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Evidence Based HRM: What (do) we know about people in workplaces

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Evidence Based HRM

*What (do) we know about people
in workplaces?*

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Brigitte Kroon

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What (do) we know about people in workplaces?

by Brigitte Kroon

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PREFACE



Preface

Without people getting up in the morning and going to their offices and workplaces, opening their laptops, talking to customers, taking care of patients and students, design products, negotiating sales or booking transactions, nothing much will happen in organizations. Universities, government institutions, hospitals, stores, offices and factories all depend on the daily work activities of people who are able to educate, design policies, care, do business or manufacture products. The effectiveness with which people do their work is therefore an important resource for organizations. Human resource management concerns all activities aimed at managing people who work for organizations, to ensure that all their actions align with the goals of the organization, in such a way that it suits the organization's context and by considering employee outcomes. This is a challenging task, because unlike materials, machines, money and buildings, people can think, reflect and act. Individuals will not go to work and spend their valuable time and energy if there were nothing in it for them. They work because they have an understanding with the organization about the reimbursements in return for their contribution. These can take the form of salaries, but also of intangible rewards like a challenging job, friendly colleagues and a healthy balance between work and home activities. Human resource management is the art of balancing the need of organizations for good performance with the interests of employees, such that organizations perform well and individuals are happy to contribute.

This book takes the stand that human resource management is an activity that is performed by everyone in an organization who is confronted with situations that ask for directing people who contribute to the organization. Common human resource questions in the everyday operation of organizations are for example how to make people work together, how to find the best person for the job, how to use rewards to motivate people, how to make sure that knowledge is secured, or how to change organizations to enhance innovation. There is no standard recipe to provide ready answers to such questions, because each situation has different requirements and there is always a choice of solutions. However, not all solutions are equally effective.

Over the years, scientists have published a considerable stock of research evidence on more and less effective human resource management activities. Research indicating effective and less effective interventions is useful because it can provide answers to questions about managing people. Given the importance of people management for organizations, one would expect that managers who look for answers to their people management questions would look into this stock of research evidence. However, the opposite appears to be true – the worlds of human resource management practice and scientific research seem to exist in parallel...

An investigation on the knowledge of HR professionals and managers about research findings on effective human resource management showed that on average 50% of the evidence was agreed upon (Colbert, Rynes, & Brown, 2005; Rynes, Colbert, & Brown, 2002). This implies that the evidence of another 50% of findings was believed to be ‘false’ (while it is true!) and therefore not used in organizations, which potentially costs organizations performance and makes employees unhappy. A bit more use of scientific knowledge on evidence for human resource management practices, can improve the financial performance of organizations as well as employee well-being (Van De Voorde, Paauwe, & Van Veldhoven, 2012).

However, the science – practitioner gap exists for a reason. Finding the right research evidence can be a tremendous task. So much research is published in so many different journals, that it is difficult to decide where to begin. Moreover, reading research articles is not as easy as an average management book. Research articles are written for an audience of scientists rather than practitioners. Practitioners simply lack the time and energy to keep up with all the research on effective people management. The good news is that practitioners do not need to keep track of all research; if they use a clever strategy to look up research evidence if they have a challenging people-related problem, for which they can do a just-in-time, specific search for research evidence. All they need is an open attitude to research evidence and a method to find it and tailor it to practice.

Evidence-based management proposes a method to bridge the gap between research and practice (Rynes, Rousseau, & Barends, 2014). The method proposes that practitioners consciously phrase a question about a people-related problem they face, and find information about this issue within the organization as well as in research literature before coming up with an intervention to deal with the issue. The method is easy enough to understand. It is a decision-making procedure with a number of clear steps. The crucial step is combining insights from the organization itself with the findings of a research literature search. However, to understand and find relevant research evidence, practitioners need to have some basic understanding of the key human resource management topics, theories and research domains.

That is exactly why this book was written: to provide undergraduate students with an overview of the key theories used by scholars to research employment relationships; so that they can understand key research findings and practice evidence-based human resource management. After reading the book, prospective practitioners (now students) have the intellectual luggage needed to use research evidence for people-related issues in their jobs and organizations.

Aim and scope of the book

The aim of the book is to provide an introduction to the core theories that inform human resource management research, in order to facilitate the understanding of contemporary research evidence for effective human resource management activities. The most important disciplines that inform human resource management research are economics, sociology and psychology (Molloy, Ployhart, & Wright, 2011). The disciplines find their application in different types of research questions.

For example, theories that originate from economics are predominantly employed in questions that involve the relationship between *human resource management and organizational performance*. For instance, does it pay off to invest in people, or is it wiser to reduce employee-related costs to increase profitability? How can organizations reap the benefits of the knowledge of individual workers? In such questions, the focus is on improving the effectiveness of the organization by using the skills, knowledge and motivation of employees. In research in the economics domain, human resource management is a means to an end for organizations to meet their objectives.

The sociological discipline appears when questions touch upon which human resource management activities are acceptable in order to survive as an organization. What is allowed in managing people, considering employment law and regulations? What is acceptable in the eyes of prospective employees, customers, and society? Such questions arise because organizations do not operate in isolation, but are themselves part of larger societal constellations. Organizations are social systems in which different groups of stakeholders (shareholders, managers, manual workers, professionals, customers, government, and politics) hold diverse interests in what the organization contributes to them. These interests do not always align and stakeholders may argue about what the organization should do. Human resource management activities happen amidst these disputes. Consider for example the determination of pay, for which the outcome depends on the negotiating power of individuals, the financial means of the organization, pay levels at employers who compete to hire the same employees, agreements with labor unions and directions following from labor law. Such dynamics between diverse stakeholders in the *organizational context* influence what happens within organizations. To be effective, organizations need to balance their human resource management activities with the context in which they operate.

Finally, the psychological discipline is dominant in all questions involving the consequences of work for employees. What makes work satisfactory? Why do stress and burnout happen? What are the consequences of employee perceptions of their employer for their motivation? Psychological theories provide insight into the *employee's perspective*, by zooming in on conditions for happiness, wealth, health

and personal well-being of employees. Here, human resource management is less a means to an end for organizational performance. Instead, in this discipline, the goal of human resource management is the means itself: the well-being of the employee and not the human resource.

No doubt, all three disciplines and their questions are related to each other. You will see psychological theories about motivation used in economic studies that concentrate on organizational performance. Sociological theories explain why discrimination may happen in organizations, and psychological theories shed light on the detrimental individual consequences of being discriminated against. If you read human resource management research articles, you will notice that a multidisciplinary approach – the use of theories from different disciplines – is very common. Recognizing the disciplines and having a good understanding of the core theories in each discipline is the starting point for becoming an evidence-based practitioner. This book aims to introduce students to these theories.

The selection of core theories in the book resulted from discussions with renowned human resource management scholars about the question: which theories would you like students to know before they participate in your Master's level courses? To reduce the number of candidate theories following from these discussions, the author followed up each suggested theory with a bibliographic search. Only well-researched theories made the selection presented in this textbook. Where possible, the selection was validated against published bibliographic analyses about the most used theories. For example, Kaše, Paauwe and Batistič (2014) analyzed all research publications about the relationship between human resource management and organizational performance to find out who cites whom. The resulting web with connections between all publications shows that some publications are cited in almost all research. These are the publications containing the core theories in this domain. The description of the core theories in the book explains the origins and key logic of those theories. This book refrains from going in depth about the latest additions to the theory, because understanding the basics and the background of a theory will make it easier to understand how it is used today.

In addition to describing the theories, the book also aims to illustrate the research evidence for the theories and to provide examples of the use of the theory in human resource management in practice. These are presented in separate sections at the end of each chapter, which facilitates a practical use of the book as will be explained below. In the selection of research evidence, the book follows the logic of evidence-based human resource management: show reliable evidence. Research findings are more reliable when these are repeated in multiple studies. The presentation of research evidence therefore relies on publications such as meta-analyses and systematic reviews. Each chapter is concluded with a human resource management practice Section providing examples of activities in organizations that use the

insights from theory and research to benefit organizations and the people working in them.

A business case and study questions at the end of each part of the book will help students to understand the theories presented in the chapters as input for their own evidence-based human resource management projects.

Overview of the chapters

The book chapters are divided into four parts. Part one comprises an introduction to and an example of evidence-based human resource management. Part two dives into the economic domain by looking at the business case for investing in human resource management. What do theories and research tell us about the relationship between human resource management and various aspects of organizational performance? The third part explicates how the context of organizations matters for human resource management. And the central topic of the final part is the employee perspective.

Part I: Evidence-based human resource management

The *Evidence-based human resource management* chapter describes how the dissatisfaction of both scholars and practitioners has led to the rise of methods aimed at bridging the gap between research evidence and organizational practice. It introduces students to the essence of research methods by applying each step of the method to a real-life business case.

Part II: The business case for human resource management

When managers are ‘making a business case’ it means they want to show that investments will lead to improved organizational performance. The business case for human resource management implies that investing in people will enhance organizational performance. But does it really? The three chapters in this part of the book present the theories and research evidence for the relationship between investing in people and various aspects of organizational performance, such as gaining a competitive advantage, achieving sound financial results and effectively responding to change. The first chapter - *Investing in people and business performance* – describes how the view on employees has changed from a cost perspective to a resource perspective. The chapter about *Knowledge management* shows the importance of knowledge for organizational performance and illustrates how knowledge can be developed and used. The final chapter in this part is about *Performance under conditions of change*, and illustrates what managers can do to adjust their organizations to changing demands while ensuring employee performance.

Part III: Human resource management in context

This part positions the organization in its broader context by zooming in on three aspects: the labor market, employment relations and diversity. The chapter entitled *War for talent* shows how shortages on the labor market, especially for higher educated professionals, have forced organizations to fiercely compete for the most talented employees. The chapter on the *Power of workers* describes how terms and conditions for work, such as salaries, result from the divergent interests of employees and employers. Finally, the chapter on *Diversity and inclusion* pays attention to changes in the composition of the labor market and the consequences of an increasingly diverse workforce in terms of age, gender, race, and (dis)ability for human resource management.

Part IV: The employee perspective

This final part places the emphasis on the consequences of human resource management for employees. The chapter entitled *Decent work* focuses on the meaning of employment for individuals for their life and well-being. It touches upon the ethical and employee health-related aspects of human resource management.

How to use the book?

The design of the chapters in each part of the book is organized in such a way that it facilitates students to apprehend the theories and to understand how these can be used to conduct evidence-based human resource management.

At the beginning of each chapter you find an overview of the *core theories* in the chapter. These are described in detail in the theory section of the paper. *Key words* in the text (in italics) indicate a theoretical concept and its definition. The use of research evidence depends on a clear understanding of the meaning of concepts. Students are encouraged to take notice of the precise definitions of concepts. It is also wise to take notice of specific *authors* who developed a particular theory. The knowledge of theories in combination with their key concepts, definitions and founding author(s) will prove helpful in finding and translating external research evidence to local organizational issues.

The second part of each chapter provides a synopsis of the *research evidence* for the theories presented in the first half of the chapter. Students are advised to read the chapter on *Evidence-based human resource management* to understand the methodological concepts (meta-analyses, validity, reliability) that are used to explain the value of the research presented. When performing their own project on evidence-based human resource management, students can easily look up relevant meta-analyses already collected to this end.

The third part of each chapter illustrates the relevance of the theory and research evidence for *human resource management practices* in organizations. These are not ‘best practices’ that should all be implemented in all organizations. Evidence-based human resource management promotes that practitioners weigh the situation in their organization against the available research evidence before implementing an activity or a policy in an organization. Some of the presented practices are common, while others are more peculiar to specific types of organizations. Students are encouraged to translate the research evidence into practice by combining it with information obtained in organizations and adjust the practices such that the chances for results are best. The presentation of human resource practices in each chapter is illustrative rather than comprehensive.

Finally, the *summary* presented at the end of each chapter highlights the core theories, research evidence and practices that were dealt with in the chapter.

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A final word

Twice in my career, I crossed the divide between human resource management research and practice. After graduation, I worked for ten years as a human resource management professional before I started my career as a researcher and teacher at Tilburg University. I have seen the gap at both ends. In my first job, I experienced how line managers were struggling with their employees and how executive managers

PREFACE

were sensitive to doubtful advice provided by expensive consultants. I started wondering how the things I learned in university about participation, motivation and employee development could be translated into practice more effectively. When I followed my hopes for more analytical depth in my work and found employment at the university, I sometimes found myself wondering why some of the great research performed by colleagues did not find its way to organizational practice. This experience cumulated in a dream to increase the awareness of evidence-based human resource management in as many people as possible: students, managers and scholars. I hope this book will contribute to improved decision-making about people-related issues in organizations.

Good luck studying!

Dr. Brigitte Kroon, 2021

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PART 1

EVIDENCE-BASED HRM



CHAPTER 1

EVIDENCE-BASED HRM

Chapter in brief

How can practitioners learn from organizational problems related to people in the workplace and systematically use the best research evidence in the field of human resource management, in order to develop effective HR policies and practices in their organizations?

Key theories:

- Evidence-based management
- Decision-making as bounded rationality

The Evidence-based HRM process:

- Understanding a problem
- Formulating a question
- Local and external evidence
- Evaluating evidence: Validity, reliability and generalizability
- Generating alternative solutions
- Considerations for implementation
- Evaluation

Introduction

Many of the problems and challenges that organizations face, involve people in workplaces. The performance, effort, ideas, and collaboration of people in organizations contribute to achieving organizational goals. Work matters for individuals as it provides meaning, satisfaction and income to support their lives and those they care for. Work and organizations contribute to the wealth of communities and the national economy. People who work in organizations can think, act and feel. They are not machines, but they make choices about every aspect of work behavior. The attitudes and behavior of people in workplaces may also cause headaches in organizations: resistance to change, demotivation, a lack of skilled employees, authoritarian supervisors and power politics can hinder productive and happy workplaces. All kinds of people-related issues need attention to keep organizations on track to meet their goals. The continuous change of societies, industries and organizations poses additional challenges to managing people. Managing people in workplaces is never complete, as there will continuously be new challenges and solutions to deal with. Decision processes about large and small interventions to keep organizations socially on track are at the center of this chapter. In particular, it explicates a process that leads to *effective*, evidence-based decisions about HR activities to solve and direct people-related issues in organizations.

The topic of interest for evidence-based HR activities is the *employment relationship*. This is an exchange relationship between an employee and an organization in which employees provide labor and employers reward employees for their contribution. Employment relations commence after a negotiated exchange between employees and employers that involves an employment contract as well as a less clearly defined social relational agreement. The nature of the exchange is influenced by the *context* of employment relations, which consists of organizational goals, peer and team processes, labor market dynamics, global competition, legislation, power relations, and a society's culture, politics and wealth (Johns, 2006). These all influence employment relations in an ongoing dynamic interaction, which can become quite complex to manage. *Human resource management* is the sum of all strategy, policy, procedures and day-to-day acts that together aim to guide employment relations in organizations towards the goals of organizations, while ensuring alignment with various contextual conditions such as organization characteristics, industry dynamics, competition, labor markets, legal and institutional settings, and societal dynamics (Jackson, Schuler, & Jiang, 2014). Zooming in, human resource management is made up of distinct human resource practices. *Human resource (HR) practices* are all the policies and procedures *used* for managing employment relations. The emphasis of the word 'use' accentuates that an HR practice is more than a written policy – it is what people in workplaces experience. HR practices are not the sole domain of the human resource management department. Managers,

teams, project leaders and employees themselves all initiate, use and change HR practices. They can all be decision-makers in the choice to use an HR practice. All of these users will benefit from knowledge about effective HR practices for people in workplaces.

There is a large number of distinct HR practices with different purposes. Figure 1 gives an overview of HR practices along three stages of the employment relationship: entry, work and transition. In the entry phase, people develop from being an outsider to a member of an organization. After engaging in the employment relation, a period of productive work commences. Finally, at some point, the employment relationship may change or end, due to transitions in organizations, careers or life stages. HR practices usually serve to realize more specific outcomes compared to the entire human resource management system. Performance issues, diversity, labor shortages, organizational change and innovation are just some of the more specific domains that can strategically improve with targeted HR practices, as will be illustrated in the next chapters. For each outcome, there is a choice of HR practices that can all have some effect. The question is which practice to choose.

Consider, for example, recruitment, the domain of HR practices aimed at creating a pool of qualified applicants from which an organization can select their employees. Recruitment involves choices about who to recruit, where to recruit and how to recruit (Breugh, 2013). Does the organization aim to recruit graduates or experienced professionals? At which educational levels? Locally, nationally, or globally? Via word-of-mouth, campus tours, or by using internet analytics? These are just a few examples of choices that should lead to finding qualified candidates who want to work in the organization. Factors like characteristics of the job, job requirements, budgets, norms and expectations of recruits about professions and organizations all influence and constrain choices about recruitment practices. The more decision-makers understand the recruitment aims, the means and characteristics of the organization and its context, and the effectiveness of various recruitment tools, the better these choices will be, thus resulting in a recruitment approach that will bring a good quality pool of applicants.

Of course, recruitment is just one example, and similar questions can be asked in the choice of any HR practice displayed in Figure 1. Choice, however, is not always the outcome of a rational decision-making process. Rational decision-making means considering all information and weighing it according to some criteria before taking a decision. Due to the involvement of different actors who sometimes have conflicting interest in the HR practice, power and organizational politics, and simply because it is impossible to have all the information to make a good decision, the choice for HR practices is one of bounded rationality; an effort to the best decision given an imperfect understanding of reality (Sahakian, 2020).

Bounded rationality is a fact, but there are strategies to add more rationality to decision-making. Unfortunately, decision-makers often neglect these strategies or are just not aware of them. In the rush of day-to-day business, decision-makers often solve problems in a haphazard way. Imagine that some superior raises a people-related problem (We have serious budget problems! Our talented staff are leaving! Our competition is innovating, and we are losing our customers!), and calls for immediate action. The superior may immediately suggest an intervention to quickly solve the problem. However, such quick-fix decisions are likely to produce HR practices based on personal experience, outdated management theories and management fads, for which it is not evident that they are really effective in solving the problem (Briner, 2007). Although the benefit of a quick solution is that it shows that someone is willing to take immediate action, there are also severe risks to the use of quick fixes.

The risks begin the moment a problem is noticed. The first step, exploring the problem and seeing what is truly the matter, is ignored in the rush to solve the problem. The risk of skipping this step, is that the choice of HR practices may not really tackle the underlying issue. Instead of solving a problem, quick fixes often lead to new problems that need a new quick fix and so on. To prevent quick fixes and be able to suggest more sustainable interventions, decision-makers should ask questions like ‘What is the underlying problem?’, ‘What are the affected outcomes?’ or ‘Which data was used to inform us about the size of the issue?’ Such questions will lead to knowledge that is needed to compare alternative solutions. Hence, quick-fixes are risky decisions that can do as much harm as doing nothing at all (Briner, 2014). Even worse, in the rush of solving the next issue, a quick fix is seldom evaluated for its benefits, thus increasing the risk that the same faulty solution will be recycled a next time.

