
	Am I encouraged to share the things I have learnt with co-workers and supervisors? What form does this encouragement take?
	Have I learnt from my colleagues? Have the colleagues that taught me something been compensated?
	Do we help each other to learn the skills we need?
	Has my expertise been developed as a result of working together with colleagues in his organization?
	Are my colleagues and I aware of the benefits to the enterprise of our solutions to problems?
	Is it evident that when my colleagues and I work at a problem we find a solution that benefits the enterprise and us?
	Do We keep each other informed of current trends in our areas of expertise? Is this encouraged?

[17] Wilson Luiz Martins Leal, Adelaide Maria Coelho Baêta, The Contribution of Communities of Practice in an innovative enterprise, Journal of Technology Management & Innovation, 2006, Volume 1, Issue 4.

3.3.2 Innovation

Innovation has been defined as "the implementation of a new or significantly improved product (good or service), or process, a new marketing method, or a new organizational method in business practices, workplace organization or external relations".[18] This definition includes the introduction of new or significantly improved products or services and also includes new marketing procedures, new ways of producing goods and services, of organising enterprises and establishing links with suppliers and customers. Innovation is not the exclusive domain of resource rich enterprises or economies with large research and development budgets.

Most often than not, product development is considered as the only form of innovation. This is clearly not the case. The success of many South East Asian electronics firms lies in the innovations in production processes. Indeed, just in time inventory control and management is a considerable innovation in its own right.

Most innovations (...) result from a conscious, purposeful search for innovation opportunities, which are found only in a few situations. Four such areas of opportunity exist within a company or industry: unexpected occurrences, incongruities, process needs, and industry and market changes.

Peter F. Drucker, The Discipline of Innovation (Classic) Harvard Business Review, August 2002

Case study 3.3.2 Examples of strategies to promote innovation

Dell, a North American personal computer manufacturer, for instance, does not distinguish itself as a company that introduces radically new equipment. Its competitive advantage lays in the supply management systems that it has developed: By offering customizable computers at low prices Dell has grabbed an increasing proportion of the personal computer market. It promotes sales through its websites, aggregates the demand, and transmits demand data to its suppliers in an almost instantaneous manner. Suppliers then have live data on consumer demand and can both program effectively their production runs, and orient their research and development towards the real needs of customers. Such processes have led to the dramatic growth in storage densities of hard disks and the redesign of less power hungry and heat consuming microprocessors.

A researcher at 3M was assigned the task of developing a new, extremely strong adhesive. The product he developed was, unfortunately, very weak – but it did not dissolve or melt. Instead of strong adhesive, a researcher discovered a sticky type of glue. From this failure was created post-its, which turned out to be one of the company's most successful products. In this firm, failure was sanctioned and developing a product from a failure – an interesting form of innovation – was encouraged.[19] This is an example of an internally led innovation strategy.

Ship owners during the first half of the 20th century attempted to boost their earnings by developing faster boats with greater capacity only to find that this seemingly common-sense strategy was resulting in profit losses. When they discovered that the time loss was not taking place on the boats but at the ports when products were loaded onto the boats, was when they developed container transport, a practice that was already being used by the trucking industry This is an example of incongruities.

Other examples of innovation are the methods adopted in the 60's by Benneton to dye their products and by Zara clothing manufacturer in their market distribution and production systems. Finally, the iPod is perhaps the best modern example of innovation responding to market changes.

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18 OECD 2005, Oslo Manual: Guidelines For Collecting And Interpreting Innovation Data Third edition, A joint publication of OECD and Eurostat Paris, 2005.

19 Jim Connell, Gary C. Edgar, Bill Olex, Robin Scholl, Todd Shulman, and Russ Tietjen, Troubling Successes and Good Failures: Successful New Product Development Requires Five Critical Factors, Engineering Management Journal Vol. 13 No. 4 December 2001

In her review of innovation and competitiveness policies for the developing world, Lynn Krieger Mytelka notes that the salient factors that determine how enterprises react to competitiveness, innovation and productivity policies are:

i. "the type, timing and sequencing of market-opening policies;

ii. the traditional habits and practices of firms with respect to competition and innovation;

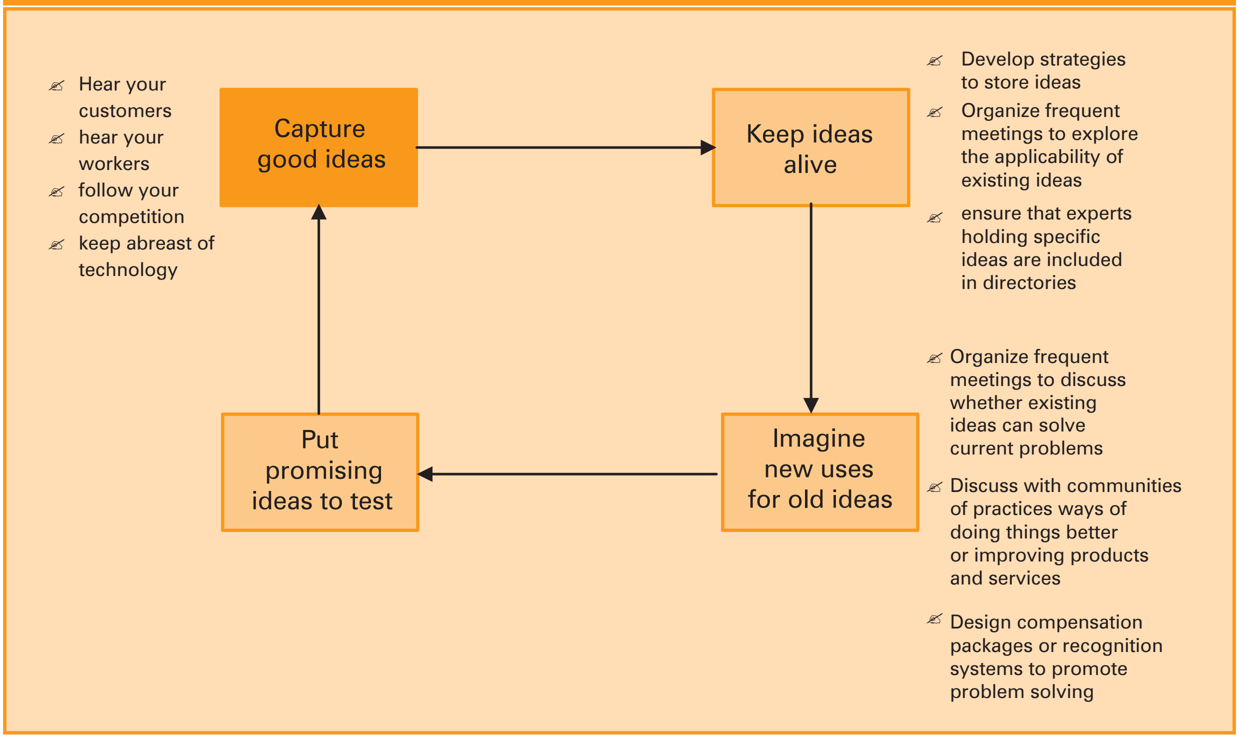
iii. the extent to which firms have access, either in-house or through local networks of innovation, to the critical complementary assets needed to respond to the new policy environment; and

iv. changes in technology and in the rules of competition which alter the set of opportunities and constraints for latecomer firms at different points in time."[20]

Entrepreneurs and managers should be aware of these policies and exploit them consistently. There are as many methods to promote innovations as there are products, managers and enterprises. There are no magical procedures to foster innovation. But here are some general practices and some underlying managerial processes that can motivate innovators particularly to encourage staff to come up with new ideas about using the products differently or coming up with new designs. This is, partly, the approach adopted by 3M, but can be adopted by enterprises in any market.

A second approach to innovation is based on the idea that through specific changes in the use and adaptation of products and services customers are the initiators of innovation.[21] Using this approach, the enterprise must establish a close relationship with key customers and address their needs. An explicit mechanism to foster innovation in an enterprise can be summarized by the steps described in Figure 3.3.2. [22]

Figure 3.3.2 A systematic innovation approach



20 Lynn Krieger Mytelka 1999, Competition, Innovation and Competitiveness in Developing Countries, Development Centre of the Organisation for Economic Co-Operation and Development, Paris 1999

21 Eric Von Hippel, Stefan Thomke, Mary Sonnack, Creating Breakthroughs at 3M, Harvard Business Review, 1 September 1999

22 Adapted from Andrew Hargadon and Robert I. Sutton (2000)

Employee involvement plays a major part in innovation at the enterprise level, which is usually a key to enterprise competitiveness. As emphasized above, innovation is not just a technological phenomenon that finds expression in new products and production processes. Rather, innovation is a social process that depends upon people, their knowledge, qualifications and skills as well as motivation and job satisfaction.[23]

Box 3.3.1 Sources of innovation

A study in the Netherlands, for example, involving a large-scale survey in April 2005 of more than 9000 Dutch organizations examined the organizational and environmental set-up of innovative organizations and compared the organizational outcomes of innovative organizations vs. non-innovative organizations. The study concluded that only 25 per cent of the influence on innovation success in that country originated from technological innovation system such as R&D and ICT investments, while 75 per cent rested upon social innovation such as management knowledge and the way this knowledge is acquired, integrated and applied.[24]

Table 3.3.2 below lists questions to be addressed by managers to foster innovation.

Table 3.3.2Some questions on the innovation environment

Innovation environment	Am I invited to express my views even if they do not agree with those of my supervisor(s)?
	Are we in constant contact with our customers? Do we accept their suggestions and address their needs?
	Am I stimulated to come up with innovative solutions to problems at work? What form does this encouragement take? (Advancement? Pay increases …) How explicit is this stimulation?
	Am I invited to suggest new solutions to the work problems I face? Does this involve me as an individual or does it entail meeting with other people facing the same problem?
	Are there periodic meetings where work-related issues are examined by all involved?
	Do we work in teams? Are all team members kept up to date with current events relating to our products and to work trends?
	How diverse is our team? Are members able to voice the different perspectives, impressions, values, and tastes of women as well as men, minority ethnic members as well as majority, younger employees as well as older? Are we working to overcome stereotypes about women and men, and minority members of our workforce?

23 The Promotion of Sustainable Enterprise, ILO Geneva, 2007

24 Conducted by H. Volverda, F. van den Bosch and J. Jansen of RSM Erasmus University. See http://www.erasmusinnovatiemonitor.nl

Rosabeth Moss Kanter[25], on the other hand, provides some humorous advice for stifling innovation in organizations:

1. Regard any new idea from below with suspicion – because it's new and from below!
2. Insist that people who need your approval to act first go through several other levels of management to get their signatures
3. Ask departments or individuals to challenge and criticise each other's proposals (That saves you the task of deciding – you just pick the survivor)
4. Express your criticisms freely and withhold your praise. (That keeps people on their toes)
5. Treat identification of a problem as signs of failure, to discourage people from letting you know when something in their area isn't working
6. Control everything carefully. Make sure people count anything that can be counted frequently
7. Make decisions to re-organise or change policies in secret and spring them on people unexpectedly (that also keeps people on their toes)
8. Make sure that requests for information are fully justified and make sure that it is not given out to managers freely. (You don't want data to fall into the wrong hands)
9. Assign to lower level managers, in the name of delegation and participation, responsibility for working out quickly how to cut back, or move people around or otherwise implement threatening decisions you have made.
10. And above all, never forget that you, the higher ups already know everything important about this business.

3.4 The organizational culture of sustainable enterprise

The earlier sections as well as the earlier chapters talk of a work environment that values, encourages, supports, recognizes and rewards:

- productivity
- quality performance
- innovation
- workplace cooperation
- learning and knowledge sharing
- safe and healthy working condition
- waste minimization
- mutual respect, trust and confidence
- non-discrimination and gender equality
- effective communication
- social dialogue
- abiding by the laws

This list effectively describes the organizational culture of a sustainable enterprise.

[25] Kanter, R.M., *Change Masters: Corporate Entrepreneurs at Work*, Routledge, London 1994

3.4.1 What is organizational culture?

Every organization has its own 'way of doing things' unique to the organization. This aspect of the organization is not easily described, but has a significant impact on the way things are done. It consists of the attitudes and beliefs, values, management and leadership styles, standards and behavioural norms, the use of power, politics, and conflict – a culture. Although there are many different definitions of the term 'culture', it is broadly accepted as referring to the things that make up the *informal organization*.

> *"In many ways, culture is like personality. In a person, the personality is made-up of values, beliefs, underlying assumptions, interests, experiences, upbringing, and habits that create a person's behaviour*."
>
> From S. M. Heathfield, in *Culture: Your Environment for People at Work. What is organizational culture?*

Culture distinguishes one group of people from another. It includes how people think, feel and behave. Much of what people understand by culture is not conscious, and those in the culture may find it difficult to recognize cultural characteristics because they are so deeply taken for granted.

> *"The deeper level of basic assumptions and beliefs that are shared by members of an organization, that operate unconsciously and define in a basic 'taken for granted' fashion an organization's view of its self and its environment"*
>
> Noted Organizational Psychologist Edgar Schein

Regardless of how tacit the cultural norms and behaviours are, often it is only when deviation from a cultural norm is witnessed that it gets recognized.

Organizational cultures are created, maintained, or transformed by people. An organization's culture is, in part, created and maintained by its leadership. The leaders are the source of the generation and re-infusion of an organization's ideology, core values and practical norms. *Organizational values* express preferences for certain behaviours or certain outcomes. *Organizational norms* express behaviours accepted by others. They are culturally acceptable ways of pursuing goals. Leaders also establish the parameters for formal lines of communication and message content - the formal interaction rules for the organization. Values and norms, once transmitted through the organization, establish the permanence of the organization's culture.[26]

When examining organizational culture there are several dimensions or characteristics that different organization development specialists consider. The following checklist is based on the work of Robbins[27].

Orientation – does the culture have a preference to outcome, people or team orientation, where does the management team focus attention, is it with regard to results, or processes, how important is the consideration of impact on employees, are work activities organized around groups or individuals.

Attention to detail – The expectation of how much effort will be given to being precise and paying attention to detail.

Stability – Is emphasis on keeping things the same or being able to respond to quick changes or growth?

Innovation and risk taking – Are employees encouraged to take risks? Is innovation recognized and rewarded?

Aggression – Is the focus on competitive and aggressive or easy going or collaborative?

The organizational culture has many aspects or sub-sets. An organization has many "cultures". Often, the culture of an organization is described

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26 From "What is Organizational culture", National Defense Academy at http://www.au.af.mil/au/awc/awcgate/ndu/strat-ldr-dm/pt4ch16.html

27 Robbins, S. P., (2005) Organizational behaviour [10th edition], Englewood Cliffs NJ: Pearson Education

Safety Culture

Safety culture is a concept that (1) includes the values, beliefs and principles that serve as a foundation for the safety management system and (2) also includes the set of practices and behaviours that exemplify and reinforce those basic principles. These beliefs and practices are *meanings* produced by organizational members in their search for strategies addressing issues such as occupational hazards, accidents and safety at work. These meanings (beliefs and practices) are not only shared to a certain extent by members of the workplace but also act as a primary source of motivated and coordinated activity regarding the question of safety at work.

From: *Safety Culture and Management* by Marcel Simard at http://www.ilo.org/encyclopedia/?doc&nd=857100071&nh=0&ssect=0 .

with respect to a particular sub-set, focusing on one specific area of concern. Thus, one hears of an organization with a culture of innovation, of having productivity culture, social concern and responsibility culture, of community service, etc. For example, below is a description of safety culture as a sub-set of organizational culture.

The various "cultures" of an organization need to be consistent and congruent with the goals of the organization.

Fit for purpose?

Do the systems of values, beliefs and norms that operate within the company still reflect how the organization needs to be in today's market and context?

What does the company culture say about its people?

What does the conduct of the representatives of the organization, owners, managers and employees say about the organization's culture to the outside world? Are you seen as Out of date? Modern? Forward-thinking? People-oriented?

3.4.2 Understanding the organization's culture

If it is possible to recognize organizational culture, there will be an opportunity to define what aspects of that culture help and hinder achieving the goals of the enterprise. In terms of strategic development there is an old adage "If we don't know where we are going, how do we know when we are there?" In order to advance the organization, it is necessary to articulate what aspects of the current culture are equipping the organization for future success and what aspects are holding the company back. For example, it is important to understand whether the culture of the organization is enabling it to meet the requirements of a sustainable enterprise.

One of the simplest ways of defining an organization's culture was developed by Edgar Schein[28], who saw organization culture operating on three levels.

i) The first level described as *artefacts,* i.e. organizational attributes that can be seen, felt and heard by the uninitiated observer. It is possible to learn something about an organization through the visible and tangible aspects of organizational life, the way that its members dress, mannerisms and emotional displays of how each person visibly interacts with each other and with organizational outsiders. These visible and tangible manifestations of the organization's culture include how the work space is organized, structures, signs and notices,

[28] Schein E. (2004) Organizational culture and leadership [3rd edition] San Francisco, CA Jossey-Bass

rituals, and the general environment (including physical facilities, offices, furnishings, etc.).

ii) The second level that Schein describes as the *espoused values* of the organization. These are the things the organization says it believes in, and are often written in the form of mission and vision statements, policy documents, and procedure and process manuals. They are made explicit and are available to most or all employees, and even to some customers and the public. (With the increased interest in corporate social responsibility, for example, many multinational corporations publicize their social responsibility philosophy and vision statements). At this level, company slogans (a memorable motto or phrase used in a commercial contexts as a repetitive expression of an idea or purpose), mission statements (a statement or description of an enterprise's purpose), and local and personal values are widely expressed within the organization. Organizational behavior at this level usually can be studied by interviewing the organization's membership and using questionnaires to gather attitudes about organizational membership.

iii) At the third and deepest level are the organization's *tacit assumptions*. These are the elements of culture that are unseen and not cognitively identified in everyday interactions between organizational members. Many of these 'unspoken rules' (behavioural constraints and norms imposed in organizations that are not voiced or written down; they usually exist in unspoken and unwritten format because they form a part of the rational, 'the reason why' of a course of action that is understood or implied without being stated) exist without the conscious knowledge of the membership. Those with sufficient experience in the organization to understand this deepest level of organizational culture usually become used to its attributes over time, thus reinforcing the invisibility of their existence.

The social commitment of a sustainable enterprise can deliver benefits only if it is truly embedded in the organizational values, culture, and power structures.

A typical example can be found in the criticism that some pose to affirmative action measures. Many maintain that making special efforts to recruit women in the belief that once they are employed, their talent and merit will show by themselves, do not bring much benefit to enterprises and can even backfire.

The issue is that promoting equality goes much beyond the "numbers game". It does not mean to reach a numerical balance between women and men employees, it means addressing the root causes of prejudice and enabling every member of the work force to perform to his or her potential. This implies giving a serious look to the unspoken values and tacit assumptions that inform the organizational culture, and may reinforce or challenge gender stereotypes. For example, many small companies are run, in all good faith, on a "business is like family" assumption, that is, on unchallenged paternalism. This does not only infer that the manager is like the father who knows best, but also that "sons will inherit the business and daughters should stick to doing the company dishes". A sustainable enterprise must be able to audit and modify this type of organizational culture, challenge its unspoken stereotypes and modify its models and practices to provide an enabling environment for all workers to voice their needs, express their productive and innovative potential and gain a sense of true ownership for the company success.

Adapted from Roosevelt Thomas R. Jr, "From Affirmative Action to Affirming Diversity", in *Harvard Business Review on Managing Diversity*, Harvard, 2002.

According to Schein, culture is the most difficult organizational attribute to change, outlasting organizational products, services, founders and leadership and all other physical attributes of the organization.

A different way of examining organizational culture was established by University of Dallas Assistant Professor of Management **Timothy Galpin** who defines organization culture as "a mosaic of interrelated elements. As these individual elements interact each work day, they collectively create the organization's culture." By identifying discernible components of culture, it allows enterprises to determine which tangible elements can be managed to help implement and sustain change. Just as none of the following 10 components alone defines a culture, none of them can individually support desired changes.[29]

i) Rules and policies – Does the enterprise have rules and policies that hinder performance? These need to be eliminated and new rules and policies need to be created and documented that will facilitate enterprise growth. Eliminate excessive approvals and authorizations.

ii) Goals and measurements – It is unlikely in most small enterprises that goals and measurements have been established. The entrepreneur may have certain targets in mind in terms of what is intended to be achieved. Either in this situation or even if there are defined goals and measures, these need to be reviewed in light of the current development thinking for the enterprise.

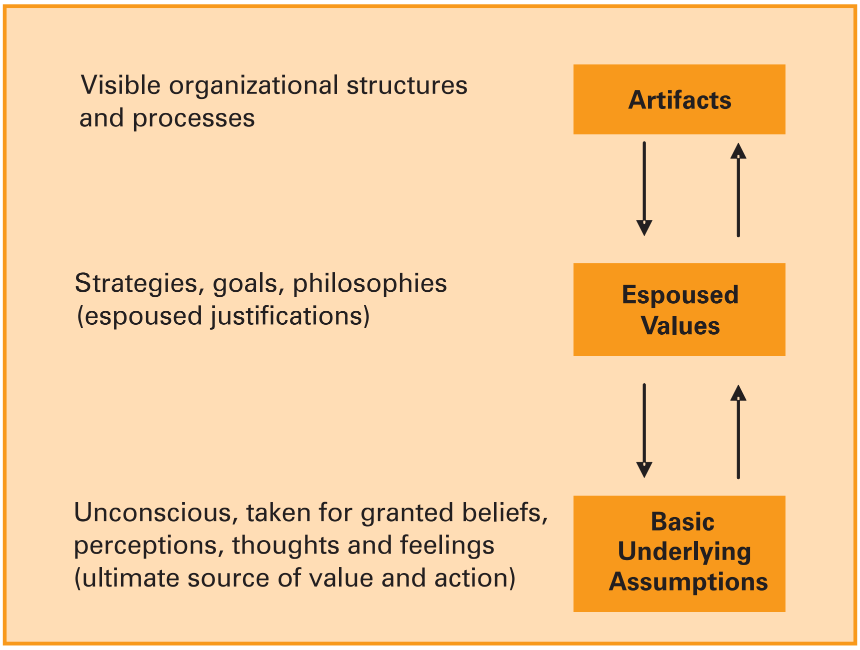
iii) Customs and norms – Most enterprises are often encumbered with old norms and customs that are not efficient in the context of current technology or people management. These need to be reviewed and revised.

iv) Training – However small an enterprise or simple the processes may be, it is always important to build a culture of training where new ways of doing things are provided. Experiential training and study visits to other enterprises will enhance the efficiencies of employees.

v) Ceremonies and events – How many occasions are currently prevalent to make a 'celebration' in the enterprise? Employees being given opportunity for recognition, achievement, good suggestions and other country specific occasions for celebration will bring in a more conducive culture to the work routine.

vi) Management behaviours – It is important to recognize positive and desired behaviours as well as to provide training on guiding employees towards such behaviours. Negative and old behaviours that do not add up to team work in an enterprise must be strongly discouraged.

vii) Rewards and recognition – Rewards must be performance based, just and fair and be tailored and applicable across the entire enterprise. Rewards and recognition must be given without delay and with a view to creating a positive individual and enterprise culture.



[29] Galpin T., "Connecting culture to organizational change", HR Magazine, March 1996.

viii) Communications – Communications must always be a two way process, in which feedback is encouraged. It is only in such circumstances that there can be idea-generation for improvements. Transparency must be maintained and knowledge shared with employees. It is always optimal to run an enterprise on an open dialogue mechanism than as a secret service where employees are always kept guessing, leading to uncertainty and insecurity.

ix) Physical environment - The physical working environment needs to be pleasant, ergonomically supportive, and the need for location (physical and virtual) considered. Provide facilities such as technology, communications and also acceptable facilities such as washrooms and wash areas, lighting, heating and ventilation and clean drinking water.

x) Organizational structure - Last but not least, the organization structure must be one that facilitates the speed of the business, looking at a more flat than tall structure, eliminate old functions and replace them with new ones (Personnel with HRM, add in Customer service, etc). Document a structure displaying it and also develop key job descriptions and job families.

Charles Handy, organizational behaviour philosopher, popularized a method of looking at culture that some management writers and organization development consultants have used to link organizational structure to organizational culture.[30] The following is a summary of his research;

Power Culture – where power is concentrated among a few persons. Control radiates from the centre like a web. Power Cultures have few rules and little bureaucracy; swift decisions can ensue

Role Culture - people have clearly delegated authorities within a highly defined structure. Typically, these organizations form hierarchical bureaucracies. Power derives from a person's position and little scope exists for expert power

Task Culture - teams are formed to solve particular problems. Power derives from expertise as long as a team requires expertise. These cultures often feature the multiple reporting lines of a matrix structure

Person Culture - exists where all individuals believe themselves superior to the organization. This can be difficult for such organizations, since the concept of an organization suggests that a group of like-minded individuals pursue the organizational goals. Some professional partnerships can operate as person cultures, as each partner brings particular expertise and clientele to the firm

His research poses some important questions by asking people to identify the relevant culture within their organization and then identify the culture with which they personally felt most comfortable. .

3.4.3 Changing organizational culture

The transformation of an enterprise into a sustainable enterprise will often require some degree of cultural change. The new roles of the enterprise in the society and the broadened expectations of the enterprise's stakeholders will require new sets of values, beliefs, norms of behaviour, priorities, etc. While a culture of excellent performance may already be present in the organization, a culture supportive of social and ecological sustainability may not. A cohesive set of shared values, belief, norms of behaviour, etc. must developed which may require some adjustments in the productivity and competitiveness culture to ensure cohesiveness and congruence among the various elements and sub-sets of the new organizational culture.

