Understanding systems will ease HR pressure

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The Australian Government's Work Choices legislation in 2006 pushed industrial relations to the forefront of the HR agenda. There was a huge challenge for HR to determine how to conduct industrial relations in their organisation under this new framework.

With the election of the Labor Party to government in November 2007, the death of Work Choices has been proclaimed. But it is best not to move on too quickly, until the lessons of this period have been digested.

At the same time as a new industrial regime was declared, HR was faced with many other pressures, such as skills shortages, employee retention and talent management. It was a good time to take stock of the factors that HR practitioners have to consider if they are to play an effective, value-adding role in their organisation.

What makes a good (HR) manager?

A good manager can be defined as someone who is aware of the multitude of pressures and expectations upon them, and who can resolve those pressures in the most constructive way. In comparison, a poor manager merely transmits pressure, without transforming it in any way. For example, if their boss tells them to increase production, they simply impose the new requirement on their team, without examining how it is going to be possible, or what difficulties it might cause. Such a manager adds very little value to the organisation.

Good HR managers are conscious of the need to add value in their role. They can do this by understanding who all the stakeholders are, and the variety of pressures at play. A constructive course of action is one that takes into account all of the pressures that bear upon the situation and seeks to transform those pressures. The goal is to create an organisational environment that is sustainable.

In the early days of the Work Choices era, a number of employers focused on one aspect of the organisation's functioning – pay and conditions of workers. They thought that cutting staff costs was a simple route to improved business or profits. Companies sacked staff without notice, sacked staff and "invited" them back on lower pay and conditions. In many cases, staff were asked (required) to trade off penalty rates for little or no compensation.

A systems perspective

The HR perspective is systems-based. It says that an action in one area has effects elsewhere in the system. In the examples above, if an employer cuts pay and conditions, the HR practitioner asks, what effects is this likely to have, other than lower payroll costs? Will profits really be boosted? Given a knowledge of people and their motivations, the HR practitioner can say the outcome is much more likely to be negative.

The systems view tells the HR practitioner that there are many factors at work in the workplace, and any actions upon the system (pay cuts, forced redundancies) have effects that can show up elsewhere. The effect of the pay cuts may be increased staff turnover, higher absenteeism, lower productivity and lower sales. The concept of sustainability is tied to the systems view – it says that if an organisation wants to survive and prosper, it must understand how its "system" works.

At the heart of any organisation as a system are three major areas: (1) people and their motivations, (2) the business (production, marketing, finances) and (3) legal, industrial and social constraints (involving compliance and reputation). It is increasingly being accepted among HR practitioners that if they are serious about their role, they must learn about the business and understand its drivers. It is the other two aspects that are discussed here.

People and motivation

One of the ironies of the HR role is that practitioners are always under pressure to demonstrate that HR policies and programs will deliver a positive return on investment. Yet, the research evidence for listening to employees and taking their motivations into account is overwhelming, and many companies are still not heeding the message.

David Maister (*Practice What You Preach*) has compared the HR practices of companies with high financial performance with those of low-performing companies. He found that the high-performing companies all scored highly on employee satisfaction and morale.

Towers Perrin conducted a global survey on employee engagement in 2005 with 85,000 respondents (*Winning Strategies for a Global Workforce*). It found that only 14% of employees are fully engaged on the job and are willing to "go the extra mile" for their employers. It suggested that this is a major challenge for organisations that seek to be competitive.

David Sirota (*The Enthusiastic Employee*), who has investigated employee engagement and morale for over 30 years, looked at company stock market performance against measures of morale. He found that companies with high employee morale outperformed their industry counterparts by an average of 20%. He found strong links between employee satisfaction, customer satisfaction, customer retention and size of spend, and company profits.

Sirota maintains that employee motivation can be understood on the basis of three factors:

- Equity, which means being treated fairly and justly in relation to the basic conditions of employment – benefits, pay, and safety on the job.

- Achievement, which can be described as wanting to feel proud of what you do at work and of the employer for whom you do it. It includes being recognised for your efforts too.

- Camaraderie, which is the social aspect of people. They like to have productive interaction and cooperative working relationships with their co-workers.

Sirota also says that people are not greedy or unreasonable about any of these factors. They want to be treated fairly and they know what fairness is. All three factors – equity, sense of achievement and camaraderie – are essential if employee satisfaction is to be generated and sustained.

In considering people and motivation, the HR manager also has to consider the broader business environment. The issues that are currently in the public eye are demographic changes in the labour market, the ageing work population, looming skills shortages, and the need to manage younger workers in a way that fosters retention of talent.

It is not possible to deal effectively with any of these issues without a clear understanding of people and motivation. The different perspectives of aged workers contemplating retirement and young workers entering the workforce need to be understood. This will drive HR programs – for example, will coaching help to retain staff, is mentoring an option, would flexible working arrangements help to relieve stress on employees' work/life balance?

Legal, industrial and social constraints

HR practitioners are generally expected to advise their organisations on their legal obligations and risks. There is a complex array of legislation that affects employers. HR practitioners need to know both the principles involved in the laws, and the technical aspects of their application.

Beyond this, HR practitioners need to be clear about their own values and whether they align with those of the organisation. Under Work Choices, HR practitioners may be caught up in legal arguments about whether or not the law applies to the organisation, and the consequences can be significant for the various stakeholders. Two examples that illustrate the dilemmas that HR may face are as follows.

A juice bar forced a young employee onto an Australian Workplace Agreement at lower pay. When the Office of Workplace Services (OWS) investigated, it laid charges against the employer for underpayment of wages. The employer faces numerous possible fines of $33,000 apiece. The employer made the statement, "It's not about what's fair, it's about what's right for the company".

A manufacturer of cables for Australian and international markets sacked nine workers after the commencement of the Work Choices legislation. Its reason was merely that their "services were no longer required". When the union made an application for unfair dismissal, the employer argued, successfully, that its workforce was less than 100, so that the unfair dismissal provisions of Work Choices did not apply.

There are two issues for an HR practitioner in these situations:

- Did they know what the law was and advise the employer correctly? (and it may be quite a technical exercise to determine how the law applies)
- Do they agree with the intent of the employer?

The first issue is about the HR practitioner's legal and industrial knowledge, and their understanding of the intent of the legislation. The second issue is about values – do they advocate for values of fairness to the workforce? How far do they go in advocating for fairness?

The legal risks of the employer (and some risks might "pay off" in the short term) are not disconnected from the people and motivational aspects. The systems perspective says that the employers' conduct in the above cases will have an impact on their employees. An understanding of people would suggest that motivation, satisfaction, performance and retention will be adversely affected.

Extending outside the organisation

For astute HR practitioners, the people aspects also extend to the world outside the organisation. Most organisations depend to some extent on their reputation. Legal constraints are one form of external approval and disapproval, but there is also the question of how the public receives the actions of employers. The public includes customers and potential employees.

The systems view of HR crosses the organisation's borders, because the HR practitioner knows that the success of the organisation depends on a healthy set of relationships with external stakeholders as well as healthy internal relationships. The studies cited above make the same point, and an illustration of that is how well an organisation can attract talented job applicants.

HR practitioners have to assist managers to see the connections between parts. The actions of an organisation in managing its people have an effect on the productivity of the workforce and the talent it can attract. HR practitioners need to know the technicalities of law and be able to inform management about what the legal effects of their actions are, but they need to go further. They need to educate their managers in what is required to manage people in a consistent, constructive and sustainable way – and get them to know that the success of the organisation depends on this.

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