This book advocates the practice of evidence-based HRM as a method to support decision-making for effective HR practices by taking a better look at the problem and its causes and by taking the context of a problem and the actors involved in it into account. It is a decision-making process that starts with identifying a problem and making an effort to understand the problem and its underlying causes in the work context. Then it entails finding evidence about effective HR practices for such questions from theory, research and experts. By combining these sources of knowledge, an HR practice can be chosen and tailored to ensure that the problem is fixed in a viable manner. Evidence-based HRM proposes a method to take decisions in a more rational way, while simultaneously recognizing the importance of accounting for power and politics in organizations.

The structure of the remainder of the chapter is as follows. First, the background of evidence-based HRM theory is explained, followed by an explanation of all elements of an evidence-based HRM decision-making process. The process is illustrated by

a hands-on example concerning the development of HR practices to ensure equal pay for equal work in a public government organization.

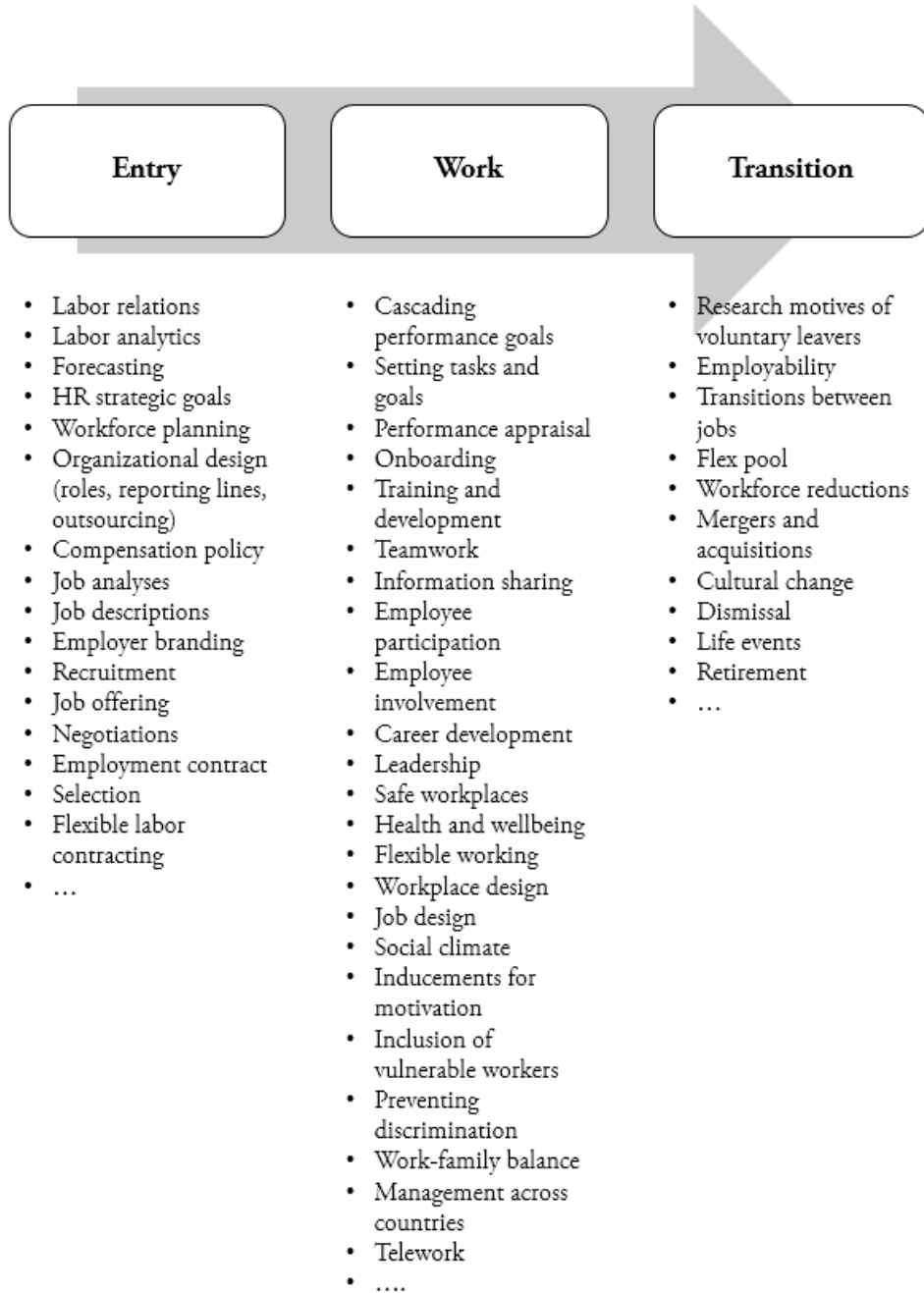


Figure 1: Scoping HR practices on employment relationship phases

Theory

The origins of evidence-based management

Evidence-based management advocates that practitioners do some research into the nature of a problem, gather information from different sources within the organization and from experts and research sources before they suggest an intervention (Barends, Rousseau, & Briner, 2014). This call for using insights from scientific evidence by practitioners in organizational practice is not new. For decades, scientists have been blaming practitioners for ‘not using research insights in practice’ (Rynes, Colbert, & Brown, 2002) and, in reply, practitioners blame academics for ‘producing tons of research findings that are too hard to find and too far away from the daily needs of practitioners anyway’ (Jeffrey & Sutton, 2006). Blaming each other does not solve the dispute, and therefore the emphasis shifted towards strategies to close the gap between practice and research.

One strategy is that researchers make more of an effort to explicate the practical implications of their findings and to make these available for practitioners. Most scientific journals nowadays ask researchers to do so. Many research articles have a dedicated paragraph or box called ‘practical implications’ for practitioners. Another beneficial development is ‘open science’, which makes research publications easier to access for people outside academia. The past years have witnessed a tremendous increase in open access publications. In principle, research findings are available as a source of knowledge to make better decisions.

Another strategy to bridge the science-practitioner gap is co-creation. A scientific study in which practitioners are closely involved in the design and execution of the research in their work contexts leads to learning on both sides. Practitioners learn about the value of research findings, and researchers learn about the scope of practical implications (Rynes & Bartunek, 2017). This situation is still exceptional, and usually practitioners will need to find their way to scientific evidence on their own initiative. This may be challenging because there is an abundance of information that tends to be very technical and difficult to read, even despite all the initiatives to open up science for practice.

Evidence-based management developed because of the persistence of the research-practice gap. It took the debate one step further by actively helping practitioners find and use scientific evidence. Before explaining how evidence-based management can serve in this regard, its origins will be explained first. The roots of evidence-based management lie in the development of evidence-based medicine, which began a few decades earlier. The need for evidence-based medicine was called for by both patients and medical professionals. Patients expect that their medical staff always apply the most recent research findings to treat their illness. However, medical staff

lacks the time to continuously keep up with all research findings. Even if doctors and nurses would find time to look for the latest research evidence on treatments, chances are that they become overwhelmed by the amount of insights produced by researchers. There is so much research evidence that it is difficult to find the right information for every question. Relying on a ‘quick-fix’, e.g. a treatment that worked ten years ago, is tempting. Luckily, physicians have sworn a medical oath in which they promised to keep their medical knowledge up to date. The connection between science and practice in medicine has always been strong, which explains why the concern about finding and using evidence is prominent here.

In the 90s, the Cochrane Institute developed a systematic approach for comparing research findings. The institute produces overviews of research evidence in an accessible way, so that medical staff can easily find the evidence of the most effective treatments for all kinds of health issues. Today, medical staff use the Cochrane library to gain easier and faster access to the best scientific evidence for treatments. In this way, the faith of patients in that their physicians use the most effective treatments to cure patients remains justified.

The use of research evidence by managers to inform management decisions is much less common than it is for medical staff. Nonetheless, applying research findings to organizations could lead to better ‘cures’ as well. However, comparable to the situation of medical staff, managers’ time is limited and often managers do not know where to look for the right advice needed in particular situations. Therefore, similar to the Cochrane Institute the ‘Center for Evidence-based Management’ was founded in 2010 to make management decisions more evidence-based (Center for Evidence-based Management, 2010).

Although the mission of both institutes concerns the access and dissemination of research evidence to practitioners, to date the awareness and use of the Cochrane library amongst medical professionals is much wider than the awareness and use among managers of research evidence collected and disseminated by the ‘Center for Evidence-based Management’. One cause could be that unlike medical staff, managers have not taken an ‘oath’ to practice up-to date knowledge. Therefore, it may happen that managers rely on knowledge they obtained at college in the 1980s, and never seriously updated it afterwards. Nevertheless, since the field of evidence-based management is newer, it may just take a bit more time before practicing evidence-based management becomes part of the professional management culture. Training students and practitioners in evidence-based management principles and processes is a first step (Rynes, Rousseau, & Barends, 2014).

Evidence-based HRM is a specification of evidence-based management principles to the domain of employment relationships. It is a conscientious, explicit, and judicious decision-making process to address important people-related issues in organizations by combining the best available research evidence with measurable

data and professional knowledge available in organizations (Rousseau, 2006; Sackett, Rosenberg, Muir Gray, Haynes, & Richardson, 1996). Core elements in this definition of EBHRM are, based on Briner et al. (2009, p. 19):

1. It is about decision-making by practitioners who consciously apply their expertise and judgment;
2. they use evidence from the local context to which the decision applies;
3. they critically evaluate the best available external research evidence;
4. and they take perspectives of people who might be affected by the decision into account.

This means that evidence-based HRM is not about ‘applying best practice’. Best practice assumes that there is one best way of doing HR in all organizations (Delery & Doty, 1996). However, where equally effective HR practices are available to solve a problem, practitioners may evaluate the use of each alternative in light of means and requirements of the organization in question. For example, paying high rewards to motivate employees is not affordable for small business owners. However, the short communication lines in smaller organizations provide many other advantages to easily build a culture of trust and involvement that also motivates employees (Drummond & Stone, 2007). Hence, specific organizational characteristics (financial means, organization structure, the type of work) should lead to the selection of specific practices. It is also not about ‘benchmarking’, which essentially holds that practices are compared between organizations. Benchmarking leads to copying HR practices from successful competitors, without much consideration for the precise needs of the organization (Paauwe & Boselie, 2005). In practicing evidence-based HRM, practitioners evaluate a variety of options to solve specific problems in a specific context by taking research evidence and the organizational context into account.

Figure 2 visualizes the steps in an evidence-based HRM decision-making process. The following sections will explain decision-making theory and subsequently elaborate on the steps in the model in more detail.

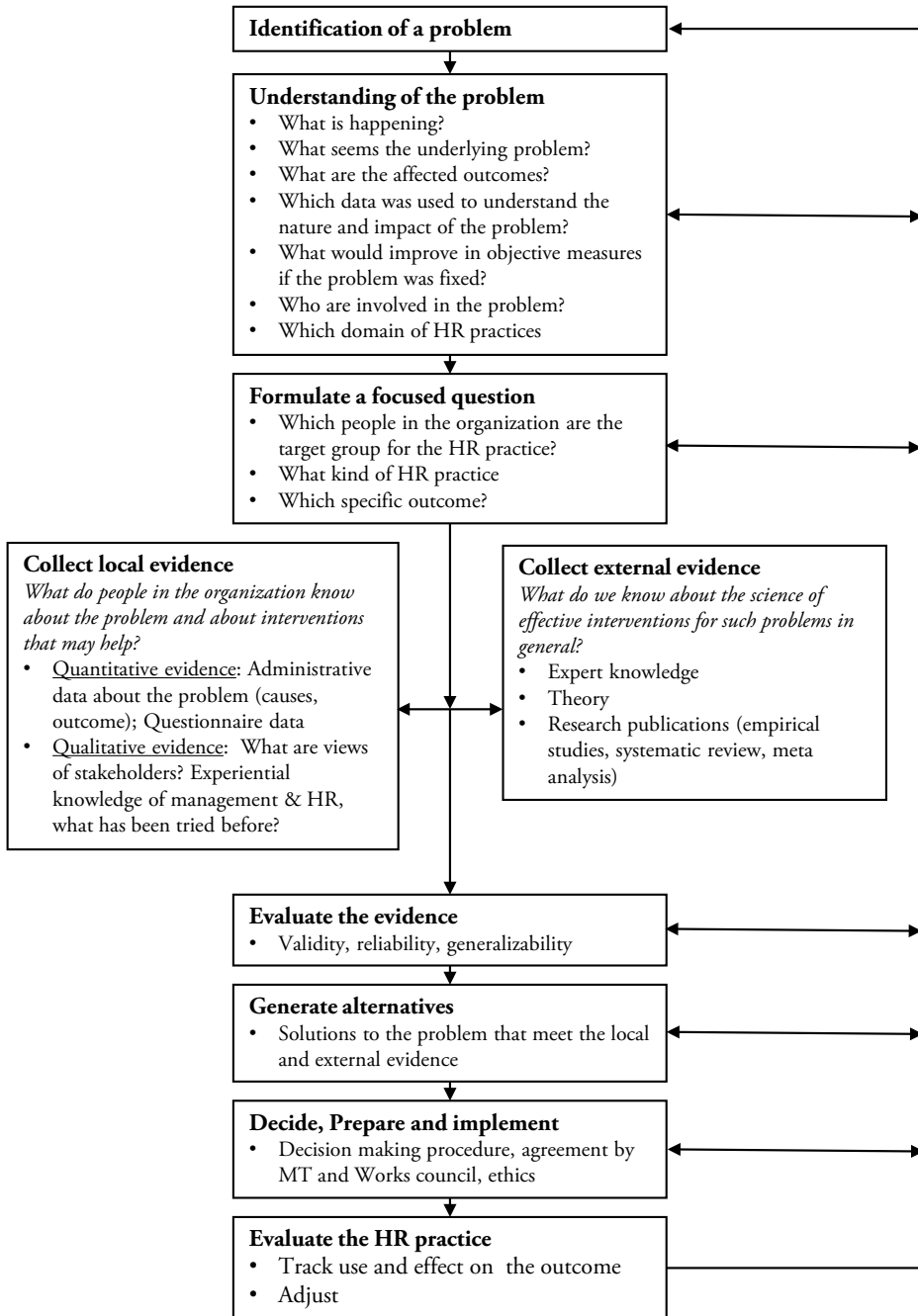


Figure 2: The evidence-based HRM decision-making process

Decision-making as bounded rationality

Decision-making theories consider the process of actions that lead decision-makers to take a decision. In this book, the interest concerns strategic decision-making. Strategic decisions involve using resources (time, people, money) and are supposed to lead to some substantial outcome that matters for (a part of) the organization (Eisenhardt & Zbaracki, 1992). In human resource management decisions, substantial outcomes can range from pure business results (profit, innovation, strategic change) to ensure that a business adapts to its environment (labor markets, employment relations, society) or to improve the work and lives of employees. The structure of the next chapters in the book follows these substantial outcomes, starting with the business case for HRM, followed by demands imposed on HRM by the organizational context, and finally the employee perspective on HRM.

Depending on the school of thought, there are different views on decision-making processes. The first is *rational decision-making* theory. Rational means that decision makers who engage in a decision-making process first have an idea about what they want to achieve with the decision and then use some methodology to gather appropriate information and weigh various alternatives before deciding on the best solution. In figure 2, the top-down steps from defining a problem to implementing a solution illustrate a rational decision-making process. Rational decision-making is likely to improve the quality of decisions.

The problem with rational decision-making is that people are not machines. With their limited knowledge and their preset cognitive processes, people are not able to process information neutrally, nor do they have the capacity to know everything. The extent to which people are able to take rational decisions is limited by their cognitive processes, including their understanding of the problem, their preferences and blind spots, and by their social context, including access to knowledge in others and their own position in organizational power, politics and conflicts (Eisenhardt & Zbaracki, 1992). Early management scientists already doubted the capacity for rational decision-making in organizations. In 1947, Herbert Simon therefore introduced the concept of *bounded rationality* (Cristofaro, 2017). According to bounded rationality theory, individuals are able to take rational decisions within the limits of their preferences, their social position and their understanding of the problem and the alternative solutions. Opposite to rationality is irrationality. Bounded rationality suggests that it is possible to take the best decision given an imperfect understanding of reality. Strategies for improving decisions under bounded rationality focus on explicating the decision-making process in a number of specified steps.

Evidence-based management proposes a strategy to improve the decision-making process because it proposes a sequence of diagnosing, understanding and gathering

alternatives before jumping to a solution. It seems a sensible approach to human resource management to improve decisions about policies and practices about people in workplaces, which is flexible enough to incorporate new insights and changes along the way.

Research on the practice of evidence-based management shows that it is used in many management domains (Rynes & Bartunek, 2017). However, there are situations in which evidence-based management may be too time-consuming. One example is decision-making during crises, and another is decision making on minor, non-strategic daily issues. In both examples, evidence-based management can contribute to improving the quality of decisions in another way, by contributing to knowledge and developing evidence-based intuition. By using evidence-based HRM for strategic decision-making about people in organizations, it will contribute to building evidence-based knowledge in decision-makers (managers and human resource management professionals), which will benefit their understanding of solutions for minor issues. The knowledge developed by applying evidence-based HRM in non-crisis situations will also help decision-makers to develop their intuition for the quality of their decisions under time pressure like in crises (Pratt & Dane, 2007).

To conclude, evidence-based management and its application in human resource management provide a process to make better strategic decisions about people in workplaces under conditions of bounded rationality. The process is flexible and accounts for iteration, where information in each phase may require adjustment of the previous step. Ultimately, evidence-based HRM policies and practices will contribute to improved performance of organizations, better alignment of organizations with their contexts, and ultimately to the well-being of employees.

The Evidence-based HRM process

The steps in figure 2 describe an iterative decision-making process. There is a logical sequence of rational decisions in the process, beginning with identifying an issue, collecting evidence, generating alternative solutions and finally designing and implementing an HR practice. However, each step can reveal new information, which necessitates the project to move back to a previous step to maybe restate the issue or collect additional evidence. Issues such as changes that happen during the execution of an evidence-based HRM project, and simply not knowing everything at the start of the project, make that evidence-based HRM is characterized by bounded rationality. Some flexibility is required to move along the steps in figure 2 to develop the most effective HR practice.

Process part 1: Asking a focused question

The first steps in the process are exploring the problem and determining the problem statement. This involves asking questions such as ‘What is the problem?’, ‘What should be solved?’ and ‘Which outcomes are at stake?’ It also implies exploring the context of the problem, by asking critical questions about its relation to organizational values, stakeholder views and organizational politics. This exploration helps to decide if the problem deserves an evidence-based management process intervention. After deciding that a problem is worth starting an evidence-based HRM process, a few more questions should be answered to narrow down the problem. The first task here is to define the outcome as specifically as possible (Barends & Rousseau, 2018; Dietz et al., 2014). It can help to phrase an outcome in indicators that would improve after an intervention, such as ‘client reports of employee service levels’, or ‘employee health’, or ‘the quality of suggestions by employees. A problem statement also benefits from an initial idea of the domain of interventions. This may be achieved by checking if the intended outcome is more performance-oriented, or related to demands imposed by the organization’s context, or by concerns about employee well-being. An example of a focused problem statement could be: ‘How can learning and development improve the service provided to clients by frontline employees in the customer service department?’. This is a focused question, because it 1) describes which observable and measurable outcome will improve, 2) it indicates a specific human resource management domain, and 3) it specifies the targeted group of employees.