30 Handy C., Understanding Organisations, Penguin 1985

Studies of effective culture change suggest taking steps along the lines indicated in the section on change management above (under the planning, organizing, leading and controlling aspects of change management). In addition, there are particular nuances of change management as it applies to organizational culture change:

1. Formulate the desired the beliefs, philosophy, values, vision, mission, etc. and understand the current culture. See what and where the needed changes are. This is a very iterative process. The new strategic vision will provide the reference for the assessment and evaluation of the current organizational culture. As the evaluation is undertaken, adjustments and statements of the parameters of the new culture may need to be undertaken, and so on.
2. Develop the culture change strategy
3. Align the "artefacts", i.e. the visible and tangible manifestations of organizational culture. These could be new symbols, new slogans, new physical layout and furbishing, new rituals, etc. These "artefacts" make the new culture tangible and visible and re-enforces the message of the culture change process.
4. Train people on how to do the new behaviour: make people understand the "what" and "why" of the new culture and build their competencies to do the new "how" are expected of them.
5. Review all work systems, particularly the HRM system as the various elements of the HRM system could counter or re-enforce desired behaviour, e.g. performance management system, work design, pay and remuneration, training, promotion, etc. Very important and essential is to redesign the recognition, incentive and rewards system to encourage the desired behaviour.
6. Practice effective communication. As some people would put it: communicate, communicate, and communicate…

It is important to involve people at all levels of the organization at each of the stages in the culture change process, particularly in identifying the new goals and practices. As they discuss the "new" they are also developing a clearer understanding of the "what" and the "why" of the old ways that must change. To translate these "new ways" into an individual and personal level, a very useful tool is to ask employees to put the vision, mission and values into words that state their impacts on each of the employee's job. This exercise gives all employees a common understanding of the desired culture reflected in the actions that they must commit to in their jobs.[31]

[31] *"How to change your culture: Organizational culture change"* by S. M. Heathfield at http://humanresources.about.com/od/organizationalculture/a/culture_change.htm

Walk the talk! Managers, from the topmost to the lowest levels must lead the culture change and demonstrate the change in their own management styles and behaviours. Culture change must start at the highest level. In order to show that the management team is in favour of the culture change, the change must be notable first at this level. The approach of management must symbolize the kinds of values and behaviour that should be realized in the rest of the company. Cultural change must be managed from the top of the organization, as willingness to change at the senior management is an important indicator of management commitment. The top management should be very much in favour of the change in order to implement it in the rest of the organization.

3.5 Socially sensitive enterprise restructuring

3.5.1 Change management and enterprise restructuring

The changes could be small and grand. They could also be substantial such as introduction of new products, new technology, new processes or a production line. The adjustment however, could also be radical and profound, involving changes in e.g. the enterprise's ownership structure, in its business model, business strategy and its organizational structure. It could involve modification of how its production and distribution processes are structured and even relocation of plants and business operations. Such major change is often referred to as enterprise restructuring.

There are indeed many forms of enterprise restructuring. What is common to these different restructuring actions is that they all have profound effects on the stakeholders of the enterprise, not only on its employees who are directly affected by the restructuring – most seriously when the restructuring involves displacements and lay-offs- but other stakeholders as well such as suppliers, consumers, financiers, the host community, etc. In the case of plant relocations, the whole host community is affected.

More often than not, the goal of restructuring is the improvement of the financial and economic performance of the enterprise. With the increased global competition, rapid changes in soft and hard technology and the constant shifts in local and international markets, it is likely that pressures for constant adjustments and adaptation will become more intense making restructuring a necessity. In many cases, restructuring is the only means for the enterprise's own survival. This being so, numerous workers, governments, and employers share the belief that the needed restructuring should be carried out in a socially sensitive manner. In other words, companies should try to maximize economic benefits while at the same time attempting to minimize the social costs (particularly those related to downsizing and business relocation) of restructuring.

This position is grounded in the ILO International Labour Standards (ILS), known as Conventions and Recommendations. Particularly pertinent are the Termination of Employment Convention (No. 158) and Recommendation (No. 166). Both instruments were adopted by the International Labour Conference in 1982, and are still very relevant. These documents highlight the ILO's recognition that termination of employment could take place for economic reasons and that this decision could be made by the enterprise management. At the same time, the ILO stresses the necessity of a long-term approach to HR planning, the importance of creating and maintaining a multifunctional workforce, and continuous training and development. The ILO also emphasizes the importance of

- Consultations between workers and employers before, during, and after the period of restructuring;
- Creation of the most preferential conditions for the workers affected, so that they could continue their professional career; and
- Non-discriminatory policies and practices in restructuring, based on such characteristics as age, gender, union membership, etc.

In practice, a socially sensitive approach to restructuring does not always occur:

- Downsizing is often the first action taken by a company when the economic situation deteriorates;
- Downsizing often occurs during mergers and acquisitions; and
- There is usually little social dialogue and consideration of affected employee's interests during the downsizing process.

It is often believed that downsizing has a positive impact on the performance of the company and on those that are retained in the enterprise, the so-called "survivors". In practice, this is not always true. Various studies[32] on enterprise restructuring show that:

- Downsizing employees does not lead to long-term improvements in the quality of products or services;
- For the majority of companies, downsizing has had adverse effects on the morale, workload, and commitment of "survivors";
- Profitability does not necessarily follow downsizing; and
- Productivity does not necessarily increase as a result of downsizing.

The ILO Project on Socially Sensitive Enterprise Restructuring (SSER) is involved in a number of training, promotional, research and policy related activities[33]. Based on ILO experience in more than 40 countries around the world, it recommends that the following be considered for the restructuring to have maximum economic and social results:

- Company management should always have a plan of action if restructuring becomes inevitable, particularly plans relating to company's human resources.
- Restructuring should be based on the joint agreement between employers, workers and, in some cases, the government.
- All options should be considered before downsizing, with priority given to the least 'painful' options for the workers' and other stakeholders.
- If downsizing is necessary, carry it out in a socially sensitive way, using some of the tools listed below.
- Restructuring should be viewed as a process and not something that should be commenced without significant consideration. Steps should include:
    - Examining different options for restructuring before starting the process;
    - Preparing the employees for restructuring through consultations and communication, and carrying out restructuring only when this is done;
    - Carrying out restructuring in a socially sensitive way;
    - Evaluating how effective restructuring has been carried out after it is done.
- It is critical to evaluate not only the costs of restructuring, but also the benefits of socially sensitive enterprise restructuring. Companies should not only say how much it cost to carry out restructuring in a socially sensitive way, but also to estimate what it gained by being a responsible restructurer. Clearly some of these benefits might be easier to measure than others.

A very important lesson learned is that in order for restructuring to be successful, it should be linked to the long-term strategy of the development of the company, country, or region. At the enterprise level, it means that restructuring should not be viewed as a fire fighting exercise. Long-term strategic thinking requires careful HR planning, linked and management philosophy that treats employees as an asset, rather than a cost.

32 See for example the studies cited in Cascio, W.F. 2002. *Responsible Restructuring: Creative and Profitable Alternative to Layoffs* (San Francisco, CA, Berrett-Koehler Publishers) and in Rogovsky, N., Ozoux, P., Esser, D., Marpe, T., Broughton, A., "*Restructuring for corporate success: A socially sensitive approach*", ILO, 2005

33 The ILO activities in the area of socially sensitive enterprise restructuring are carried out along with other ILO projects aimed at generation of more and better jobs, such as the global projects helping entrepreneurs, including those displaced through restructuring, to start, improve and expand their business.

Downsizer versus Responsible restructurer

"As I investigated the approaches that various companies, large and small, public and private, adopted in their efforts to restructure, what became obvious to me was that companies differed in terms of how they viewed their employees. Indeed, they almost seemed to separate themselves logically into two groups. One group, by far the larger of the two, saw employees as costs to be cut. The other, much smaller group saw employees as assets to be developed. Therein lay a major difference in the approaches they took to restructure their organizations.

- *Employees as costs to be cut*. These are the downsizers. They constantly ask themselves, "What is the minimum number of employees we need to run this company? What is the irreducible core number of employees the business requires?"
- *Employees as assets to be developed*. These are the responsible restructurers. They constantly ask themselves, "How can we change the way we do business, so that we can use the people we currently have more effectively?"

The downsizers see employees as commodities – like microchips or light bulbs, interchangeable, substitutable, and disposable, if necessary. In contrast, responsible restructurers see employees as sources of innovation and renewal".

Cascio, W.F. 2002. Responsible Restructuring: Creative and Profitable Alternative to Layoffs (San Francisco, CA, Berrett-Koehler Publishers)

Restructuring decisions must address the different social roles or women and men. Experience shows (e.g. Mass layoffs in Fiat in the 1980s) that women were a majority among the "last in – first out". This is due to the *tacit assumption* that women are not the main breadwinner; therefore priority should be given to male workers as they have higher family responsibility. This translates in the *reality* that women are highly represented in vulnerable jobs and atypical workers (temporary, subcontract, part-time, piece work, home work, seasonal work) and, again, at higher risk of losing their jobs at the time of restructuring. In addition, in countries where maternity protection legislation is effectively in place women are perceived as more costly and potentially less available because of their family commitments.

This stereotype needs to be highlighted and challenged as:

a) in industrialized countries most families are dual-income;

b) in industrialized countries the traditional family structure is not anymore prevailing, which means that many women cannot count on financial support from their "lifelong partners' but they are expected to be financially independent;

c) for diverse reasons (e.g. change in family patterns, migration, wars) there is an increase in female-headed households, which are - across regions - considered by statistics as the most vulnerable to extreme poverty and social exclusion;

d) ILO and other studies prove that the perceived costs related to maternity protection are normally lower than standard costs related to sickness and other types of absenteeism in the male labour force. A cross-country analysis of cost-benefits of company level policies to retain women at work after maternity leave and of work-life conciliation policies has also shown that benefits for the company and for both women and men workers largely outnumber costs. This however happens where these are not just perceived as a "benefits for women" but are part of a broader, integrated strategy to manage gender diversity and promote individual talent[34].

[34] Cuestionando un Mito: Costos Laborales de Hombres y Mujeres en América Latina (Lima: OIT/Oficina Regional para América Latina y el Caribe, 2002).

These steps vary of course according to the particular context of each restructure. The recent global job crisis which, having immediately stricken the construction and metal work sectors, had an immediate disproportionate impact on male labour force. in industrialized countries most families are dual-income;

3.5.2 Socially sensitive downsizing: Tools and approaches

Companies that treat its human resource as assets are the ones most likely to be known for socially sensitive restructuring. In fact, companies that pursue responsible and sustainable enterprise practices[35] are best positioned to undertake restructuring processes that maximize the economic gains while minimizing the social and ecological costs. Its strategies and actions for improving productivity and competitiveness are anchored on the recognition that its human resource is its key source of business success which must be developed, nurtured and enabled and whose social aspirations must be recognized.

The very first step to socially sensitive restructuring is to minimize the need for radical downsizing, particularly through outright redundancies and lay-offs. The best way to avoid downsizing is to adopt a long-term policy that anticipates crisis, avoid inefficiencies, over-capacities and overstaffing, and develop HRM strategies and practices that build the employability of workers. Through participatory continuous improvement of its productivity and competitiveness, sustainable enterprise eliminates unnecessary and wasted work and thus avoids over-staffing. It adopts strategies such as core-periphery work structure that levels employment during periods of high and low demands. It undertakes continuous training and development thus equipping employees with skills and competencies for greater internal and external flexibility, adaptability and employability. It has in place strategic human resource management that incorporates human resource plans that are integral to the enterprise's philosophy and long-term strategy.

In the event that downsizing is unavoidable due, for example, to changes in market demands, mergers and acquisition, plant relocation, or when the very survival of the enterprise is at stake, the process must be managed carefully. The whole range of change management processes and approaches discussed earlier must be applied effectively. Not only must the organizational aspects of the change be properly managed but also equally and perhaps more importantly, the human aspects of the change must be given particular attention.

Several tools are available to minimize social costs of downsizing: counselling, skills assessment, training, internal and external job research, facilitation of the creation of small and medium size enterprises, early retirement programs, voluntary redundancy, interim measures, etc.

1. *Counselling* - Members of the management team should always be ready to listen to workers who are affected, both those that will be let go and those that will be retained. It is important to remember that it is not just the employees being let go that are affected by this downsizing; survivors also experience emotional distress during this time either because friends were being let go or because they fear for the future of their own job. Communicating with both of these groups and putting in place counselling sessions to help the employees get through the ordeal are critical to the success of the restructuring effort. This counselling effort could be extended to the families of affected workers.

2. *Skills assessment* - A change in job, whether within the company or externally, will often require a shift in skills required. A company can help an employee realize both their strengths as well as their areas for improvement by providing skills assessment prior to the change. This will not only provide the employee with a realistic idea of where synergies may exist, but also help them understand what level of commitment is required of them to advance to a different job

35 These practices are listed in "Conclusions concerning the promotion of sustainable enterprises" International Labour Conference, June 2007, ILO, and Geneva.

by highlighting the gaps between the labour market expectations and their skills.

3. *Training* - Some companies engage in a practice of continuous staff training and development thus increasing the level of employability of their employees. In the event an employee needs to change job, moving to a new job may not be too traumatic or difficult. This type of life-long learning gives the employees greater flexibility and independence and can improve their self-reliance as well as confidence when it comes to facing new opportunities. This can benefit the company as well in terms of having a multi-skilled employee base that can shift with the demands of the company providing a continuous flow of qualified internal candidates to handle the demands of the current market situation. For example, in April 2009, trade unions at Renault in France agreed on a "crisis social contract" proposed by management, which aimed to maintain employment levels at the car manufacturer through the widespread use of short-time work, with employees keeping up to 100 per cent of their normal pay. While the crisis contract is in place, the company will provide additional training to develop and adapt employees' skills in order to prepare for the future once the economy recovers[36].

4. *Internal job search* -Internal jobs (whether within the company itself, in another plant or service, or in a subsidiary) are the first areas to consider for redeployment of workers being let go. The HR department can provide guidance on availability of opportunities as well as the skills requirements. Depending on the size of the company, there may already be tools in place to aid this process, such as a company intranet site that lists vacancies or bulletin boards that post upcoming openings. These opportunities should then be compared with a list of suitable candidates from the affected employees according to skills, and individual circumstances.

5. *External job search* - If employees have to leave the enterprise, they should be prepared both psychologically and technically through counselling and skills assessment/training, and be assisted in looking for and choosing a job.

6. *SME creation* - Within the group of redundant workers, there may be some people that have an entrepreneurial aspiration and, given the chance and support, would like to try and launch their own company. In this case it could be useful to establish a taskforce that would:

- Help the employee identify business opportunities, prepare and establish a feasible project plan.
- Assist with the development of necessary small business management skills and entrepreneurial skills to increase chances of success.
- Provide financial resources and advice on subjects like getting bank loans or raising capital.
- Provide legal and administrative support and advice (how to create an enterprise, best practices, what to avoid, accounting standards, regulations,)
- Help through the outsourcing certain non-core activities to give them new ideas or opportunities
- Check any incorrect assumptions about support, self-reliance and entrepreneurial potential among women employees as much as men.
- Factor in that, in addition to the difficulties faced by all future entrepreneurs, women have to face specific challenges related to
    - traditional views about women's managerial capacity
    - lack of independent financial resources or lack of collateral
    - lack of support from credit institutions
    - in some countries legal constraints (E.g. they may need a father's or a husband's approval to start their own business).
- Provide women employees with targeted support, and facilitate networking both with mainstream SME development institutions and

36 Carley, M., (2009), Restructuring and the Crisis. Building Partnerships for Anticipating and Managing Restructuring in a Socially Responsible Way. Background Paper. 2009.

with networks and associations of women entrepreneurs, who have direct experience in overcoming women's specific problems.

In SME creation, outsourcing provides an option. Some activities traditionally done within the enterprise can be outsourced to former workers: e.g. travel services, transportation, maintenance and administrative support. The former employees could create a new company (with or without temporary capital sharing, and possibly with an agreement allowing the new company to look for multiple customers).

Similar to SME creation, MBO (Management Buy-Out) and MBI (Management Buy-In) are other options. In an MBO, employees would buy the plant or subsidiary that was about to be closed. In the case of an MBI, employees would buy another plant or subsidiary outside the company (in the same field or a completely different domain), while the former employer may provide financial and technical support.

7. *Early retirement* - In accordance with local legislation, a system of early/partial retirement might be a solution. Early retirement can take several forms depending on the company and local regulations, but often includes the extension of full benefits until the actual retirement age and a monetary sum awarded for each year of employment, in addition to a certain percentage of the salary. The age at which the early retirement becomes an option as well as the level of financial offerings is usually up to the company; however it makes sense that if the company deemed this a viable solution, it would ensure that the financial benefits would be considered valuable enough for people to take advantage of the offer. Part time retirement (or partial retirement) might also provide a solution; allowing employees to work less (e.g. 50 per cent) while being paid relatively more (e.g. net 70 per cent). In psychological terms, this strategy can potentially avoid possible negative impacts while helping to facilitate knowledge transfer

8. *Voluntary redundancy* – Staff could be encouraged, through offers of financial incentives, to voluntarily resign from the company. Although this could be financially costly to the company in the short term, voluntary redundancy programme often avoids the demoralization among the remaining staff and the possibility of costly legal actions. It is important however, that when offering voluntary redundancy option to the employees, certain measures are put in place to ensure that on-going business operations will not be adversely affected, e.g. by loss of experienced employees who are the only ones knowledgeable to run particular operations.

8. *Interim measures:*

Alternative work schedules (Part-time, Sub-contracting, Flexible leave).

An alternative work schedule describes any schedule that deviates from the traditional norms of the area: e.g.: part time employment, flexible leave and subcontracting. One significant benefit of an alternative work schedule is that it often allows a company to retain its employees but better manage the workflow shifts for greater efficiency.

Part time employment

Part time workers can do many jobs effectively even though one should note that two part-timers would probably cost more to an employer than one full-time worker because of administrative costs, office space needed, etc. However, if the goal is to reduce production capacity, part-time work may provide an alternative to layoffs.

Sub-contracted workers

Detaching workers to other companies for a limited time period (sub-contracting) is another possibility to deal with temporary overcapacity. The workers still belong to the enterprise, are paid by it, and will have the same employment conditions, but they work for another company that can be invoiced at a level previously agreed upon.

Flexible leave

Another temporary solution focuses on allowing a limited leave, agreed upon between the employee and the company. Cornerstones of this type of solution include:

- Partial salary during the leave.
- Maintaining telephone number, car, e-mail, etc. as fringe benefits.
- Good chance of finding a similar job when returning from leave.

For example, in May 2009, the Spanish bank BBVA offered employees sabbatical leave of three to five years on 30 per cent of normal pay, with a guaranteed return to their job afterwards; special leave for personal circumstances, such as childcare or family responsibilities, or to pursue postgraduate studies; and voluntary working time reductions, with pay cut proportionally.

Voluntary cut in pay

Another temporary solution to avoid lay-off is for management and rank and file employees to agree to have a temporary cut in pay, with the understanding that full pay will be restored when the company has recovered its viability.

Ensure that these interim measures apply to both men and women, and that one group is not disproportionately affected by the measures. *Part-time work* is an opportunity to foster gender equality culture among employees particularly if men feel “diminished” in their masculine role; Establish objective criteria for selecting *subcontracted workers* and make sure that one group is not disproportionately affected (particularly in case of return to direct employment, e.g. in pension rights or seniority etc.

Annex to Chapter Three: Further case studies

1. Good practices in social dialogue for gender equality and workplace welfare

Case study A3.1 French social partners' agreement on gender diversity in occupations and careers

The French social partners agreed that the main obstacles to the effective realization of equal opportunities for men and women at work is the persistence of prejudice against a mix of women and men in specific careers, and lack of awareness among employers, managers, employees' representatives and employees themselves.

To address these problems, a cross-industry national collective agreement was signed on 1 March 2004 by all social partners' organizations, both employers and workers. The agreement includes measures that can be put in place at sector and /or company levels, such as:

- promoting the achievement of a gender balance in access to vocational training at sectoral level;
- improving labour market information to promote better gender balance across occupations and sectors;
- attention to flexible working time arrangements and their impact on women's career advancement;
- training women workers at the end of maternity leave to facilitate the return to work
- Maintaining links between workers on maternity or parental leave and the enterprise;
- measures for equal pay for work of equal value and possibility of affirmative action
- establishment of fast-track career development paths for women in presence of an "outstanding imbalance"
- A review of the impact of the agreement in three years time.

Case study A3.2 Peugeot

Over the last few years and following an all-industry collective agreement on equal opportunities in carriers and occupations, the PEUGEOT CITROEN group has taken a number of important initiatives to attract more women to automotive industry, and diversify their careers.

A collective agreement was signed on 4 November 2003. The agreement deals with various aspects on equal opportunities between women and men such as training, recruitment and women's careers, including:

- Adaptation of working conditions to promote better gender balance in the workforce (ergonomics; adaptation of local services such as child care etc.);
- Setting targets for the women's recruitment: the proportion of women recruited should be equivalent to the proportion of women applying to the job.
- Vocational training and promotion of female apprenticeship;
- Helping women to be mobile (mobility is a condition to career promotion in the group) and helping spouses when forced to move;
- Setting targets for the women's promotion: the proportion of women promoted should be equivalent to the proportion of women in the position to be promoted;
- Dissemination of the whole agreement to all the employees in the enterprise by means of a brochure;
- A network of 35 managers in charge of gender mainstreaming;
- Training of the members of gender equality committees of the establishments' worker councils;
- Awareness-raising and training of managers, HR managers and people involved in recruitment
- A bipartite follow-up of the agreement is foreseen on the basis of agreed indicators, including monitoring of the three-year targets.
- Annual equality plans and gender equality committees and contact persons are also in place at the shop floor level.

Case study A3.3 Gender and social dialogue in SMEs

Social dialogue and work-life balance policies help sustainable SMEs manage their resource pool. The Confederation of Hungarian Employers and Industrialists and the National Confederation of Hungarian Trade Unions have gender equality in the workplace as a shared objective. Besides other measures, such as parental leave, since 1999 an annual "award for family-friendly workplaces" also exists. The criteria for the award are set in consultation with the social partners. The award was won in 2003 by West Hungarian Consulting, a consultancy SME specializing in accountancy, taxation, human resources and financial issues. It started in 1990 with 4 employees and rapidly grew to 42 in 2009. The company is committed to providing all its employees with a family-friendly working environment and conditions such as flexible working time, parental leave, training to facilitate return from parental leave, leave for urgent family reasons

The company keeps contact with women on parental leave and facilitates their return to work with training, part-time work, and the opportunity to agree with their supervisors on individualized working hours. The company also offers its employees holiday cheques, a gift when starting a family, and arranges sports activities, all financed by the company. These measures form part of the work contract agreed with the *works council* at shop level, and revised every two years. If problems occur, they are dealt with through the works council.

Source of the three case studies: EU Social Partners 'Framework of Actions on Gender Equality, Follow up Report, Annex (2005).

2. Examples of productivity improvement

Case study A3.4 Kaizen assistance in Africa

Kaizen, the Japanese philosophy that focuses on continuous improvement of productivity and quality, has become a global activity spread by multinational companies and their employees. The Kaizen Institute is an international private consultant group that specializes in the kaizen method. It has licensed networks throughout 24 countries from which consultants provide services globally. In Africa, the Kaizen Institute has a subsidiary in Mauritius. Their performance has proved that the kaizen method is much needed and commercially viable.

The Pan African Productivity Association (PAPA) was established in cooperation with the Asian Productivity Organization (APO) the focal point for promoting productivity improvement in Asia, to provide capacity building to productivity centres in African countries. The Japan Productivity Centre for Socio-Economic Development (JPC-SED is currently providing seminars and consultations on kaizen to 14 model companies in South Africa, Kenya, Botswana, and Mauritius.

Kaizen activities in Kenya

There are some leading multinational companies operating in Kenya which are bringing in kaizen methods including Toyota East Africa Ltd. and GlaxoSmithKline Kenya Ltd. Furthermore, the Kenya Association of Manufacturers (KAM), which has approximately 600 members, has been actively involved in organizing seminars and training to upgrade the capacity of its members. KAM has partnered with the Kaizen Institute in Mauritius since 2005 and has been inviting experts for seminars and consultations. Because of publicity gained through newspaper articles presented by KAM, kaizen is relatively well recognized in Kenya, and now there are local private consultants who can provide services on kaizen.

Source: Introducing Kaizen in Africa. GRIPS Development Forum, 2009.

3. Examples of socially sensitive enterprise restructuring

Case study A3.5 Innovative 'leave and return' option: Aer Lingus restructuring

At the former national airline, Aer Lingus, the Services, Industrial, Professional and Technical Union (SIPTU) reached a cost reduction agreement with the company, part of an overall cost reduction plan aimed at total savings of €74 million, of which €50 million was for labour costs.

An agreement between Aer Lingus and SIPTU, brokered by the Labour Relations Commission in late November 2008, averted potential industrial action and indicated a new trend in industrial relations in Ireland. An innovative feature of the deal was a 'leave and return' option, under which 850 workers chose an attractive severance package, and then returned to the company to new jobs on lower pay and conditions. The staff involved in the agreement included baggage handlers, clerical and catering staff (all members of SIPTU).

Meanwhile, about 1,200 cabin crew (members of the Irish Municipal Public and Civil Trade Union - IMPACT) – reached a separate agreement, which included new lower entry rates, 96 voluntary redundancies and changes in working conditions.

Under the terms of the SIPTU deal, pay and conditions were diminished for the majority of the employees concerned, although they were initially cushioned by the one-off lump sum payment. The employees also retained their benefit pension entitlements.

Source: http://www.irishtimes.com/newspaper/ireland/2008/1205/1228337449647.html

Case study A3.6 Czech steel industry restructuring

After negotiations with the EU, a programme for restructuring the Czech Republic's steel industry was adopted in 2001. It focused on the rationalization of the production capacities of steel companies and ways of making them more effective. This *Programme for the Czech Steel Industry Restructuring* was accompanied by the *Supporting Social Programme* to alleviate negative effects of the restructuring, particularly laying off redundant workers. Just over 1 billion CZK was made available to implement the Social Programme between 2001 and 2006, fully covering the requirements of the steel companies in assisting former employees (5,588 workers were supported in total).

The programme was focused on motivating redundant either to find another job or to set up their own business. If an employee found another job outside the steel industry, the benefit was increased by 10-20 per cent; if an employee started up their own business, the benefit was increased by 30 per cent.

Other instruments directed towards alleviating the social impact of restructuring included the START Programme and the Regional Development Programme. Under the START Programme, 290 interest free loans were provided in 2006, totalling CZK 109 million. More than two thirds of these loans, granted by the Czech-Moravian Guarantee and Development Bank, were meant for redundant employees who wanted to set up their own businesses. The Regional Development Programme was intended to promote the creation of new jobs in the regions affected by restructuring. The programme provided financial assistance for new businesses in the amount of CZK 890 million, leading to the creation of 3,156 new jobs (i.e., at a cost of CZK 282,000 per new job).

Standard instruments for dealing with the social consequences of restructuring were applied as well, in the concrete early retirement (2-3 years before regular retirement), redundancy payments from company resources and retraining (retraining for new occupations as well).

Source: Broughton, A. Socially sensitive restructuring in South-Eastern Europe. ILO, 2009.

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Chapter 4: Managing for improvement: General management

4.1 Introduction: The challenges of strategic management

Sustainable enterprise management is about business performance. But it is also about implementing an expanding vision of business performance. As discussed in Chapter 2, the stakeholders' expectations on the business enterprise are now much broader. It is not just the production and delivery of quality products and services and good financial outcomes that are important to the stakeholders. Equally important to them are the social and environmental impacts of the processes used in the sourcing of the inputs and in the transformation of these inputs into products and services and of the use and final disposal of the products. The stakeholders expect the enterprise to have good economic, social and ecological performance. Enterprises are expected to be ethical in all its dealings and operations.

Managing sustainable enterprise therefore involves engaging, relating and managing networks of stakeholders that include shareholders, customers, employees, suppliers, community, interest groups, etc. with their particular economic, social and ecological expectations. The various stakeholders' satisfaction represents the principal criterion to determine the strengths and weaknesses of the enterprise's management.

Sustainable enterprise should be managed in an integrative, strategic fashion, focusing on the strategic and operational integration of the economic, social and ecological objectives of the enterprise. It has to have the strong commitment of the top leaders who specify specific goals, assign roles, ensure cross-functional integration, effective and efficient resource allocation, appropriate management and communication systems, re-enforced by the appropriate recognition and reward system. The strategic management process should create systems for transparency, accountability, stakeholder dialogue and engagement, and measurement/verification of impacts and results.

There are particular challenges that face the managers especially during the transition from the traditional business model to the sustainable enterprise business model. As highlighted in the section on change management in Chapter 3, the transformation must be very well managed as the strategic process goes through the various elements, e.g.:

- *Defining the particular sustainable enterprise business model*. This process should clarify and express a "sustainable enterprise business model" that describes the interdependence between the company's social and ecological roles and its business economic success. This definition will, for example, provide the underpinnings to help decision-makers, their colleagues and subordinates to understand the elements of the economic, social and ecological strategic concerns, and how they can be pursued to reinforce one another. Defining the link between conventional business strategy and the social and ecological roles of business is essential for ensuring the long-term viability of the sustainable enterprise.
- *Leadership roles and commitment to strategic goals*. The senior executives should define specific strategic goals, corporate policies, and measurable objectives for their sustainable enterprise strategy. In practice, these goals should reflect the integration of business outcomes and social and environmental

outcomes. Senior leaders should take active roles in driving and communicating the strategy.

- *Identifying priorities*. After defining the integration of economic, social and ecological goals and strategies, decision-makers need to identify strategic priorities that will determine resource allocation and management systems dedicated to addressing specific issues such as workplace cooperation, enabling employees, supply chain management, environmental management, community relations, and others.
- *Committing to core sustainable enterprise processes*. A common feature of sustainable enterprise management frameworks emphasizes stakeholder engagement, transparency, reporting, and measurement. These represent new ways of doing business, and may conflict with conventional policies around confidentiality, financial reporting, and tightly controlled communications practices. However, these are necessary to support sustainable enterprise strategic goals, and senior executives should strongly demonstrate their commitment to support and lead these processes.
- *Creating management performance systems*. Structure, as the adage goes, follows strategy. To implement sustainable enterprise strategy successfully requires ensuring that the achievement of the over-all strategic goals is reflected in the operational agenda and measures of performance of business lines, departments, and their managers.
- *Redesigning practices and creating programmes*. The strategy will require the enterprise to design new systems and processes to support the achievement of the goals. For example, if a company sets a goal to eliminate all suppliers that violate the fundamental rights of their employees, then it will need to create specific policies, strategies, and mechanisms and programmes for positive engagement with the suppliers concerned. If the company sets a goal to reduce pollution and emissions, it will need to modify its production model. Redesigning corporate practices and policies will typically require specialized expertise. Acquiring and effectively utilizing these expertises, which may have to be outsourced, will require specific management skills.

Case study 4.1.1 Improving productivity through better management in India

The World Bank ran a field experiment on large Indian textile companies to evaluate the impact of management on their performance. To generate changes, a five-month extensive management consultancy was provided to 20 treatment plants and their performance compared to a set of control plants, which didn't receive the consultancy support. The project ran from August 2008 until April 2010.

The consultancy was organized in three stages. The first, the diagnostic phase, took one month involved evaluating the current management practices of each plant and constructing a performance database. The control plants were given this diagnostic phase as well, to construct historical performance data for comparison. In the second phase, a four-month implementation phase given only to the treatment plants, the consulting firm helped implement management changes to address the shortcomings identified in the diagnostic report. It focused on 38 management practices, covering factory operations, quality control, inventory, planning, human-resource management, sales, and order management. The third phase was a measurement phase, collected performance and management data from the plants and compared the results.

The experiment found that management intervention led to significant improvements in quality and lower inventory levels in the plants, estimated to have increased productivity by about 9 per cent (reduction in repair manpower – 4.6 per cent, reduction in waste fabric and capital – 2.1 per cent and 0.6 per cent respectively; increased output – 1.3 per cent) and profitability by around $250,000 per year. As these numbers focus only on short-run changes in a very narrow set of management practices, longer run impacts of good management on productivity and profitability should be much larger.

Source: Bloom, N., Eifert, B., Mahajan, A., McKenzie, D., Roberts J., (2009), Management Matters: Evidence from India. The World Bank, 2009.

- *Implementation*. At this stage, the managers are faced with the challenge that the new ways of doing things are implemented as intended, that they will be sustained and that no backsliding to the old business model will occur.

With the very dynamic business environment the enterprise has to continuously transform itself, applying the full range of managerial functions and competencies at all levels of the organization.

4.2 Managerial functions, roles and competencies

Generally speaking, a manager is concerned with the running of human organizations and making sure that the people who belong to an organization act together and effectively meet the organizations objectives. Thus, management is often described as "doing things with and through people". Management is also concerned with applying and utilizing all other resources of an organization in addition to human resources, i.e. materials, energy, finance, equipment, information, technology, etc. including its relationship with the organizations' external environment.

4.2.1 Managerial functions

The traditional functions of managers are planning, organizing, leading and controlling. Under these general functions are specific activities and techniques that are performed by a manager:[1]

- *Planning* - analysis of the business environment, appraisal of the performance of the business, defining the goals and objectives of the business, deciding on the best route and ways of achieving them, allocating and budgeting the resources required in the performance of the work and tasks involved, and preparing contingency plans for various possibilities.
- *Organizing* - structuring how and where the various functions, work and tasks are to be done and how they will interact and relate with each other, coordinating the activities of the various units of the organization, and assigning responsibilities and authorities to people and groups for carrying out specific duties and tasks.
- *Leading* - motivating, enabling and drawing-out the talent of the people to achieve the goals of the enterprise through good communication, the building up of trust and confidence, creation of the organizational climate for good performance and development of their capabilities, skills and competencies.
- *Controlling* - making sure that the performance is according to plans and expectations through establishment of standards of organizational and individual performance in key result areas, monitoring and measurement of actual performance and results, comparing actual performance versus expectations and taking corrective actions whether to adjust performance level or modify standards where necessary.

With the advent of new forms of enterprises and new forms of work organization enabled by the rapidly advancing information and communication technology, new managerial functions and required competencies also arise. The highly dynamic and competitive globalized business environment discussed in Chapter 1 has given rise to new forms of enterprises - lean enterprises - that operate based on core competencies and rely on networks of suppliers and sub-contractors for sub-manufactures, components and support services. These enterprises are specialized yet flexible and adaptable, able to switch from one product model to another as demanded by the very dynamic market. New forms of work organization are also coming-up. Internal work organizations are becoming less hierarchical with less rigid job specifications and differentiations. Work groups are transforming themselves in learning organizations that are constantly learning and applying the knowledge and insights gained from earlier experiences to improve their operations and practices. Production work is organized in self-managed cells, which - to some extent - are making their own decisions on task distribution and work schedules. Production systems are increasingly knowledge-based, making human

[1] "Training and Development of Entrepreneur-Managers of Small and Medium Enterprises" by A. Tolentino, ILO, 1998.

resource the key asset and determinant of enterprise competitiveness.

Under these changes in the business environment and in the organization and operations of businesses, managers and supervisors are now more process management focused, ensuring that the different business processes and interactions (internal and external) are operating properly to achieve desired results. Their functions are now seen to include:

- *Enabler* - developing the competencies of people and creating the work organization and environment that will enable them to achieve high performance.
- *Facilitator/coordinator* - creating linkages and relationships among individuals and work units that will facilitate the performance of the tasks and activities of the whole organization.
- *Communicator and negotiator* - making clear to those concerned the organizational goals and targets and ensuring acceptance and commitments.
- *Change manager* - preparing people and the organization for the constant process of change that production and organizational flexibility require.
- *Internal consultant* - providing individuals and work teams with advice and assistance in problem-solving and effecting improvements

4.2.2 Managerial roles

As a manager performs these functions he assumes various roles, depending on the particular situation and needs. A classic listing of these ten roles was formulated by Henry Mintzberg[2], classified under three categories: Interpersonal roles, Informational roles and Decisional roles. These are shown in Table 4.2.1 below with some examples on how they relate with the three performance areas of the sustainable enterprise.

[2] Mintzberg, H., The nature of managerial work, Harper and Row, New York, 1973.

Table 4.2.1 Managerial roles

Roles	What is involved
Interpersonal roles	
Representative[3]	Representing the enterprise or unit, serving as its "face", e.g. senior executives representing the organization to its different publics, unit heads representing his unit to higher levels of management and to the other members of the organization.
Leader	Providing direction, communicating, motivating, influencing, role modelling to subordinates; serving as role models and "walking the talk" demonstrating the behaviours consistent with the sustainable enterprise values.
Liaison	Making contacts inside and outside the organization with a range of people, e.g. subordinates, superiors, colleagues and peers, clients, business associates, suppliers, customers, government, business association officials, competitors, etc.
Informational roles	
Monitor	Seeking and collecting current information, e.g. scanning the environment for information on trends and developments, of expectations of particular groups of stakeholders, of new environmental regulations, CSR guidelines, etc.
Disseminator	Passing on information to others, both inside and outside the organization; facilitating two-way communication and social dialogue.
Spokesperson	Sending some of the enterprise's information to people outside the organization about company policies, needs, actions, plans and performance, e.g. social and environmental performance reports, triple bottom line reports, etc.
Decisional roles	
Entrepreneur	Searching for improvement to his/her unit to adopt it to changing conditions or to take advantage of an opportunity tapping workplace cooperation in seeking-out and implementing improvements.
Disturbance handler	Responding to disturbances, e.g. resolving conflicts among subordinates or between managers' unit and other units
Resource allocator	Making decisions on how to allocate staff, budget, equipment, time, and other resources to attain desired outcomes
Negotiator	Conducting formal and informal negotiations and bargaining to attain outcomes for the manager's unit of responsibility

3 The original term used was "Figurehead" which in today's parlance and usage may not reflect the original meaning intended.

The intensity and depth with which these functions and roles are performed vary according to the managerial levels in the organization. Although there is a trend towards less hierarchical and flatter organizational structures, three basic managerial levels are still used when describing the particular nature of a manager's preoccupation: top management, middle management and first-line management.

Managers in the *top management level* are those who are responsible for the over-all direction, strategies and operations of the whole organization. Those in *the middle management* are responsible for running of major units and departments of the organization. They are operationalizing the over-all organizational goals and strategies, translating them into goals, strategies and implementation plans of their organizational domain. To the f*irst line management* belong those whose primary responsibilities are the production and deliveries of goods and services. They supervise the rank and file employees.

Other descriptions given to these three basic levels are Strategic Management (top management), Tactical Management (middle management) and Operational Management (first-line management) levels, reflecting the main focus of their functions and responsibilities.

The most senior layer is the Strategic Management function. Managers operating at this level within the organization usually have little to do with day-to-day running of a company. Their responsibility is to plan for the future of the organization. They will develop the vision and mission of the organization and provide direction and steer for all other employees.

On a daily basis they discuss and plan the future of the organization, analyzing the context within which they operate, the market and competition, and the long-term future. They also ensure that appropriate policies are developed to reflect the direction, values and ethos of the organization. They also have the role of deciding upon the strategic allocation of the resources available.

The strategic managers will also report to stakeholders and shareholders and ensure the annual reports and accounts are completed and submitted on time. They have key roles in the governance of the enterprise.

The next level of management is known as the Tactical Managers within the company. These managers are the middle layer of management. Their responsibility is to ensure that the messages from strategic managers are turned into everyday policy and practice. They have to translate the ideas and values of the strategic managers. Usually, the tactical managers have a responsibility for a unique aspect of the organization. This may be a group or division of the organizations activities clustered together, possibility with several different teams reporting to the tactical manager. The tactical managers in the organization are not usually responsible for the day-to-day running of the business, but do manage over-all operational plans, budgets, programmes, information and are responsible for aspects of the business performance of their particular areas of responsibility.

The operational managers run the company on a day-to-day basis. They are responsible for managing the operations, be they manufacturing or service. They also manage directly the people and teams that deliver the business. Their primary concerns are managing the operations and managing people. These managers are often called the team leaders and they manage a specific part of the business.

If the organization is large enough there may be an additional level of managers, who are the first line supervisors. If the organization is not large enough, then the team leaders usually take on the supervisory role. Supervisors usually have a mixture of technical responsibility and managerial responsibility; they are the first line of managers and have to balance their technical role with the roles of first level of management of others within their units of responsibility.

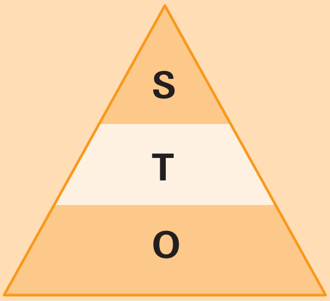
While each level of manager at some point will perform to some degree all management functions and roles, there should be a balance. Strategic managers should find themselves spending more of their time dealing with strategic and long terms planning issues, while tactical managers might spend half of their time working on the translation of policy into practice and the rest of their time split between working on strategic or operational issues.

Operational managers should find themselves working primarily on the day to day operational issues but will still have a small role in tactical or middle level management issues and an even smaller amount of time on strategic work.

This is illustrated with the triangles and diamond structures on the following page. The percentages of time spent on each function and role will vary from organization and job position, but as a principle the percentage of the split should be as shown. One of the key problems that many organizations have to face is how to ensure that

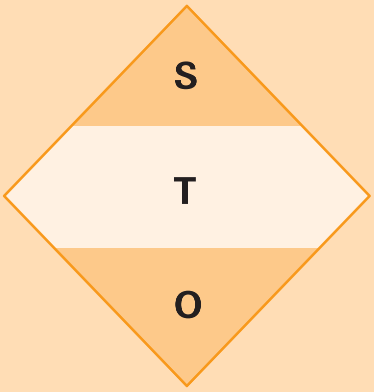
Figure 4.2.1 The broad split of time in the different levels of management activity for operational, tactical and strategic managers

The broad split of time in the different levels of management activity for operational, tactical and strategic managers



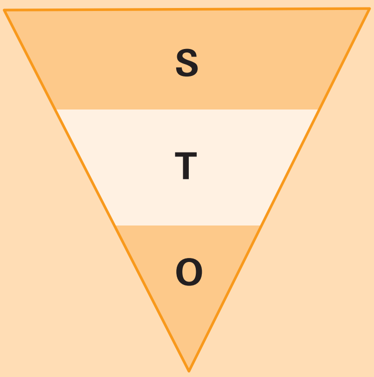
Operational (first line) management

Where the largest part of the job is to focus on operational issues, with less time on tactical and even less on strategic issues



Tactical (Middle) management

Spend most of their time on translating policy into practice, but will divide the rest of their time working with both strategic & operational managers



Strategic (Senior) management

Should be focussing on the long term strategic issues, and very little in actual day to day operational management issues

Skills	What it involves
Conceptual skills	Cognitive ability to see the organization as a whole and the relationship among its parts; understand how various functions of the organization complement one another; how the organization relates to its environment; how changes in one part of the organization affect the rest of the organization
Human skills	Ability to communicate with, understand and motivate both individuals and groups
Technical skills	Skills necessary to accomplish specialized activities
Administrative skills	Ability to plan, organize and coordinate activities of the manager's unit
Diagnostic skills	Ability to determine, by analysis and examination, the nature of a particular condition
Political skills	Ability to understand how things are done inside and outside the forma channels
Emotional intelligence skills	Ability to use emotions to help guide own behaviour and thinking in ways that enhance results

strategic managers spend their time and energy strategically and not be tempted to get involved with the day-to-day detail of running the organization.

4.2.3 Managerial skills and competencies

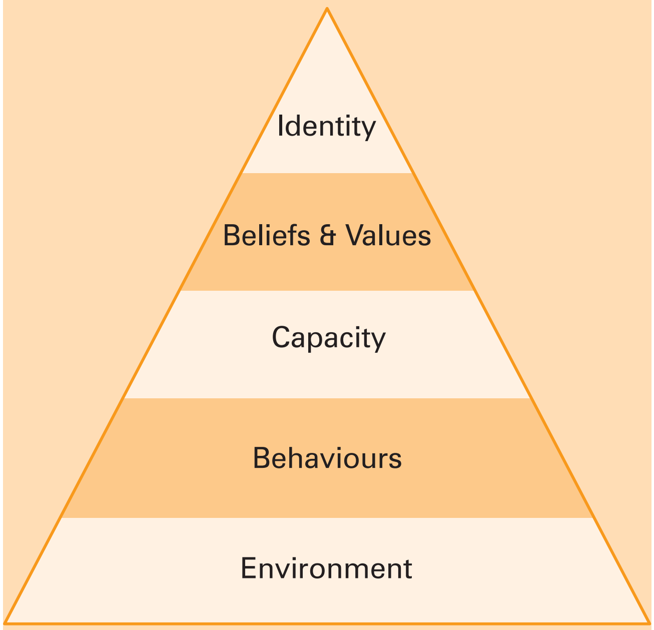
To perform these roles effectively, managers must have the following skills and competencies:[4]

The extent to which managers need different kinds of skills moves from lower management to upper management. Most lower level managers use technical skills extensively. At higher levels technical skills become less important while the need for conceptual skills grows. However, human skills are very important to all managers.

4.3 Management values and beliefs

The logical levels model developed by the neuro-linguistic-programming pioneer Robert Dilts demonstrates the link between identity, what a person believes, their capacity to act, the behaviours they employ and the environment they contribute to and operate in.

Figure 4.3.1 The logical level hierarchy



This is explained in a different way by the social psychologist Douglas McGregor who, in his work

[4] List adapted from the summary in the website http://www.introduction-to-management.24xls.com/en114, and from "Management Development: A guide to the profession" J. Prokopenko, ed., ILO, 1998.

on Theory X and Theory Y, was making the point that what a person believe about people and work will have a direct impact on that person's management style and practices and therefore, on the work environment in his or her area of influence.

McGregor asked questions about how managers see themselves in relation to others. This viewpoint requires some thought on the perception of human nature. Theory X and Theory Y are two sets of assumptions about the nature of people. McGregor chose these terms as they do not have any connotation of being 'good' and 'bad'.

Theory X assumptions

The 'traditional' assumptions about the nature of people, according to McGregor, included in theory X are as follows:

(1) Average human beings have an inherent dislike of work and will avoid it if they can.

(2) Because of this human characteristic of dislike of work, most people must be coerced, controlled, directed and threatened with punishment to get them to put forth adequate effort toward the achievement of organizational objectives.

(3) Average human beings preferred to be directed, wish to avoid to responsibility, have relatively little ambition, and want security above all.

Theory Y assumptions

McGregor sees the assumptions under Theory Y as follows:

1. The expenditure of physical effort and mental effort in work is as natural as play or rest.
2. External control and the threat of punishment are not the only means for producing effort toward organizational objectives. People will exercise self-direction and self control in the service of objectives to which they are committed.
3. The degree of commitment to objectives is in proportion to the size of the rewards associated with their achievement.
4. Average human beings learn, under proper conditions, not only to accept but also to seek responsibility.
5. The capacity to exercise a relatively high degree of imagination, ingenuity and creativity in the solution of organizational problems is widely, not narrowly, distributed in the population.
6. Under the conditions of modern industrial life, the intellectual potentialities of the average human being are only partially utilized.

These two sets of assumptions obviously are fundamentally different. Theory X is pessimistic, static and rigid and will utilize the stick approach to engaging people in work. Control is primarily external imposed by the person in the more senior position.

If as a manager a person has beliefs that are in line with theory X, it is likely that he or she will use more controls and measures to ensure that work output is adequate. Time at work will probably be measured, and the work environment is more likely to be controlled. This management style is considered to be the 'traditional' style; it is associated with conservative and now an outdated management practice.

A great deal of literature about good management practice today puts emphasis on employing an empowering management style, and working from beliefs that are more in line with McGregor's Theory Y set of beliefs.

4.4 The empowering manager

The work of behavioural scientists Elton Mayo, Victor Vroom and Abraham Maslow began a trend in human relations in organizations. The outcomes of their research led to the conclusion that employee involvement was a positive motivational factor and ultimately necessary if the enterprise is to be sustainable.

Employee Involvement (EI) has existed under many guises, from the turn of the century factory committees to the Whitley Councils in the UK and up to and including the 'industrial democracy' movements of the 1950's and 60's to participation (1970's) and 'involvement' in the 1980's. Under each of these headings there has been a multitude of managerial initiatives including, for example, factory committees, team working, self-managed workgroup and quality circles. Many of these initiatives were linked to mobilizing forces for organizational change, improved performance and the pursuit of excellence.

Some of these initiatives are based on systems for individual consultation, others are based on consultation using representation, as for example joint consultative committees, which are bodies for managers and employee representatives to meet and discuss issues of common interest

Throughout the 1970's, 80's and 90's an enormous ranges of employee involvement schemes were born. They ranged from informal systems to highly formalized legislated approaches. Such diverse approaches make it difficult to propose an all-encompassing definition of Employee Involvement. However it is possible to identify that generally there are three aspects that are central to the concept: influence, interaction and information sharing.

Marchington, et. al. also suggested that these definitions needed to take into account:

1. The *degree* of involvement (the extent to which employees influence the final decision).
2. The *level* of involvement (whether at the job, department or organizational level).
3. The *forms* of involvement (direct, indirect and financial).
4. The *range* of the subject matter being considered in the involvement scheme. [5]

Peter Senge[6] and other management thinkers recognized that in today's economy, knowledge counts for a lot, and the ability to be flexible and respond quickly is more or less the only competitive advantage that exists. This means that to sustain the enterprise it is necessary to engage people to their fullest capacity, so they have knowledge and permission to make decisions and act on behalf of the organization. This helps the organization to be viable and sustainable because customers, suppliers and stakeholders understand what the organization can and will do.

The Empowerment concept embraces employee involvement strategies, but is actually broader. As the word suggests empowerment is essentially about the transfer of power further down the organization. This is based on a belief that it is better to make decisions as close to the customer as possible. This requires

1. Leaders of the organization to set the culture and context for empowerment to take place;
2. Employees are trained and are prepared to be empowered;
3. Mechanisms for collaborative working are in place;
4. Structural and procedural change is implemented to reinforce empowerment; and
5. Managers understand what empowerment is and how to put it into practice.

What each of these statements means and what kind of issues need to be considered are examined in more details below.

1. Leaders of the organization to set the culture and context for empowerment to take place.

The leaders of the organization need to communicate that empowerment is a tool to create

[5] Machington, M., Ackers, P., Goodman, J., "The use of cycles? Explaining employee involvement in the 1990s", Industrial Relations Journal, Vol.23, No. 4.

[6] See for example Senge (1992), The Fifth Discipline – The Art and Practice of the Learning Organisation,

an environment where every individual can use his or her energies and abilities to satisfy organizational priorities. To communicate this message effectively, it is not just what the managers say that is important but also how they act and what they actually do. They "walk the talk".

To do this they may need to think about their own managerial habits and perhaps unlearn some of the traditional management approaches they have been used to. A culture based on blame and fear will not be an environment conducive for empowerment as there will not be adequate trust between employees and managers.

2. *Employees are trained and are prepared to be empowered.*

Announcing that empowerment now exists probably is not enough! Employees need to understand what the difference is and what are the boundaries and limits of empowerment. How much power do they actually have? What happens if they make a mistake? What if I don't want to be empowered? What are the benefits? All these questions and probably more will need to be answered.

By first training managers and then training groups of employees in teams, some of these questions can be dealt with and in addition some of the new skills that may be required can also be identified and practiced.

3. *Mechanisms for collaborative working are in place.*

With the removal of pure positional power and hierarchy, it may be necessary to think about the mechanisms for collaborative working so that employees can be empowered to undertake projects or improvements without need for senior sanctions. This may be in the form of improvement circles or groups, working groups, project groups, and task forces. The need to have better coordination must always be in mind to ensure that there is no duplication of effort. The judicious application of ICT tools for collaborative work will also be helpful.

4. *Structural and procedural change is implemented to reinforce empowerment.*

Usually empowered organizations do not need many levels of hierarchy, as there is less need to create chains of command to control all employees' actions. Often flatter organizational structures are put into place, with a greater emphasis on team working. If there is less need to ask for permission to act, it is likely that the procedures will need to be revised.

5. *Managers understand what empowerment is and how to put it into practice.*

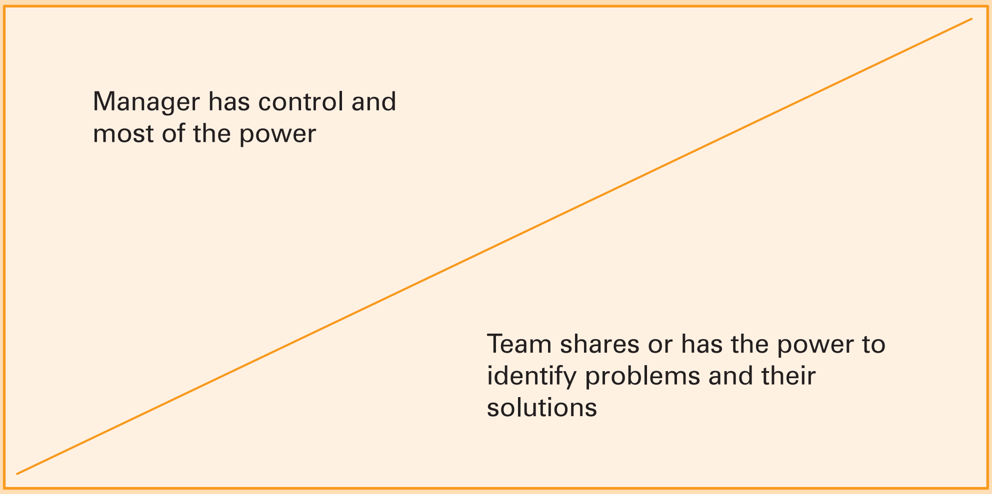
One of the greatest stumbling blocks in the introduction of empowerment is that managers like the idea of empowerment going to them but not from them. Managers and especially middle managers will need to learn how to empower those below them in the hierarchy. It is necessary to help managers address their fears, apprehensions and feelings of insecurity that may be engendered by empowerment of subordinates.