Example project “Task force equal pay”

In the slipstream of a larger project on modernizing the compensation policies of a public government organization, human resource analytics reveal a pay difference between men and women in the organization of about 1000 Euros per month. A deeper exploration reveals that about 700 Euros of this difference can be explained, because men are better represented in higher paid jobs. However, after controlling for job level and years of experience, an unexplained pay difference of about 300 Euros per month remains. It looks like there is pay inequality between men and women working in the same area of activity and in the same organization. Although pay inequalities are a persistent problem that occurs in many organizations around the globe (International Labour Organization, 2018), the senior management of the public service organization regards this unexplained pay inequality as problematic for several reasons. First, there is a risk of legal prosecution. Constitutional law prohibits pay inequality based on legal grounds for discrimination, of which gender is one. Second, senior management believes that a public service organization has a societal responsibility to treat all employees equally. Also given its human resource management strategy to advance the careers of minorities in the organization, they consider the pay gap a strategic employment issue in need of repair and prevention for the future. The management

composes a task force that is asked to design sustainable HR practices for this problem. In a problem statement, the question was: “How can pay procedures prevent pay differences between women and men doing the same work at the same level in this public service organization?”

Process part 2: Collecting evidence

The next step is to explore the causes of the problem from multiple angles. The word ‘evidence’ needs some elaboration in order to understand what types of information can be used. There is a common understanding of the meaning of evidence. In courts, for example, evidence refers to information that can be checked or proven, evaluated and weighed, before reaching a verdict. In medicine, evidence holds a similar meaning. There is evidence for the effectiveness of a treatment when there is proof that there is a causal relationship between the treatment and a patient’s recovery. Hence, evidence concerns proof of the existence of *causality*: an empirically observable relationship that suggests a mechanism through which a cause leads to an effect. In a management context, evidence concerns an understanding about all the causes that lead to the current state of an outcome, and about causes that may improve the outcome. The importance of understanding causal evidence is that it shows where interventions will most likely improve an outcome.

Insight into causes of an outcome can be derived from multiple sources. Evidence-based management generally discerns four sources of evidence: organizational evidence, stakeholder evidence, experiential evidence and scientific evidence (Baba & HakemZadeh, 2012). Organizational evidence consists of all sorts of management information that is present in the organization. Stakeholder evidence consists of all the opinions and perceptions about the problem and its causes by everyone who is involved in the problem. These can be managers, customers, suppliers and of course employees. Experiential evidence is knowledge from previous problems and projects in the organization. Grouped together, organizational, stakeholder and experiential evidence make up the *local evidence*. Scientific evidence is what is known about the problem and its causes in science. Since this evidence is not tied to the organization itself, it is called *external evidence*.

Local evidence

Local evidence is systematically gathered data in a particular organizational setting with the aim to inform local decisions (Dietz et al., 2014; Rousseau, 2006). Local evidence helps to build a thorough understanding of the problem in question. The benefits of local evidence are threefold. First, by looking at the facts, decision-makers will understand the details of the outcome. Moreover, if possible, the outcome can be linked to other data about the organization. Second, by exploring the views of stakeholders, decision-makers gain a better idea of the social dynamics

that cause and sustain an outcome. Finally, it is important to look at what has been tried before to deal with similar problems in the organization, and at what has been learned then. Typically, collecting local evidence consists of some desk research (financial data, reports, questionnaires, outcome measures, administrative data), and some interviews with stakeholders (managers, employees, former project team members) and experiential experts connected to the organization (project leaders, HR manager, former consultants to the organization).

Example project “Task force equal pay”

The taskforce for equal pay immediately realized that pay and pay inequality are sensitive topics in any organization. They would have to act carefully in exploring the true causes of the issue. It is one of these topics where strong opinions are held, and where there may be unintended victims if measures are implemented without careful consideration. The task force developed a project plan to collect local evidence from three sources. First, they used company records to link any potential variable in the personnel records to the current pay levels of all men and women in the organization. In doing so, the task force identified that the pay gap was larger in higher than in lower levels of the organizational hierarchy. Female managers appeared to receive systematically less pay compared to their male counterparts. This counted as the organizational evidence. Next, the task force sought advice with the legal department to understand how a court evaluates if a pay gap really exists. The legal advice constituted the experiential evidence. After this legal consult, the task force developed a systematic method to compare the history of pay decisions for a sample of same-level employees doing the same job. The method consisted of interviews with managers and employees, who were asked to recall how a pay decision was made. These interviews represented the stakeholder input. Among other things, findings revealed that women were less likely to negotiate about the salary that was initially offered by the organization compared to men. In addition, managers and HR professionals seemed to attach greater importance to the previous work experience of men compared to the experience of women, which resulted in higher initial offerings for men.

External evidence

External evidence is the evidence generated by systematic research of similar cases of cause-effect relationships. This type of evidence is not available in the organization itself, but is gathered from databases filled with research findings created by scientists. The amount of research in the domain of management and human resources is abundant. To prevent practitioners from relying on evidence from a single study or on new and exciting ‘breakthrough research’, EBHRM advocates that practitioners rely on a larger body of research to form a complete picture of external evidence. The types of publications that provide such overviews of research findings are so-called systematic reviews and meta-analyses. Both are systematic approaches that provide an overview of research evidence regarding a specific research question. As

a meta-analysis is often part of a systematic review (but not necessarily so), first the characteristics of systematic reviews are explained before the additional features of meta-analyses are outlined.

Systematic reviews are characterized by a methodical approach to comparing research findings across different studies. Over the years, the procedures for creating systematic reviews have been refined to ensure information is more reliable and useful for practitioners (see Moher, Liberati, Tetzlaff, Altman, & The PRISMA Group, 2009). The approach generally involves the following steps:

First, a search strategy is defined for finding research that is relevant to the research question. This may include decisions on search words, databases and journals citation indexes. Next, the abstracts of the research articles found in the search are checked to guarantee that the study indeed relates to the research question. The search strategy can be found in the 'methods' section of a systematic review article. Afterwards, the research articles resulting from this search are coded by different authors to make findings comparable and interpretable in case of different findings between studies. Apart from the variables relevant to the research question, the coding also involves the quality of the research, for example, characteristics of the research sample. This coding process helps to find patterns in conditions under which findings are perhaps stronger or absent. Then, the selected research articles are systematically compared. This can be done in a descriptive way that summarizes the approach and findings for each of the articles before synthesizing the overall findings from the studies, or in a quantitative way in which the research data of the original studies are combined into a new dataset that allows for statistically testing the average findings of all studies. The latter procedure is called a meta-analysis. A *meta-analysis* is a statistical procedure for examining the overall strength of findings across a number of studies. Thus, a meta-analysis is often a part of a systematic review. This is supposed to be the most stringent evidence for research questions. However, since qualitative studies and experimental studies are unsuitable for meta-analytical quantification, a systematic qualitative comparison of the available research still provides a powerful source for external evidence.

In a final step, the systematic review provides in its results and conclusion section insight into a) patterns across study results concerning the research question, b) potential sources of disagreement between studies, and c) new findings that have only come to light after looking at the aggregate results of the studies.

Overall, systematic reviews provide practitioners with the best available external evidence to inform their decisions on practical problems. However, practitioners need to be aware of possible biases caused for instance by the inclusion or exclusion of research such as the so-called 'publication bias'. This bias is created through the circumstance that research gets published more easily if it confirms the existence of a relationship than if all hypotheses are rejected. A systematic review that only

includes published research can therefore present a slightly misleading picture. Nevertheless, such potential biases are noticeable in the defined search criteria for the inclusion of research papers.

What if there is no systematic review? Although the number of systematic reviews and meta-analyses in the domain of human resource management is steadily growing, chances are that the precise research question in which a practitioner is interested has not yet been submitted to a systematic review of research. In such cases, practitioners can do their own ‘light version’ of a systematic review (Briner & Walshe, 2014). Figure 3 summarizes the steps of such a review (adapted from Briner and Walshe, 2014, p. 431).

1. Define the research question in terms of a causal relationship.
2. Determine which type of research is included in the search (quantitative, qualitative, case studies, experiments?)
3. Determine where the research is likely to be found (which search engines)
4. By going through all titles and abstracts of the search results, select only those research articles that fulfill the search criteria (and thus really relate to the research question).
5. Evaluate the quality of the research in the selected studies.
6. Synthesize the findings from the studies. Since the number of studies reviewed in a ‘light’ systematic review, this will be done by hand.
7. Evaluate the findings in light of the limitations of the search.

Figure 3: Steps in a do-it-yourself systematic literature review

Where to find external evidence? Apart from the question whether a research question has been addressed in a systematic review, another important concern for practitioners is how to access systematic reviews and research articles. Systematic reviews are published in academic journals whose access is often limited to scholars and people who have paid access through their institute’s library. Luckily, times are changing, and more and more journals provide open access to their contents. This means that content is downloadable from the internet without additional fees. In the meantime, initiatives like the ‘Center for Evidence-based Management’ help practitioners without institutional access to non-open access articles to gain access via membership arrangements.

Example project “Task force equal pay”

Members of the task force equal pay asked the support of a scientific researcher to help them provide an overview of scientifically proved causes that explain or prevent a gender pay gap, and potential solutions to reduce it. These are three examples of meta-analyses and large survey research that indicate some of the causes for a gender pay gap:

Joshi, A. (2015). When can women close the gap? A meta-analytic test of sex differences in performance and rewards. *Academy of Management Journal*, 58(5), 1516–1545. <https://doi.org/10.5465/amj.2013.0721>

Auspurg, K., Hinz, T., & Sauer, C. (2017). Why should women get less? Evidence on the gender pay gap from multifactorial survey experiments. *American Sociological Review*, 82(1), 179–210. <https://doi.org/10.1177/0003122416683393>

These publications show that the pay gap exists to various extents, and that there are various causes like stereotypes and underrepresentation of women in certain jobs. Since the task force was particularly interested in finding out about effective interventions, the researcher suggested the following sources:

Castilla, E. J. (2015). Accounting for the gap: A Firm study manipulating organizational accountability and transparency in pay decisions. *Organization Science*, 26(2), 311–333. <https://doi.org/10.1287/orsc.2014.0950>

Leibbrandt, A., & List, J. A. (2015). Do women avoid salary negotiations? Evidence from a large-scale natural field experiment. *Management Science*, 61(9), 2016–2024. <https://doi.org/10.1287/mnsc.2014.1994>

A number of relevant findings followed from the external evidence. The three most important ones were 1) increase the transparency of pay decisions, 2) ensure consistent use of pay policies throughout the organization, 3) make managers accountable for the justification of pay decisions and 4) ensure equal representation of men and women in pay decision committees. These conditions level the ‘rules of the game’ for pay decisions for everyone and lead to a sustainable reduction of the gender pay gap.

Process part 3: Evaluating the evidence

Before, during and after collecting the data for local and external evidence, decision-makers need to consider the quality of the evidence. Although Figure 2 suggests that assessing the evidence happens after collecting it, paying attention to what is used as evidence will facilitate this assessment considerably. The saying ‘garbage in, garbage out’ also applies to evidence-based management. Decision-makers can rely on a set of tools to evaluate the quality of evidence. Knowledge of these tools supports designing sound procedures for collecting local evidence and evaluating the quality and relevance of external evidence. Evaluating evidence involves an elementary understanding of research methodology. The text below presents the core indicators for evaluating evidence: validity, reliability, generalizability, and

ethicality. Decision-makers with some training in research methods are skilled at finding good-quality evidence.

Validity

Validity means that the evidence is actually telling us something about the causal relationship between a cause and an effect. How can you be sure that the cause created the effect? First, the evidence should indicate that *there is a relationship between a cause and an effect*. This means that an HR practice (a cause) should relate to an observable change in the outcome (the effect), and when the HR practice is absent, such a change would not happen. Research evidence that involves experiments to test if a condition really leads to an outcome, or gathering data over a longer time (longitudinal research) more or less guarantees that there is temporal sequence between cause and effect. Contrary, things become less clear when the cause and effect are measured at one time. In this case, we cannot guarantee which variable is the cause and which one is the effect. When the evidence does not provide proof for causality, decision-makers should be careful in using such evidence. Preferably, practitioners look for additional evidence to find further proof for the existence of a cause-effect relationship.

Second, validity means that there are *no alternative explanations* for a causal relationship. To rule out alternative explanations, other variables that could account for the existence of a cause-effect relationship also need consideration. There are three strategies for decision-makers to rule out alternative explanations:

1. *Check the quality of measures* by asking whether evidence is based on measures that really capture the meaning of constructs in the problem statement. This is the *construct validity* of the evidence. For example, there is a lot of research on employees who leave an organization on their own initiative (voluntary turnover). This is a difficult research topic, because it needs data from before employees leave (how did they like their job?) and afterwards, when they have left the organization. Much evidence from research on voluntary turnover uses reports of employees' intention to quit while still in their current jobs, rather than their actual quit behavior (Griffeth, Hom, & Gaertner, 2000). Measuring actual quit behavior is also complicated, because it matters whether employees quit of their own volition or on the initiative of their employer, for example in a redundancy. Intention to quit, voluntary turnover behavior and involuntary turnover are each different constructs, which are predicted by different causes (Hom, Mitchell, Lee, & Griffeth, 2012). Checking information about construct validity is important, because if not, the research evidence is not relevant to the problem statement of interest. The quality of the measures is reported in the methods section of a research paper. When it comes to collecting

local evidence, construct validity concerns the selection of data within the organization to gain knowledge about the problem, the quality of the questions asked to stakeholders, and the quality of the experience of the people who provide experiential evidence.

2. *Check the quality of research designs.* The strongest evidence that rules out alternative explanations comes from longitudinal and (quasi-experimental) research designs. However, carefully conducting research to empirically observe causality is complex and although the amount of longitudinal and quasi-experimental research on HRM is steadily increasing, the majority of external evidence still depends on cross-sectional data. In-depth qualitative research on multiple cases is also relevant, because it can provide more insight into subtle social processes. A limitation of qualitative research is the small number of cases, which hinders its generalizability. In collecting local evidence, the quality of the research design lies in the decision who to interview. For example, managers will report differently on the causes leading to an outcome than employees. This is why evidence-based management suggests seeking local evidence from multiple stakeholders of a problem.
3. *Good theory.* The best bet for cross-sectional studies to rule out alternative explanations is by providing good theoretical arguments that explain why a cause would lead to an effect (and not the other way around). There are good theories that explain relationships between HR practices and a variety of organizational outcomes. The next chapters each describe the essential theoretical paradigms in the field of human resource management. Good theory is valid when it is based on insights derived from many studies, because then it describes a generalizable mechanism that is valid in many situations. If there is time to do a thorough literature study, an up-to-date knowledge of theories about people in workplaces will improve decision-making.

Reliability

Reliability means that we can be largely certain that if we would repeat our research, we would find the same results. A quick examination of the reliability of the evidence is by checking if it is possible to verify the research method. This should provide information that enables replication of the procedure to collect the evidence. The research method should also provide information about the sample and the sampling procedure. Knowing the sample will help to understand if evidence is replicable. The evaluation of reliability involves two elements:

1. *Replicability of the evidence* by asking if the evidence provides clear descriptions of the measures, the research procedure and the sampling of organizations and respondents. Read critically to check if this information is clear enough

that it allows other researchers to replicate the research. Reliability means that we can trust that the findings reported in the evidence would appear similar if we did the same research again. Of course, a verifiable procedure does not automatically mean that the same findings will show when the research is repeated. Practitioners should therefore use multiple studies to find research evidence. If a causal effect has been reproduced frequently and across different settings, the evidence for a causal link is more robust. Systematic reviews and meta-analyses are good sources of evidence to see whether a causal relationship is stable across studies. In local evidence, keeping a log of what was used as evidence supports future replicability.

2. *Quality of the sample.* Using a sample of people or organizations to get evidence about a population is a smart way of investing time and resources. However, whether or not research findings can be replicated also depends on the quality of the sample that was taken. Sample size and sampling procedures can both hamper the reliability of evidence. Sample size influences the precision with which you can say something about the population from which the sample was taken. More data means more information, and this makes the estimation more precise. The risk of extreme findings gets buffered in larger samples. Studies with larger samples are therefore preferred over those with smaller samples. However, a large sample may still be unreliable if the sample is not a good representation of the population from which it was selected. For example, if managerial effectiveness is measured by subordinates that were selected by the managers themselves, the evaluation of managerial effectiveness may be more favorable than when a random sample of all subordinates was taken. Hence, the reliability of the evidence depends on whom you ask. Preferably, evidence should be collected from a randomized sample of a clearly defined population. In local evidence, the rules of thumb that follow are that single interviews are less reliable than multiple interviews, and multiple perspectives are more reliable than a single perspective.

Generalizability

Generalizability deals with the question whether local or external evidence can be used to draw conclusions about people or organizations that were not included in the research that led to the evidence. Evidence repeated in multiple samples is more likely to generalize to new samples compared to evidence that is unique ('breakthrough'). Therefore, it is safer to rely on evidence that was repeated in multiple samples. Still, even when practitioners carefully read systematic reviews and meta-analyses to collect external evidence, this does not hold that the evidence generalizes to their own research questions. The following questions should be taken into account:

1. *Does the evidence have boundary conditions?* Boundary conditions are local conditions that may change a causal relationship. In research, we talk about moderators if we suggest that a certain condition will have an effect on the relationship between two variables. Meta-analyses usually mention a number of moderators (boundary conditions). Frequently reported boundary conditions in research articles are *institutional characteristics* (such as legislative environment, the state of the economy, country), *organization characteristics* (such as firm size, firm age, industry type), *demographic characteristics* (such as age, gender, job level, tenure, education level, employment state or contract) and *research design characteristics* (longitudinal, cross-sectional, experimental, qualitative).
2. *What if the generalization of evidence is unclear?* If it is unclear whether the external evidence can be generalized or not, it is a good idea to examine if it is possible to replicate the evidence locally (Dietz et al., 2014). This can be done by taking a random sample of the target population of the organization and then repeating the research procedure as found in the external evidence to produce local evidence. When such a procedure is difficult to replicate, the practitioner can run focus groups with experts in the organization to get a good idea of how the evidence could be generalized to the local circumstances.

Ethicality

Working with evidence in the domain of Human Resource Management implies working with people. By applying evidence-based HRM, decision-makers have a responsibility towards people who contribute to generating the evidence and to those who are targeted by the HR practice that follows from the evidence. Academic and professional ethical guidelines should always guide the behavior of those using evidence-based HRM. Ethical guidelines exist to protect participants. Participation of stakeholders in providing evidence should by no means lead to any negative consequences for them.

Ethical guidelines include at least the principle of informed consent, the principle of honest information sharing, as well as the principle of data protection and privacy regulations. Informed consent means that participants explicitly agree that they participate in a research project, and that the information that they provide can be used as evidence. Open and honest information sharing involves that participants understand what the project entails and that they are informed about the outcomes (debriefed). Data protection and privacy regulations are meant to ensure that data are reliable, that data will be stored in a safe way and that participants' input is anonymized in the research findings. A good practice is to have an ethics committee installed that evaluates if the consequences for participants are acceptable.

Example project “Task force equal pay”

Before setting out to collect local evidence, the task force checked the research literature to understand what kind of data they would need in their own organization. In particular, it was important to decide which variables to use from the employee records to understand the causes of the gender pay gap in the organization. For example, the research literature showed that performance evaluations of men and women can be biased, due to subtle processes of stereotyping the performance of men and women. The conversations to explore the problem hinted that this might also be the case in this organization. Likewise, the pay that employees received in a previous job also bears the risk of bias. Based on this knowledge, only facts that indicate the human capital of employees were included in the prediction, such as the level of education, the rank in the organization, and the years of experience in that rank. To be sure, the analyses controlled for having children and working part-time. This increased the validity of the organizational evidence.

To compare pay decisions for a selected position, the task force ensured a random selection of comparable male and female employees for whom the pay decision process was traced. To collect the information for each pay decision, structured interviews were performed with the hiring manager, the employee and the HR professional involved in the decision. This procedure guaranteed reliability of this part of the local evidence.

During the project, the task force reached out to other public organizations who had dealt with the same problem. By sharing experiences, they checked if their findings were generalizable beyond their own organization. This strengthened the importance of the findings.

Finally, all steps in the project that required collecting evidence from people were presented to an ethical review board. Because the task force hired help from a nearby university, ethical approval of the university was gained first. In other projects, the task force checked for ethicality with the employee representative board in the organization. This is a formal group of employees, who consult with senior management about employee policies. The employee representative board also approved the project before data collection began.

Process part 4: Generating alternatives

With good-quality evidence, it is possible to generate effective HR practices. This is a fun part of the process. People involved in the evidence-based HRM project can generate ideas for HR practices in a series of brainstorming sessions. To stimulate out-of-the-box alternatives, the first round of brainstorming aims to generate as many ideas as possible. The second and following rounds of brainstorming evaluate each idea against the local and external evidence to find if it meets the expected causality. Sometimes, an idea can be adjusted and improved; other ideas do not meet the requirements and will be dropped. The final round of brainstorming looks towards the implementation. Local evidence provides knowledge about the context

in which an HR practice will operate. To ensure effective use of the HR practice, the context should be taken into account in the choice for a practice. Eventually, just a few HR practices remain that are valid interventions to improve the targeted outcome.

Example project “Task force equal pay”

The overwhelming amount of evidence brought a challenge to the task force in scoping all alternative HR practices. To generate alternatives, the task force first wrote a report about the project findings, including the findings from local evidence and a listing of all the interventions that were found in the research literature review. They then sent the report to representatives of identified stakeholder groups, such as senior management, unit managers, the employee representative board, and to the human resource managers in the organization. Next, they organized three rounds of brainstorming where both the task force members and all representatives who received the report could contribute. After explaining the project and the findings, this group of about twenty people brainstormed about alternatives. A team coach facilitated the brainstorm sessions and summarized the findings between each session. Eventually there was consensus about the need to improve consistency, transparency and accountability in the design and execution of pay decisions. This was the input for the task force to make a decision about the design of the HR practices.

Process part 5: Decide, prepare and implement

After generating valid alternatives, there is a decision about the preferred HR practice. The next step is to prepare for implementation. It is likely that there are obstacles in the organizational culture, structure, and regulations or politics that need to be taken into account during the development, implementation and use of evidence-based HRM. Potential obstacles during implementation include the user-friendliness of the HR practice, the support and beliefs of stakeholders, legislation, conflicting policies, and behavior of key senior managers (Mirfakhar, Trullen, & Valverde, 2018; Trullen, Bos-Nehles, & Valverde, 2020). A good understanding of the organization and its context is a prerequisite for effective implementation. Local evidence can help to detect obstacles and indicate where potential resistance may exist in the organization. This knowledge should be used in preparing the implementation plan. Some practical guidelines for preparing implementation, based on research evidence (Mirfakhar et al., 2018):

1. Easy to understand HR practices have a higher chance to be used.
2. HR practices should align with other regulations and laws.
3. Line managers should be trained and prepared in using the practice in their management of employees.
4. Top management should communicate the importance of the HR practice.

5. During implementation, stakeholders need support in learning to use the HR practice.

An organizational culture in which the use of evidence is considered good practice prevents many of the obstacles during implementation. Management can promote a culture for evidence-based management by stimulating learning and knowledge sharing in the organization. The following strategies can be used to advocate the advantages of evidence-based HRM in organizations (Jeffrey & Sutton, 2006; Rousseau, 2006):

1. *Raise awareness.* It helps when there are advocates for evidence in the organization. People who demand evidence, share evidence and who are suspicious of 'brand new' ideas. The more people in an organization dare challenge the logic of plans for action, but instead examine and question it, the wider the awareness about evidence-based HRM will become.
2. *Showcase data.* Promote the use of a company's own data and experience. Run trials, do small experiments. This will contribute to building a culture in which managers learn to learn.
3. *Facilitate access to external evidence.* Advocate a company subscription to research databases and train decision-makers in how to use these.
4. *Collaborate in research.* Use the relationships with experts and knowledge institutions like universities to acquire and share knowledge. Evidence-based HR practices for important issues can be developed in co-creation between science and practice.
5. *Training.* Organize training in evidence-based HRM. Ensure that the skills will transfer to practice by having participants work on their own questions. The more people are trained in EBHRM, the larger the support system in the organization that promotes access to knowledge.
6. *Curiosity.* Senior managers are role models. By asking questions about the nature of problems, and by initiating the generation of local and external evidence, a climate of curiosity will cascade down the organization.

Example project “Task force equal pay”

An important obstacle faced by the task force, were differences in existing practice in pay decisions across organizational units. In a unit with high-skilled professionals, management feared losing the authority to make competitive reward offers to external recruits in a competitive labor market. The task force realized that they would need the buy-in of this management team as users of the HR practices to gain results. To overcome this obstacle, the director of the unit was invited to join the sessions in which ideas for HR practices were generated. This resulted in a sense of ownership in the unit during and after the implementation of the practices.

Process part 6: Evaluate and adjust the HR practice

Finally, yet importantly, the use of the implemented HR practices and the outcome need evaluation. Tracking the outcome will show if the HR practice leads to the expected effects in the outcome. Tracking can be quantitative, by using objective measures, or qualitative, by asking stakeholders about their views on the effectiveness of the HR practice. A structured approach to evaluation can be achieved by using an after action review (AAR). This is a structured debriefing process looking back at what happened, understanding why it happened, and what could be improved. In case the effect is other than expected, decision-makers may need to go back in the process and make adjustments.

Given the importance of the project, senior management and the employee representative board agreed to monitor the pay gap on a yearly base. As sources of evidence they agreed to 1) repeat the analysis of personnel files to compare gender pay differences, and 2) do random checks on the pay decision process for new hires. The findings are discussed between senior management and the employee representative board. The task force is dismantled; however, the human resource management department has taken over its role to monitor and evaluate the practices and improve these if needed.

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Summary

HR practices are tools for managing people in organizations, aimed at changing or improving an outcome. Outcomes vary from organizational performance (the business case), to ensuring alignment with the organizational environment (the context of HRM) to employee health and well-being (the employee perspective). Some HR practices are more effective compared to others in achieving the desired outcome. Evidence-based HRM is a decision-making process to improve the choice and design of effective HR practices, under conditions of bounded rationality. Bounded rationality is the condition that it is impossible to know everything, and that unforeseeable change may occur. Evidence-based HRM proposes an iterative process, where decision-makers go back and forth in the process before reaching a decision. The evidence-based HRM decision-making process promotes a judicious evaluation of organizational and research evidence, while taking into account ethicality, to design effective HR practices. The process is sequential, starting with defining a problem, followed by collecting evidence, evaluating evidence, generating alternatives and deciding on an HR intervention, preparing for implementation and, finally, evaluating the implementation and its effects on the outcome. Good evidence is the key to effective decisions. The quality of evidence can be checked by evaluating validity, reliability, generalizability and ethicality. The success of the implementation will depend on how well an HR practice is designed and finds support by users in the organization. The chapter provides practical tips to guide effective designs of HR practices.

Part 1: Case and study questions

This section provides an example of a student project to consult about an employee related problem in an organization. The students followed the steps of the evidence-based HRM decision-making process (chapter 1, figure 2), to advise about effective interventions to deal with the problem. Read the case below and answer the study questions.

A clash of generations?

One of the students (Tom) had a side job as a team leader at a supermarket. He noticed a problem with the work attitudes of young employees. Supermarkets rely heavily on high school students doing small part-time jobs as cashiers and stocking the shelves. Several years ago, it was still relatively easy to find new young workers and recruitment efforts were minimal. However, this situation has changed in a negative way. Young people do not apply spontaneously anymore and active recruitment has become necessary even for the smallest part-time jobs. It seems that high school students do not need the income of a side job anymore. Those that do come to work at the supermarket do not seem to be very motivated. They report sick very easily as if they have no commitment to the supermarket at all. Consequently, there are often backlogs in the performance of shifts, which often leads to unpaid overtime. The store management asked Tom to find an intervention that would improve the motivation of their youngest employees, such that their presence and their performance at work will improve.

Tom: *“The first thing I did was organizing a talk with the store manager. We have a good understanding and she took quite some time explaining how things have changed. She recalled a case where a new hire was literally forced by his parents to take the job! Sure that is a lousy way to feel any motivation for what you are about to do. It seems weird that there is already a generational gap between myself and those sixteen-year olds. But I also experienced myself all kind of problems because we are short in part-time staff. As a part-time team leader I have to work with this group of employees as well. For example, Sunday shifts pay double and then they show up. But on other days they call in sick and are not cooperative at all in seeking replacement, leaving me with extra work. So solving this issue was for my own best as well! Based on my conversation with the store manager, we agreed to investigate the evidence for interventions to improve the work attitudes and performance of this new generation. This was the starting point of our project on evidence based human resource management.”*

Back at the university, Tom discussed with his team about a strategy to collect local and external evidence. They all got enthusiastic to dive into the topic of motivational differences across generations. They divided the tasks of the team as follows: Tom and Jackie would go about collecting more information about

the issue in the supermarket, and Jasmine and Biruk would look for the available research evidence.

In discussing how to go about to really know the issue, Jackie stressed: “How do we know for sure that this is a generational issue? I would like to go and see how these employees think and behave. I think we have to hear their part of the story as well!”

Tom agreed that it would be easy to organize a few talks with young employees of the supermarket. And he added that most of the team leaders were full-timers who had been working at the supermarket for many years. These would also make good informants to know more about the issue. Tom and Jackie called the store manager, explained their plan and agreed that Tom would do some talks with some of the young employees in the store, and that Tom and Jackie would talk together to a senior team leader to get a broad view on the issue. The local evidence for the project would thus exist of the information provided by the store manager, an interview with a senior team leader, and a number of informal talks with young employees. Table 1.1 shows the questions Tom asked to the young employees.

Table 1.1: Interview questions for the employees – local evidence

The questions we asked to the part-time employees were:

1. What is your age?
2. Why did you start working at the supermarket? Is this reason still valid?
3. Are you excited/motivated to come to work? Why?
4. Do you get motivated during your shift?
5. What kind of work do you like in the supermarket?
6. What do you think the management should do to motivate employees?

Jasmine and Biruk took the task to find external evidence in published research evidence. Jasmine recalled: “We were not really sure where to begin, so first we checked what type of literature we were looking for. Before, I did not really know what a meta-analysis was and I truly never heard of a systematic review. But I now get that these are a kind of summaries of the most important research findings. Our teacher advised us to write down search words for our literature search, and to include the type of publication as an additional search term. So we tried to combine terms like ‘age’, ‘adolescence’, ‘teenager’ and ‘generation’ with ‘work performance’, ‘work motivation’ and ‘job attitudes’. And we added the strings ‘meta*’ and ‘systematic review’ or ‘longitudinal’ to the search. You cannot believe the amount of hits we found! As a shortcut, we checked if the titles of our results included our topic. We selected about ten publications that seemed to meet our topic and looked

in the abstract if it was the right type of article. As an extra check for the quality we looked to the number of citations. This way we found a very interesting article about our topic.”

The first article that Jasmine found useful was called ‘*Generational differences in work values: Leisure and extrinsic values increasing, social and intrinsic values decreasing*’ (Twenge, Campbell, Hoffman, & Lance, 2010). This article describes a research that compares the work values of three cohorts of adolescents (in 1976, 1991, and 2006). It shows that the youngest generation is less likely to put work central in their lives. Moreover, the youngest generation was found to be more motivated by individualistic goals (having a fun job) than by community goals (contributing to the organization). This can be read that younger generations value their leisure time and are more focused to find out ‘what’s in it for me’ when it comes to work than previous generations. This could mean that there is a mismatch between what the supermarket is offering, and what the young employees hope to find in their jobs.

After two weeks, Tom and Jackie had finished the interviews and the team sat together to discuss the findings. After briefing each other about their progress, it stroke out that although most of the young employees said they started working to earn some extra money, the actual reason why they did not really like their jobs was in the way they were treated by the team leaders. Jackie read out the following excerpt from one interview:

“I work here for a year now, filling the shelves of the same part of the supermarket all the time. After a while, the job gets quite boring. It would be better if there were some fun in working with peers. However, since I work in a different shift every week that does not really help. There are new part-timers all the time. Moreover, our supervisor is really bullying everyone around. You never hear a compliment, the only thing he does is yelling that we should hurry up. I will definitely leave as soon as I find a nicer side-job!”

The interviews seemed to indicate that the work values to have ‘fun’ were indeed important to this group of workers. Biruk remembered that this is a kind of intrinsic reward, as was told in one lecture, one that could evoke social exchange. Other than the tangible rewards in terms of financial rewards, intangible rewards are the enjoyment you find in doing the job itself. He suggested to find some more external research evidence on intangible rewards.

First, he found one meta-analysis from Cerasoli, Nicklin and Ford (2014) that convincingly stated that intrinsic rewards are as important as extrinsic rewards. Actually, the findings showed that it is almost impossible for any individual to perform poorly, if they find personal satisfaction or enjoyment from a task! Therefore, while young employees may value their income a lot, they are more likely to perform well if they also find some enjoyment in what they are doing.

Biruk's contribution led the group to question what management could do to make the jobs of part-timers more 'fun' to do. He found one big meta-analysis on all characteristics of jobs (such as the task itself, the social context and the relationship with supervisors) that influence how much fun employees experience at work: *'Integrating motivational, social, and contextual work design features: A meta-analytic summary and theoretical extension of the work design literature'* (Humphrey, Nahrgang, & Morgeson, 2007). This article helped the group to understand which job characteristics could bring more fun in the jobs of part-time supermarket employees.

Finally, the group sat together to make up their minds about the information they collected. The implicit assumption that the youngest generation is not committed to the interests of the supermarket, could be explained with research evidence on a shift in work values towards 'what's in it for me' in younger generations (Twenge et al., 2010). However, what makes work fun is less dependent on these generational differences. Just like older workers, younger part-timers like to have some challenge and autonomy in their jobs, they like a nice team of colleagues and a supervisor who is supportive to them (Cerasoli et al., 2014; Humphrey et al., 2007). This finding was in contrast with the opinion of the senior supervisor who was interviewed by Jackie and Tom. In his opinion, *"this new generation cannot be motivated for this kind of jobs anymore. Therefore you have to be very strict with them about their salaries. For example, I refuse to pay overtime if they are just too lazy to finish their tasks within their shifts"*.

The team wrapped up their findings in a presentation, and advised to the store manager:

"We advise the management to focus on the quality of work of the part-time employees. Although money is of course critical, we did not find this to be the problem of attracting or motivating employees. We found that motivation of the younger generation of employees will grow by improving the work environment. In particular, supervisors should give positive feedback, and not just negative. Instead of "punishing" employees for not reaching their goals by making them work unpaid overtime, you could try to motivate them to reach the goals by making them feel more responsible. This could be done by discussing work process improvements with them and by putting them in charge themselves. This increases their motivation at work, which will result in a better output during work hours, less overtime and fewer complaints about unpaid overtime. We predict that the improvement in the work environment will lead to a better motivation. We expect that these improvements will also lead to easier recruitment because of a more positive image of the job through word of mouth."

Study questions

1. Can you think of a 'quick fix' that the manager could have decided on if she had not asked Tom to do his project on evidence based human resource management?
2. How do you judge the quality of the local evidence collected by Tom and his team? Did Tom and Jackie ask the right questions to the employees (validity)? Is it likely that their findings would be repeated if another sample of employees were interviewed (reliability)? How do you judge the quality of the sample of informants (generalizability)? Which other organizational data could provide insight in the assumption that the performance and work attitudes of young part-time employees are a problem for the supermarket?
3. Look up the articles that Tom and his team used. How do you judge the quality of their external evidence? Which of the three articles is a single research? How do you judge the quality of this research for Tom's project? Look into conditions for validity, reliability and generalizability of external evidence.
4. What are the implications of the team's findings for the direct supervisors of the part-time young employees?
5. What could store management do implement the suggestions?
6. Check which ethical guidelines for research exist in your organization or university. How do you evaluate the treatment of informants in the organization in the supermarket case? What could you do to protect your informants ('do no harm')?

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PART 2

THE HRM BUSINESS CASE



CHAPTER 2

INVESTING IN PEOPLE AND BUSINESS PERFORMANCE

Chapter in brief

How can HRM contribute to the (financial) performance of an organization?

The key theories in this chapter are:

- Resource-based theory
- Human capital theory
- Individual differences theories
- Social capital theory
- Social exchange theory

The key HR practices presented in this chapter are:

- Selection tools
- Strategic human resource development
- Work design
- Employee incentives

Introduction

Human resources are the pool of human capital that have a direct employment relationship with the organization and are under the control of this organization (Wright, McMahan, & McWilliams, 1994). The words ‘resource’ and ‘capital’ are at the center of this chapter. These emphasize how people can contribute to the success of organizations. By investing in people as a resource for organizational success, they become an asset for organizations, a valuable kind of capital that can make a difference in the competitive advantage of organizations.

The costs for labor as part of the overall operational costs differ per organization. Imagine, for example, a labor-intensive production process like strawberry picking. To date, no machine can replace the complex human dexterity needed to carefully pick the fruit without bruising it. Consequentially, labor costs make up for about 70 percent of the entire production costs of strawberries (Kroon & Paauwe, 2014). When strawberry producers want to increase their profits, they either have to cut down on labor costs by paying lower wages, or they need to increase labor effectiveness, which in return entails that fewer people are necessary to pick the same amount of strawberries. Since strawberry picking jobs require no education, wages tend to be low already. Paying even less than competitors would probably scare employees away and leave the fruits unpicked. Instead, a more efficient way to achieve larger returns on labor costs would be to invest in a more productive workforce. Thus, the questions should be ‘which HR practices lead to a higher productivity of strawberry pickers’ or, ‘which HR practices increase the return on investment (ROI) of labor costs?’