More often today Empowerment is understood to be a style of management, where instead of positional power, people are encouraged to use their personal power, thus devolving some powers to act and make decisions further down the organization.

> *"Mobilizing forces is no longer straightforward. People don't snap to attention. They don't passively fall into line. When power is in the hands of the people, intimidation and threats do not work. And if they do work, you are dead because this means you hired the wrong people"*
>
> Ridderstrale & Nordstrom (2000)

Historically, people use to talk about hiring hands and believed that employees were paid to act and not to think. Today this is recognized as a waste of talents and that organizations can no longer afford to ignore the fact that along with the hands that have been hired comes a brain, values, feelings and emotions.

Figure 4.4.1 Tannenbaum and Schmidt Continuum



For managers with a more autocratic management style it will be harder to empower others. The Tannenbaum and Schmidt model of delegation and team development examines a range of possible management styles[7]

In the continuum, the first part is where the manager holds almost all of the power and will decide and then announce the decision. The team does not have an opportunity to influence the decision. In the second position the manager still makes the decision but rather than simply announce the decision to the team, the manager "sells" the decision, possibly describing and emphasizing the benefits. For charismatic managers, often they may appear more democratic than they actually are, as when they sell the decision it can appear that the whole team have been involved in the process.

At the third point, the manager presents the decision with background information and may invite questions from team members and give the team some opportunity to influence the decision. The team then has an opportunity to understand the decision and what lies behind it. However the decision still lies in the hands of the team manager.

In the fourth point, the manager suggests what the decision may be, but invites discussion about it and reviews the decision in light of comments from team members. This allows the team to really influence the decision rather than be faced with a "fait accompli".

In the fifth point, the manager presents the situation or problem and asks for suggestions as to how to resolve the problem, and the manager will then decide on the best course of action. In this scenario team members are expected to have ideas and identify options, and there is recognition that team members have knowledge and enough information to contribute to the solution.

At point 6, the manager explains the situation and actually delegates responsibility for the decision to the team, there will be clear limits set by the manager, but the team will have the opportunity to not only influence but directly control the decision.

Point 7 is where the manager delegates full responsibility for the identification of the problem, the development of the options and the implementation of the solution to the team. The team must be mature and competent to operate in this situation.

[7] Tannenbaum R. & Schmidt W.H. (1973) 'How to Choose a Leadership Pattern' Harvard Business Review, Vol 51 May-June pp162-80

It is evident that to have an enterprise that is sustainable, all the resources available have to be put to their best use. This includes people. If power is held in the hands of a few people at the top of the organization, bottlenecks will be created waiting for extremely busy and overworked people to make decisions about often very small things. Enterprises will not be sustainable if this is their mode of operation.

Each employee needs to be able to make good decisions and take positive actions to benefit the whole organization. They might require training to do this, and they will certainly require managing, but not in a traditional, autocratic way, but rather in an empowering way so they can really contribute to the sustainability of the organization.

4.5 Approaches to management development[8]

Given the important roles that managers have in ensuring the successful operations of the enterprise, it is very essential that their skills and competencies be continuously developed. Specially so when the enterprise is adopting new business models, new values, new ways of doing things as when developing itself into a sustainable enterprise.

The knowledge, skills and experience, and the traits and attitude required of a manager differ by level of responsibility, by function, by industry, by cultural setting and from one organization to another. Particular managerial assignment and position will require specific competencies depending on the nature of the areas of responsibility. The changing challenges posed by the dynamic environment will necessitate the constant upgrading of the manager's capabilities.

The following have been found to be important conditions for effective management development:

1. Management development is perceived within the enterprise, specially by top management, as key strategic concern;
2. Training and development needs are derived primarily from the strategic plans of the business;
3. The design of the management development programmes and the selection of the training and development methods take into account the nature of the managerial work;
4. The needs and capacities of individual managers are taken into account; and
5. Management development is seen as a continuous process in which job experience, career progression and opportunities for learning are linked together; and management education and training are systematically reviewed and evaluated to establish their cost-effectiveness.

The training and development of managers generally includes two types of learning process: (a) formal education and training programmes, and (b) learning from experience "on the job".

The objectives of formal education and training programmes vary considerably. They include:

- *Acquisition of knowledge* – the knowledge could be very specific, for example, relating to the systems and procedures of the manager's own organization or could highly general such as knowledge of business trends in globalising economy;
- *Learning of techniques* – such as how to carry-out environmental life-cycle management, manage CSR along the supply chain, draw-up an action plan, read a balance sheet and other financial statements, etc.
- *Developing interpersonal skills and related behavioural patterns* – such as leadership skills, of communication skills, motivation, negotiation, influencing and persuasion, etc.
- *Developing latent qualities within the individual* – sharpening of inherent qualities, e.g. creativity, lateral thinking, strategic thinking;
- *Changing attitudes* – broadening of the manager's horizon through e.g. insights into

[8] This section is largely adapted from "*Management Development: A guide to the profession*", J. Prokopenko, ed. ILO 1998

values of other cultures, gender equality, non-discrimination, etc.

A large part of manager's learning happens from experience "on the job". Researches on managerial on-the-job learning identified the following "experiences" that provide good learning opportunities:

- *Challenging jobs and assignments* – provides opportunities to learn new techniques and skills rapidly, how to cope with pressures and stress, how to handle interpersonal matters, project management, work with tight deadlines, etc.;
- *Working with more experienced bosses and superiors* – learning what to be or do, or what not to do, often serving as role models;
- *Conducting training* – training of others provide opportunities for self-development; validating concepts and translating them into operational levels.
- *Participation and involvement in organizational development process* - provides opportunities to get a good view of the whole organization and learn how to manage change;
- *Related off-the-job experience* – for example, community service provides learning opportunities for understanding markets, business environment, stakeholders' view of the business, community relations, etc.

Importance of knowledge management and knowledge sharing

A very important element of management development through on-the-job learning is knowledge management. As emphasized in the Section on Knowledge Sharing and Innovation of Chapter 3, to be competitive in today's business environment, an enterprise must engage in a systematic and organizationally specified process for acquiring, organizing and communicating both tacit and explicit knowledge. For managers particularly, the sharing of knowledge, especially of tacit knowledge, is very important. As shown by the example of the Human Resource Director, much of a manager's knowledge is tacit knowledge. The use of the various techniques for sharing tacit knowledge among managers should therefore be harnessed: community of practice, internal consulting, cross-functional problem solving groups, task forces and most importantly, social dialogue.

4.6 Cross-cultural and diversity management

The field of cross-cultural management is currently generating a lot of interest given the globalization of markets, of global production and distribution systems, of enterprises being part of global value-chain, the integration of labour markets such as in Europe and the increasing diversity of enterprises' workforce. Understanding the influence of national cultures on organizational behaviour and of individual's motivation being culture-bound is essential for effective management of multi-cultural workforce, and in dealing with customers, suppliers, partners and competitions from different countries and culture.

Case study 4.6.1 Maintaining growth through workplace culture in New Zealand

New Zealand is a mixed race society in which in recent years there has been a recognition that success in many sphere including business can be achieved by harnessing the strengths not only of the Western Anglo-based culture that has been dominant since the mid 19th Century but also of the culture of the indigenous people, Maori, the who have lived there for close to a thousand years before that.

Paewai Mullins Shearing Ltd, shearing contracting company, based in the small rural town of Dannevirke, experienced huge growth over the last 15 years. A key factor to the growth has been the development of a strong workplace culture underpinned by four maori values: *Whanaungatanga* (family), *Matauranga* (life-long learning), *Manaakitanga* (unity), and *Tino Rangatiratanga* (self-empowerment and leadership).

The value of *Whanaungatanga* means that all employees are viewed as *wha – whanau,* who have a responsibility for each other.

To support *Matauranga*, a Pre-Training Programme was developed at the company five years ago to introduce people to the industry and work. Up to 30 people progress through the three-day programme each year. Completion of the programme enables new workers to go into a shed with some base level skills thereby not slowing down the work processes.

Manaakitanga underpins their team structure and *wha - whanau* orientation for getting the job done as efficiently as possible while keeping each other safe. Staff has a Health and Safety Forum to analyze any accidents and their causes.

Tino Rangatiratanga at Paewai Mullins means that personal responsibility is stressed, and the staff has the knowledge and skills to take responsibility for their lives and actions. Their employment agreements outline expectations of behaviour and communication. For most employees actions are more important than talk, so systems have been established that fit their environment. To cater to a variety of staff needs, induction processes are conducted one-to-one or in small groups.

Currently the company services more than 150 wool-grower farmer-clients, handling in excess of two million sheep per annum. Their clients are spread throughout the lower half of the Northern of the two main islands that make up New Zealand. They employ close to 40 staff expanding up to 120 for the four-month period from December to March.

Hofstede, in his article *Cultural Constraints in Management Theories*[9] stated that most of the management theories, such as the ones discussed above are American-centric. He said that "management" as the word is commonly used is an American invention and that, in other parts of the world, not only the practice but the entire concept of management may differ and that the theories needed to understand it may deviate considerably from what is considered normal and desirable in the USA. He even argued in an earlier publication that "that generally accepted US theories like those of Maslow, Herzberg, McCleland, Vroom, McGregor, Likert, Blake and Mouton may not or only partially apply outside the borders of their origin – assuming they do apply within those borders" He reviewed the concept and practices of management in several countries i.e. Japan, China, the Netherlands, Germany, France, and asserted that the observed differences were conditioned by the national culture of the particular countries, as described by the five dimensions of national culture that he posited. The following excerpt from an article on HRM in France in the Box below is an example of this notion.

9 *"Cultural Constraints in Management Theories"* by *Geert Hofstede, Academy of Management Executive, 1993, 7(1): 81-94.*

A culture-sensitive approach to French Human Resources Management

The case of Disney's recent venture in France has proved, among other things, how difficult it is for American people to manage French employees.

Some of the problems might be attributed to a culture clash at the national level. Other more subtle differences certainly hinder communication and affect employees' morale at the individual and group level. A thorough socio-cultural approach to France would certainly help avoid some of these sensitive issues and foster better professional relations between people of the two countries.

Unlike many Anglo-Saxon cultures which value achievements, France is a country based on affiliation and relationships, where information flows freely and constantly between interconnected people. French employees do not always need as many details and instructions as Americans when performing a task or managing a project. Giving too much information might sometimes be considered an insult or a threat to French pride and intelligence.

Always remember that French employees are very sensitive about the way they are being treated. Even the notion of job description might have a negative connotation in France and be synonymous with limitation of freedom and exploitation. This might be somewhat paradoxical when one knows that power is seldom shared with lower levels and empowerment practices are far from being the norm. Even though the business culture is not especially people oriented, French society highly values and nurtures its human fabric. This is an important point every foreign manager should learn to handle with tact and consideration.

Study child-rearing practices. They will give you an in-depth understanding of French core values and personality formation. They will also explain why concepts of psychological growth and development are foreign to the French, especially when concerned with attributes or outcomes of work. Intrinsic rewards are seldom emphasized at work and American motivational practices such as employee of the month would be considered flattery or mockery by most French employees. Most important to the French is a feeling of blossoming and human enrichment.

Never assume similarity of meaning between identical terms and grasp the cultural translation of a few important words and concepts. Neither a single word nor a concept exists in French to describe what Americans call privacy; yet privacy in France is far better protected and more valued than in the United States. Contextual possibilities of translation include freedom, private life, personal intimacy and, as illustrated by the Disneyland Paris case, individual liberty and dignity. It is of paramount importance for a foreign manager to experience the boundaries of French privacy in order to understand what is acceptable and what is not, especially in the work place. Important cultural differences also exist in terms of trust, assertiveness and commitment.

As a final word, it might be useful to remember that the French dislike being classified or forced into a specific group. Rather, out of a natural tendency to contest, argue, or criticize, French employees might enjoy expressing their personal concerns at the expense of the group. When it comes to managing people, keep in mind that “Vive la Différence!” is a cherished French motto and that France is a country where personal touch and relationships matter more than anything else. And French management will never be considered a science, but rather an art or a state of mind.

By Gilles Asselin, SoCoCo Intercultural Incorporated, 2005.
http://www.intercultural-systems.com/articles_1.html

The works of Hofstede on the issue of national culture have elicited very lively debates on the validity and application of the cultural dimensions he developed. There are strong criticisms and negative observations on the methodologies and assumptions used by Hofstede in arriving at his dimensions of national culture. B. McSweeney, for example, questioned the validity of four crucial assumptions on which Hofstede research was based.[10] Others emphasize the importance of understanding the context within which particular group's cultural manifestations are observed. Another aspect of the debate is on the degree of convergence and homogenization of national cultures as a result of globalization with its implications on organizational performance management. Nevertheless, there is a wide agreement of the importance of culture sensitivity in managing people, whether manifested in individuals' or groups' values and behaviours.

The appreciation of the importance of recognizing the impact of national culture is not recent, but the increasing importance of global production-distribution systems and of value-chains spanning across national and regional boundaries have made cross-cultural management a major field of interest in management circles. For example, a 1971 study, cited in an academic course on cross-cultural management, called attention to the influence of culture in organizational behaviour:

"In a classic study, Sirota and Greenwood[11] investigated the work goals of 19,000 employees in a large multinational electrical equipment manufacturer operating in forty-six countries and reported the results for the twenty-five countries with at least forty employees, including Argentina, Australia, Austria, Belgium, Brazil, Canada, Chile, Colombia, Denmark, Finland, France, Germany, India, Israel, Japan, Mexico, New Zealand, Norway, Peru, South Africa, Sweden, Switzerland, the United Kingdom, the United States, and Venezuela.

In these countries the five most important goals concerned achievement, especially individual achievement. Next in importance were the immediate environment, general features of the organization, and employment conditions such as pay and work hours. Some major differences among the culture groups included

1. English-speaking countries were higher on individual achievement and lower on the desire for security.
2. French countries, though similar to the English-speaking countries, gave greater importance to security and less to challenging work.
3. Northern European countries expressed less interest in "getting ahead" and work recognition goals and put more emphasis on job accomplishment; in addition, they showed more concern for people and less for the organization as a whole (it was important for them that the job would not interfere with their personal lives).
4. Latin countries found individual achievement somewhat less important, especially southern Europeans who placed the highest emphasis on job security. Both groups of Latin countries emphasized fringe benefits.
5. Germany was high on security and fringe benefits and among the highest on "getting ahead".
6. Japan was low on advancement but was also second highest on challenge and lowest on autonomy, with strong emphasis on good working conditions and a friendly working environment.

Expectancy theories are universal to the extent that they do not specify the types of rewards that motivate a given group of workers. Managers themselves must determine the level and type of rewards most sought after by a particular people.

[10] "'Hofstede's *Model of National Cultural Differences and Consequences: A Triumph of Faith - A Failure of Analysis*'", by B. McSweeney, in Human Relations, 2002, 55.1, 89-118.

[11] *"Understanding your overseas workforce"* by Sirota and J.M. Greenwood in Harvard Business Review, 49(1), 53-60.

While Sirota and Greenwoods' conclusions support the idea that basic human needs are similar, they highlight that culture and environment determine how these needs can best be met. The international management literature is replete with examples of overgeneralization, due to the dominance of American reward structures. For example, raising the salaries of a particular group of Mexican workers motivated them to work fewer, not more, hours. As the Mexicans explained, "We can now make enough money to live and enjoy life [one of their primary values] in less time than previously. Now, we do not have to work so many hours." In another example, an expatriate manager in Japan decided to promote one of his Japanese sales representatives to manager (a status reward). To the surprise of the expatriate boss, the promotion diminished the new Japanese manager's performance. Why? Japanese have a high need for harmony - to fit in with their work colleagues. The promotion, an individualistic reward, separated the new manager from his colleagues, embarrassed him, and therefore diminished his motivation to work. When modified for the extent to which managers believe they control their work environment and for the specific types of rewards desired,expectancy theories appear to hold outside of the United States even in countries as culturally dissimilar to the United States as Japan."[12]

The increased interest on cross-cultural management has generated a lot of research on the subject, the findings of many of which support the importance of the congruence of cultural dimensions and managerial styles, systems and practices to achieving the desired performance levels of organizations.

Diversity management

Another aspect of managing human resource that is gaining wide interest in management circle is the importance of recognizing the differences and diversity among the individuals and the sub-groups of the workforce and employees of an enterprise. In any organization or enterprise, there are differences in gender, age, educational background, religious beliefs, ethnicity, cultural background, physical and intellectual attributes, etc. among its workforce. There are variations in the interpretations and meanings of symbols, language, and rituals, even body language. There is agreement that in managing people, it is necessary to take into consideration this diversity. It's important to understand how these differences affect performance, motivation, interactions with others and the group dynamics in the workplace.

[12] From the Readings for the course on cross-cultural management of the Donetsk National Technical University, Faculty of Economics and Management - http://home.skif.net/~todorov/036.htm

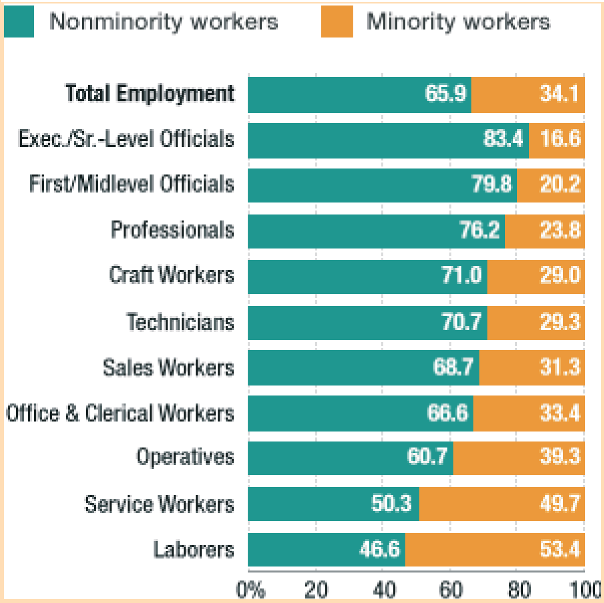
Case study 4.6.2 Promoting and managing workforce diversity at Xerox

Xerox, the world's largest technology and services company, has had a diversity programme for more than 40 years. There are no hiring quotas or specific targets, but managers are expected to show progress toward diversity over time. In their performance reviews senior managers have to fill out a section on how much they are doing to promote diversity. "We're not interested in hiring unqualified people," says Xerox's Harlow, Xerox's chief diversity officer. "We're talking about drawing from a pool of people that meet the requirements we have established that ensure our ongoing success as a company."

According to Xerox's Harlow, it's important not only to create diversity but also to put as much energy into managing the uniqueness of a diverse environment. Thus, Xerox employees regularly fill out surveys to measure how satisfied and engaged women and different minority groups are inside the company. In addition, Xerox runs training programs to introduce new employees to its diversity programs along with a number of other endeavours. As far back as the late 1960s, a number of black employees formed a group to help each other navigate the corporate culture. Today, there are six officially recognized "employee caucus" groups at Xerox, including ones for black employees, women, Hispanics, Asians, and gay and lesbian workers. They function as independent, non-profit groups that perform charity work, but they are also in regular communication with senior executives to discuss all kinds of potential workplace issues. Separately, some employees have created other social networking groups for young professionals or female engineers.

The ultimate goal of the company is that diversity is integrated into the daily functioning of each department and employee at Xerox.

Figure 1: Minorities in the workplace

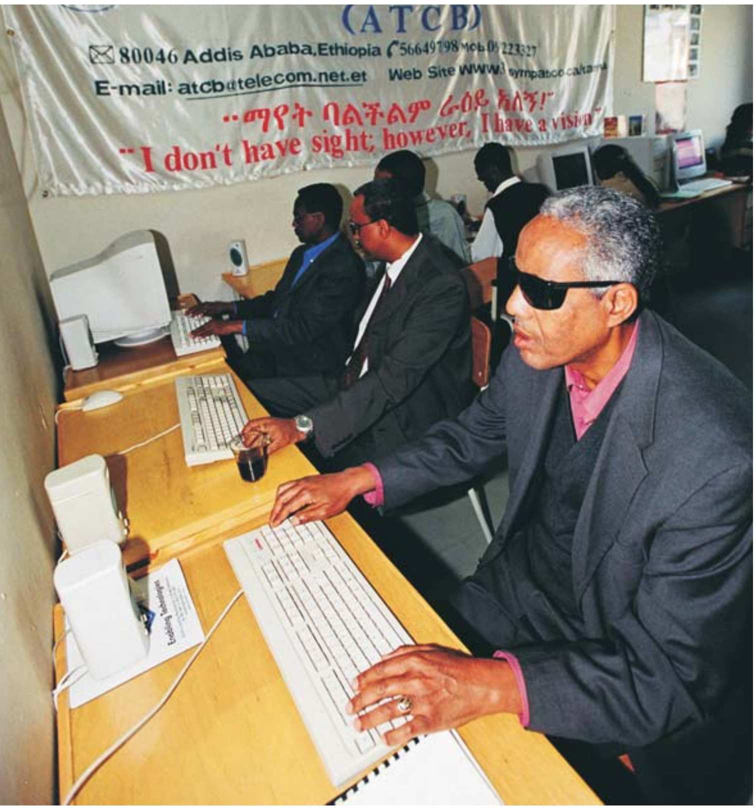


Source: U.S. Equal Employment Opportunity Commission, 2007 Source: http://www.npr.org/templates/story/story.php?storyId=122329851 (January, 2010)

The discussion of the changing demography of the workforce in Chapter 1 for instance highlighted the increasing rate of women participation and the increasing proportion of older workers. These trends alone have to be considered in work design, work environment, working time, and other aspects of HRM. An enterprise that has migrant workers of different nationalities has to pay particular attention to the different cultural nuances. Being conscious of the diversity and taking deliberate measures to take into consideration this diversity in the enterprise's management systems and practices, will have a positive effect, not only on individual performance but on an overall enterprise's performance as well.

The "business case" for non-discrimination and diversity management

There is a growing appreciation that incorporating non-discrimination and diversity management in all aspects of an organization's Human Resource Management and other management systems positively impacts overall the enterprise's performance and effectiveness, including profitability. It is also a legal obligation on companies in countries that have ratified ILO Convention 111 to take concrete steps to ensure that no one will be the object of a any distinction, exclusion or preference made on the basis of race, colour, sex, religion, political opinion, national extraction or social origin, which has the effect of nullifying or impairing equality of opportunity or treatment at work. It means to make sure that everyone should have the same possibility to access employment, occupation, vocational training and conditions of employment (e.g. pay) provided he or she can meet the "inherent requirements" objectively needed to perform the job.



It also means to ensure that the work place is free from sexual harassment, that is that no one is subject to: "(1) (quid pro quo): any physical, verbal or non-verbal conduct of a sexual nature and other conduct based on sex affecting the dignity of women and men, which is unwelcome, unreasonable, and offensive to the recipient; and a person's rejection of, or submission to, such conduct is used explicitly or implicitly as a basis for a decision which affects that person's job; or (2) (hostile work environment): conduct that creates an intimidating, hostile or humiliating working environment for the recipient."[13]

ILO has developed resources to support non-discrimination and diversity in management including:

—- Equality at Work: Tackling the Challenges. Report of the Director General International Labour Conference, 2007[14].

—- EmployAbility: A resource Guide on Disability for Employers in Asia and the Pacific, 2007[15].

— Youth Employment: Breaking Gender Barriers for young women and men. Bureau for Gender Equality and the Youth Employment Programme, 2008[16].

The business case for hiring workers with disabilities

- People with disabilities make good, dependable employees. Employers of disabled workers consistently report that, as a group, people with disabilities perform on par or better than their non-disabled peers on measures such as productivity, safety and attendance.
- People with disabilities are more likely to stay in the job: the employer saves the costs of job turnover — lost productivity and the expense of recruitment and training new workers.
- Hiring people with disabilities increases workforce morale. Many employers report that teamwork and morale improves when disabled workers become part of the staff.

13 ILO Committee of Experts on the Application of Conventions and Recommendations- General Observation concerning Convention no. 111 (2002).

14 Available at: http://www.ilo.org/wcmsp5/groups/public/—-dgreports/—-dcomm/—-webdev/documents/publication/wcms_082607.pdf

15 Available at: http://www.ilo.org/wcmsp5/groups/public/—-asia/—-ro-bangkok/documents/publication/wcms_bk_pb_98_en.pdf

16 http://www.ilo.org/gender/Events/Campaign2008-2009/lang—en/WCMS_097842/index.htm

Case study 4.6.3: Successful employment of persons with disabilities in Viet Nam

In its Viet Nam operations, the Nike subcontractor Chang Shin produces a million pairs of sneakers a month. Participating in that production are 161 workers with mild to severe disabilities ranging from mobility to visual and hearing impairments. The disabled employees work alongside non-disabled employees throughout Chang Shin's 22 production workshops, which engage a total of 18,500 workers. Chang Shin has achieved its integration without any assistance from a disabled person's organization or NGO and in a country with a labour code that mandates a seven-hour work day for disabled workers

Chang Shin began hiring disabled workers in 2001, instigated by the Korean owner of Chang Shin. (The company's China operation also hires workers with disabilities.) Since then, Chang Shin has seen a steady increase in productivity, employee retention, workplace morale and public image.

According to Oliver Edolsa, Chang Shin Assistant Director of Corporate Responsibility Compliance, it took creative thinking to provide for employees who needed to leave an hour earlier than the others. But with technical support from Nike and others, Chang Shin found jobs where the shorter work day didn't impact on the assembly line, such as production jobs in component preparation, maintenance and custodial jobs. Initially, Chang Shin worked with the Government for a trial exemption that allowed for 25 disabled worker volunteers to work an eight-hour day. The programme was a success, and both Nike and the Government are looking to review it in the future and to change the outmoded law.

Two of the disabled employees have been promoted for excellent performance, and others fill key posts throughout the factories; one of them is in charge of cooling system maintenance.

Management staff, at first, was worried when the disabled workers themselves expressed low confidence in their abilities, and the non-disabled workers were unsure of working alongside them. But as everyone saw the equal capabilities of disabled workers and once Chang Shin learned to accommodate their work day, disabled employees became more confident and the non-disabled workers became quickly accepting and supportive.

- People with disabilities are an untapped resource. In many countries, people with disabilities have skills that businesses need, both technical job skills and transferable problem-solving skills developed in daily life.
- People with disabilities and their families and friends represent an overlooked market segment. The annual disposable income of disabled persons is estimated to be US$200 billion in the United States, $50 billion in the United Kingdom and $25 billion in Canada. As the population ages, so does the incidence of disability. It makes sense to have employees who know first-hand about the product and service needs of this consumer segment.