With a proportion of around 60 percent, the labor component in the overall production costs is also high in service industries (Batt, 2000), where customers pay for a service rather than for a product. Examples of service jobs range from low-skilled cleaning or waitressing jobs to very-high skilled legal, medical or consultancy jobs. Just as with strawberry picking, working more efficiently will improve the ROI of labor costs in service industries. However, since a service is delivered through the interaction between employees and clients, efficiency alone will not be enough. Service quality also depends on the quality of the interaction. A helpdesk advisor who is very efficient in achieving her/his performance target, but who does not listen well to clients, will negatively impact the client’s satisfaction with the organization and its services. This illustrates that improved productivity not only lies in efficiently meeting quantity requirements, but also in the quality of relationships.

In manufacturing organizations, the labor component of overall costs appears to be, with around 10 percent of the total costs, much lower than in service operations (Batt, 2000). However, also in this sector people can make the difference in gaining

competitive advantage. A variety of developments have raised the demand for highly educated and intelligent employees. Products, for example, are becoming more and more high tech and complex, and organizations' strategies need to respond rapidly to changes in information, technology and finance. In this regard, employees add value to the organization by processing and advancing knowledge. Typically, such so-called knowledge workers do not operate in isolation but in teams and networks of specialists. The added value of these employees is less dependent on efficiency or on relationships with clients, and more on the effectiveness through which they are able to disseminate their knowledge and consequently advance the organization, its strategy, and innovations.

The wide variety of examples from unskilled to high-skilled work illustrates how employees can make a difference for organizations. Employees can contribute to organizational success through processes of efficiency, relationship quality with suppliers, clients, customers, and co-workers as well as through knowledge development, dissemination and innovation. Hence, rather than just as a part of production costs, employees should be viewed as a resource to gain competitive advantage for organizations. No wonder the main question of strategic human resource management concentrates on the alignment between investing in people and business performance.

Two theories dominate the literature on HRM strategy and business performance: the resource-based view and the social exchange theory. Referring to the former theory, since the nineties, a stream of research and theory has emerged advancing the idea that organizations can flourish when they have an outstanding set of resources (Barney, 1991). Those organizations have a unique advantage in outperforming competition. However, resources do not act on their own. In particular, the kinds of resources that are nested in individuals, such as knowledge, skills and abilities, need some leverage to be applied at work. If an employee does not feel the need to use his or her skills and knowledge at work, these resources cannot be used by organizations to gain a competitive advantage. Hence, along with the view that people can make a difference because of their valuable productivity, knowledge and their network of relations, human resource management theory is needed that explains why people are willing to use their talents to benefit the organization. The most-cited theory used to understand why people put in effort at work is the social exchange theory (Cropanzano & Mitchell, 2005).

In the following theory section, we zoom in on resource-based theories and in particular on theories of human and social capital, the two types of resources that are most central in human resource management strategy. In addition, we introduce the most-cited theory used to understand why people are willing to unleash their human and social capital to benefit the organization: social exchange theory.

Theory

All except one of the theories presented in this chapter originate from an economic perspective on human behavior. You will recognize this by the displayed language, where words like ‘costs’ and ‘maximization of returns’ are used to predict the behavior of organizations and individuals. The one exception is the theory on individual differences, which originates from psychology. This theory is included here because it provides further insight into the causes of differences in human capital between people.

Resource-based theories

Strategic management involves making plans about defining and meeting objectives of the organization. Planned strategic management therefore often contains a process in which the characteristics of the organization are listed next to the characteristics of the environment. Positive characteristics of the organization are strengths that the organization can build on, for example an excellent location. Hindering characteristics are weaknesses of the organization (e.g. old-fashioned procedures, slow response times), which need attention to overcome or they will hinder the organization’s success. Scanning the characteristics of the environment will reveal opportunities (e.g. new markets, innovations), but will also provide insights into potential threats (e.g. competition, changes in demands). A good strategy would strike the optimal balance between on the one side profiting from an organization’s strengths and opportunities in the environment, while on the other side simultaneously managing weaknesses and guarding against threats. In such an approach to strategic management, the environment of the organization has a large impact on the strategic direction, even though it also takes organizational aspects into account.

Although the strengths-weaknesses-opportunities-threats (SWOT) analysis still center-stages many strategic management decisions, more recent strategic management literature emphasizes an approach that focuses on the strengths of organizations to achieve a competitive advantage. The key critique on the SWOT approach is that when all organizations follow opportunities in the market, it could lead to many organizations pursuing the same strategy. In practice however, there are many differences between organizations in how they pursue market opportunities. This led practitioners and scholars to look for other ways to understand effective strategic management.

Since the nineties, organizational strategy research and practice have emphasized that boosting the strengths of the organization is the most successful road to competitive advantage. Popular literature at the time was for example Prahalad and

Hamel's 'Core Competence of the Corporation' (Prahalad & Hamel, 1990), which pleaded that it is not enough to have a competitive product on the market. To be successful, a firm also needs to be able to keep creating such products. Therefore, not only the product, but also the facilities, machines, people, knowledge, processes and relations contribute to the success of a firm. A well-known example is the ability of 3M, the organization that brought us post-its, to keep inventing new products and manufacture them in an efficient way. Its core competence is the combination of innovation and efficient manufacturing. Hence, the strength of 3M is not primarily to have an innovative product, but having the people and processes which enable the efficient manufacturing of these innovative products. The people and processes are the valuable resources that 3M puts at the core of its management strategies. The idea of the core competence movement was that by looking at those aspects of the organization that contribute to its success, one could see that it is not only a product or service that makes a difference, but that an entire set of resources used to create this product or service is what determines an organization's strength.

Thus, at the center of organizational strengths are organizational resources. *Resources* are indispensable features that are available for organizations to create and realize strategies and to increase efficiency and effectiveness. This broad conceptualization of resources covers all assets, buildings, information systems, machines, firm attributes such as reputation and experience, knowledge and relations with clients and suppliers. The list of things that count as resources can easily be extended and basically includes anything an organization can use to its advantage. To ease our understanding, it helps to categorize resources into three broad categories: physical capital, organizational capital, and human capital (Barney, 1991).

First, *physical capital* contains tangible assets like financial resources, property such as land and buildings, and technological resources. These receive the largest attention by accountants and other financial specialists, who take their value into account to calculate balance sheets. Hence, physical capital concerns all tangible resources which are easy to track and if necessary, can be replaced.

Second, *organizational capital* represents intangible resources such as policies, procedures, style, values, traditions, and leadership style. Together, these make up a system of routines whereby routines display regular and predictable patterns of activities made up of a system of coordinated actions. Therefore, routines explain to some extent how work is done by employees in an organization. Organizational capital can be even further divided into *structural organizational capital*, the culture, routines, and processes that have been developed in an organization such as the IT system, the network, management processes and general strategies; and *social organizational capital*, which refers to all the internal and external relationships an organization has with employees, teams, customers, suppliers, the community and the government.

Finally, *human capital* concerns the sum of all knowledge, skills, ideas, abilities and health available in the people working within an organization. At the individual level, these characteristics are assets that employees can use to obtain income and wealth. At the aggregated (group) level, human capital equates the human resources, the shared knowledge, education and motivation which is an asset to realize organizational targets.

Neither physical, organizational, nor human resources automatically lead to the desired competitive advantage. Some resources may even cost more than they deliver. To really deliver their return on investment, a resource must be a *valuable resource*. The following text builds on a set of theories known as *resource-based strategy*, which describes why resources can contribute to competitive advantage (Barney, 1991; Grant, 1991). Here is how it works.

If an organization has a set of resources that enable it to reach its business objectives in a cost-efficient, qualitative and innovative way, it will contribute to a good ROI on these resources. However, when competitors have the exact same set of resources, the resources themselves do not contribute to a competitive advantage anymore and therefore lose their value for the company. In other words, in order to be valuable, a resource must contribute to a greater amount of cost-efficiency, a better quality of the service or product, and to more innovation than the resources available to the competition.

An organization that is the first to own new technology has a valuable resource in hand and may outperform competition as long as competitors do not install the new technology as well. For example, when one farmer succeeds in developing an innovative strawberry picking machine that does not bruise the fruits, this would significantly reduce labor costs and provide this farmer with a competitive advantage. However, competitors are likely to follow quickly to buy such a machine. Hence, the competitive advantage of the first farmer will quickly fade as competitors start using similar technology. First-mover advantages are always temporary. Therefore, it is even better when a set of resources becomes really difficult to imitate by competitors. Unique sets of resources that are hard to duplicate by others lead to *sustainable competitive advantage* (Barney, 1991). Hence, those organizations that strategically create a set of valuable resources which are also difficult to imitate will be able to outperform their competitors in the long run. Following the logic that only resources with certain characteristics contribute to the sustainable competitive advantage leads to a set of requirements to obtain truly valuable resources (Grant, 1991).

First, valuable resources are *sustainable*, meaning that the organization can rely on their availability over a longer period of time. Second, valuable resources are *rare*, thus not easy to obtain. For example, an excellent location for a new restaurant in the city center is rare and difficult to obtain and can be a real valuable resource

for competitive advantage. Third, *transparency* matters. The less transparent it is to others how a set of resources leads to competitive advantage, the more difficult it is for competitors to follow that exact same strategy and the more valuable a resource is. Secret recipes for cola are examples of non-transparent and therefore valuable resources. Finally, difficulties of *transferability* contribute to how valuable a resource is. Some resources are attached to an organization and cannot (easily) be copied from one organization to the next, for example intangible resources like reputation and tradition are very difficult to transfer and therefore highly valuable.

When assessing the value of the three broad categories of resources (physical capital, organizational capital and human capital) against the requirements for valuable resources, it strikes how important organizational and human capital are. Table 2.1 illustrates the potential of each category of resources to become a valuable resource for competitive advantage. It shows that the intangible resources such as reputation, relations, knowledge, skills, and motivation (social organizational capital and human capital) have far larger potential for a valuable contribution to competitive advantage than buildings, machines, policies and systems (physical and structural organizational capital).

Table 2.1: The value of different types of organizational resources

	Physical capital	Organizational capital		Human capital
		Structural	Social	
Sustainable	✓	✓	✓	✓
Rare	✓	✓	✓	✓
Non-Transparent	-	-	✓	✓
Non-Transferable	-	-	✓	✓

This conclusion of the resource-based perspective holds important lessons for human resource management. Organizations that invest in human and social capital will achieve a workforce that is capable and motivated, which works together in a constructive way, and will therefore positively contribute to organizational success and competitiveness.

Despite the importance of human and social capital to the performance of organizations, it is difficult to express the revenues of human and social capital in the book value of organizations. The yearly financial balance sheet usually shows physical and financial capital (machines, buildings, goods, rents, debts and reserves). Because human and social capital are harder to directly observe and measure, it is more difficult to assign a monetary value to them. It is, however, possible to get an impression of the value of intangible capital, for example by looking at the so-called ‘stock price to book value’. This estimate calculates the ratio between the book value

of the organization (from the organization's yearly financial report) and compares that to the market value of the organization (from the stock market). If the stock market value largely exceeds the book value, this indicates that the organization has a large share of intangible capital. For example, knowledge-intensive information technology organizations tend to have a big difference between book and market value because their physical capital is relatively low compared to organizational and human capital. This indicates the relative importance and value of human and organizational capital to knowledge-intensive organizations.

A few words of warning are necessary before using this estimate for the value of human and social capital. First, a large stock price to book value ratio could also simply imply that an organization is overrated on the stock market, which happened during the dotcom crisis in the 2000s, or more recently in the crisis that started in the overheated banking sector. Second, calculating the stock price to book value is impossible for public service and privately-owned organizations that do not have a stock market value.

Another way to understand the importance of human and social capital to organizational performance is by looking into research evidence, as will be illustrated later in this chapter. In order to understand the research in this area, the next section first zooms in on human and social capital theories.

Human capital theories

The unique aspect about people compared to buildings, machines and systems is that organizations do not own people. Much-valued resources like knowledge and skills are owned by people, who can decide for themselves if they are willing to use their knowledge at work for an organization, and with which effort. This makes human capital a complex type of resource. Human capital theories are grounded in two research disciplines: in economics (Gary Becker, Human capital theory), and in psychology (Spearman, Individual differences and performance theories).

Economic theory: Human capital (Becker)

Human capital theory was 'invented' in the 1960s by the economists Schultz and Becker (Becker, 1962). They regarded education as an investment that renders good returns for people because educated people get better jobs and earn more than non-educated people (Becker, 1964). Moreover, the relationship between education and returns is linear: the higher the level of education, the better the prospects for a good job and a nice salary. In the first writings on human capital, it was mostly considered an individual asset (Becker, 1962), but later scholars successfully applied the concept of human capital as an asset of organizations (Andrews, 1965; Chandler, 1962; Crook, Todd, Combs, Woehr, & Ketchen Jr, 2011). The common

definition of human capital for both individuals and for groups of people often found in literature states that human capital is *all the knowledge, skills, and abilities (KSAs) in an organization that are embodied in people* (Coff, 2002).

Individuals who invest in their education will increase their human capital, which will help them obtain a better position in society. Continuous investment in education also guarantees that knowledge and skills remain up-to-date and reduces the likelihood that changes in technology or otherwise will lead to useless knowledge. Hence, human capital needs nurturing and investments to stay up to date: ‘lifelong learning’.

Human capital as a group characteristic of the entire workforce of an organization contributes to strategic goal achievement, to an increase of efficiency and effectiveness within an organization, to spotting new opportunities, and to innovation.

The central tenet of human capital theory at the individual and group level is threefold:

1. Human capital can be *rare*. Since not all people equally possess the same knowledge, skills and education, human capital is not easily accessible. Organizations need to search for the right employees who hold the necessary human capital. Especially people with high-level professional education and experienced senior managerial staff are much sought after by employers. This nicely fits the requirements laid out in the section on valuable resources; because human capital is owned by individuals, it cannot easily be transferred or copied.
2. Human capital *develops over time* by training, education and experience. To be a sustainable resource, it needs nurturing and investments. For example, many typists who were trained in using mechanical typewriters, but who did not invest in learning how to work with text processing software, lost their jobs in the nineties. Today, mainly ongoing technological innovations lead to changes in job requirements that cause knowledge to become quickly outdated. So, in order to be able to work throughout their careers, people have to invest in their continuous development to ensure their employability. The same goes for organizations that do not invest in training and development of their employees. Without investments in employee development, organizations have a workforce unable to deal with changes in the demands and challenges organizations are facing. Those employees and organizations who invest in training and development will benefit from up-to-date knowledge, skills and abilities.
3. Human capital can be *general* or *firm-specific*. General human capital means all knowledge and skills obtained in general education, or by working in an industry. For example, a mechanic can obtain certificates to work with

welding equipment that is widely used throughout the industry and thus the mechanic can use this ability in any firm. Firm-specific human capital, in contrast, develops while working and being trained in a specific organization. For example, training in using specific procedures and programs that are only used in one organization, leads to human capital that is more difficult to use in other organizations. Years of work experience in one organization also contributes to firm-specific human capital. Firm-specific human capital helps people to allocate resources such as knowing who does what and where within the organization to do their own work well in the specific organizational context. Hence, firm-specific experience is the oil that greases work processes and the dissemination of knowledge between people within organizations. A meta-analytical study that compared the value of generic and firm-specific human capital for organizational performance showed that both types of human capital increase organizational performance, but that firm-specific human capital leads to even larger returns than general human capital (Crook et al., 2011).

To conclude, human capital theory concentrates on knowledge, skills and abilities that workers gain through training and work experience. Organizational investments in training and development contribute to the human capital of the workforce, which is an important organizational resource. The next section concentrates on the type of human capital that exists because people differ from each other, because they are who they are: some are smarter, wiser and more productive than others by nature rather than by training. Where the economic perspective on human capital proposed in this section views human capital as the result of investments in training, the individual differences perspective emphasizes naturally occurring differences in human capital between people. Rather than promoting training as the vehicle to gain human capital, the individual differences approach is mostly visible in employee selection practices.

Psychological theory: Individual differences (Spearman)

The big question in the *individual differences* approach is which individual characteristics are stable and predict differences in individual performance of employees. For over a century, recruiting organizations have been looking for key abilities of people that determine differences in individual performance. There is an anecdote about Alexander the Great, who made military recruits jump off a cliff and swim across a wild river (Guion, 2011). He selected only those into his army who dared to jump and made it to the other shore. In all its simplicity, this was an effective selection method for brave and physically tough soldiers. This ancient example illustrates how the type of job (in this case, soldiering) requires specific abilities (in this case, strength and courage). It also illustrates that people differ in the required abilities (some were not physically strong enough), and that

differences in abilities matter for performance (the strongest and most courageous arriving first).

Nowadays, the selection and hiring process is an expensive procedure for organizations if you for instance only think about the recruitment costs for posting job advertisements or being present at job fairs. Furthermore, the firm has to make interview costs and so-called adaptation costs since a new hire is less productive in the beginning than an experienced employee and may need additional training. Mistakes in the hiring process that lead to a mismatch between the KSAs of the selected person and the KSAs needed for a vacancy can therefore have detrimental financial consequences. Furthermore, applying valid recruitment instruments to select the right applicant has an impact on future organizational performance. For example, a utility analysis that compared different selection methods for sales representatives found that using valid selection methods would lead to a 34% increase in productivity. In monetary value, this means that if an average sales representative's productivity is 126,000 dollar per year, using a better selection procedure could increase this productivity with 43,000 dollar annually (Farrell & Hakstian, 2001). Hence, selecting the right people for the right positions brings substantially larger revenues to organizations, and it will come as no surprise that researchers and practitioners are highly interested in the domain of individual differences and their impact on performance.

There is a wide array of abilities on which people differ that may relate to differences in performance, for example physical strength, intelligence, personality, preferences, motivation, and behavior. For selection purposes, it makes sense to focus on those abilities that are measurable, stable and that cause real differences in performance. Serious research into individual differences related to performance took off in the early 20th century with the work by Spearman (Spearman, 1904). He supposed that there is a latent underlying ability, which he called 'g', or 'general mental ability', that accounts for differences in performance between people over a variety of tasks. This was a brilliant insight, because selection would be much easier if indeed one ability could explain performance in various domains. It took a few more decades before researchers agreed on the existence and nature of 'g', but today the amount of evidence for a few key abilities that matter for performance is impressive. Comparing all kinds of performance domains, the following three abilities stand out: intelligence, conscientiousness and, to a lesser extent, emotional stability.

1. Intelligence is a latent ability that appears when people perform tasks in which active information processing is involved like solving puzzles, learning a new language, calculating, and making associations. It is the speed with which people process, retrieve and combine information. The general level of intelligence predicts how well people perform all kinds of different tasks. The reason why more intelligent people are better performers at work is because they are able to obtain

more knowledge about their jobs and the organization in a shorter amount of time. The better people know their jobs, the better they perform (Schmidt & Hunter, 2004). Because intelligence can be measured by reliable tests, it is an excellent selection criterion that reduces the chance of a wrong hire by 50%. Of all selection instruments, intelligence tests have the highest reliabilities. Moreover, people achieve stable scores on intelligence tests, even over very long periods of time (> 20 years), indicating that intelligence is a characteristic that does not develop after adulthood. And even within groups of a similar educational level, differences in intelligence predict differences in performance. This makes intelligence the most important individual difference characteristic to date (Kuncel, Ones, & Sackett, 2010).