Based on the experience of and studies conducted by multinational corporations, research institutes, government bureaus, and other organizations, the benefits generated by non-discrimination policies and practices include:[17]

- better use of human capital, resulting in more creative problem-solving and better use of the diverse talents and backgrounds of all employees. In addition, non-discrimination appears to result in higher morale and motivation, less stress and conflict in the work environment, lower turnover and absenteeism, more self-respect of employees, and better employee performance and productivity;

[17] "The business case for non-discrimination and diversity management" J. L. Brant, (unpublished ILO Working Paper)

- more responsive customer service and access to new markets, since a diverse staff can more easily appeal to a diverse customer base through targeted marketing, language, and culturally-sensitive provision of services[18];
- stakeholders - including investors, government regulators, and the community in which the enterprise is operating – are more satisfied, resulting in higher levels of investment, better government relations, and the moral license to operate in that community. The organization can build a reputation for fairness, while avoiding the detrimental effects of bad press (such as that surrounding reporting of legal challenges). Also, investors now consider human resources management along with other indicators when predicting future organizational performance, due to the importance in today's knowledge economy of building a diverse set of human assets and managing them effectively[19];

Resources are not wasted on costly legal challenges or complaints and can therefore be directed to more productive uses and investments. Further, in the absence of conflict, the work environment is more conducive to productive cooperation among employees with diverse talents and backgrounds.

[18] Note that the estimated combined African-American, Hispanic-American, and Asian-American buying power is more than $750 billion. Credit Union Executive Newsletter, 2001 data.

[19] In its evaluation of companies, Fortune magazine also looks at HR management.

Annex to Chapter 4. Further case studies

Examples of diversity management

Case study A4.1 Retaining foreign workers in Thailand

THE COMPANY'S CHALLENGE

The company was established as family business in shrimp processing, including hand peeling, deveining and size grading, in 2000. Because hiring undocumented workers is a sensitive issue, the company would like to remain anonymous. The company is medium-sized and located in Mahachai district, Maung, Samut Sakorn, one of main provinces in crustacean fisheries and shrimp aquaculture production. It currently employs 160 workers, of which over 99 per cent are from neighbouring countries. The company now produces only 80 per cent of its production capacity due to lack of workers but it has expanded the business by 30 per cent from the previous year.

In Samut Sakorn, most activities and businesses heavily depend on labourers, especially foreign workers. Mr. Aran (name of the company owner has been changed) said that he can imagine that a lot of fishery related industries, at least in Samut Sakorn, could be closed down immediately without the availability of foreign labour. Moreover, the absence of foreign workers would have a significant negative impact beyond the fishery sector because foreign workers play an important role in the Thailand's labour market, and are a key ingredient for further economic growth.

Demand for foreign workers is extremely high, especially in the primary and secondary sectors, because their labour cost is relatively low and local workers prefer to work in the services sector rather than the 3-Ds (Dirty, Difficult, and Dangerous) jobs in the above sectors.

However, it is difficult to retain good foreign workers. Labour turnover has continually increased. Firstly, there is high demand for foreign workers in the labour market. Secondly, wages and other benefits, especially for foreign workers, are inadequate and low. Therefore, workers, either registered or illegal foreign workers, keep looking for new jobs that offer competitive wages and more benefits, and are ready to leave their current jobs any time. If many workers leave their current jobs without notice, it can lead to the severe shortage of manpower, which may lead to losses for the company. Thirdly, some workers leave their current jobs to relocate with their spouses or to work with their friends and relatives due to the living cost savings and the convenience in sending remittances back home. Finally, some workers leave their jobs because of conflicts with supervisors or other workers.

Similar to other companies in this province, Mr. Aran has encountered this problem. Moreover, his shrimp processing business requires skills, which are irreplaceable by machines or innovation. Therefore, Mr. Aran introduced a set of policies to recruit and retain experienced and skilful workers in order to be able to produce at full capacity, which requires 200 workers in total.

MEETING THE CHALLENGE

In Mr. Aran's view, the key to increase his business productivity is manpower, not innovation. Several research institutes have tried to introduce shrimp peeling machines. However, hand peeling by manpower is much better in terms of quality and quantity of shrimp products.

In order to retain his skilful workers and to attract new recruits, Mr. Aran introduced financial incentives for staff and offers good working conditions to his workers. The company offers incentives for all types of workers. In particular, workers who are employed for more than three years will receive extra payments and benefits. For permanent workers, they can take days off without deduction of payment. They also receive bonuses on special occasions, such as New Year. Casual workers working on work-piece bases are occasionally rewarded.

Moreover, Mr. A tries to retain his employees during the low season, from the mid of December until January or February, even though that period requires less workers due to less supply. All employees are paid as during the regular period. For example, monthly paid workers receive 7,000-9,000 baht per month. Casual workers and new workers (even without skills in shrimp peeling) are also paid at the normal rate of 300-500 baht a day.

Case study A4.2 Successful employment of persons with disabilities in Sri Lanka

Within the Sri Lankan Employers' Network on Disability, CEI Plastics has demonstrated that workers with disabilities are as productive – or often more so – as their non-disabled peers. According to CEI factory director Anver Dole, "Disabled workers are eager to learn, easy to teach and generally more conscientious than their non-disabled peers. Their production is often way above the average, and they interact very well with other employees."

With approximately 300 employees, CEI Plastics is the major supplier of plastic moulded products to Sri Lankan and international companies, such as Coca-Cola, ICI Paints and Unilever. Of its employees, more than 40 have a disability, including many workers who are completely blind. Others have visual impairments that do not render them completely without sight, and some have physical or intellectual impairments.

CEI Plastics operates 24 hour shifts, and its disabled employees are fully integrated into its range of assembly and manufacturing lines. With everyone working alongside each other, it is difficult to tell which workers are disabled. Although Mr Dole reports his factory has had accidents before, there has never been an accident involving a disabled employee.

CEI Plastics has also placed disabled workers in every area of its business, including its storefronts, repair shops and accounting office. At CEI Plastics' storefronts where it sells plastic containers in bulk, employees with intellectual impairments work as movers. In repair shops, Mr Dole has hired physically disabled workers, including a wheelchair user who is skilled in motor winding. A partially blind employee works as a quality assurance assistant and a man who is totally blind is the telephone operator.

People with disabilities must overcome hurdles in life all the time, and Mr Dole believes this makes them particularly adept in meeting challenges on the job. One man is blind and works in a manufacturing line sticking labels on CEI Plastics products, such as ice cream containers. The worker has a history of producing well above his sighted peers; he consistently processes 500 units per hour, while the average is 250 to 275.

Mr Dole admits that he had concerns when he originally decided to hire disabled workers in 1989. But none of his concerns turned out to be real, he says, and the benefits were greater than he could have imagined.

Case study A4.3 Employers' organization policy in Australia

Diversity management and employment: strategies for people with disabilities: Australian Chamber of Commerce and Industry (ACCI)

ACCI advocates, through its general employment policy, for a system that enables all Australians to be competitive in the employment market. While the extent of disability for each person with a disability is unique, ACCI advocates for a diverse workforce in which people participate where they are able to do so. Workplace-relations regulation must have the ultimate effect of encouraging – rather than discouraging – the employment of people with disabilities.

ACCI policy also advocates improved health and safety, better rehabilitation and return-to-work outcomes. Ageing increases the incidence of disability in the community, particularly with mature age employees. This will require higher priority to the prevention of workplace injury and disease and to the reform of workers' compensation schemes to create greater incentives and supports for injured employees to return to work and to protect employers willing to recruit and retain employees with disabilities from unreasonable risk and cost.

Training and education for people with disabilities

Australia has disappointing rates of participation for people with disabilities in vocational education and training – less than 2.5 per cent, compared with 11 per cent of all workforce-age Australians. Training retention rates and eventual employment outcomes are below average, as people with disabilities are less likely to complete their training and graduates with disabilities are less likely to find employment.

ACCI promotes training and education policies that:

- Develop and recognize marketable skills;
- Improve transitions for young people with disabilities from school to further education and training;
- Promote participation in vocational education and training through early intervention in schools;
- Provide appropriate assistance for people with disabilities to undertake education and training;
- Ensure that people with disabilities are acknowledged as potential participants in programmes that address areas of skills shortages wherever reasonably practical.
- Provide for people with disabilities to upgrade their skills while in work and re-skilling where disability is a barrier to returning to a former occupation;
- Are effectively linked to employment and pre-employment programmes so that people with disabilities have continuity in the assistance they require to move from training and education to work.

Employment policies

ACCI supports employment policies that:

- Promote the employment of people with disabilities to employers and within the wider community;
- Provide for a range of employment options that acknowledge, fairly and realistically, the circumstances and capacity of each individual and the level of support required;
- Guarantee professional assistance in the recruitment and integration of employees with disabilities in the workplace that is well coordinated and informed by employers' needs and that forms part of the community's obligation to people with disabilities;

- Do not provide disincentives or unreasonable burdens for employers seeking to include people with disabilities in their workforce;
- Acknowledge that not all industries are able to accommodate people with disabilities to an equal degree due to the inherent nature of their key occupation types;
- Reduce complexity and red tape across the range of employment and vocational education and training programmes designed for people with disabilities;
- Establish linkages between rehabilitation, training and return-to-work programmes;
- Acknowledge and reward employers who make substantial effort to increase the numbers of people with disabilities in their workforce.

Workplace relations

Employers will be most likely to provide greater employment opportunities for people with disabilities if there is as simple and straightforward process as possible for such employment. ACCI actively pursues workplace relations policies that:

- Provide for the employment of people whose productivity is limited by their disability under the Supported Wages Scheme;
- Seek reform of inflexible workplace regulations that restrict employers' ability to accommodate people with disabilities;
- Ensure that people with disabilities have the same access to flexible working arrangements under the workplace relations system as all other employees, including individual agreement making with or without the involvement of trade unions.

Recent trends in the regulation of OHS and workers' compensation schemes are placing a higher duty of care on employers that may result in disincentives to employ people who present additional OHS risks. This does little to help increase employment opportunities for people with disabilities in many industrial settings where there are significant, additional costs associated with advanced risk-management processes. Employers who welcome people with disabilities into their workplaces should not be penalized for doing so. While employers wish to promote the employment of people with disabilities in a non-discriminatory workplace, shifting public costs of support for people with disabilities to private cost or risk only hinder employers' capacity to offer employment.

Anti-discrimination

ACCI accepts the general principle of equal opportunity, which underpins any anti- discrimination law. ACCI promotes the understanding that discrimination is not an acceptable human resource practice, does not constitute an appropriate basis for human resource decision making and is contrary to the interests of business.

Future directions

To make real progress in this area, a concerted and well-coordinated effort must be made on the part of governments and the community sector, working in partnership with employers to achieve the following key goals:

1. Eliminating aspects of social and industrial policies that create disincentives for people with disabilities to take up employment;
2. Examining the reasons for the growth in welfare reliance among people with disabilities and the factors that need to be addressed to stem unacceptable exit rates from the labour force;

3. Providing enhanced employment opportunities for people with disabilities through training, workplace support and community education;

4. Providing consistency and ease of transition between programmes that aim to assist people with disabilities in education, training, pre-employment, employment and return to work;

5. Improving community awareness of the benefits of increased employment for people with disabilities and recognizing employers who make a commitment to employ workers with disabilities;

6. Providing adequate and well-communicated support and incentives for employers, together with a reduction in risks and red tape;

7. Ensuring that employers are not liable for the costs of adjustment where welfare reform measures lead to significant change in the composition of labour markets.

Edited extract: Perry, Ed. EmployAbility: A Resource Guide on Disability for Employers in Asia and the Pacific, 2007.

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Chapter 5: Managing for improvement: Human Resource Management (HRM)

5.1 Introduction: HRM and enterprise competitiveness

Earlier chapters have emphasized that in a globalized marketplace, competitiveness of an enterprise is determined – in addition to costs and quality - by its innovativeness, speed, flexibility, agility, and to certain extent by its ecological and social performance. The human and the social capital of an enterprise are central to the achievement of these competitive advantages. What makes some enterprises more successful than others is not just their technology or their current line of products and services, but rather their internal capabilities that determine whether they are good at a particular activity. The real competitive advantage of a high-tech company is not its current range of innovative products but its ability to keep on producing innovations.

The key question is what exactly drives ability and innovation, sometimes known as "core competency". In the present competitive environment, traditional advantages such as differential access to capital and customers are much more difficult to sustain in open markets. Superior products and services can easily be copied, and even patents generally offer only a temporary advantage over competitors.? The more likely reasons why some companies have greater capabilities and competencies lie in their organizational assets — the characteristics of the enterprise itself the most important of which is its human resource and the way it is managed. The important role of HRM in achieving business success is therefore increasingly recognized.

Human resource management functions comprise managerial functions of planning, organizing, enabling, facilitating, directing, coordinating and controlling on the human aspects of the enterprise and take the form of recruitment and selection, training and development, performance management, and compensation and benefits. Work organization is yet another cross-cutting function of HRM.

A common mistaken notion is that the human resource management responsibilities are solely those of the HR Department alone. On the contrary, human resource management is the responsibility of all the managers and supervisors of the enterprise. Even rank and file employees and their trade union have key roles to play in the enterprise's human resource management system. Table 5.1.1 gives further details of HRM functions and highlights the critical importance of all managers and supervisors and everyone in the organization doing their share in effectively managing the human resource of the enterprise. The strategic partnership among the HR Department, the top management, line management and all its employees is very important in managing the human resource of the enterprise. These parties have very significant roles and responsibilities in making sure that HRM functions of recruitment and selection, training and development; performance management, compensation and benefit, and work organization are undertaken effectively. They ensure that the competencies, organizational relationships and dynamics, and organizational culture are consistent with the enterprise-level practices of a sustainable enterprise discussed in the various chapters of this Reader.

Table 4.0.1 Management functions, HRM and responsibilities

MANAGEMENT FUNCTIONS	HUMAN RESOURCE MANAGEMENT FUNCTIONS	RESPONSIBLE
Planning Organizing Enabling Facilitating Directing Coordinating Controlling	Recruitment and selection Training and development Performance management Compensation and benefits Work organization	Top Management Line Managers HR Department Department Employees

5.1.1 Human Resource Management functions: Two sides of the human factor

In the 1990s, when the dotcom sector in the USA was booming, bargaining power in this segment of the labour market shifted dramatically from employer to employee. As dotcom companies fought for recruits, winning the "war for talent" became one of the most important management functions. McKinsey & Co., a large global consulting firm, claimed that superior talent would be tomorrow's prime source of competitive advantage.[1] In the new economy, competition is global, capital is abundant, ideas are developed quickly and cheaply, and people are willing to change jobs often. In that kind of environment all that matters is talent. Talent wins.

Professor Denis M.S. Lee, who studied hi-tech workers, observed that virtually all the management efforts with respect to IT workers were directed at getting them in the door. Avron Barr and Shirley Tessler, who run the Software Industry Study at Stanford University, suggest that, at least in the leading companies, managers believe that the key to developing software competency is simply to bring in more capable employees, not necessarily to manage them better.[2] In other words, the only thing these companies were doing was recruiting; all other aspects of management, such as motivating the employees, organizing their work properly, and training them, were largely ignored. As a result, companies were often staffed with extremely high quality professionals, but were not sure what to do with them. Moreover, when the technology sector slowed down, some companies realized that the employees they had were not necessarily the employees they needed. For example, some of these professionals had excellent technical skills, but lacked flexibility during sharp market downturns.

This example shows that high quality human capital does not necessarily guarantee a competitive position and prosperity for a company. As Thomas Stewart, a highly respected business author, puts it: "Most companies are filled with smarts, but...even the smartest people in the world need a mechanism to assemble, package, promote, and distribute the fruits of their thinking".[3] This requires proper organization of their work. Says management guru Peter Drucker: "Only the organization can provide the basic continuity that...workers need in order to be effective. Only the organization can convert the specialized knowledge of...workers into performance".

1 O'Reilly, C. III.; Pfeffer, J.: *Hidden values: How great companies achieve extraordinary results with ordinary people* (Boston, Massachusetts, Harvard Business School Press, 2000).

2 Cappelli, Peter: "On line recruiting: Will it change everything about managing human resources?", in *Harvard Business Review* (Boston, Massachusetts, Harvard University Press), Nov. 2000a

3 Stewart, T.A., *Intellectual Capital: The New Wealth of Organizations*, Doubleday/Currency, New York, NY, 1997

Two other globally respected experts, Stanford Business School professors Charles O'Reilly and Jeffrey Pfeffer share this point of view:

"Of course, companies that want to succeed need great people, and recruitment, selection, and retention are obviously important. But companies need something else that is even more important and often more difficult to obtain: cultures and systems in which these great people can actually use their talents, and even better, management practices that produce extraordinary results from almost everybody. The unfortunate mathematical fact is that only 10 per cent of the people are going to be in the top 10 per cent. So, companies have a choice. They can all chase the same supposed talent. Or, they can do something even more useful and much more difficult to copy — build an organization that helps make it possible for regular folks to perform as if they were in the top 10 per cent…Hiring and retaining talent is great. Building a company that creates and uses talent is even better."[4]

Thus, the human factor can be a valuable element in enterprise competitiveness only when it consists of two equally important aspects:

1) high quality human resources and

2) good organization of people's work.

In practice, this means that it is not enough to recruit the best, it is equally important to make the best use of that talent.

Managers have to:

- design the workplace and draw up the work schedule;
- provide training for the skills that talented people may not possess (e.g., interpersonal or leadership skills);
- motivate people;
- monitor their performance;
- make sure that their work environment is safe;
- make sure that no one is discriminated against;
- minimize work related stress;
- provide work-life balance
- make sure that their voices are heard; and
- develop and reinforce the needed organizational culture.

Many observers believe that the quality of human resource management is more important than the quality of human resources *per se.* Sports fans will probably agree that a disciplined team without high talent is often a better team than a team that consists of unmotivated, unorganized and uncommitted superstars.

However, a team without a star cannot become a sports-legend! The analysis of human resource management functions therefore starts with an overview of good policies and practices that can be used to recruit and select the best talent available in the current labour market.

5.1.2 Recruitment and selection

Recruitment and selection are crucial to a company's competitive advantage; this fact demonstrates the growing strategic importance of people. However, particularly in countries and regions where unemployment is high, many employers pay little attention to selecting their workforce, because they see it as a simple matter. There is no problem finding enough people to get the work done. The complication is that some workers fit a particular job much better than others, and studies increasingly confirm what most line managers already know — that the most suitable employees are worth considerably more than the average. Finding and keeping them is the problem. Even in countries with massive unemployment rates, employers report difficulty in finding workers with the ideal profile. This problem is getting more acute with the increased demand for more skilled and competent workforce in the increasing globalized economies.

However, even in the successful developed economies, despite the growing realization of the importance of hiring the best people for a competitive edge, the majority of enterprises still

[4] O'Reilly and Pfeffer, (2000) op cit.

fail to fully see recruitment and selection as important tasks that are worth developing. Most enterprises, for example, simply wait to see who applies and then look only briefly at an applicant's credentials before making a hiring decision. For white-collar jobs, they often make a selection based on open ended interview, despite the well-documented fact that this type of interview is about the worst method for determining which candidates will make good employees. Perceptions of applicant ability based on the typical method of an unstructured interview; where candidates go from one person to another for open-ended conversations, have practically no correlation with subsequent performance in jobs. Interviews are often the most time and cost efficient method but can be most unreliable as applicants tend to present their best behaviour and highlight their positive points, while interviewers are susceptible to subjectivity and perception bias.

Making the interview more structured by asking for example, a prepared set of questions that probe for a candidate's behaviour in situations similar to those that will be found in the new job improves the usefulness of the interview as a selection method. Combining the interview with other selection methods (some of which are listed in Table 5.1.2) will provide more information with which to make the final selection decision.

To improve selection of the right candidate, employers resort to combination of assessment methods. The particular combination used depends on the nature of the job. The combination of selection methods to be used in selecting the appropriate person for a managerial position will be different from that used to recruit an ICT technician, for example. Table 5.1.3 below gives the results of the June 2008 survey of the UK Chartered Institute of Personnel and Development showing that its members indeed use a number of selection methods in their recruitment process.

Table 5.1.2 Selection methods

Bio-data	Usually obtained through the application form or specially designed biographical questionnaire. Provides information on work history, education, family, interests, etc.
Interview	Can be formal or informal, unstructured or structured; allows interviewer to assess the candidate and for the candidate to assess potential employer
Job sample	Involves candidate performing a task of direct relevance to the job, e.g. making a presentation.
Cognitive ability test	General intelligence test
Personality test	Test for traits deemed suitable to the job, e.g. sociability, openness and flexibility, imaginativeness, conscientiousness and thoroughness, etc.
References	Assessment of the candidate by a third party usually a former colleague or direct superior
Assessment centre	Evaluates candidate on behaviours relevant to the most critical aspects (or competencies) to the job. Uses multiple of assessment tools and exercises/activities designed to simulate various tasks relevant to the job.

Table 5.1.3 Result of CIPD June 2008 survey

Selection Method	%
Interview following contents of CV and application form	72
Competency-based interviews	65
Structured interviews (panel)	56
Tests for specific skills	48
General ability tests	41
Literacy and/or numeracy tests	40
Telephone interviews	36
Personality/aptitude questionnaire	35
Assessment centres	34
Group exercises (example role playing)	22
Pre-interview references	16
On-line tests	15

There is nothing particularly difficult about developing a competency at recruiting and selecting employees. Figure 5.1.1 show the major steps in the recruitment and selection process.[5] It starts with having an effective job analysis and ends with appointment and induction of the selected candidate.

Having a good pool of candidates for the job is very important to the effectiveness of the recruitment and selection process. The principles for getting the "best" person are well known. They begin with the common-sense notion that applicants differ in their abilities, they make choices about where to apply for jobs, and that the enterprise obviously wants the most suitable people to apply to work for the organization.

How applicants make the decision where to apply for a job is therefore, one important issue of the recruitment process, especially now that there is a growing shortage of workers with the required knowledge and skills to fill up the more skill and knowledge intensive jobs of the new economy. That decision starts with the reputation of the company.

The best candidates know that their prospects are good (even if it may take some time to find a good job), and they won't apply for a job at a company with a reputation for treating employees poorly as they think they can do better going for another company with better reputation.

Since a lot of people are currently searching for a job through the Internet,?more and more companies are trying to build their reputation through their website.

Having a good reputation as an employer does not mean that a firm is an easy or soft place to work. In fact, one of the worst situations for recruiting is to have a reputation as a company that doesn't require much from workers, because this is more likely to attract workers who demand little from themselves. A firm needs a reputation for offering the best opportunities to workers who are highly capable and willing to work hard. Increasingly also, the reputation of the company with respect to social and ecological responsibility as well as business ethical aspects are getting to be important considerations.

5 From the Chartered Institute of Personnel and Development. UK

One way to help attract the right kind of applicant is to give potential candidates an accurate impression of what the company is like. This can be done through "realistic job previews", which provide a truly representative picture of what it is like to work in a particular job. Many employers think they should paint the most favourable picture of the job, whether it is accurate or not, in order to get the best people to apply. They hide the problems and the difficult aspects of work because if applicants see them, they may not apply. The problem with this view is that attracting the best applicants is not the end of the process. Employees who discover that the job is not what they expected will quit, and the costs of the staff turnover can be enormous.

Studies of the recruiting process increasingly confirm the old wisdom that a firm's employees are its best means of promoting its reputation and obtaining good applicants. Employees know what is required, sometimes more accurately than management does. Current employees often know people who are good workers with the right attitudes and skills to make good colleagues. They also have an incentive not to refer bad candidates because they don't want to be the source of problems if a bad worker is hired on their recommendation, or to be drawn into conflicts at work. In addition to the fact that employees with personal recommendations tend to be better quality applicants, they also do better on the job, partly because the workers who refer them help them learn. This relationship means, of course, that it helps to have the best workers doing the referrals. It also means that any effort to present an unrealistic preview of a job will undermine the system because applicants will quickly see the difference between what the company says and what its existing employees say.

Figure 4.1 The recruitment and selection process

Box 5.1.1 Rethinking recruitment and diversity management

HR policies can inadvertently hold women back. Internal processes for identifying high-potential employees often focus on managers between the ages of 28 and 35. Broadening the parameters to include years of employment at a company—thus taking into account time spent on maternity leave, which sometimes lasts as long as two years in Europe—can ensure that the evaluation processes don't overlook qualified women.

Some companies, such as JPMorgan Chase, organize training for recruiters and operational managers on the importance of diversity and on identifying prejudices that might affect their decisions. This training has generated a strong pipeline: in 2008, women made up 48 percent of the company's managers—and 27 percent of its most senior ones, up from 19 percent in 1996.

Other approaches can work as well. At a European company in a technical, sales-oriented line of business, only 5 percent of the job applications that a specific ad generated were coming from women. By replacing the ad's stock photo of a man with one of the company's senior women and by focusing the text on enthusiasm and innovation instead of aggressiveness and competitiveness, the company raised the rate of applications from women to 40 percent.

Source: Avivah Wittenberg-Cox and Alison Maitland, Why Women Mean Business: Understanding the Emergence of Our Next Economic Revolution, Chichester, England: John Wiley & Sons, 2008.

Following is a list of (external) recruitment methods that the enterprise might use. The relative efficiency and effectiveness of these methods depend on a lot of factors, including the labour market institutions. For example, in the USA such market-oriented methods as advertising are much more common than the methods that are commonplace in many countries of continental Europe, where the emphasis is placed on the labour market institutions, such as public employment agencies.

- School and college recruitment
- Advertising
- Referrals
- Public employment agencies
- Private employment agencies
- Executive search firms

Box 5.1.2 Recruitment processes free of bias

Recruitment:

1) A structured approach to recruitment processes free from unconscious bias will help companies to select the best person for the job based on merit. Ensuring that there is no bias against women will also help avoid create bias against other groups from whom applicants will be drawn.

2) Advertise widely through formal and informal networks, including new and non- "traditional" ones. Relying only on the usual informal networks and methods imposes limits to your pool of possible applicants.

3) Define job requirement profile and its advertisement objectively and free from gender bias. The job description needs to focus on the objective job requirements and should avoid characteristics that can be ascribed to one or other sex. Avoid words stereotypically assigned to the male (e.g. ambitious, assertive) or the female (e.g. flexible, resilient) behaviour, or unnecessary or unmotivated demands that directly or indirectly discriminate against people of one sex (for example, instead of "strongly built", say "needs to lift boxes".

4) Advertise broadly and avoid stereotypes. The language, the design and pictures should not put across gender stereotypes (e.g. pictures with only men or women in it).

5) Set up a gender balanced selection panel, and make sure that those involved in the process are familiar with gender aspects and anti-discrimination legislation.

6) Hold interviews free from gender prejudices: use both female and male interviewers; ask both men and women to come for interviews, and ask the same questions regardless of sex, including about parenthood, nursery or other care responsibilities, if relevant. Questions about sex, religion, family life, age and illness can be used as evidence should a discrimination dispute arise.

Assessment and selection:

1) Make application documents anonymous during the first screening. Remove information about name, gender and age, and information not relevant to the post. Personal, non-job related information affects your judgement more than you think!

2) Evaluate men's and women's care responsibilities in the same way. In most countries it is illegal to eliminate female applicants because of parenthood issues.

3) Aim at an equal number of women and men when selecting the final candidates.

Induction and orientation

1) Be explicit about your values in relation to equality and diversity. This helps newcomers understand what is and is not acceptable in relation to gender equality and sexual harassment.

2) Good communication between management and employees ensures that the enterprise "code of conduct" is well known by all staff (new and old recruited). It can also contribute to managing internal conflicts.

Adapted from: European Commission: Break Gender Stereotypes: Give Talent a Chance. Tips and Tools for Smart Managers (2009).

Getting a good pool of applicants is only the first step in securing a good workforce. The next step is selecting from them. As noted above, few employers make much effort to select among applicants. But even some of the more complicated methods are not very accurate. The accuracy can increase if the employer is observing all of the following steps of the selection process:

- Application blanks and resumes
- References
- Testing
- The interview(s)
- Job offer and hiring.

It is important to have application blanks that have all the necessary information, but do not contain questions that could be found irrelevant, intrusive and/or illegal[6]. Writing resumes and curriculum vitae is an art, and is one of the rather recent labour market demands. Thus, those job seekers who have not been on the market for many years might have problems presenting themselves. There is no one-size-fits-all approach to how to write the resumes. However, it is clear that the resumés:

1. Should be brief (in many countries no more than one page).
2. Should contain only relevant information with regards to the position that the job seeker is looking for (for example, if a person is applying for a position of a Financial Director, he or she does not have to state having a valid driver's license).
3. Should contain only true information (according to the study of the US-based company Verified Credentials Co. even in the USA, a country where it is rather easy to verify the information presented in the resumes, 30 per cent of the resumes contains false information, most commonly related to the length of employment and previous salary (Jackson and Schuler, 2003).

"Case study 5.1.1 Increasing productivity through better working environment in New Zealand

At the end of the 90s one of New Zealand's largest manufacturers and distributors of fresh pies Goodtime Food experienced a big problem of staff turnover. The company employed over 40 employees and at its peak, staff turnover was running at 180 per cent. The cost to the company of replacing staff was estimated conservatively at $100,000. Employees complained about wages, poor communication and their failure to have a voice in how work was organized.

Goodtime Food realized that the only way the company would remain a top-class bakery was to create an organization where staff felt valued, their ideas were welcome and they were motivated to help the company grow. Convinced of this, the company embarked on a major overhaul of their human resource practices. They introduced pre-employment screening of candidates to assess literacy and motivation levels. The aim was to ensure that well-suited people were recruited at the outset. As part of improving the recruitment and initial training processes, a four-week induction programme was introduced. During induction, the new employee is teamed up with a training buddy and is introduced to the plant and its procedures in a systematic way. Feedback on the new employee's performance is provided daily and is documented.

In addition to that, a staff committee was set up – comprising representatives from the bakery floor, the office and management – to improve communication and make Goodtime Food a better place to work. The committee addresses any ideas or concerns that staff have and an outline of issues under discussion are posted on the staff notice board, along with a record of achievements. The committee also ensures that support is available for staff with personal or family issues.

The improvement of working environment has led to greater teamwork, higher morale and productivity at the Goodtime Food. By 2003, staff turnover had dropped from 180 per cent to 14 per cent and productivity had risen substantially. From an initial turnover of $30,000 in 1978, the company now employs 48 staff and generates an annual turnover in the millions.

[6] The distinction between legal and illegal questions depends on differences in national legislation.

The stage of job offer and hiring is also quite important and requires that both employer and candidate familiarize themselves with the concepts of win-win situation, cooperative game, bargaining power, bargaining zone, etc.

Performance management (performance appraisal)[7]

Measurement and judgment of performance are inevitable in any organization. There are decisions which must be made, and which require an assessment of performance, whether on a subjective or objective basis. The following decisions are usually based on a perception about performance. Managers have to decide whether an employee:

- should gain permanency after a trial period;
- should be promoted;
- should be given a merit raise in pay or a bonus;
- should be made redundant;
- should receive training and development towards further advancement.

These are all decisions that are personally important to individuals and affect their motivation, self-worth, security and livelihood. It is a "truism" that a decision can be no better than the quality of the information on which it is based. It follows that if the quality of information about performance is poor, then the decisions made about performance will be poor and will engender resentment, lowered morale and a sense of injustice, all of which are dysfunctional.

It also follows that in poorly designed systems or informal systems, where dysfunctional consequences are most likely to occur, there will be no useful feedback to help employees improve their performance, because no useful performance information is generated. This is a classic "Catch-22" situation!

Because performance appraisal has a long history, most of the theory and practice underpinning it was developed in a period of relative stability, when employees expected long, secure tenure and regular promotion. In that era, the primary means of organizing work has been through functional departments with strong boundaries and individual task assignments. The goals of performance appraisal were mostly related to the individual, and they may still be relevant for many organizations. Even in companies where teams were featured, performance appraisal still was focused mainly on individual evaluation.

The following points summarize the two types of goals of performance appraisal: these goals were either concerned with evaluation and judgment or with coaching and developing individuals.

Evaluation goals (judgmental)

- validating selection techniques;
- giving feedback so that people know where they stand;
- compiling and communicating valid data for pay and promotion;
- assessing individual productivity and contribution;
- guiding the managers in discharge and retention decisions and warning subordinates about unsatisfactory performance.

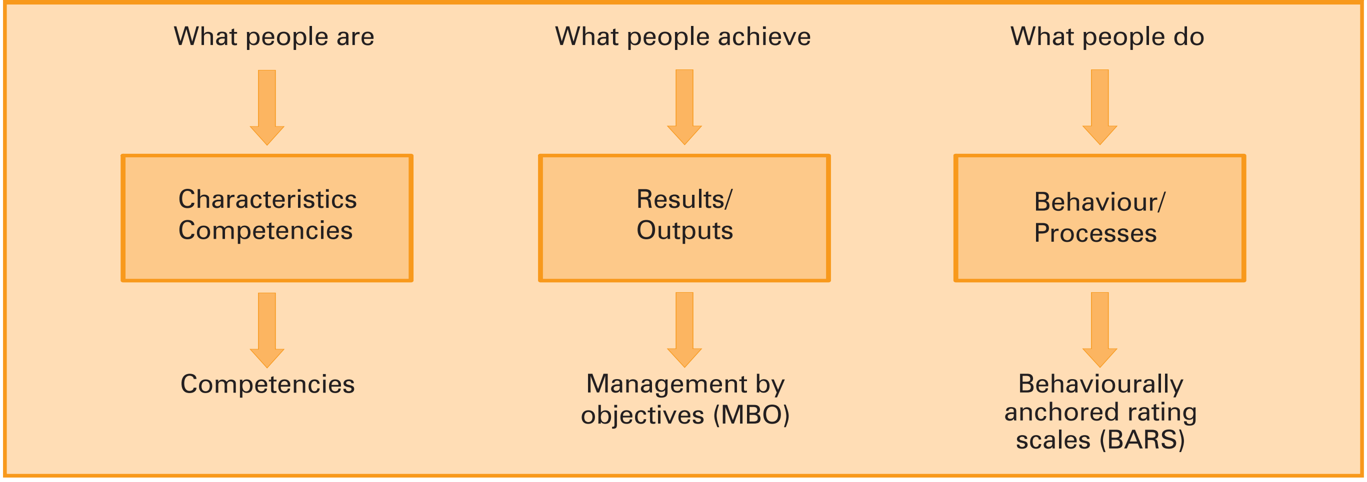
Coaching and developmental goals

- counselling and coaching subordinates so they will improve performance and develop future potential;
- developing commitment to the organization through career opportunities and career planning;
- motivating subordinates through recognition and support;
- strengthening supervisor-subordinate relations;
- diagnosing individual and organizational problems;
- identifying training needs.

Although there have been many variations of performance system measures, the three main approaches to performance measurement could be summarized as in Table 5.1.5.

[7] This section is largely adapted from Entrekin and Court, 2001.

Table 5.1.5 Choices in system measures



What people are describes the oldest approach to performance evaluation, which was based on personal characteristics (traits) and perceived competencies. Terms like initiative, energy and drive, adaptability, responsibility, leadership and productivity were common on forms known as “trait rating scales”. Managers and supervisors were required to rate employees on a numeric scale from low to high or on broad descriptors, such as unsatisfactory to excellent.

There were a number of problems with this approach. First, none of the descriptors of the traits were defined, and hence there was no common understanding of what they meant. This resulted in highly subjective reviews that were neither reliable nor valid. Second, because of the subjectivity and lack of descriptors that defined meaning, raters could not provide meaningful feedback to employees to help them improve perceived deficiencies in performance. This made both supervisors and subordinates distrust and basically resent the process.

What people achieve is a results-oriented system that measures employees’ performance by what they achieve. It was popularized by the term “management by objectives”(MBO), coined by Peter Drucker in 1954. MBO is the system which is used extensively with sales representatives, workers on piece-rate systems and others whose output can be measured individually. This also includes managers if they have specific goals.

A results-oriented system is probably the most objective form of performance-measurement where it is appropriate. However, a results-only performance measurement system has a number of potential problems. First, and most important, is that many jobs do not have discrete, measurable outcomes. They have a high level of task interdependency, which means that more than one individual is responsible for an outcome. This is also true for groups and teams. Second, results-focused performance measurement tends to recognize and reward outcomes at the expense of process. In many cases, the way that a job is done is just as important as the outcome. For instance, after-sales service may be just as important as selling in terms of building and retaining a customer base, but service may be ignored in a system that only rewards sales.

A third potential weakness is that results-focused performance measurement does not always provide useful feedback if results are not good.

Processes, how things get done, are better described by behaviours than by results. For these reasons, if a results-based system is to be used, it is wise to build in behavioural measures as well, which is always possible.

What people do refers to performance appraisal systems that are based mainly on behavioural criteria. These are derived through some form of job, work, or role analysis that describes and defines desirable behaviours for how work is performed. As such, in its pure form, performance measurement based on behaviour is concerned with processes rather than end results. However, the two concepts are not mutually exclusive and should be combined in an appraisal system where results can be clearly identified and measured.

The strength of behavioural measures is that they are defined in sufficient detail in order to provide a common understanding to both raters and ratees as to what is meant by a measure and what represents poor or good performance. On this basis, feedback can recognize good performance and help to correct inadequacies. In essence, behaviours are anchored by descriptions of behaviour.

For example, the job of a university professor is usually assessed on the criteria of teaching, research, and university and community service. One important aspect of teaching is classroom presentation. The following points could be used to evaluate classroom presentation:

- speaks in a clear expressive manner that avoids a dull monotone;
- delivers lectures at a pace students can follow;
- explains complex ideas clearly with appropriate illustrations;
- invites questions and feedback from the audience;
- maintains eye contact with the audience;
- uses attractive audio-visuals to introduce subject matter;
- provides class notes/ handouts to supplement lectures.

All the above points are measurable by student evaluations, observation and examination of materials.

One of the commonly used behavioural performance appraisal system is called behaviourally anchored rating scales (BARS) described in Box 5.1.3 below.[8]

Box 5.1.3 Behaviourally anchored rating scales (BARS)

The development of a BARS performance measure involves collecting descriptions of incidents that illustrate very competent, average and incompetent work behaviours. These performance descriptions must be obtained in advance for each dimension of performance to be rated. Typically, the behavioural incidents are collected in the process of conducting a job analysis. A behavioural rating scale for the performance dimension of "transacting loans" (one of the dimensions of work performance) for the Corporate Loan Assistant is shown below. A higher scale value means higher performance.

1 - conducts loan interviews in a manner that draws complaints from loan applicants;

2 – fails to help other banks participating in loans;

3 – provides information to customers, even if not asked;

4 – prepares credit reports without having to be told;

5 – develops loan documentation accurately;

6 – assists customers with loan applications;

7 – helps customers in a manner that draws praise from them;

8 – provides services desired but not asked for by customers;

9 – prepares follow-up documentation in a timely manner;

10 – always completes credit reports without error.

Like any format, the BARS format has limitations. Scales can be difficult and time consuming to develop. This means they are more difficult to modify as jobs change and performance expectations shift. From a cost-benefit perspective, the development of behavioural formats should be restricted to jobs that have many incumbents or for which the job processes (versus results) are critical to job success. For example, in the service sector, success often depends on how work is performed, so it is worthwhile to invest in the effort required to develop clear behavioural standards.

For raters, problems occur when the incidents shown on the form don't correspond to any behaviour the rater has observed, or when the rater has observed the employee displaying behaviours associated with both high and low performance. For example, a corporate loan assistant could prepare follow-up documentation in a timely manner and also receive complaints from loan applicants about rudeness and inappropriate questioning. Here it is difficult to decide whether to give a high or low rating.

[8] Jackson, S., Schuler, R., *Managing Human Resources Through Strategic Partnerships (*Cincinnati, Ohio, South-Western, 2003).

Box 5.1.4 Re-thinking performance management: removing gender bias II

The challenge of hiring and retaining women

Beth Axelrod is the head of HR at eBay. In an interview with the international business consultancy company McKinsey she explained how and why companies can do better at hiring, retaining, and promoting women.

Axelrod believes that: "The war for talent today is truly global, so recruiting and retaining a diverse workforce is a more competitive business issue than ever: increasingly, diverse talent reflecting this competitive landscape is one of the most critical factors a business can leverage to consistently drive successful results. It's important for a company's workforce to not only reflect the diversity of talent available in the world today but also to mirror the diversity of its customer base. For example, at eBay we recognize that women make most consumer purchasing decisions and that women are big users of online-payment systems. So, having talented women in key decision-making roles helps us better understand our customer base. And we have several strong, capable women executives leading our biggest business. This didn't happen by accident, and it certainly didn't happen simply because they were female."

The interview presents some ideas – proven to be successful in one of the most innovative and successful e-businesses of the last twenty years - on what needs to be in place to improve the company's capacity to hire and retain talented women:

- Offering mentoring, networking and role models opportunities for women at all job levels
- Measuring performance fairly and objectively ("meritocracy")
- Creating innovative and flexible work environments
- Providing top leadership commitment, targets, and enforcement
- Identifying the issues that limit women's ability to build lasting careers and addressing them systemically, that is tackling the underlying systems, beliefs, and behaviours.
- Being aware that HRM processes have subtle differences among genders (e.g. women tend to speak less in meetings, or to be less "pushy" when asking for promotions), and that on a systematic basis we tend to unintentionally interpret women's and men's personal communication styles differently.
- Ensure that the assessment and promotion processes do not inadvertently misinterpret women's or men's communication styles. For example when someone says that a woman is either too timid or too aggressive, ask if she is any more timid or aggressive than the male counterpart whose behaviour we wouldn't comment on. Or make sure the tendency for women not put themselves forward for jobs doesn't get interpreted as a lack of ambition.
- Systematically identify women in the pipeline for promotion, not because women should be given an advantage in the promotion process but because they shouldn't be inadvertently overlooked.
- Make sure that people feel free to talk about and act on gender-related issues, and that perceptions about what is allowed or not do not obstacle the implementation of gender-related policies (e.g. flexible work arrangements may be allowed but people will not avail themselves of them as the general organizational culture communicates that "it is not ok" to do so)

Adapted from McKinsey Quarterly, "The challenge of hiring and retaining women: An interview with the head of HR at eBay", September 2008.

Box 5.1.5 Re-thinking performance management: removing gender bias II

Overcoming bias in performance assessments… an example from Deloitte's.

"Women are evaluated on performance, men on potential". International consultancy company Deloitte has since long embarked upon a broad strategy to "win the talent war for women". Soon after specific efforts had been made to attract more qualified women, it became obvious that in order to ripe all the benefits of equal opportunity policies the company needed to undertake a serious revision of its male-dominated organisational culture. Among the many initiatives, there were short awareness-raising workshops for managers where case studies were used to bring out differences in expectations. A typical scenario would have partners evaluating two promising young professionals with identical skills. Of the woman, a partner would say "She's good, she gives 100 per cent. But I just don't see her interacting with a Chief Financial Officer. … her presentation skills could be stronger". The comments about the man would vary slightly, but significantly:" He's good. He and I are going to take a Chief Financial Officer golfing next week. I know he can grow into it; he has tremendous potential."

Source: Mc Cracken D. M. "Winning the talent War for Women", in *Harvard Business Review on Women in Business*, Harvard, 2005 p. 59

Some form of performance measurement is inevitable in all organizations because decisions have to be made that require some judgment about performance. In the absence of a formal system, subjective judgments will be made because there is no common understanding about what constitutes performance. This practice will not only produce unjust and inequitable decisions, but is also wide open to legal challenge.

Trait-based systems with undefined criteria have largely disappeared, partly because of their dismal record in courts of law on questions of unfair dismissal and other forms of disciplinary action. The other two approaches represent a wide variety of practice.

Table 5.1.6 summarizes typical practice.[9]

Table 5.1.6 Traditional approach to performance assessment

Element	Description
Structure	A set of performance dimensions derives from a job analysis
Unit of analysis	Tasks and activities defined in behavioural terms
Content	Important and critical aspects of the job as defined through job analysis
Measurement method	A rating scale calibrated from "low" to "high" effectiveness
Evaluation criteria	Descriptors that anchor different points along the rating continuum
Specificity of criteria	Ranges from general (for example, "excellent") to specific (for example, "constructs an expert presentation with all relevant facts in appropriate order")
Evaluation frequency	Formal evaluation conducted once per year
Who evaluates	One appraiser, usually a direct supervisor
Focus of evaluation	Comparison between performance expectations (for example, personal goals, performance standards) and actual job performance (for example, typical jobbehaviours, performance outcomes)
Feedback process	Feedback interview between appraiser and appraisee in which evaluator shares his or her evaluation of the appraisee appraised
Appraiser's role	To reach a mutual understanding of the appraisee's performance, effectiveness and areas for further improvement
Appraisee's role	To accept or rebut the appraiser's assessment and to learn in what areas he or she needs to improve
Follow up	Development of a performance improvement plan that includes recommended training and motivational intervention (for example, financial incentives)

[9] Kraut, A.I.; Korman, A.K. (eds.): *Evolving practices in human resource management: Responses to a changing world of work* (San Francisco, California, Josey-Bass, 1999).

However, Table 5.1.6 highlights a number of factors that may not be compatible with the changed circumstances brought about by globalization and other challenges. Because of its focus on the individual through job analysis, traditional performance measurement rarely included broader organizational criteria.[10]

In theory, consideration of these broader organizational criteria should occur through a cascade flowing downward from strategic plans at the corporate level to operating units, sub-units and the individual. There are two reasons why this generally did not happen.

First, performance measurement was usually static rather than dynamic, that is, it captured at one point in time a summary of a whole year's work in terms of behaviours and outcomes. Second, because of their focus on the individual rather than the organization, performance interviews tend to concentrate on reaching agreement about individual performance and where improvement may be needed. This may be exacerbated by strong departmental boundaries, in which departmental goals predominate over organizational goals.

Several changes have taken place from the 1960s-1970s (where the systems of performance appraisal described in Table 5.1.6 prevailed) to the 1990s -2000's:

- Stable and independent work practices were mainly procedural and observable. Stable work relationships underpinned many performance appraisal practices. Jobs were fairly well defined. Managers' spans of control were relatively small, enabling them to delegate work and oversee outcomes. These conditions no longer prevail.
- Organizations have changed from tall hierarchies of authority to flatter, decentralized structures where managers have much wider spans of control, employees may be geographically dispersed and work practice may not be easily overseen.
- The nature of work has changed from individual, function-based jobs, to team-based, process-oriented jobs, and other non-traditional work arrangements such as home-workers, contract workers and alliance workers. These contingent workers are less familiar to management; they may have little or no commitment to the organization and may not care about performance improvement.
- The traditional ways of motivating and rewarding performance, such as promotion and job security, are less available than in previous eras and new ways must be found to realign employees' focus to the factors that produce business success in the new era.

The performance appraisal practices listed in Table 5.1.6 and the changes highlighted above clearly demand a re-think and adaptation of the traditional approaches to performance assessment. The demands on enterprise management to do this are both challenging and paradoxical. On the one hand managers ask fewer employees to do more with fewer resources, to do it faster and at a higher level of quality. On the other hand, managers ask them to accept less job security, to manage their own career and be principally responsible for their own professional development.

One of the main strategies to accomplish this transition is to move from performance measurement to performance management. Performance management includes a broader set of management practices than traditional performance appraisal. It moves from the individual management of an employee's performance over the last year, to an approach that connects individual performance with organizational performance.

Performance measurement thus becomes something more than just a personal report- card made once or twice a year. Rather it becomes a continuous dialogue that provides feedback about performance issues, accomplishments and how the individual contributes to organizational goals. Two things differentiate performance management from performance measurement. The focus shifts from static, individual tasks that are measured at fixed points in time, to a fairly continuous assessment of

[10] Banks, C.G.; May, K.E.: Performance management: The real glue in organizations, in Kraut, A.I.; Korman, A.K.: *Evolving practices in human resource management: Responses to a changing world of work* (1999), pp. 118-145.

Table 5.1.7 Contemporary approach to performance management

Element	Description
Structure	A set of performance dimensions derived from an organizational analysis as well as a job analysis
Unit of analysis	Tasks and activities defined in behavioural terms
Content	Important and critical aspects of the job as identified through the organizational and job analyses
Measurement method	A rating scale calibrated from "low" to "high" effectiveness
Evaluation criteria	Descriptors that anchor different points along the rating continuum
Specificity of criteria	Specific (for example, "constructs an expert presentation with all relevant facts in their appropriate order")
Evaluation frequency	A formal evaluation conducted several times a year (e.g. monthly, quarterly, or at the conclusion of assignments or projects); informal evaluation perhaps almost daily
Who evaluates	Everyone who had an opportunity to observe and evaluate performance; canincorporate multiple sources of feedback
Focus of evaluation	Comparison between performance expectations (e.g. personal goals, performance standards) and actual job performance (e.g. typical job behaviours, performance outcomes)
Feedback process	Feedback meeting between appraiser and the appraisee whenever either party desires; appraiser shares observations and relates them to performance criteria, the appraisee appraised seeks clarification on the observations or on the criteria
Appraiser's role	To understand the performance criteria and to help the appraisee understand how his or her performance fits within the criteria; also to look for ways the appraisee can improve performance
Appraisee's role	To understand the performance criteria and to help the appraiser understand how his or her performance fits within the criteria; also to look for ways he or she can improve performance
Follow-up	Further observation and feedback on performance; development of plans for further improvement, including training and motivational intervention

individual employees' roles and how they relate to goal accomplishment. Thus, performance assessment is transformed from a tool of evaluation and review to one that moulds performance through continuous feedback.

Table 5.1.7[11] highlights the major elements of performance management and provides a useful contrast to the traditional approach shown in Table 5.1.6.

The essence of performance management is that it is a broader approach to managing performance in a dynamic environment towards the accomplishment of organizational

goals. The idea is to help employees see the connection between their personal performance and organizational success. This concept is an integral part of the notion of "goal alignment" and Management By Objectives. The concept behind those approaches has a cascade effect where strategic goals are translated into more specific operational goals for units, subunits and individuals. This connects individuals with the strategic goals of the organization so that they could see the impact of their own behaviours.

11 Source: Kraut and Korman, 1999, op cit

Case study 5.1.2 Increasing productivity through better human resource management in China

Chaoda Warp Knitting Co. Ltd. (Choada), private enterprise engaged in local warp industry in China, experienced human resource management problems in 2006. The indicator of personnel turnover rate in the company was higher than the industry average (constituted 18 per cent compared to 15 per cent), which caused certain negative impact on regular production of the company. Chaoda didn't have any specialized human resource department and it lacked specific HR programmes, including performance appraisal, training and employee career development. In order to retain human capital the company decided to introduce employee welfare and humanistic care approach within the company. They set up key performance indicators at all levels, formulated HR development plan and established HR management system.

The company formulated 3 company-level HR management objectives and 12 company-level performance objectives in order to achieve and monitor the improvements in HR management process. To meet these HR improvement objectives, a specialized HR department was set up to directly report to the General Manager. At the same time, operational systems were established and HR management routines were streamlined and standardized. In addition, performance appraisal system was introduced at weaving and warp-knitting workshops. The evaluation and rewarding activities were open and transparent ensuring rules and regulations on evaluation activities were made available to each employee. To further improve HR practices, employee satisfaction questionnaire interviews were undertaken. The questionnaire survey was conducted twice per year on a regular basis. More human-oriented welfare policies such as education allowance for self-study and job-specific training programs were adopted in the company.

In 2008 Chaoda conducted a statistical analysis of the values obtained before and after implementation of the CSR project. The analysis showed that due to new human resource policies, general HR management practice has been drastically improved:

- Employee turnover dropped from 18 to 5 per cent;
- Employee satisfaction increased from 90 to 96 per cent;
- Wage and benefits for employees increased by 12.5 per cent (from 1600 to 1800 Yuan).

The new HR policy has effectively improved the working conditions and quality of life for its employees. This made employees to be more motivated and committed to sustainable improvement of the company's objectives.

Source: ILO, UNIDO and CNTAC (2008), Corporate Social Responsibility in the Chinese Textile Industry. Improve Enterprise Competitiveness and Productivities through CSR Training. ILO Beijing Office, 2008.

Training and development

The development function is one of the key functions of performance appraisal /performance management. Once it becomes clear what are the required skills that the employees do not possess in order to successfully perform their duties, a training and development plan must be developed for them. All over the world, skilled workers are in great demand. They can often choose among job offers and command higher wages. The implications that this ongoing "war for talent" might have on management policies and practices have already been touched upon earlier. However another set of policies and practices that can help an enterprise improve the quality of its human capital – human resource training and development has not been discussed yet. There is clear evidence that human resource training and development can enhance productivity and improve enterprise performance.[12]

[12] ILO (2008), Skills for improved productivity, employment growth and development, ILO Geneva.