2. *Personality* is the second domain of characteristics that qualifies for finding meaningful differences between people that matter for performance. Personality encompasses a relatively consistent style that people show in the way they think, act and feel as they respond to their environment. Definitions of personality mostly relate to personality traits (Hofstee, 1994) which are distinguished entities that can be compared for individuals (Cattell, 1943). This displays that personalities are able to vary across a number of dimensions. Most researchers agree on a model that distinguishes five personality traits, called the Big Five or the Five Factor Model of personality (McCrae & Costa, 1987). The acronym OCEAN summarizes these dimensions: Openness to new experiences (versus conventional), Conscientiousness (versus un-directedness), Extroversion (versus introversion), Agreeableness (versus antagonism), and Neuroticism (versus emotional stability). In an impressive number of studies, each of these dimensions has been related to overall performance (Barrick, Mount, & Judge, 2001). However, most effects are quite small and tend to diminish when controlling for overall intelligence. One of the problems concerns the measurability of personality. Other than intelligence tests, personality measures are self-reported questionnaires that ask for people's self-evaluation of a trait. This requires some level of self-reflection and a lot of honesty. So, compared to intelligence tests, personality measures are somewhat less reliable. This reduces their predictive power. The only two personality dimensions that have a separate and somewhat more substantial contribution to overall performance over and above intelligence are conscientiousness and emotional stability.

Conscientiousness is the preference to work hard, to work neatly and to complete all tasks. This trait does not correlate with intelligence and it correlates positively with performance. This indicates that selection of people based on intelligence in combination with conscientiousness leads to the best prediction of performance. While smart people quickly learn to perform well, conscientiousness will help people to stick to promises and to put effort into bringing their work to a good end.

Emotional stability is the tendency to not experience anxiety or hostility. It also holds no correlation with intelligence, but its relationship with overall performance is weaker than that of conscientiousness. People with stronger nerves are better able to cope with stressors at work, which makes them better able to focus on the task rather than worrying about other things.

The remaining personality traits have no relationship with overall job performance, but they do in some cases matter for particular types of performance. For example, extraversion is a trait that benefits managerial performance, and openness to experience is beneficial for tasks that involve learning and change (Barrick et al., 2001). A thorough job analysis will show which behaviors really matter for a specific position to achieve a great job performance, and for these specific behaviors specific personality profiles can be proposed.

Although several new abilities have been suggested that could additionally qualify as individual difference predictors of performance (e.g. emotional intelligence), none of these have the same research evidence as the three abilities mentioned in this section (intelligence, and the two personality traits conscientiousness and emotional stability).

The reason why these individual differences matter for performance is because people who think fast (intelligence), who are determined to succeed (conscientious) and do not get stressed too easily (emotional stability) are most capable of learning the job and getting results. It is reasoned that this combination of individual capabilities enables people to succeed in education and in learning at the job, which in turn contributes to their achievements at work (performance) and in life (career, health) (Kuncel et al., 2010) (see Figure 2.1).

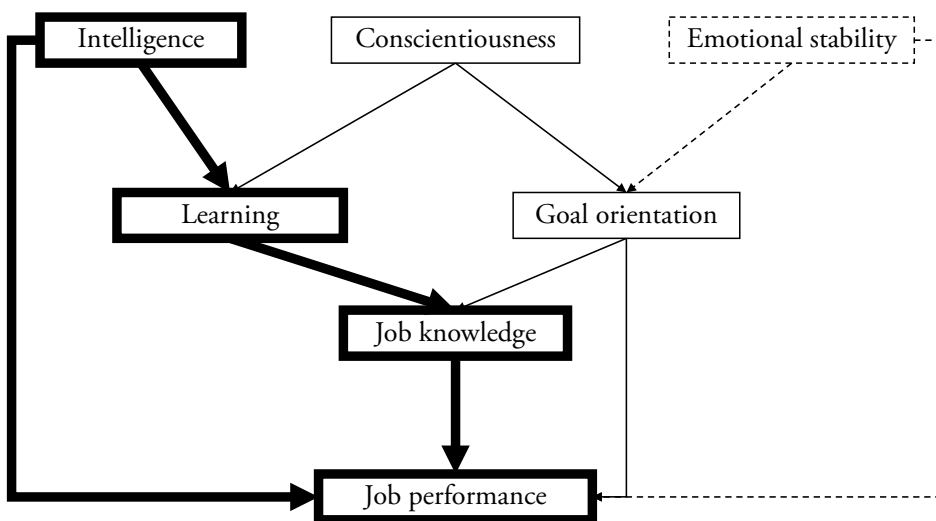


Figure 2.1: Individual differences and job performance

Other than the human capital theory laid out by Becker, the individual differences approach was not intended to predict unit-level outcomes such as turnover or organizational performance, but individual performance. However, the individual differences approach does help to detail the essence of human capital before aggregation. Human capital theory and individual differences theories on intelligence and personality are complementary in their conceptualization of human capital. Human capital theory predicts that organization-specific human capital, that is the ultimate source for competitive advantage, develops by learning organization-specific knowledge and skills on the job. According to individual differences theories, more intelligent and more conscientious people are best capable of acquiring job-specific knowledge and skills. The theories therefore underline the importance of selecting those with outstanding abilities and to keep investing in training and development after hiring.

Social capital theory

Human capital theories concentrate on knowledge and abilities that nest in people and that together aggregate to a group of smart and wise employees. *Social capital* focuses on the interactions between people. It can be broadly defined as the potential that is generated by the network of social relations in an organization and that can be used to enable actions (Adler & Kwon, 2002). For individuals, social capital (knowing who) is as important as human capital (education, knowing what) for career advancement. For organizations, social capital means synergy between employees, which facilitates cooperation and is positively associated with sharing knowledge and creating opportunities to learn and innovate. Social capital is also defined as the goodwill that is available to people or groups: are connected people or groups willing to help and inform each other? Hence, the value of social capital follows from the information, influence and solidarity that are available to people (Adler & Kwon, 2002).

The origins of social capital theory are rooted in thinking about the prosperity of communities. In order to survive and develop, communities have always needed to cooperate not only within the community itself by connecting the talents of people to achieve community goals, but also by relating the community to other groups in order to obtain the resources they need (Jacobs, 1965). In addition, Loury (1977) theorized that networks are important for individual success as well. Both authors emphasized that with whom one has ties in the network and the quality of those ties between actors are an important resource for groups and individuals alike.

Three dimensions of social capital are discerned, namely structural, relational and cognitive social capital.

1. *Structural social capital*: The number and pattern of connections that individuals or groups have with others (Granovetter, 1973), also referred to as 'bridging'. The structure of a network determines who you can connect with to reach a goal for which you need someone else. Connections in a network of relations allow people to build bridges to people they do not connect directly with, but who can provide the resources they need.
2. *Relational social capital*: The quality of relations within a network, also referred to as 'bonding'. Interactions between people are facilitated if people know each other and trust each other. Relational ties are stronger in friendship relations than in business relations. In friendship relations, people are willing to go the extra mile for each other, while business relations are more focused on economic transactions. However, friendship-like relations in business provide a lot of goodwill and are very beneficial to the people involved. Good-quality ties bring cordiality, approval and prestige. For example, employees who hold a good-quality relationship with their superiors will find it easier to get access to information and resources to advance their careers.
3. *Cognitive social capital*: The overall climate in an organization regarding the goodwill to share information and trust each other. Some organizations have put facilities and communication in place that facilitates cooperation and teamwork. For instance, implementing team rewards most likely lead to a higher willingness to share knowledge within a team to achieve a greater group performance. The implicit message by organizing work to intensify the amount and quality of relations in the organization is that relating to others throughout the organization is valued behavior, making people more prone to participate in connecting to others.

Social capital is mostly complementary to human capital. By bridging people, ideas and knowledge (human capital) are exchanged, which contributes again to the development of human capital. Moreover, in close and bonded relationships, people are willing to put in effort and share resources, thereby facilitating the flow and use of resources in the organization.

Like human capital, social capital needs maintenance. Without actively reinforcing existing relationships, the quality of those relationships will deteriorate and the connection will diminish. Socializing, communication and cooperation are important behaviors to reinforce and develop relationships and to build social capital. Organizations can stimulate the development of social capital by creating opportunities (structural lay-out of the network should enable cooperation), by motivating to contribute to social capital (promoting trust, interpersonal liking and creating bonds) and by providing the resources that facilitate bridging and bonding (such as communication systems, time) (Adler & Kwon, 2002).

Unleashing human and social capital: Social exchange theory

Human and social capital are ‘stored’ within people who can decide for themselves to put their capital to work for the organization. So, it is not enough to have a set of talented people with excellent social relationships. In the end it comes to their willingness to apply their knowledge, skills and social connections at work to contribute to the goals of the organization. What is missing in the resource-based theories of human and social capital, is the explanation why people would use their human capital at work and why they would generate social capital. Practical observations of performance differences between teams and organizations of equal levels of human and social capital help to understand the need for such a theory. Apparently, in some teams and organizations people are more willing to commit their resources to work than in others.

The most cited theory to explain why people put in effort at work is the *social exchange theory* (sometimes abbreviated as SET). Social exchange theory is a broad theory about human behavior in relations. It states that relations develop as the result of some universal implicit rules about how to behave in lasting relationships. In SET, relationships are viewed as exchange relationships where people bring something and receive things they want in return. The exact nature of what people want in relations and what they are willing to bring in order to sustain a relationship was outlined by a number of authors in the fifties and sixties. There has been no author who is solely responsible for the development of social exchange theory. The key ideas of the theory are explained by following the contributions of each founding father of SET: Homans (1958) who defined relationships in terms of costs, benefits and exchange, Gouldner (1960) who introduced the norm of reciprocity, and Blau (1964) who extended the ideas of exchange and reciprocity to the organizational context. The three ingredients that capture the essence of social exchange theory are described below.

1. *Relationships as exchange mechanisms.* Homans (1958) was a sociologist writing about relations between people. He said that people are essentially hedonistic, looking for fun and pleasure in their lives. Therefore, people behave like “Homo Economicus” looking for relationships which provide them with the most pleasure in exchange for the lowest effort. In order to secure a pleasant relationship, people are willing to invest in that relationship. Efforts invested in a relationship can be both economic and social. Examples of economic efforts devoted to a relationship are time and money. For example, employees invest time in their jobs at the cost of time they could otherwise spend at home, because they get money for it that enables them to have more fun in their leisure time. Social efforts in relationships concern non-tangible input and benefits, such as friendship, attention, love and trust. Social exchange relationships reap much more

pleasure than economic exchange relationships. People are therefore more willing to invest in social exchange relationships than in economic exchange relationships. Economic exchange relationships are based on a contract: so much effort for so much returns. Social exchange relationships are more open ended. As long as there is a balanced exchange of love, trust, attention and the like, the relationship will continue to exist. The relationship will end when the benefits (love, friendship, fulfilment of sexual desires) no longer outweigh the costs (conflicts, compromises).

2. *The norm of reciprocity.* Gouldner (1960) was a psychologist who wondered why people are even willing to persist in a relationship if there is an apparent unbalance between their perceived input and what they get in return. For example, why do abused women stay with their violent partner? To understand such behavior, Gouldner introduced the norm of reciprocity. Reciprocity is the unwritten rule that one should equally reply to the input of the other in a relationship. This unwritten rule feels like an obligation. If someone smiles at you, you feel the implicit obligation to smile back. If you are asked a question, you automatically sense that you need to reciprocate with an answer. The larger the gesture, the more pressing this sense of reciprocity. This urge to reciprocate the input of others in relationships is an inborn habit of people. Reciprocity expectations are important to people. If you are nice, you expect the other to be nice as well. And if the relationship is valuable to you, you are even willing to go the extra mile by being very nice to the other person because you expect that the other will eventually reciprocate by being nice to you in return. People are even willing to wait for the other to reciprocate over a longer period of time, especially when one has already put a lot of effort into a relationship or if one perceives that the alternatives to this relationship are even worse. In this case, it becomes really difficult to let go of that relationship. This explains why apparently unbalanced relationships do not break up. Although outsiders see the unbalance, the deprived party in the unbalanced relationship still hopes that all their love, attention and efforts will be repaid in the end. After all, having a bad relationship is better than having no relationship at all...
3. *The organization as exchange party in employment relationships.* Blau (1964) was a sociologist who examined work relationships within organizations. He defined the employment relationship as an exchange relationship between employers and employees. While Homans and Gouldner focused on dyadic relationships between people, Blau theorized that people can also develop relationships with more abstract things such as 'the organization'. Of course, organizations are not persons. However, employees assign people-like characteristics to organizations. They describe their employer as being good

and caring, or as being demanding, discriminating or generally not fair. An organization that is perceived as good and caring will reap social exchange relationships. In organizations that are less nice and where people come to earn an income and nothing else more economic exchange relationships will develop. Because people find social exchange relations more pleasant than economic exchange relations, they are willing to put more effort into employment relationships that offer them things they like from social exchange (attention, growth, trust), than in employment relations that are based on the economic exchange (just wage for the hours worked and nothing else). The norm of reciprocity dictates that if the organization exceeds the expectations that employees have about what the organization should do, employees feel the implicit obligation to return the organization's good care with extra effort. So when an organization offers an excellent package of benefits, employees will be motivated to work very hard and as such compensate for their employer's kindness.

Today you see that these essential ideas laid out in social exchange theory have inspired many theories about people at work, for example to what extent the relation between leaders and subordinates influences the follower to put in extra effort (Leader-member exchange (LMX) theory, Graen & Uhl-Bein, 1995), or how the frustration of expectations that employees have about their employer leads to compensating behavior (Psychological contract theory, Rousseau, 1995) and how employees perceive the behavior of managers representing the intentions of the 'person' of the organization (Organization support theory (OST), Rhoades & Eisenberger, 2002). Moreover, social exchange theory inspired work on justice and trust in the context of the employment relationship (Colquitt, Conlon, Wesson, Porter, & Ng, 2001).

The important lesson from social exchange theory is that while investing in the development of human and social capital, organizations have to think about the employment relationship in which employee-owned human and social capital are exchanged for salary and other inducements favored by employees. Although employment relationships start as business relationships defined by a contract in which people agree to spend their time, knowledge and effort on behalf of the organization in return for income, it has the potential to grow into an open-ended social exchange relationship with a willingness to put in more effort than contractually agreed on.

Social exchange is especially used to explain employee behaviors that go beyond contracts, such as organizational citizenship behavior and organizational commitment. Organizational citizenship behavior (OCB) is behavior that is not formally required by the employer in a job description, but which contributes to the overall functioning of the organization (Organ, 1997). An example of organizational

citizenship behaviors is talking positively about the employer to people outside of the organization, or working extra hours to get the work done, or helping new team members find their way in the organization. Organizational commitment expresses that people choose to stay with their employer instead of looking for a better job (Allen & Meyer, 1990). High employee turnover, the opposite of commitment, causes destruction of human and social capital and leads to high hiring and training costs for the organization. By investing in employment relationships, employees will perceive these as a social exchange relationship and organizations will benefit most from the potential of acquired human and social capital.

The next section shows some of the overwhelming research evidence for each theoretical contribution presented in this section.

Key research

There is a tremendous amount of literature about the relationship between HRM and performance, and many of those build on the theories explained in this chapter. The selected research that is presented below explicitly focuses on human and social capital in relation with organizational performance, showing the 'evidence' that the proposed mechanisms matter for businesses.

1. *Human capital generated through education and experience.* A meta-analytic study by Crook et al. (2011) took all studies between 1991 and 2011 into account that took a measure of human capital and related it to some indicator of organizational performance (N=66 studies, n > 12,000 observations). Human capital measures encompassed for example investments in training or the aggregated amount of experience of the board of directors. Performance indicators were for example the financial performance of organizations, or the average employee productivity. On average, they found an overall effect of $r = .21$ between human capital and organizational performance. To give an example, a one standard deviation increases in human capital (i.e. the aggregated amount of experience of the board of managers) from 35.2 to 59.4 years, on average, translates to an increase in ROA (return on assets) from .05 to .09, an 80% improvement. Hence, human capital pays off. The study further shows that company-specific human capital yields even greater returns on investment than general human capital. This difference was rather large. It implies, for instance, that a management team with a lot of specific organizational experience, as expressed in the number of years they have worked together in the organization, would be more productive than a management team with very bright MBA graduates who have a shorter aggregated tenure in the organization.

2. *Human capital generated through individual differences.* The key assumption that individual differences in intelligence and personality relate to individual performance differences has been very well researched (Barrick et al., 2001; Kuncel et al., 2010). As well-examined in a number of studies is the assumption that a workforce with higher average intelligence, conscientiousness and emotional stability also yields better performance at the team- and organizational level. Despite difficulties that derive from aggregating individual characteristics to some group level characteristic (for example: Should everybody be smart? Or is it better to have a mixture? Or do different personality traits matter at the group level but not at the individual level?), existing meta-analyses support the straightforward idea that higher average intelligent groups perform better as can be found in the meta-analysis by Devine and Philips (2001). Similarly, a higher average conscientiousness relates to better team performance (Peeters, Van Tuijl, Rutte, & Reymen, 2006). However, at the team level, the trait 'agreeableness' is more important than emotional stability for performance. Being nice and accepting towards others is a trait that is more beneficial to team processes than emotional stability, which is most important for individual level performance.
3. *Social capital.* Westlund and Adam (2010) examined the value of social capital impacting various outcomes for individuals, organizations and societies. For organizations, the results were unambiguous: there is strong evidence of the impact of social capital on organizational performance (Westlund & Adam, 2010). Furthermore, there is abundant evidence for the importance of all social capital dimensions for knowledge creation (Van Wijk, Jansen, & Lyles, 2008), team performance (Balkundi & Harrison, 2006) and employee retention (Moynihan, 2017).
4. *Inducing social exchange by investing in people.* A study by Tsui, Pearce, Porter, & Tripoli (1997) compared organizations with respect to the type of employment relationships they hold with their employees. They distinguished among others a type where organizations hold purely economic exchange relationships with employees (short-duration contracts, no further incentives) and compared that with organizations that aimed for social exchange relationships with their employees (open-ended contracts, a lot of extra inducements). In line with the predictions of social exchange theory, they found that the level of job performance, organizational citizenship behavior and employee commitment was much higher in organizations that really invested in their employees beyond the employees' expectations compared to those holding economic exchange relationships with their employees (Tsui et al., 1997). Other longitudinal and meta-analytical

evidence underlines that the behaviors induced by social exchange (OCB, commitment, satisfaction) result in better organizational performance (e.g. Koys, 2001).

5. *'Human resource' capital and competitive advantage.* Much of the research on the effectiveness of HRM in relation to organizational performance builds on the human and social capital theory in combination with social exchange theory presented in this chapter. The key finding of meta-analyses is that investing in people by creating a system of HR practices that improves human capital, social capital and employee reciprocity behavior matters for organizational performance. As a reference, see for example Combs, Liu, Hall, & Ketchen (2006), Jiang et al., (2012) and Subramony (2009). The following section will highlight HR practices organizations can implement to achieve a great performance because these develop and foster human and social capital as well as facilitate social exchange.

HR Practice

Many HR practices aim to contribute to the development of human and social capital, and to the motivation of people to utilize their human and social capital to benefit organizational goals.

HR practices for human capital

The most obvious HR practices that contribute to human capital are selection and employee training and development.