The expression "training and development" refers to a large set of closely related activities. In general, an enterprise's training and development practices are its planned efforts to improve current and future performance by helping employees acquire the skills, knowledge, and attitudes required of a competitive workforce.[13]

Training refers to improving competencies needed today or very soon. Usually, the main objective of training is to improve performance in a specific job by increasing employees' skills and knowledge. Depending on an enterprise's recruitment and selection practices, new hires may have insufficient skills and require training before being placed in a job. For other employees, technological changes and job redesign may create the need for new job skills. Another reason that employees may need new skills or knowledge is that they have been transferred or promoted. Most training for job knowledge and skills is completed in short periods, of a few hours or days.

Development refers to activities intended to improve competencies over a longer period of time. The major objective of development is to prepare the workforce for roles they may have in the future. While development activities may improve performance in one's current job, that is not typically the objective. In fact, a common approach to development is giving people "stretch" assignments. When employees are given stretch assignments, often the expectation is that performance may not be optimal but that instead a great deal of valuable learning will occur that should prove useful in the future. For this reason, development activities often are referred to as "career development" or "leadership development".

The activities of training and development are so closely related that it is very difficult to make a clear distinction between them. Instead, the entire system of activities usually is referred to as "training and development" (T&D). Many companies invest heavily in human resource training and development. This may be surprising, as it is becoming more difficult to retain increasingly mobile workers However, as Peter Cappelli explains:

> *"Some companies still make substantial investments in employee development. General Electric, for example, has the oldest management development program in the US, dating from 1919, providing two years of general management training and work experience to college graduates in areas like finance, human resources, information systems, and engineering.*
>
> *Other companies known for developing managers like Smith Klein, Pepsi, and Procter and Gamble can offer diverse work experience within the same corporate structure because of their broad holdings and also by giving real responsibility early on. At the same time, corporate recruiters love to poach from these companies in large part because of the management development they offer.*
>
> *So why do the companies continue to offer it? One important reason is that it helps them with their own recruiting, even if retention takes a hit down the road. Applicants know that going with a company like GE or Pepsi gives them a real opportunity for advancement at other companies — precisely because recruiters will be interested in hiring them away".*[14]

It is necessary to work out whether the value added that companies gain from training these employees is higher than the turnover costs multiplied by the probability that they will leave. However, very often people-centred policies can substantially reduce this probability, making it rational to invest in people despite the general trend towards increased mobility. Furthermore, companies invest in people who may leave at the same time as other

[13] Jackson and Schuler, 2003, op cit

[14] Cappelli, Peter. (2000b) «Managing without commitment», *Organizational Dynamics*, vol. 28, no.4, p. 11-2

enterprises are training people who may join. This situation encourages companies to work together with governments and employer organizations to develop the quality of the workforce in the labour market as a whole.

Many different formats can be used for training and development activities. Three general categories of formats are on-the-job; on-site, but not on the job; and off-site. Tables 5.1.8, 5.1.9, and 5.1.10 summarize the main advantages and disadvantages of different learning formats and types of programme.

The following case gives an illustration of how job rotation was used by Sheraton, one of the world's leading hotel chains.[15]

Case study 5.1.3 Training and development of employees in Thailand

Bangkok Cable Co., Ltd and S.P. International Co. are companies that rank among the top manufacturers in the electronics industry. They put major emphasis on the training and development of their employees, recognizing that workers play the most significant role in the company's success.

In its activities **Bangkok Cable Co. (BCC)** focuses on three key factors to reach the company goals of Quality, Cost, and Delivery. At the same time, the company puts great emphasis on "people" i.e.: "human resources". The company provides a training process in several stages. First, all newly recruited workers at BCC attend an on-the-job-training programme to be trained in the basic knowledge and skills required for the production process. After training, participants are required to take a test. Successful candidates receive the certificate of Vocational Education 1. After passing the test and working in the production line for a period, the workers attend outside training courses. After these, the workers are required to share their knowledge and experience with their colleagues in in-house training or internal meetings.

For technicians, a competency-based training system has been set up. Training courses at various levels in both theory and practice are tailored to the responsibilities of different workers. Technical staff must take an annual competency test; a pass is rewarded by competency-based payment. A preliminary evaluation of the apprentice-training programme has shown a lower rate of resignation since its introduction and. better behaviour and discipline and greater team work among the workers. In the future, BCC intends to develop more advanced "Multi-skills training" so they can work in other departments; this will facilitate job-rotation within the company.

S.P. International Co. (S.P.I. Group) has developed two main training and evaluation programmes to improve the skill and efficiency of their workers:

- professional training courses for their executives;
- training courses in new technology for their technicians.

During the courses, the participants tested on their understanding and ability to implement. The company mostly focuses on in-house training courses because it believes that the training courses should be developed directly based on the company's needs.

It has also introduced evaluation programmes for their technicians who must take annual competency tests and are rewarded with competency-based payments. Workers also receive incentive payments based on monthly evaluations on their performance (number of cars using maintenance services, volume of car or auto part sales, customer satisfaction, etc.). Currently S.P.I. Group has the fourth highest billing among Toyota agents in Thailand. It provides full services, including sales, and repair and maintenance services, to Toyota customers in six locations in Bangkok.

15 http://www.ilo.org/public/english/employment/skills/training/casest/mandarin.htm (2002).

Table 5.1.8 Advantages and disadvantages of on-the-job training[16]

Type of programme	Advantages	Disadvantages
E-learning and video tele-conferencing	Brings employees together from many locations Speeds-up communications May reduce costs	Start-up and equipment costs are high Requires adaptation to a new learning format
Apprenticeship training	Does not interfere with real job performance Provides extensive training	Takes a long time Is expensive May not be related to job
Internships and assistantships	Facilitate transfer of learning Give exposure to real job	Are not really full jobs Provide vicarious learning
Job rotation	Gives exposure to many jobs Allows real learning	Involves no sense of full responsibility Provides too short a stay in a job
Supervisory assistance and mentoring	Is often informal Is integrated into job	Effectiveness rests with the supervisor May not be done by all supervisors.

16 Source: Jackson and Schuler, 2003., ibid

Case study 5.1.4 Job rotation in the Sheraton hotel chain

The hospitality industry has been very hierarchical in its organization, with command and control systems and top-down communication, but little horizontal communication. The management structure typically consisted of many layers of authority, frequently as many as twenty-five.

People with few skills and a low level of educational achievement were typically recruited. Low salaries were prevalent, but the industry did offer career prospects within a specific function such as catering, with progression from waiter to general manager. Jobs were tightly demarcated, from bellboy to waiter to receptionist. An employee's experience was frequently limited to a single functional area and may not include all the jobs within that area. Those who progressed did not necessarily have business acumen. People who stayed in the industry had to accept the long hours demanded by a 24 hour- per day, 365 day- per year industry. Human resource practices were often rudimentary; for example, decisions about promotion and recruitment were often made on the basis of subjective judgements and assumptions.

Senior management started to question whether this structure was capable of delivering improvements in productivity, efficiency and customer satisfaction. Changes were radical. They amounted to a reengineering of the industry and the introduction of many high performance work practices. The hotel management hierarchy was reduced from 25 to ten levels. Managers took a fresh look at the distribution of jobs. Rather than organizing work tasks in terms of function, they were restructured in bands consisting of jobs that required the same set of skills. This produced ten levels from the entry jobs at level 1, to the general manager at level 10. Levels 8, 9 and 10 were the decision-making grades; levels 5, 6 and 7 were the trainee managers and department heads. Levels 1, 2, 3 and 4 were the operational levels, with waiters at level 2 and supervisors at level 4. Level 1 entry jobs were bellboys and room attendants.

Once the bands were established, the next task was to focus on multi-skilling within each band. Employees were expected to master all the skills at their level. Training and job progression were then determined by the need for all the staff to become proficient in all the jobs within their band. This involved moving staff through all the jobs in their existing band. Once they were multi-skilled within their band, having become proficient in three or four different jobs, they would be ready for promotion to the next band. There the process would start again, and the person would learn all the tasks within that band before moving up to the next level. The result was that department heads were skilled in all functions from finance to HRD and that staff were not only more flexible but also more highly skilled in the sense that they had a much broader understanding of hotel operations.

The approach to continuous improvement was inspired by the Deming tradition. The basic idea of process mapping was applied within the broad bands. Using external consultants, the traditional pyramid was effectively inverted, putting operational staff at the top, driving the process, because they were in direct contact with the hotel clients.

Job rotation and multi-skilling delivered a number of advantages. It made the jobs more demanding and satisfying for the employees. It trained future managers in the full range of functions and ensured a practical knowledge of all aspects of running a hotel, including the necessary business acumen. Those who moved up the hierarchy, “career spiralists", acquired a considerable depth of knowledge and very high levels of skill. Of course, not all staff are climbers, and the ideal position is that about 40 per cent are motivated to move between bands, with the remaining 60 per cent content to remain within their band.

The other advantage was that staff at each level could back each other up as needed. If there was a rush in the coffee shop and waiters were under pressure, then staff could be redeployed from another function to maintain a high level of customer service and satisfaction. They simply had to change their uniform. This would cost more at the level of coffee shop management, but for the organization as a whole it was a far more productive and efficient use of staff resources. This approach has been adopted by several international hotel chains.

The following tables 5.1.9 and 5.1.10 show the advantages and disadvantages of on- site but not on-the-job training; and of off-the job training.

Table 5.1.9 Advantages and disadvantages of on-site, but not on-the-job training[17]

Type of programme	Advantages	Disadvantages
Corporate universities	■ Tailored to company needs ■ Supports company vision and culture	■ Can be costly ■ Requires skilled management
Programmed instruction on an intranet or the Internet	■ Reduces travel costs ■ Can be just-in-time ■ Provides for individual learning and feedback ■ Provides for fast learning	■ Not appropriate for some skills ■ Is time-consuming to develop ■ Is cost-effective only for large groups ■ Often no support to assist when trainee faces learning problems
Interactive videos	■ Convey consistent information to employees in diverse locations	■ Costly to develop ■ Do not provide for individual feedback

Table 5.1.10 Advantages and disadvantages of off-the-job training[18]

Type of programme	Advantages	Disadvantages
Formal courses	■ Are inexpensive for many ■ Do not interfere with job	■ Require verbal skills ■ Inhibit transfer of learning
Simulation	■ Helps transfer of learning ■ Creates lifelike situations	■ Cannot always duplicate real situations exactly ■ Costly to develop
Assessment centres and board games	■ Provide a realistic job preview ■ Create lifelike situations	■ Costly to develop ■ Take time to administer
Role-playing	■ Is good for interpersonal skills ■ Gives insights into others	■ Cannot create real situation exactly; is still playing
Sensitivity training	■ Is good for self-awareness ■ Gives insights into others	■ May not transfer to job ■ May not relate to job
Wilderness trips	■ Can build teamsCan build self-esteem	■ Costly ■ Physically challenging

[17] Source: Jackson and Schuler, 2003,op cit

[18] Source: Jackson and Schuler, 2003, ibid

Compensation and benefits

Remuneration is a complex area, constantly shifting as business conditions change and companies strive to create competitive advantage through their remuneration systems. Detailed coverage of the wide variety of alternative systems is beyond the scope of this course. However, the reasoning behind the different approaches is important to discuss as well as how they help or hinder the emerging forms of business organizational in a global environment. Different types of reward can be grouped as financial or non-financial and contingent or non-contingent. Non-contingent rewards are attached to the job or position, and do not depend on performance within that job.

As shown in Table 5.1.11, non-contingent financial rewards have a specific monetary

value, while non-contingent, non-financial rewards, such as job security, have intrinsic value. Both types of non-financial rewards are important in attracting and retaining people. Both types of non-contingent rewards are a permanent cost to the organization.

The contingent rewards shown in Table 5.1.11 depend on performance and are therefore, not a permanent cost to the organization. Contingent financial rewards have a monetary value that is said to be variable and can range from zero to a limit fixed by the scheme and the level of performance. Contingent non-financial rewards generally have some intrinsic value but they could have monetary value in the case of promotion. The contingent rewards are described as being "at risk" because they are only realized when specified levels of performance are achieved.

There are many reasons to adopt variable pay:

- Increase motivation to perform at a high level;
- Share organization success with employees;
- Focus efforts on attaining specific goals and priorities;
- Improve pay competitiveness; and
- Reduce fixed compensation cost.

Recently there has been a trend towards putting more compensation packages "at risk" to reduce the fixed components of compensation and therefore to reduce overall compensation costs and

Table 5.1.11 Types of reward

	Non-contingent	Contingent
Financial	Health care benefits Retirement benefits Employee stock ownership Base salary	Merit pay Incentives/bonuses Achievement awards Profit sharing (contingent on profitability)
Non-financial	Perquisites Vacation Job security Sense of family, belonging Vacation Titles	Advancement Responsibility Challenging work, autonomy, authority to act Recognition of achievements Personal growth
	Permanent cost to the organization	Not permanent, have to be earned every time

control salary and wage creep. The rationale is to link performance with reward. This allows organizations to pay employees according to their level of performance.

There are various ways of paying for performance: Table 5.1.12 lists a number of common schemes. The broadest distinction is between plans that distinguish between individuals, groups and teams and the organization as a whole. Individual plans, such as merit pay and individual incentives, are contingent on individual performance and are generally short-term, at risk type plans. They are appropriate where work is individually based, has discrete, measurable outcomes and the individual has enough control over the factors of production. They are less appropriate where team-based, interdependent outcomes, are the norm. When used in a team setting, individually targeted plans can foster dysfunctional competition and discourage necessary cooperation as employees strive to outdo one another.

Team and unit incentive plans are targeted at interdependent groups of employees who can identify with each other and have common goals and objectives. The incentives are structured so that they can only be achieved through coordination and cooperative effort. Peer pressure is a powerful means of ensuring everyone contributes to achieving team targets and thus, rewards. Teams need enough control over the factors of production to achieve positive outcomes. Team and unit incentive plans can distinguish between performance in different parts of the same organization, where a high performing team or unit can be differentially rewarded from a poor one.

Profit sharing, stock ownership and other organization-wide plans have a somewhat different purpose. They encourage employees to identify with the organization as a whole and they give them a share in the success of the organization. Well-designed plans that consistently produce positive results for employees can increase commitment and loyalty to an organization over time.

The more remote a plan is from individual performance, however, the less likely it is to affect personal motivation. As noted, different types of plans have different objectives and organization-wide plans can be quite powerful in attracting and keeping top talent. Nor are different plans mutually exclusive. Many companies run multiple plans to achieve multiple objectives, which can have synergistic effects.

Table 5.1.12 Pay for performance alternatives

Vehicle	Results	Employees covered
Merit pay	Achievement of specific performance criteria	Individual salaried employees
Individual incentives	Specific short- term performance objectives	Individual salaried employees
Team incentives	Achievement of targeted performance	Employees, supervisors in a work group/unit
Unit incentives	Achievement of unit financial and other objectives	Unit managers, salaried employees across business unit/division
Profit sharing	Identification with company’s annual financial results	All employees company wide
Stock ownership	Identification with company’s long-term stock appreciation	All employees (stock purchase), executives for stock options

Features of different plans

Each type of plan is more or less appropriate in a particular context. A list of the most significant features is provided in Table 5.1.13.

Piece-work systems are one of the oldest forms of remuneration stemming from the era of "scientific management". Piece-work is still appropriate where individual tasks with tangible outputs are the norm. Payment is made close to the time output is completed, usually on a daily or weekly basis. These systems are less common today, but they are still fairly prevalent in industries such as apparel where a significant amount of subcontracting occurs. This is particularly true where supply chains extend into developing countries and become disaggregated into suppliers, subcontractors and private homes.

Commissions are another traditional form of remuneration, usually associated with sales work. They may be the sole basis of payment as in insurance, or more generally, a combination of base salary and commission, with the base salary a living wage and the commission representing the incentive. As with piece-rates commissions are largely at risk as they depend on measurable output as the basis for payment.

Merit pay is an individual plan where past performance is rewarded in future pay. Individuals usually have to re-qualify periodically to continue to receive the reward, which is over and above the base remuneration, placing this portion of pay at risk.

Divisional or unit pay is a means of differentiating between units in relation to the allocation of rewards. This is appropriate where the performance of one unit is unrelated to another unit.

Bonus schemes differ from profit sharing, gain-sharing and company share plans, in that they are generally not permanently ongoing plans and they operate at the discretion of management. They are designed to reward corporate performance and share good results with employees.

Profit sharing is an ongoing programme that is also designed to spread the benefits of good results by sharing a predetermined portion of profits. It is usually based on corporate or divisional performance and reflects the organization's capacity to pay. In other words, a predetermined profit has to be achieved for profit sharing to occur.

Gain-sharing is not based on a final outcome, but on an agreed measure of productivity that produces savings which can be shared. Such plans have existed for a long time and they have the advantage of directly rewarding something that employees directly cause to happen. In other words, employees have control, which is not the case with the more remote company-wide plans. Gain-sharing has the capacity to work well in developing countries, where improvements in working conditions and wages can be funded by gains in productivity as they occur. This is particularly useful in developing country enterprises that are frequently short of cash to invest in improvements.

Company share schemes frequently operate at two levels. One level is stock options given to executives at a discounted rate to be exercised at some future date when the stock has appreciated. These can operate as a "golden handcuff" for top people who realize the greatest rewards by remaining in the company. Ordinary employees are usually allowed to buy stock at a discounted rate through payroll deductions. More recently, Internet start-up companies were trying to attract top talent by the allocation of shares as a sign-on bonus in lieu of cash, which in most cases, was in short supply.

Table 5.1.13 Significant features of each plan type

Piece-work ■ Simple to administer ■ Simple to communicate ■ Appropriate to single tasks with tangible outputs ■ Rewards directly commensurate with individual performance ■ Payment on daily/weekly basis	**Bonus** ■ Reward based on corporate performance ■ Payment on quarterly, six monthly or annual basis ■ Discretion required on eligibility and amount to be paid
Commission ■ Simple to administer ■ Reward directly commensurate with individual or team ■ Performance above target ■ Motivates achievement beyond target ■ Requires flexible target setting to accommodate seasonal ■ Fluctuations ■ Payment on weekly/monthly basis	**Profit share** ■ Payment on six monthly or annual basis ■ Eligibility and payment criteria established in advance ■ Reward based on corporate/divisional performance ■ Reflects corporate/divisional teamwork ■ Reward directly related to organization's capacity to pay
Divisional performance pay ■ Payment on six monthly or annual basis ■ Targets and payment criteria established in advance ■ Reward reflects local business unit performance and teamwork ■ Good/poor performance and reward is not affected by performance of other (unrelated) units	**Gainsharing** ■ Payment on monthly basis ■ Requires developed industrial democracy and participative management ■ Reward based on universal measure of group performance ■ Increase in individual income for all workers is closely linked to the organization's capacity to pay
Merit ■ Past performance rewarded in future pay ■ Provides opportunity to undertake a general performance appraisal of achievements and possibly behaviour ■ Individual merit is reflected in reward	**Share scheme** ■ Reward either through capital gain dividends or preferential pricing of shares ■ Discount 10-20 per cent ■ Can be used as a golden handcuff ■ Often aimed at generating corporate pride and kinship

There are a number of points to consider before implementing variable pay plans. The most important factors are discussed below.

Plan objectives are concerned with what the plan is designed to accomplish. Too frequently, enterprises implement plans because they are fashionable or because competitors have them; they fail to think about what they wish to achieve with a plan.

Some common objectives are to:

- facilitate the achievement of business objectives;
- motivate employees;
- attract and retain top talent;
- increase competitiveness;
- reinforce management/team culture.

Eligibility is concerned with who should participate in the plan. The points to consider include:

- the measurability of each participant's contribution;
- the impact of job/role on results;
- competitive market practice.

Performance criteria are concerned with measures that should:

- relate to important business objectives;
- be quantifiable in advance and be measurable;
- be consistent with the overall plan direction.

Reward determination is concerned with the reward formula and the extent of discretion to ensure:

- the threshold;
- cost effectiveness;
- fair reward for achievement.

Reward level should ensure that the:

- level of reward is appropriate at different levels of performance;
- performance criteria are linked to reward levels;
- mix of reward and fixed pay is fair;
- incentive payment is competitive.

Payment methods need to consider:

- cash/non-cash mix;
- frequency of payment;
- lump sum or regular pay;
- deferment strategy- mandatory/voluntary;
- separations.

Managers need to think seriously about their choice of incentive plan. They need to be clear about what they hope to accomplish through that plan. If they cannot answer that question, they probably shouldn't proceed until they can. Table 5.1.14 presents what Pfeffer describes as myths about compensation that lead managers astray when they consider the role of pay.[19] Pfeffer's main contention is that managers mistakenly equate labour rates with labour costs, although they are not the same thing. His basic point is that labour costs include productivity while labour rates do not. Therefore, the higher pay rates of a very proficient workforce could lead to lower labour costs through greater productivity. A lower-paid workforce that is less productive would mean higher labour costs. Pfeffer's point 5 is debatable as it suggests that individual incentive schemes are always inappropriate. Again, it depends on how work is organized. Independent work such as sales or piece-rate production that is measurable and does not affect other people or groups may be perfectly appropriate. Where cooperating groups or teams are involved, though, the evidence he cites is appropriate.

[19] Pfeffer, J.: "Six dangerous myths about pay", in *Harvard Business Review*, may-June 1998, pp. 109-119.

Table 5.1.14 Six dangerous myths about compensation

Myth	Reality
1. Labour rates and labour costs are the same thing.	1. They are not, and confusing them leads to a host of managerial missteps. For the record, labour rates are straight wages divided by time – a Wal-Mart cashier earns $5.15 an hour, a Wall Street attorney $2,000 a day. Labour costs are a calculation of how much a company pays its people and how much they produce. Thus German factory workers may be paid at a rate of $30 an hour and Indonesians $3, but the workers' relative costs will reflect how many widgets are produced in the same period of time.
2. Labour costs can be lowered by cutting labour rates.	2. When managers buy into the myth that labour rates and labour costs are the same thing, they usually fall for this myth as well. Once again, then, labour costs are a function of labour rates and productivity. To lower labour costs, you need to address both. Indeed, sometimes lowering labour rates increases labour costs.
3. Labour costs constitute asignificant proportion of total costs.	3. This is true – but only sometimes. Labour costs as a proportion of total costs vary widely by industry and company. Yet, many executives assume labour costs are the biggest expense on their income statement. In fact, labour costs are only the most immediately malleable expense.
4. Low labour costs are a potent and sustainable competitive weapon.	4. In fact, labour costs are perhaps the most slippery and least sustainable way to compete.Better to achieve competitive advantage through quality; through customer service; through product, process, or service innovation; or through technology leadership. It is much more difficultto imitate these sources of competitive advantage than to merely cut costs.
5. Individual incentive pay improves performance.	5. Individual incentive pay, in reality, undermines performance – of both the individual and the organization. Many studies strongly suggest that this form of reward undermines teamwork, encourages a short-term focus. And leads people to believe that pay is not related to performance at all but to having the "right" relationships and an ingratiating personality.
6. People work for money.	6. People do work for money – but they work even more for meaning in their lives. In fact, they work to have fun. Companies that ignore this fact are essentially bribing their employees and will pay the price in a lack of loyalty and commitment.

Box 5.1.6 Cost and benefits of implementing pay equity

Implementing pay equity entails three types of costs:

1) Wage costs;
2) administrative costs; and
3) negative impact on employees.

Canadian experience of wage costs was that the masse salariale increased between 0.5 per cent and 2.2 per cent in the Province of Ontario and 1.5 per cent in Québec.[20] Administrative costs include the financial and staff time costs associated with the developing a new JEM, new job descriptions, a new job classification system, the training of the parties involved and the payment of the fees of a pay equity consultant. The implementation of pay equity may also generate a sense of dissatisfaction among employees-whether male or female - whose jobs have either not been assessed or not been upgraded. This, of course, may undermine job motivation and labour productivity of these employees.

There are also a number of proven benefits to implementing pay equity[21]

1) Effects on recruitment and selection practices
2) Increased effectiveness in recruitment and selection practices;
3) Greater effectiveness of continuous training;
4) Improved rate of retention of new employees after probationary period;
5) Improved performance of new employees
6) The identification of overlooked requirements of female jobs
7) Improved quality of products and services;
8) Internal flexibility – identification of skills that can be transferred between female- and male- dominated jobs;
9) Enhanced perception of equality
10) Fewer complaints
11) Greater satisfaction and commitment to the organization
12) Effects on labour relations
13) Fewer disputes
14) Prompter settlement of complaints or disputes;
15) Prompter negotiation of collective agreement or enterprise agreements
16) Greater economic autonomy of female employees
17) Reduced financial uncertainty;
18) Greater availability on the part of female employees
19) Coherence of the pay policy
20) Harmonization of the wage structure based on the value of jobs
21) Effects on reputation and attractiveness
22) Reduction in cost of recruiting qualified staff;
23) Reduction in the length of time particular posts remain vacant
24) Advantages of avoiding prosecution
25) Legal costs avoided
26) Penalties avoided;
27)Protection against falling share prices.

Source: Tomei, M. and Olney, S. Equal Pay for Work of Equal Value. ILO.

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[20] M. Th. Chicha: *A comparative analysis of promoting pay equity: models and impacts*, ILO DECLARATION Working Paper, 2006.

[21] M. Th. Chicha: (2006), ibid.

Teams and individuals

In his seminal work "New Patterns of Management", Rensis Likert, organizational psychologist well known for his research on management, developed a principle of organisational design based on a group as the basis building block. Likert proposed[22]:

1. Work groups are important sources of individuals' need satisfaction.
2. Groups in organisations that fulfil this psychological function are also more productive
3. Managements' task is therefore to create effective work groups by developing supportive relationships
4. An effective organisational structure consists of democratic/participative work groups, each linked to the organisation as a whole through overlapping memberships.
5. Coordination is achieved by individuals who carry out 'linking functions'

Today it is common to organise work using a team based approach. There are several benefits to this approach. Some of the earliest thinking was captured by Elton Mayo and his team researching the impact of physical (environmental) changes on productivity. This research extended to re-organising groups of the women employees at Western Electric's Hawthorne factory in Chicago. One of Elton Mayo's conclusions from the Hawthorne Investigation was[23]: *…"that the women experienced a tremendous increase in work satisfaction because they had greater freedom in their working environment and control over their own pace-setting".*

Along with this satisfaction was an increase in productivity. Through the five years of investigation at the Hawthorne plant, Mayo reached many conclusions regarding the organisation of work and what appeared to have significant impact on productivity. From his findings Mayo considered the following to have a positive impact on productivity;

- The ability to create high cohesion thorough creating values and norms
- Pride and personal interest in each worker by supervisors
- Attention to outputs and results (recorded and communicated to all)
- A sense of participation in creating a new work pattern
- The development of work satisfaction
- The informal social pattern of the work group.

On this last point, it was left to others like Professor Meredith Belbin to explore the benefits of work organisation using teams[24].

Belbin researched and identified eight original team roles. These roles were updated in 1993 and a ninth role of specialist was included. A refreshing part of Belbin's thinking was the recognition that no one person was excellent at everything. Each team role had a number of strengths and what Belbin termed "tolerable" weaknesses. For example someone who is good at generating lots of new and novel ideas (Plant) is quite possibly not as strong in implementing those ideas and working through the detail.

Belbin argues that rather than trying to develop the plant into something she or he is not, look at adding someone with the preferences for detail and follow through (such as an implementer) to compliment the work of the Plant. Belbin suggests that less effort should go into building on our natural weaknesses and more effort into complimenting our strengths with those of other members of the team.

22 Cited in Huczynski A. & Buchanan D. (1991) *Organisational Behaviour* [2nd Edition] University Press, Cambridge.

23 Reproduced in Pugh D. & Hickson D (1996) *Writer's on Organizations*, [5th edition] Penguin.

24 Belbin M. (1993) *Team Roles at Work*, Oxford, Butterworth, Heinemann.

5.2 Work organization

Human resource management should be viewed in the context of an overall work organization. For many organisations growth feels organic or evolutionary and there is little intervention to manage or organise work methods. For micro and small organisations this organic growth may feel safe and contingent. However, for those organisations from medium to large, it is clearly important to take some control and make explicit decisions regarding the organisation of work. In choosing the most appropriate methods to organise work, it is necessary to take some key considerations:

- Size of the organisation
- Future of the organisation
- Diversity of product lines and/or services

Divisional structure

Probably the most common form of decentralised organisation of work is the divisional structure. This structure was first introduced by Alfred Sloan at GM. In the divisional structure, all activities needed to support the development of a particular product line were grouped together and operated as one stand-alone business. Some functions were brought together at a corporate level, to provide a company-wide overview (such as finance or human resources).

More recently there has been a move toward more temporary or project based work organisation, where employees are assigned to a particular team to meet a specific objective. When the work is completed they are re-assigned (or not, depending on the nature of their work contract).

In order to create a sustainable organisation there are good arguments in favour of explicitly organising work in line with the company's vision and objectives rather than allowing the organisation structure to grow without any real consideration. The main arguments in favour of this are:

- It makes best use of the resources available
- It enables the organisation to address weakness and shortfalls
- It ensures a logic to work planning understandable by customers and suppliers
- It allows people to focus their effort
- It facilitates succession planning and career development
- It encourages team working and back-up

The division of labour and the relationship between teams and individuals is often shown in an organisational chart. Here it is possible to observe, the levels in the hierarchy and the relationship between different teams.

The criteria for grouping jobs into teams or work groups may include the following;

- Grouping by product or service
- Grouping by function – (e.g. production, sales, marketing, finance etc.)
- Grouping by customer type
- Geographical grouping by place
- Grouping by Time - e.g. shift work
- Grouping by technology used

Table 5.2.1 A summary of Belbin's team roles

Team role	Strengths and contributions	Tolerable weakness
Coordinator	Presides and coordinates. Is able to get others working to a shared aim; confident, mature, - (originally called 'Chairman' by Belbin)	Average intellect or creativity
Shaper	Passionate abut the task, motivated, energetic, achievement-driven, assertive, competitive	Argumentative and impatient
Plant	innovative, inventive, creative, original, imaginative, unorthodox, problem-solving	Does not consider procedure; not realistic
Monitor evaluator	Analyses projects and tasks and identifies possible weaknesses and flaws, is serious, prudent, critical thinker, analytical	Tactless, uninspiring
Implementer	Develops plans into action, will take on tasks others think are boring. They are systematic, common sense, loyal, structured, reliable, dependable, practicable, efficient	Not a leader, sometimes inflexible
Resource investigator	Great at networking and making contacts outside the team. Usually quick, good communicator, net-worker, outgoing, affable, seeks and finds options, negotiator	Does not generate original ideas
Team worker	Will maintain team spirit, they are supportive, sociable, flexible, adaptable, perceptive, listener, calming influence, mediator	Indecisive
Completer finisher	Ensures the team concentrates on task in hand. Pays high attention to detail, accurate, high standards, quality orientated, delivers to schedule and specification	Worries about small details
Specialist	Provides knowledge or skills when required. technical expert, highly focused capability and knowledge, driven by professional standards and dedication to personal subject area	Importance of Technical or specialists skill can be over stated

The philosophy underlying team building as a method of organising work is the belief that synergistic working offers more than the contributions of each individual. When teams have had the opportunity to develop group norms and standards, it is possible to observe improved job satisfaction and greater productivity.

However, team working does not always lead to harmony in the workplace. There are several strategies to dealing with workplace conflict. If the source of the conflict is dysfunction within the team, often team-building is a response.

Team building allows the team to consider what does and does not work and air any grievances. Often team building activities are designed to demonstrate the benefits of co-operation.

If the conflict is between individuals rather than a whole team issue, employing a conflict resolution strategy might be more effective. Thomas and

Killman developed the conflict resolution model[25]. In the model there are five conflict styles:

Competing - This approach has a concern for the task over and above a concern for the relationship. As a consequence it is uncooperative, and the focus is on "winning". It does have a value as an approach, when there is an emergency, or quick and decisive action is necessary. However it also has negative results, in that people will resent losing to somebody winning.

Accommodating – This is the opposite of competing. The concern for relationship is the important consideration, above and beyond the concern for the task. This means the person will give up what they want in order to keep everyone happy. This approach can be successful when building good will and a positive relationship, but also has its negative side if used inappropriately, as the person accommodating may never have the opportunity to influence or protect his or her interests.

Avoiding – In this approach there is low concern for both task and relationship, and it is characterised by withdrawal or avoiding the issue. Avoiding may be a good strategy if the issue and the relationship are unimportant.

Collaborating – This is the opposite of avoiding and places a high concern on both the achievement of the task and maintaining the relationship. The approach here is to understand the point of view of the other person whilst asserting one's own view and needs. By trying to understand the underlying cause of the conflict, by collaborating a real resolution may be found. However there is a downside in that it requires a great deal of time and effort to really resolve some conflicts – maybe more than is available.

Compromising – Is the fifth middle ground position. This promotes the idea of a quick fix – going fifty-fifty. Each party is prepared to give a little of something in order to get something back.

Compromising is a useful approach if both the task and the relationship are of moderate importance. However an over –emphasis in this as a conflict resolution strategy may lead to game playing and a general dissatisfaction, ad the real underlying issue has not been resolved, it will probably re-emerge in different forms.

To handle conflict well, regardless of the approach selected, it is necessary to first understand the position of all parties involved. By actively listening, it is possible to analyse the real nature of the conflict and use the most appropriate conflict resolution strategies. However, if the nature of the conflict is deep-rooted or has been running for a long time, it might be better to engage the skills of a trained mediator to help the parties reach an agreement as to what the conflict is, and how best to reach resolution.

Often the root of conflict is lack of clarity, which leads to lack of agreement. To avoid unnecessary conflict it can be helpful to develop clear understanding regarding the nature of the work and the standards expected. To make some of these things explicit it helps to write them down. This starts with clarifying the job. The next section examines how to analyse and write down the main components of a job.

Job analysis[26]

Job analysis and competency modelling refer to two related procedures for systematically understanding the work that gets done in an organization. The basic goals of both procedures are to understand what people do, how they do it, and what skills they need to do the work well. In a sense, competency modelling represents one particular approach to job analysis.

The results of the job analysis are used to produce job descriptions. A job description spells out essential job functions, describes the conditions in which the job is performed, and states special training or certification requirements for the job. For

25 Thomas K.W. (1992) 'Conflict and Negotiation Processes in Organisations', In MD Dunnet and LM Lough [Eds] *Handbook of Industrial and Organisational Psychology* (2nd Edition) Vol 3, Palo Alto CA. Consulting Psychologists press pp 651-717.

26 This section is largely adopted from Jackson and Schuler, 2003, op cit

workers, a job description serves as a guide to work behaviour. For managers, a job description serves as a guide to performance appraisal. Job description also creates the basis for the policies or compensation and benefits, and for training and development programmes. In other words, job analysis provides the foundation upon which the whole system of human resource management is built.

Job Analysis is a systematic process of describing and recording information about job behaviours, activities, and worker specifications. Typically, the information described and recorded includes the following:

- purposes of a job;
- major duties or activities required of job holders;
- conditions under which the job is performed; and
- competencies (i.e., skills, knowledge, abilities, and other attributes) that enable and enhance performance in the job.

Most of the job analysis techniques are either task-oriented (more traditional approach) or worker-oriented.

Task-oriented job analysis focuses on what the job involves in terms of activities and outcomes. Such traditional approaches to job analysis such as time and motion studies are task-focused methods of job analysis.

Worker-oriented job analysis focuses on the employee's characteristics required to successfully perform the job. The worker-oriented methods focus on the skills, abilities, personal characteristics, and so on, that workers need to do the job well. Competency modelling is a worker-focused approach to job analysis.

Each of the available job analysis techniques has advantages and disadvantages, and their relevance depends on the purpose of job analysis. For example, if the result of a job analysis is expected to be used to design a new selection procedure, a worker-oriented approach might be the best. At the same time, when managers are designing a training programme, they might prefer to use the result of a task-oriented approach.

Job design

Analysis of jobs and related competencies helps to develop a fit between a person and a job. However, an even more important task of the manager is to make sure that the employees are kept motivated and are constantly given opportunities to further develop their skills and abilities. The function of training and development was discussed above. Here, a number of on-the-job tools that might help to both motivate employees and improve their skills and abilities can be mentioned. These tools are related to job re-design and include individual options (such as job rotation and job enlargement), and group options (such as autonomous, semi-autonomous groups, quality circles). While these tools do not change the job content, they can be quite efficient. However, there are also some even more efficient methods that do change the job content. These methods are defined as job enrichment tools. One of the best examples of these tools is the Job Characteristics Model.

The Job Characteristics Model

The Job Characteristics model (JCM) proposed by Richard Hackman and Greg Oldham in 1976 is a very influential model which attempts to address how a core set of job characteristics impact a number of psychological states, leading to specific related outcomes in the work environment.

The five core job characteristics include: skill variety (SV), task significance (TS), task identity (TI), autonomy (A) and feedback (F). The psychological states included in the model are meaningfulness of work, responsibility for outcomes and knowledge of results. Outcomes consist of high intrinsic motivation, high job performance, high job satisfaction and low absenteeism/turnover.

According to Hackman & Oldham's model (see Box 4.2.1), skill variety, task significance and task identity are used in the work environment to stimulate meaningfulness and produce outcomes of both or either high intrinsic motivation and high job performance. Therefore, if employees feel they are fully utilizing a variety of their skills (SV), their job affects many people to a great extent (TS) and they are allowed to complete the task from beginning to end (TI), it is likely they will perceive the job as meaningful, leading to high job performance and/or high intrinsic motivation. The presence of autonomy in the workforce leads to the psychological state of felt responsibility for outcomes, resulting in high job satisfaction. Thus, if employees are able to determine the method or approach in which the work is accomplished (A) they feel responsible for the end product and are therefore more satisfied with what they have accomplished, less likely to quit (turnover) and also more likely to attend work (low absenteeism). Autonomy is contrasted by being told what to do and the manner in which to do it. The last core job characteristic, feedback produces a psychological state in which employees develop knowledge of their results, producing outcomes similar to autonomy (high job satisfaction, low turnover/absenteeism). In other words, knowing how you are performing and being aware that superiors know how you are performing (F) leads to more job satisfaction, less absenteeism and turnover.

A practical feature of this model relates to the implementation of specific concepts in an attempt to design motivating jobs. This model builds off of the five core job dimensions by assigning certain approaches that may satisfy each. Skill variety is satisfied by the concept of vertical loading or assigning more task variety and responsibility to a job. Task significance is fulfilled by combining tasks or putting smaller tasks together to form larger tasks. Forming natural work units is assigned to task identity for the purpose of making the completion of an entire task feasible. In many instances, tasks within the work force are either too large or complex for one employee to complete individually. Autonomy is established within the work place by allowing individuals to interact directly with customers. Lastly, the provision of open feedback channels allows employees to obtain the level of information necessary to maintain awareness of ones own progress.

Stress and work-life balance

One of the key concerns of a sustainable enterprise is the physical, emotional and psychological well-being of its human resource. As highlighted in Chapter 2, good social impact on its internal society is not only a productivity and competitiveness imperative but a moral and ethical one as well. In this respect, job stress is a major consideration in work organization and job design. With the trends towards network structures, flatter organizations, focus on speed and agility, flexible job tasks, constant restructuring, transient working relationships, etc., job stress is seen to be increasing.

This has been recognized for quite sometime already. According to Bales[27], in 1991, already 46 percent of workers and 70 per cent of managers believe that stress is a huge and growing problem

Box 5.2.1 Job characteristics model

Skill Variety, Task Identity, Task Significance → Meaningfulness of Work → High Intrinsic Motivation/ High Job Performance

Autonomy → Responsibility for Outcomes → High Job Satisfaction, Low Absenteeism/Turnover

Feedback → Knowledge of Results → High Job Satisfaction, Low Absenteeism/Turnover

[27] Bales J. (1991) “Work stress grows but services decline”, *APA monitor*, 22 (11) November p.32

in the workplace. Stress is caused by many different factors and competing demands. Stress in itself is not necessarily a negative thing. It can be stimulating and challenging and sometimes desired to improve performance. It is when a person experiences too much stress for too long a period of time that the symptoms of what are actually ' distress' are recognized.

Stress itself is defined generally as

> *"The body's psychological, emotional and physiological responses to any demand that is perceived as threatening to a person's well being"*[28]

Specifically, as it relates to the job, it is defined as

> *Job stress can be defined as the harmful physical and emotional responses that occur when the requirements of the job do not match the capabilities, resources, or needs of the worker. Job stress can lead to poor health and even injury."*

[Stress at work,
(United States National Institute of Occupational Safety and Health, Cincinnati, 1999.]

Job stress can be caused by a number of job related factors, some of which are shown in Table 4.2.2 below. The presence of these factors is often not recognized. It is therefore essential that everyone in the organization, particularly the managers, is constantly vigilant to make sure that these potential stressors are not insidiously undermining the well being of the employees and the enterprise as a whole.

Table 5.2.2 Factors that lead to job stress[29]

Types of Job Stressors	Examples
Specific work factors	Excessive workload. Tedious or meaningless tasks. Long hours and low pay. Infrequent rest breaks. Unreasonable performance demands
Physical environment	Noise and overcrowding. Poor air quality. Ergonomic problems. Health and safety risks (heavy equipment, toxic chemicals).
Organizational practices	Unclear responsibilities or expectations. Conflicting job demands. Multiple supervisors. Lack of autonomy or participation in decision-making. Inefficient communication patterns. Lack of family-friendly policies.

[28] Bloisi W. (2003) *Management & Organisational Behaviour*, [2nd European edition] McGraw Hill.

Types of Job Stressors	Examples
Workplace change	Fear of layoff. Frequent personnel turnover. Lack of preparation for technological changes. Poor chances for advancement or promotion. Tensions brought about by greater workplace diversity.
Interpersonal relationships	Distant, uncommunicative supervisors. Poor performance from subordinates. Office politics, competition, and other conflicts among staff. Bullying or harassment. Problems caused by excessive time away from family.

Work-life balance

There is increasing recognition that the employees' emotional and psychological well-being and the ability to perform at work are related to not only just the work factors. Today there is a growing appreciation of the need of employees to have a good balance between the demands of work and the demands of life outside of work. Good companies are developing work-life balance strategies, recognising that in order to be effective at work, employees need to have balance in their lives, and that sometimes this balance is affected by the increasing pressure of work. Having a good work-life balance is good not just for the individual but to the organization as well. Thus, in the section on improving its social impact, the enterprise is enjoined to put in place measures that facilitate balance between work, family and other concerns outside work, fully taking into consideration that these work-balance measures meet the need of the enterprise whilst meeting those of its staff.

It means "Employers working constructively with their employees to put in place arrangements, which take into account the needs of the business as well as the non-work aspects of employees' lives".[29] These arrangements may include flexible hours, different types of employment, hours of work, places of work, leave arrangements, and supportive work practices which give employees greater flexibility in how they work in order to balance the demands of their work and life.

Reducing work related factors and promoting work-life balance would necessitate a change in the organizational culture of the enterprise. Just putting-up policies, programmes and mechanisms is not sufficient. Quite often, without the needed behavioural change, these policies and programmes are not fully implemented and the desired practices are not sustained. What is needed is a change in mind-set, a shift that will create the supportive culture that values and believes in the importance of healthy, and work-life balanced workplaces. Along this line, the culture change strategies and approaches discussed in Chapter 3 is worth pursuing.

Following are some useful steps recommended by the Department of Human /resource and Development of Canada for employers and human resources practitioners to follow when looking at introducing work-life practices into an organization[30]. "The model is most applicable to medium and large-sized employers who do not currently have a work-life balance program in place or for employers who want to formalize the steps involved in introducing new work-life balance

[29] Labour Relations, Department of Consumer and Employment Protection Western Australia

[30] Taken from: Department of Human Resources and Development, Canada at http://www.hrsdc.gc.ca/en/lp/spila/wlb/imt/06useful_steps.shtml \ accessed 23 August 2008

practices. Small employers can also use the model however, the process might be less formalized than what is presented below and would not require going through all of the steps.

Step 1: Planning

Review the business and develop a business case for work-life balance - Identify the specific problems and issues that are affecting the efficiency of your business to determine if there is a solid business case for introducing work-life balance into your organization. Examine issues such as absenteeism, accountability, recruitment and retention, productivity and what the benefits might be of introducing work-life balance into your own organization.

Step 2: Assessment

Assess where your organization is at in terms of culture and openness to work-life balance practices and programs. *Determine which specific areas of the organization will benefit from the introduction of work-life balance policies* - Consider how culture, resistance to change, and internal processes might be affected by introducing new work-life balance practices into the organization.

Step 3: Consultation with stakeholders

Determine employees' and other stakeholders' opinions - Find out if current work-life balance practices are working and what sort of work-life balance practices employees want. Consult and communicate with employees and relevant unions, as well as community and government organizations.

Step 4: Development

Establish and develop formal/informal policies - After consulting with employees and deciding on the most appropriate work-life balance practices, develop written policies and tools to support the chosen practices.

Develop tools to assist with Culture Change in order to move beyond policies and programs - Make sure that when you are developing the written policies, that you also develop vehicles and methods to help in implementing the written policies and in facilitating change to the desired culture.

Examine and propose changes and solutions to other organizational processes that might affect culture - For your new policies or programs to be successful and to affect the desired culture, other organizational and human resources processes or procedures might need to be adjusted in order to be consistent with your new work-life balance programs or practices. For example, performance appraisals or evaluations might need to be adapted to place more of a focus on quality of work as opposed to using criteria such as “face time” or “hours worked” in the office.

Step 5: Launch and implementation

Put option/s into practice - Put practices into operation in the workplace. It is crucial to inform employees of the available benefits and fully explain which options have been implemented including the intended outcomes. Ensure senior and middle managers are targeted as part of your communications strategy.

Step 6: Review and evaluation

Review your new work-life balance practices - Consult with employees to determine whether the practices you have implemented are effective and if any adjustments need to be made. Follow-up with employees and managers to determine their level of satisfaction with the new practices or programs and monitor usage regularly to gauge the success of the program”.

5.3 HRM and the trends and challenges of the business environment

The developments in the business environment and the challenges they pose on the enterprise create specific issues that bear on the management of its human resource. Some of these issues are shown in Table 5.3.1 below.

Table 5.3.1 Trends and emerging HRM concerns

TRENDS	HRM ISSUES
Liberalization of markets and heightened competition	HRM for productivity and competitiveness Continuous improvement, change and innovation management
Freer flow of investments	Competitive competencies and skills Competitive labour costs Harmonious labour-management relations
Globalization of manufacturing	International human resource management International labour relations
New forms of enterprises Flexible manufacturing "Lean" organizations	Management of networking relationships Building core competencies Employment security vs. employability security
New forms of work organization Self-managed teams and cells Flat organizations Contract/outsourced work Part-time, temporary, home-work, etc	Flexible work assignments Managing contingent workforce More general job descriptions Multi-skilling Building "sense of loyalty and belonging" among short term employees
Rapid advance of technology Knowledge workers	Developing new competency base Facilitating learning enterprise Continuing training and development
Increasing concerns for social and environmental issues	Good workplace practices Compliance with various labour laws and codes of conduct HRM and environmental management
Maturing workforce Women at work	Flexible work scheduling Re-skilling of aging employees Retirement schemes Benefits and other support systems Family and work-life balance

5.3.1 The changing context of human resource management[31]

The focus and context of human resource management are changing significantly. In part, this reflects the dramatic changes cited in Chapter 1 that began to occur in the 1980s. During this period, the focus of business has shifted from domestic to multinational to global; the speed at which business is conducted has increased; enterprises have adopted leaner and more flexible structures and forms of work organization; demographic changes have resulted in more diverse workforces; and organizations have realized that competitive advantage can be gained by wise management of the human resource. Some of the important implications of these changes on the functions and

[31] This section is draws heavily from Schuler, R.S. and Jakson, S.E., (2007),), "Human Resource Management in Context" in Blancpain, R. and Engels, C. (eds.) Comparative Labour Law and Industrial Relations in Industrialized Market Economies, 9th ed., The Hague: Kluwer Law International 2007

practices of Human Resource Management are further discussed below.

1. Globalization of industry and globalization of the workforce

One of the challenges which face organizations as they globalize their operations is the adaptation of their HRM practices to the new set of cultures in which the organization is operating and the creation of a manner of operation which is both comfortable to the organization and appropriate for those cultures.

Diversity plays an important role in organizations more than ever. As an additional by-product of the globalization of industry, the relevant labour market sectors have broadened to include far reaching areas. Thus, as organizations become global and do business in a greater number of areas, the number and variety of cultures represented in their workforce also changes. Similarly, as pointed out in Chapter 1, labour migration, within as well as across national borders, has made diversity management a major HRM concern.

2. Organizational changes

a) Restructuring and downsizing

As indicated in Chapter 3, the very dynamic business environment necessitates constant restructuring that often involves displacements and downsizing. HRM is central to the change management process involved in socially sensitive restructuring.

b) Mergers and acquisitions

The globalization of operations could involve mergers and acquisition. These M&As will involve the creation of a new entity or the transformation of the surviving company into a new entity. HRM plays a key role in the creation or transformation process.

c) Rapid technological change and innovation

Another changing HRM context is the rapid technological change and innovation in the organizations' products, systems and processes. The rapid introduction of new hard and soft technology in the workplace means that the workforce must constantly be prepared for the changes in technology. Training and development have to pro-active, anticipating the competencies that will be needed in the immediate future. At the same time, the capacity of the human resource to innovate must also be enhanced and nurtured. Knowledge management and the development of a learning organization thus become important elements of the HRM of an enterprise.

d) New forms of work organization and ways of working

Working in empowered teams is getting common and outputs and results are produced through increased collaborative work of individuals or teams of individuals. HRM must create the work environment conducive to the functioning of teams as well as developing the knowledge, skills and attitude to enable employees to work effectively within the team structures.

The rapid development of ICT and its increasingly wide-ranging applications in the world of work also have strong implications on human resource management. They enable new ways of working more efficiently and effectively. However, not only do they require developing new competencies in the workforce, but they also brings-up issues such as keeping privacy and confidentiality.

3. *Outsourcing and off-shoring*

With the increasingly prevalent practice of outsourcing and off-shoring, HRM has to be undertaken within the context of disaggregated value chain, networked enterprise and even virtual enterprise. In addition to managing a workforce distributed spatially, HRM must also deal with managing the increasing proportion of contingent workforce. This challenge is discussed further below.

4. *Legal issues*

Not only must HRM now contend with the plethora of employment and labour legislations in the various countries where it has business interest, it has to also keep abreast of the changes in the legal and regulatory environment. The liberalization and deregulation of the economies and sectors require that corresponding changes in the employment legislations must also be formulated. In the same vein, although not exactly of legal nature, the enterprise must also be cognizant and responsive to the economic, social and environmental concerns voiced by civil societies and cause oriented groups.

5. *Corporate Social Responsibility and sustainable enterprise*

Another important development that has major influence on HRM is the growing importance of CSR and enterprise sustainability concerns. As highlighted in Chapters 1 and 2, enterprises are increasingly expected by their stakeholders to be ethical in all its business dealings and operations, and be ecologically and socially responsible as they pursue strategies to achieve superior financial and economic performance. Thus, HRM in all its aspects and functions, -from its strategic management functions, organization and job design, recruitment and selection, training and development, compensation and benefits, to performance management- must factor in how to meet these CSR and sustainability expectations.

5.3.2 Managing quantitative and qualitative flexibility in the workforce

Enterprises now often aim to have numerical and functional labour flexibility in their operations in order to achieve flexibility, agility and responsiveness to the dynamic demands of the market, volume-wise, product complexity-wise and location-wise. To attain numerical flexibility, the number of workers and the number of hours worked are adjusted to the needs of the production process through outsourcing work, labour-contracting through manpower agencies, engaging self-employed workers and free-lance specialists. To have functional flexibility, enterprises enlarge the number of tasks attached to a job and build multi-skilling among the more permanent employees. A core-periphery structure could therefore develop where an enterprise workforce is made of the multi-skilled employees with more permanent employment who are performing enlarged multi-tasked jobs, and periphery made-up of contingent workforce engaged temporarily to meet increased volume of demand or perform specialized temporary assignments.

Managing flexible workforce present the HRM with particular challenges.[32] The temporary employment relationships make it difficult to socialize the temporary employee into the enterprise's culture and norms. Management therefore has to rely on formal and explicit rules at the same time that it aims for flexibility The more such commitment and internalization of culture is considered to be essential –be it directly or indirectly- for the market performance of the firm, the more disadvantageous the pursuit of numerical flexibility is.

Functional flexibility through multi-skilling and enlargement of functions on the other hand, could result in stress and the loss of motivation and commitment of core employees. While on the other hand, job enlargement and tasks variety could provide employees with more sense of accomplishment and increased job satisfaction, they could also result in resentments due to feelings of exploitation, over-loading and dehumanisation.

[32] Bax, E.H. (1996), Globalization and the flexibility of labour: A new challenge to human resource management, Research Institute, Systems, Organization and Management, University of Groningen, the Netherlands.

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