Selection happens before people enter the organization and is about applying techniques that reduce the uncertainty about the performance potential of new recruits. Given the rather straightforward findings of individual differences literature, one would assume that selecting by intelligence is a no-brainer. In practice, however, the uptake of selection techniques that really make a valid judgment about intelligence and conscientiousness is surprisingly low (Rynes, Colbert, & Brown, 2002). The most-used selection technique by managers is a simple non-structured interview in which hiring managers ask any question that pops into their heads. In such interviews, so-called rater mistakes easily interfere with sound judgment. Been to the same university? Great! Got a scholarship? Must be excellent at any other non-related skill. The power to make the right prediction based on such non-structured interviews is very low. The reason why its value is not completely zero, is because more intelligent people better know how to 'play' their interviewers, and get selected more quickly (e.g. Ng, Eby, Sorensen, & Feldman, 2005; Ployhart, 2006; Schmidt & Hunter, 1998). There are, however, more reliable ways to predict a candidate's performance. Here is an overview of the most valid selection techniques:

- *Tests for intelligence and personality.* There exist many short, reliable tests for intelligence and personality. Intelligence tests involve doing tasks that require cognitive processing of information, for example solving puzzles, analyzing texts or figures and making logical connections. Most tests for intelligence used in selection are speed tests in which applicants have to solve a series of tasks within a limited amount of time. The number of correct answers of a candidate is compared to the distribution of results of a norm group. Those who score more than one standard deviation above average people with the same background characteristics in the norm group (the same educational level) have a higher-than-average intelligence. Personality tests measure people's preferences for behavioral styles. Other than intelligence tests, these have no 'right or wrong' answer format. Personality tests are therefore slightly more subject to socially desirable answering by candidates. This means that knowing the job requirements can lead candidates to give answers they think the organization wants to hear rather than their real preferences. A good personality test is constructed in such a way that socially desirable answering is difficult. The interpretation of personality test results is comparable to that of intelligence tests. A candidate's preferences are compared to the average preferences of a relevant norm group. Those who score higher on a desired personality trait (for example conscientiousness) are likely to be better performers at work. The costs for using a test in a selection procedure are relatively small, given the return that selecting the best candidate will bring to the organization. Advice about the appropriateness of a test should always be considered when purchasing a test to ensure that a valid instrument is used.
- *Structured interviews.* Interviews are the most widely used selection method. However, not all interviews are useful in making good selection decisions. Most selection interviews are unstructured interviews. The disadvantages of these types of interviews are that they are ill-prepared, different for each candidate and subject to all kinds of rating mistakes. Good selection interviews are structured. This means that interview questions are based on an analysis of job requirements, that there is a scoring form to rate the candidates' answers to the questions, and that all candidates are asked the same questions so that they can be compared. Structured interview questions can serve to test job knowledge, to see if candidates are capable of performing relevant job behavior and even to measure personality. Structured interviews are not difficult or expensive; they just require a little more preparation than a traditional unstructured interview.
- *Work samples.* Work samples are exercises that take a part of the job and require people to perform that part of the job as well as they can. Work samples can involve showing a skill (a stonemason's work sample can consist

of laying bricks), having a conversation (a managerial work sample typically involves some conversation with a subordinate), doing a presentation or analyzing documents. Work samples mimic the behavior that is required in the actual job. They are based on the idea that if people are able to perform the behavior now, they will probably be able to show the same behavior in the future on the job. Work samples have high predictive validities, meaning that they are good instruments to use in selection. There is, however, some debate about work samples as compared to structured interviews and tests, because of their high development costs and the changing nature of jobs. Work samples that mimic the actual job the closest tend to have better predictive validity than those that are more generic situations. But developing a specific work sample for every job is quite expensive. Moreover, jobs tend to change and this could result in outdated work samples. Some researchers therefore argue that it is better to select on stable characteristics like intelligence and personality, because smart and hard-working people will be able to learn changing job requirements. Put more technically, the predictive validity of work samples reduces over time, while the predictive validities of intelligence and personality are stable predictors of future performance over a longer period of time.

Training and development most likely take place after organization entry and consider all activities aimed at increasing knowledge, skills and abilities of people. The chapter on learning organizations will further elaborate on theories and evidence about learning and development. In this chapter on Investing in People, the focus is on the question how to invest, in order to improve the human and social capital. Here are some examples:

- *Strategic human resource development plans.* Given the expenses incurred by training and development activities, a strategic investment in creating training budgets will yield the largest return on investment. This may involve understanding the most critical functions in the organization, investigating knowledge gaps and weaknesses and drafting a training and development plan for those positions.
- *Training budget.* Simply allowing all employees to work on their own development by offering and financing training and learning activities will stimulate the workforce to keep their human capital up to date.

HR practices for social capital

To improve social capital, we need to turn away from individual characteristics and focus on interactions between people in organizations. HR practices that stimulate cooperation are work design interventions in which people have to work together, meet and interact.

- *Self-managed teams.* Delaying organizations and transferring decision authority to teams stimulates the necessity to work together within teams and to build bridges to other individuals and teams in organizations. This will increase the number and the quality of social ties in the organization.
- *Cross-functional collaboration projects.* Deliberately form teams of people from different departments to solve complex organizational challenges.
- *Office lay-out.* Simply thinking about the design of offices can stimulate social ties. Many bright ideas develop from meetings at the coffee machine.
- *Socializing events.* Create opportunities and communicate the importance of socializing at work.
- *Employee involvement.* Ask employees for their input concerning their work, their team and the operation and strategy of the organization. This improves horizontal ties between co-workers, but also improves the hierarchical ties from merely sending to really sharing in top-down relationships.

HR practices for social exchange

Finally, to improve social exchange in the employee-organization relationship, organizations can design HR practices that make employees feel they are appreciated. Examples of HR practices to stimulate a social exchange relation of employees with their employer include:

- *Excellent packages of pay and benefits.* In particular, systems of benefits that are valued by individual employees. The more employees feel their remuneration package fits their needs, the more they will appreciate their employers. Organizations can offer pensions, insurances, flexible working arrangements and reimbursement of travel expenses.
- *Career development opportunities.* Offering career paths is highly appreciated by employees. People feel valued when they see positive prospects to increase their own human capital.
- *Performance feedback and appraisal.* Managers who take the time to communicate, give feedback and praise each individual employee will stimulate the relationship quality with subordinates and motivate social exchange induced behaviors. Verbal appreciation by superiors is even more important to generate social exchange than impersonal systems of bonuses.

The above list of HR practices is far from complete. There are many creative ways in which organizations work on improving human and social capital and social exchange. Evidence-based practitioners can build on many examples of specific HR interventions in the literature. Also, the insights from the theories presented in this chapter will contribute to drafting new types of interventions.

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Summary

This chapter showed the key theoretical contributions to understand the importance of strategic people management in organizations. First, resource-based theories point out the potential that organizations can build a strategic advantage by having a unique quality of resources. Human resources, the set of people and their skills, knowledge and abilities contributing to achieving organizational goals, are an important source for achieving such unique competitive advantage. Human capital develops through education and training, and by cleverly selecting the best people from the pool of naturally occurring differences in intelligence and personality. In addition, strategic investments in the layout of collaboration in organizations stimulates the development of social capital, which facilitates the application of human capital to benefit the organization. Finally, social exchange theory illustrates that in order to fully benefit from human and social capital, conditions should be created that motivate people to exchange their goodwill and resources in relation with each other and the organization.

CHAPTER 3

KNOWLEDGE MANAGEMENT

Chapter in brief

How can knowledge be effectively acquired, developed and used to benefit organizational performance?

The key theories are:

- Types of knowledge and learning
- Knowledge-based theory
- Transfer of knowledge and absorptive capacity
- Organizational knowledge creation theory
- Organizational memory

The key HR practices presented in this chapter are:

- Formal learning
- Informal and workplace learning
- Knowledge transfer and creation
- Knowledge storage and retrieval

Introduction

A big data revolution has entered every aspect of our lives, including Human Resource Management. The amount of information available from the Web, social media, from data generated from software and hardware, from cellphones and tablets, and from financial transactions is increasing exponentially each year. Managers wonder about how this abundance of information can be used to benefit organizations. How can we make sense of all this information and use it for decision-making? How can it contribute to innovative products and services? And how can all the information support the human capital of an organization? To transform information into a valuable resource that can be used for decision-making and innovations, it has to be processed and become 'knowledge'. Unlike information, knowledge can be used to actually do things, for example, selecting the relevant information to use in strategic decision-making. Put simply, a dataset with personnel records in itself does not tell you how human capital can be improved. Only someone with the knowledge to ask the right questions for guiding data analytics will come up with a synthesis of the data that can effectively support decision-making.

Knowledge is thus a valuable asset for organizations. Organizations increasingly demand employees who know how to create, share and use knowledge in order to operate their complex technology and organizational processes. Organizations with a better educated, more experienced workforce outperform their competitors, in particular when the knowledge that is acquired and developed is specific to that organization. Since organization-specific knowledge is hard to imitate and transfer, resource-based theories predict that knowledge management can provide a unique source of sustainable competitive advantage for organizations.

Organizations stimulate knowledge development in several ways such as by investing in training and development. Worldwide training and development expenditures by organizations are estimated around 360 billion Dollar a year (Bureau for Training Industry Research, 2017). Training expenditures pay off for organizations: expected returns enable better productivity, more innovation, less employee turnover and better recruitment prospects (Aguinis & Kraiger, 2009).

However, training is not the only HR practice that can support the knowledge base of organizations. Other examples are knowledge acquisition by performing tasks and mentoring or knowledge creation during projects and teamwork. This chapter delves into the core theories on knowledge acquisition, the creation of new knowledge, and the storage, retrieval and use of knowledge. To aid in the overview of theories and their applications in management, a distinction is made between knowledge at the individual level and knowledge at the organizational level. The distinction between individual and organizational knowledge helps to understand the key theories in this field.

Theory

To structure the vast amount of literature on knowledge in organizations, the text in this chapter is divided into two parts. First, knowledge and knowledge acquisition will be explained from the perspective of individual employees. The core theoretical discipline to understand learning is pedagogical science.

Thereafter, where knowledge in individuals is relatively straightforward and linked to the memory and information processing capacity of the brain, knowledge in organizations exists because it is stored in the memories of those who work in the organization, in individuals who make up the networks in which knowledge is shared. The chapter continues with organization-level theoretical perspectives on knowledge as a resource for organization performance, knowledge transfer, knowledge creation and innovation, and knowledge storage and retrieval. Many of these theories are grounded in (organizational) sociology.

Individual level knowledge

How individuals develop knowledge through learning is the core question of pedagogical science. Pedagogy is traditionally associated with learning in school systems, but found its application to adult education and human resource management. Pedagogical science provides theories on organizing learning and education, which helps to understand how individuals acquire knowledge, how they learn and what instructors (and managers at work) can do so that optimal conditions for learning are created (see for example Bartlett & Burton, 2016). The outcome of learning is knowledge.

What is knowledge?

Although it seems easy to talk about knowledge, it is quite a challenge to find a good definition in the literature. The question of what knowledge is, has occupied generations of philosophers from Plato to Popper. Scientists in the domain of knowledge sometimes even refrain from defining it at all (e.g. Grant, 1996). Others have suggested the following definition of knowledge:

Knowledge is defined as a 'justified true belief' that enables individuals and organizations to do the things they do and that varies between explicit knowledge and tacit knowledge (Nonaka & von Krogh, 2009).

Three elements make up this definition:

The first element is that knowledge is a '*justified true belief*'. Let's have a closer look at these three words to try and grasp what they mean. To start with the last one: '*belief*', is quite straightforward. Beliefs can differ from one person to the next – you can believe anything you like from fairytales to life on Mars - but this

is not knowledge. Some believe in global warming while others believe it does not exist. Hence, beliefs are not *true* until they can be checked (*justified*) with facts about the universe around us. Some beliefs are easily checked: “I believe it is cold outside” can easily be justified by going outside and feeling the temperature, or by checking the weather report. In this example, interaction with the environment helps to determine whether a belief can be justified as the truth. Once justified by checking, you *know* the temperature is low and that it is indeed cold outside. Your belief that it is cold became knowledge once you checked it with facts. This knowledge (“It’s cold outside”) enables you to act (e.g. put on a warm coat). More complex beliefs like “I believe in global warming” are not as easily checked as the outside temperature. Still, such beliefs can be justified as the truth if you find them consistent with and supported by other beliefs, like a belief in scientific reports that have checked longitudinal temperature patterns, or the belief that policy-makers know what they are talking about. This set of justified true beliefs constructs knowledge about global warming. However, a global warming cynic may use a different set of beliefs to justify the truth about the absence of global warming. Depending on your context and your own information bubble you use to check your beliefs, your knowledge can be very different from the knowledge of others. This implies that knowledge is not a sure thing, because it depends on beliefs and on the contexts against which the beliefs are checked for the truth.

This first element of Nonaka and von Krogh’s (2009) much-used definition of knowledge is almost philosophical. Its practical use lies in the reflection that knowledge is different from beliefs, and also different from facts and information. When scholars talk about knowledge in relation to employees and organizations, they take the first philosophical part of the definition for granted and focus on the second part (knowledge as a source for all actions) and the third part (the different types of knowledge).

The second element of the definition points out that knowledge ‘*enables organizations and individuals to act*’. With the use of knowledge, individuals and organizations are able to define and solve a problem or task. Doing your job requires knowledge because this allows you to skillfully do your day-to-day routines at work and to deal with new challenges. All the ‘justified true beliefs’ that form the knowledge about how your work is done best guide you how to do your job as well as possible. If you are new at the job, you need to acquire such knowledge to be able to do the job at all.

This second part of the definition is very practical: it introduces the notion that knowledge acquisition (learning) and knowledge transfer (teaching) are required to enable you to do your job well. But how can knowledge be acquired and transferred? This leads us to the last element of Nonaka and Takeuchi’s definition.

The third element of the definition is that ‘knowledge exists along a continuum between *tacit* and *explicit* knowledge’. Explicit knowledge is easy to understand: it can be explained to others and is written down in books or on the internet. Tacit knowledge is much more implicit; it refers to knowledge we are not even aware of that we possess it and use it. Tacit knowledge explains the difference in performance between novice and experienced employees. Although both have the same diplomas and read the same books, experienced employees know better how to apply that knowledge to specific problems. Hence, experience largely comprises tacit knowledge. If you ask experienced people why they do what they do, they may not even be able to explain it exactly. This last element in the definition of knowledge, the distinction between tacit and explicit knowledge, is of significant importance to researchers and organizations (Alavi & Leidner, 2001). It raises important questions on knowledge acquisition, development and storage and retrieval. Let’s have a closer look at the theory behind tacit and explicit knowledge.

Explicit and tacit knowledge

The distinction between explicit and tacit knowledge was first proposed by the multi-talented physician, chemist, economist and social scientist Polanyi (1891–1976). Looking back at his experience in various research domains, he wondered why scientists put forward their hypotheses for their research as they do. Looking at how scientists draft their research, it appeared to him that the research proposals they wrote were not the sole result of clean analytic thinking that could be traced back only to hard observable facts. Instead, the researcher’s personal experience, the decade in which they work, the institutes in which they are employed and many other unspoken experiences interfered with the hypotheses that were tested in their research. Hence, Polanyi noted that the process of drafting a research project contains many implicit processes that involve knowledge that does not appear in manuals or journals and that scientists are not even aware they possess. He concluded in a philosophical mood that even research, with its emphasis on the logic of deduction being the high road to finding the truth, was subject to all kinds of implicit processes that in the end hinder even researchers in ‘knowing the truth’ (Nye, 2011).

Polanyi named the implicit knowledge that interferes with the knowledge that is communicated and reported as ‘*tacit*’. The idea behind tacit knowledge is that much of what we know cannot be put into words: “we can know more than we can tell” (Polanyi, 1966, p. 4). For example, we usually cannot tell how we recognize a familiar face in a crowd; we just know. However, if probed upon this tacit knowledge, we could say what information we process in recognizing the person. This shows two things: first, tacit knowledge is needed to efficiently take decisions and do the things we do. If not questioned, it remains unconscious. Second, when probed, tacit knowledge can be communicated and made explicit. These insights

imply that knowledge is a continuum, ranging from explicit to tacit (Nonaka & von Krogh, 2009).

Explicit (also often called *codified*) *knowledge* is knowledge that can easily be communicated to others. It can be consciously accessed and it can be expressed in words, numbers or sounds. For example, it can be formulated in sentences or visualized in drawings. Another, more practical, example of explicit knowledge sharing is lecturing. When you attend a lecture in which a professor explains a theory to a group of students, you are receiving explicit knowledge from the professor. Explicit knowledge is the type of knowledge we can share with others by telling them about it. Explicit knowledge can be further divided into knowledge about facts (*know-what*) and knowledge about principles, laws and theories (*know-why*). For example, a lecture about knowledge theory is about sharing ‘know-why’, explicit knowledge, by means of communication. Explicit knowledge in organizations can be recognized by looking at all the communication that takes place in the organization.

Tacit knowledge is (more) difficult to communicate to others and not consciously accessible because it is highly personalized, based on experience and rooted in emotions, values, procedures and/or routines. For example, imagine a lecturer who just started his/her career. None of the colleagues formally shared knowledge on how to start off a lecture effectively, but after a while the lecturer will become more experienced and ‘just knows how’ to start a lecture smoothly. This kind of knowledge is tacit because it is gained from experience, not communicated, implicit and difficult to share with others.

Tacit knowledge can be further divided into knowledge about skills - how to do things (*know-how*) and knowledge about others who know the things that you need (*know-who*). Experience combines both types of tacit knowledge: experienced employees ‘just know’ how to do things, and they also know who inside or outside the organization they need to get the resources and knowledge they need. Newcomers in organizations can bring experience in general, but lack the tacit knowledge about how things are done in the new organization and about who knows more about what they need to know. Tacit knowledge in organizations is more difficult to pin down than explicit knowledge because it is expressed in doing rather than in communication. This makes the sharing of tacit knowledge more difficult than the sharing of explicit knowledge, as the following example illustrates.

Take as an example the tacit knowledge involved in driving a big truck. Imagine a situation in which an expert driver is probed to explain how she just managed to park her very big truck backwards into a narrow alley. Much of the driver’s behavior will be tacit: knowing how to steer the wheel just a slight bit to avoid the truck hitting the alley walls. However, when probed, she’ll be able to explain how she uses the mirrors, how she estimates the size of the truck in relation to the walls, and

how touching the steering wheel corresponds with the amount of movement the truck makes. Sure, the precise details of the tacit knowledge will remain unspoken, but a rough indication of the procedures involved in backward truck parking can be communicated and become explicit knowledge.

This illustrates that although we can distinguish two types of knowledge (explicit and tacit), in reality knowledge is not either explicit or tacit. Rather, there is a continuum between tacit and explicit knowledge that represents a range of knowledge mixtures of relatively more tacit versus explicit and relatively more explicit versus tacit knowledge.

Acquiring individual knowledge

The knowledge that individuals possess that enables them to function effectively in their jobs has to be acquired first. Knowledge is acquired through learning. Most people associate learning with the period in life when they visited school and obtained a diploma. After finishing school, some may attend training courses or part-time educational programs to upgrade their knowledge and skills to support their work performance or to advance their careers. However, learning does not only happen in classroom settings. Incidental meetings with others may provide new insights, or working on a project with people from different units at work also contributes to the development of knowledge. Hence, learning involves the acquisition of both explicit and tacit knowledge and can happen in the most unexpected situations. In general, learning will occur whenever people feel the need to learn, when they are motivated to learn, and when they have the opportunity (Marsick & Watkins, 2001). Knowledge acquisition in organizations can take the form of three types: formal learning, informal learning and incidental learning.

Formal learning happens when individuals participate in training programs in order to achieve some pre-established learning goal, for example learning a language, or learning to use a new method. Formal learning often (but not always) happens in classrooms, led by an instructor who has a plan of what the participants should learn and how. Managers are willing to invest in formal learning initiatives because there is a clear link between learning objectives and organizational goals. The initiative for learning is often instigated by managers in organizations, as part of the organization's strategy or as part of some organizational change program. Because it is planned, the learning experience can be adapted to the needs of organizations and its learners. Moreover, training design can significantly contribute to the experience of an effective learning event. The better the design of the training in that it applies theory-based learning principles such as involving participants in the design of the training, the trainer encourages participants to learn from errors in the classroom and activate participants during the training, the better the acquired knowledge will persist and be used (Aguinis & Kraiger, 2009).

In contrast, *informal learning* is usually intentional but not that highly structured. In informal learning, it is the learner who initiates the learning. An example of informal learning is an internship aimed at gaining practical experience that fits with an educational program. Other examples include coaching, networking with others, and mentoring. In informal learning, the learner takes the lead by actively searching for opportunities to acquire new knowledge. By relating the learning experience of the internship to the learner's goals, the learner comes to understand what was learned.

Finally, *incidental learning* is entirely unplanned, does not typically occur in a classroom setting, and does not have a pre-established learning goal. It just happens, without the learner being really aware that the new knowledge was acquired. Such incidental learning happens unconsciously and is not directly recognized as something that was learned. It is often the by-product of engaging in something else such as experimenting to make something work or learning how to deal with others while interacting.

These three types of learning can be placed along the continuum of knowledge types (see Figure 3.1). Explicit knowledge is the type of knowledge that can be talked about in a classroom or that is written down in textbooks, so it is associated with formal learning. Incidental learning happens at the other end of the continuum: it leads to tacit knowledge without being directly recognized as new knowledge. Informal learning takes a middle position on the continuum of explicit and tacit knowledge. Although the learning may be intentional and have a clear learning goal, it is mixed with tacit and also incidental learning. Because informal learning is intentional learning, the learner may be better able to actively reflect on 'what was learned' in relation to why the learner engaged in informal learning, and hence make the acquired tacit knowledge more explicit than in the case of incidental learning.

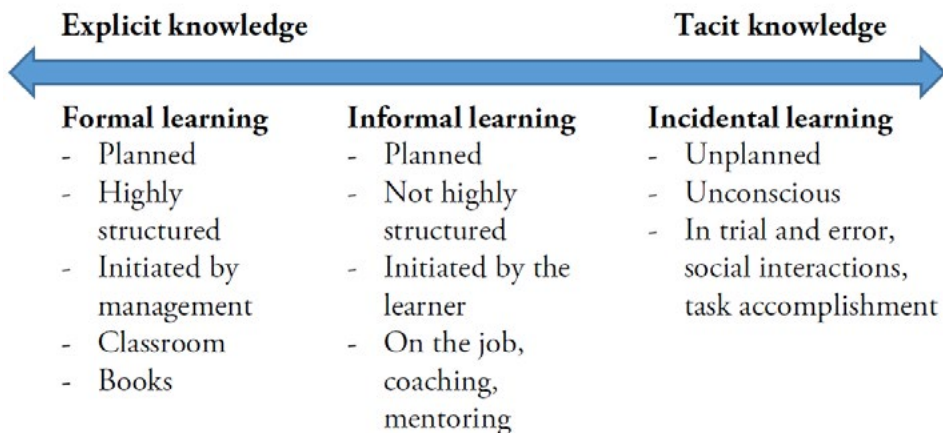


Figure 3.1: Knowledge continuum and learning types

Training transfer

Attending a training course does not automatically ensure there will be a change in behavior at work. Transfer needs to happen in order to bring the knowledge acquired in the training into practice at work. This may not always happen automatically. Applying new knowledge invokes a process in the individual where the explicit knowledge gained during the training has to be integrated with the tacit processes at work. The trainee has to reflect consciously on what they normally do at work, and where the newly acquired knowledge fits in. This process, which starts with acquiring explicit knowledge and blending that knowledge with the tacit knowledge used on a daily basis, is called training transfer.

Positive transfer of training happens when employees take what was learned in a training with them back to work and start using it to do their jobs. In contrast, negative transfer means that employees went to a training, learned something, but find no opportunity or need to use the new knowledge in their work (Blume, Ford, Baldwin, & Huang, 2010).

To make training investments worthwhile, training transfer should be properly facilitated. There are two ways to evaluate whether training transfer has occurred. First, it shows in *generalizability*. This means that trainees use the knowledge not only in the training, but find opportunities to apply their acquired knowledge in a whole range of different situations. Second, it shows in the *maintenance* of the new knowledge – the extent to which the changes caused by the training persist over time.

Knowledge at the organizational level

Knowledge is always on the agendas of both organizations and societies. For example in the nineties, the Organization for Economic Co-operation and Development (OECD) introduced the need to build ‘knowledge-based economies’ to increase the wealth of societies as a whole (OECD, 1996). Nowadays, knowledge and innovation take a prominent role in the business strategies of many organizations. Clearly, the concept of knowledge in this context does not only refer to individual learning, but also has meaning at the group level too. Looking into the research that explores knowledge in organizations, there has been a shift in theoretical perspectives. Instead of pedagogy, many of the theories on organization and country-level knowledge are grounded in sociology.

In the next part of the chapter, theories on knowledge as a resource for organizational performance, and theories on knowledge transfer, learning organizations and knowledge storage and retrieval will be explained.

Knowledge in individuals and organizations

Even in the definition of knowledge, there is an individual and a group level element: Knowledge is defined as a ‘justified true belief’ that enables *individuals and organizations* to do the things they do and that varies between explicit knowledge and tacit knowledge (Nonaka & von Krogh, 2009). Organizational knowledge is the knowledge that individuals share with each other and that is understood as ‘common knowledge’. Explicit knowledge is easy to share because it is written down or explained. By definition, tacit knowledge is more difficult to share because individuals may not even know that they know it. Tacit knowledge usually involves a social component. For individuals to acquire tacit knowledge, they need to have social interaction with others. Therefore, although tacit knowledge is stored in the minds of individuals, it can be transferred to others and become common knowledge in a social group. These social dynamics involved in the use, transfer and creation of explicit and tacit knowledge are central in organization-level theory on knowledge.

Knowledge-based Theory

Knowledge-based theory puts knowledge to the fore and suggests that knowledge is the key leverage for organizational performance and success. This is because knowledge is the critical input needed to create products and deliver services. Without knowledge, nothing would happen in organizations. Since knowledge is so vital for organizations to realize their goals, knowledge-based theory advocates that knowledge should be considered as the primary source of value for organizations. So, knowledge-based theory is an organization-level theory about what drives production processes in organizations (knowledge) and how this contributes to organizational performance.

The theory was first introduced in 1996, when Robert Grant launched the idea that organizations are in fact no more than structures that enable individuals to use and share their knowledge. The concept *structure* as used in this definition is widely used in sociology. It means that groups of human beings interact and behave in a distinctive, stable way because that is ‘how it is done’ in those groups. A family is a social structure as is a school and an organization. Therefore, organizations as social structures are more or less stable environments in which people work together in a distinct way to reach a common goal. Grant’s idea rests on this sociological premise that organizations are social structures. These social structures determine how knowledge is leveraged.

According to Grant’s *knowledge-based theory*, the essence of knowledge is that it resides in individuals. However, no individual knows everything and each person has a unique set of specialized knowledge related to the job they perform. Moreover, every job requires a mixture of explicit and tacit knowledge to be able to perform it.

Thus, individuals in organizations each have their unique set of knowledge. Putting this knowledge to use is what enables individuals to perform their jobs. The role of organizations is to provide an environment (a social structure) that brings together the knowledge that resides in different individuals doing their individual jobs, in such a way that the goals of the organization can be reached (Grant, 1996). In an effective organization, the social structure is designed to enable individuals to work together on the common goal of the organization. If all individuals put their best knowledge to use to realize products and services, organizations will succeed in realizing their goals.

Two important questions follow from knowledge-based theory. First, what kind of organization designs facilitate the use of knowledge? And second, how can knowledge be used strategically, or, can knowledge be a resource for competitive advantage?

Organization design

The most important task for managers, according to the knowledge-based theory, is to ensure *coordination* between individuals in the organization so that their knowledge can be joined towards achieving a common goal. The integrated knowledge of many different individuals results in the process of producing goods and services. Managers can organize knowledge coordination by implementing organization designs that facilitate knowledge transfer.

The design question concerns the configuration of the organization (the visual representation of hierarchical levels, specialist units, or cross-functional projects, and jobs) and the organization of work (e.g. job autonomy, delegated responsibilities). Knowledge-based theory advocates organization structures that bring individuals together. Organizational configurations consisting of individuals working in *teams*, and with work organizations that allow individuals and teams to connect to others in the organization to ensure that the knowledge of individuals is integrated. In addition, cross-functional project teams are excellent structures that facilitate knowledge sharing. To stimulate individuals to use their knowledge, managers have to give freedom to employees by providing *job autonomy* so that they can learn through trial and error at work.

Knowledge as a resource

Knowledge-based theory also has implications for competitive advantage. Knowledge was already introduced in the chapter on Investing in People, as part of the human capital of an organization. Human capital comprises all the knowledge, skills, abilities and other characteristics stored in the people that work in an organization. This is because human capital meets the conditions of being a valuable resource that creates unique capabilities. This is because human capital is

non-transparent (difficult to copy) and difficult to transfer (not possible to take outside the organization to use somewhere else). However, when you zoom in on knowledge alone, this logic becomes somewhat more complex.

The complexity of knowledge as a resource lies in its transferability. In contrast to human capital characteristics that are bound to individuals and cannot be transferred (like personality and intelligence and work experience), knowledge can be shared between individuals. If one individual shares knowledge with another, then two people have the same resource (knowledge). Knowledge can be endlessly shared until many have the same knowledge. It makes knowledge a resource that can be resold (shared) endlessly. So, in light of the conditions that make resources valuable assets to organizational performance (see chapter on investing in people and performance), knowledge does not automatically qualify.

To understand when knowledge can be a valuable resource, we need to again dive into the distinction between explicit and tacit knowledge. Many organizations have taken measures to prevent unique and valuable but more explicit knowledge from getting into the wrong place. They have done this by using patents or contracts with employees which prevents that knowledge from being used by competitors (Bontis, 2010). Consider for example the measures that are taken to protect knowledge on secret recipes (e.g. coca cola – world’s best kept secret knowledge?), on customer relations (e.g. accountancy firms forbid consultants to take their clients’ contact details – and the knowledge about these clients – when changing jobs to another accountancy firm) and new technology (e.g. university spin-offs carefully apply for patents that protect the copying of innovative products by other organizations). So, although explicit knowledge is sustainable and rare, it can be copied (transferred) because it can be written down or explained – it is transparent.

Tacit knowledge in organizations is the unwritten, hard to explain way of doing things. Since tacit knowledge is more difficult to share, and since it resides within the social practice of the organization (knowing how, knowing who), it qualifies more as a valuable resource than explicit knowledge. It is non-transparent because it is hard to explain in the first place and it is non-transferable because in order to use it, you need to know the specific context in which it is used. This is where knowledge-based theory and human capital theory agree: the most valuable type of knowledge for organizations is tacit, firm specific knowledge.

Summarized, explicit knowledge and tacit knowledge are both important resources for an organization’s performance. Explicit knowledge can be easily shared, which can pose a risk to organizations when this knowledge ‘leaks’ to competitors. Tacit knowledge is more difficult to transfer to another organization and is considered the core of ‘firm-specific’ human capital.

The following section addresses theory on knowledge transfer within organizations.

Transfer of knowledge

When the performance of organizations is dependent on the capability of its workforce to apply knowledge (knowledge-based theory; Grant, 1996), the question of how to ensure that the entire workforce has access to knowledge becomes of crucial importance. As we have seen, a large part of knowledge is not accessible in written information, but instead resides in individuals.

Transfer of knowledge is the process by which knowledge holders share their knowledge with others, who learn from this knowledge so that they can apply it. Knowledge transfer is comparable with the concept ‘transfer of training’: the sharing of information results in a change in the knowledge the recipient can apply at work. Transfer of knowledge research focuses mostly on the transfer of tacit knowledge, because this is the most complex type of knowledge to transfer from one individual to the next. The literature on knowledge transfer zooms in on the social processes and social systems in organizations.

Organizational knowledge transfer refers to the process through which units in organizations – e.g. teams, business units, or even entire organizations – share, receive and are influenced by the knowledge of others. Knowledge transfer manifests itself through changes in the knowledge base or performance of recipients (Van Wijk, Jansen, & Lyles, 2008). Therefore, effective knowledge transfer in organizations is dependent on two parties: knowledge senders and knowledge recipients.

Knowledge senders have to be able and willing to share their knowledge with others. Moreover, they have to find opportunities to share their knowledge with those who need it (Wang & Noe, 2010). Sharing knowledge with others implies that you take the initiative to do so. Not all individuals are as equally open as others to do that. Moreover, knowledge senders may be reluctant to share their knowledge in the first place because they fear that it will undermine their power base in an organization, or they may feel that their knowledge is not so important. Practically, they may not know that other individuals or business units are in need of their knowledge. So many factors on behalf of knowledge senders may keep the transfer of knowledge from occurring.

Knowledge recipients can also distort or enhance the transfer of knowledge, again through their ability, willingness and opportunities to receive and acquire knowledge. For example, knowledge recipients may question the value of the knowledge they could receive. In the complex organizational context, one’s position in the organizations’ power and politics may lead to questioning the value of the knowledge sender. New knowledge can also pose a threat to the position of the knowledge recipient. These situations of knowledge ambiguity lead knowledge recipients to disregard the value of the knowledge they receive, which will not lead to a change in knowledge or performance (Van Wijk et al., 2008). In contrast,

individuals and business units that are open to finding, recognizing, assimilating and applying new external knowledge will be more capable of and efficient in knowledge transfer (Zahra & George, 2002).

Since knowledge transfer happens in exchange relations, it should be understood as a social process. In this regard it is important that senders and recipients can actually meet (have the opportunity to exchange knowledge) and that there is trust between both parties (good-quality relationships), and a recognition that new knowledge matters.

A social network visualization of organizations as a pattern of connections between individuals, and between business units provides a swift impression of the chance that knowledge holders will actually meet knowledge recipients. Figure 3.2 represents the social networks in two organizations. In organization A, there is a hierarchy in the network, where the business units are connected through one central unit only. In the other organization (B) there are many connections between all business units, which increases the likelihood that knowledge senders and recipients will actually meet.

Moreover, the figure also illustrates the quality of the connections. A thicker line indicates a better-quality relationship. So, in organization A, knowledge transfer is most likely to happen in only one of the connections. All other connections have lesser-quality relations where there may be a lack of motivation to share knowledge by knowledge holders, and an unwillingness to look for and accept knowledge from knowledge recipients. In contrast, organization B is characterized by a network of trustworthy relationships. Based on this information, it is to be expected that much more knowledge exchange will happen in organization B as compared to organization A.

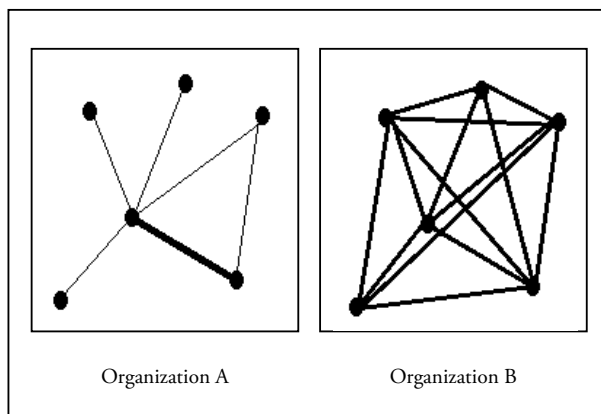


Figure 3.2: Network visualization of the number and quality of connections for knowledge transfer between business units in two organizations

Finally, an organizational culture that emphasizes the importance of knowledge sharing and acquisition will help organization B to benefit even more from the good and dense network of relations between all business units (Zahra & George, 2002).

Organization B is characterized by a higher level of *absorptive capacity*, which is the capacity of organizations to face external events by bringing new knowledge to the organization and making it part of the knowledge base. By acquiring and utilizing knowledge, an organization's ability to gain and sustain a competitive advantage is significantly enhanced (Zahra & George, 2002). Organizations that liaise with a wide array of knowledge sources provide fruitful soil for knowledge creation and innovation. This will be addressed in the following section.

Knowledge creation and innovation

Knowledge transfer is a critical part of knowledge creation. New knowledge is created when individuals or business units share what they know with others, internalize and compare it with their own knowledge and apply this synthesized knowledge to improve their performance or create new knowledge. New knowledge resonates with innovation, the process that involves the development and improvement of products, production and services that help organizations renew and stay competitive (Crossan & Apaydin, 2010). Innovation starts with the bringing together of knowledge from different sources.

Ikujiro Nonaka and Hirotaka Takeuchi, two organizational science professors at Hitotsubashi University in Tokyo, shared an interest in the process of knowledge creation within corporations. Both met and received their PhDs in organization studies in the United States, and back in Japan they combined their knowledge with observations on successful Japanese companies such as Fuji and Honda. Japanese industries had been very successful in the 80s compared to European and US industries. Nonaka and Takeuchi set out to understand the business processes contributing to this success. This resulted in a very influential book publication in 1991, entitled "The knowledge creating company: How Japanese companies create the dynamics of innovation", with which they put knowledge as a source for innovation and business success on the management agenda (Nonaka, 1991). In particular, they claimed that Japanese firms were organized in such a way that they had procedures in place to leverage tacit knowledge by a business philosophy called Kai-Zen. The meaning of Kai-Zen is 'continuous improvement' or 'change for the better' and in business this meant a continuous focus on improving the quality and effectiveness of business processes by using the knowledge of all individuals involved in processes. By continuously being on top of quality and effectiveness, Japanese companies were better able to manufacture in a 'lean' way: they produced

good products at relatively low prices. Kai-Zen became a leading business strategy in the 90s not only in manufacturing but also in service industries worldwide.

The core of organizational knowledge creation theory is that there is a continuous flow between tacit and explicit knowledge that results in new knowledge (Nonaka, 1994). New knowledge is created when people share what they know with each other, when they internalize it into their tacit knowledge, and apply what they have learned to improve how they work. Figure 3.3 illustrates the four flow processes between tacit and explicit knowledge that contribute to building organizational knowledge.

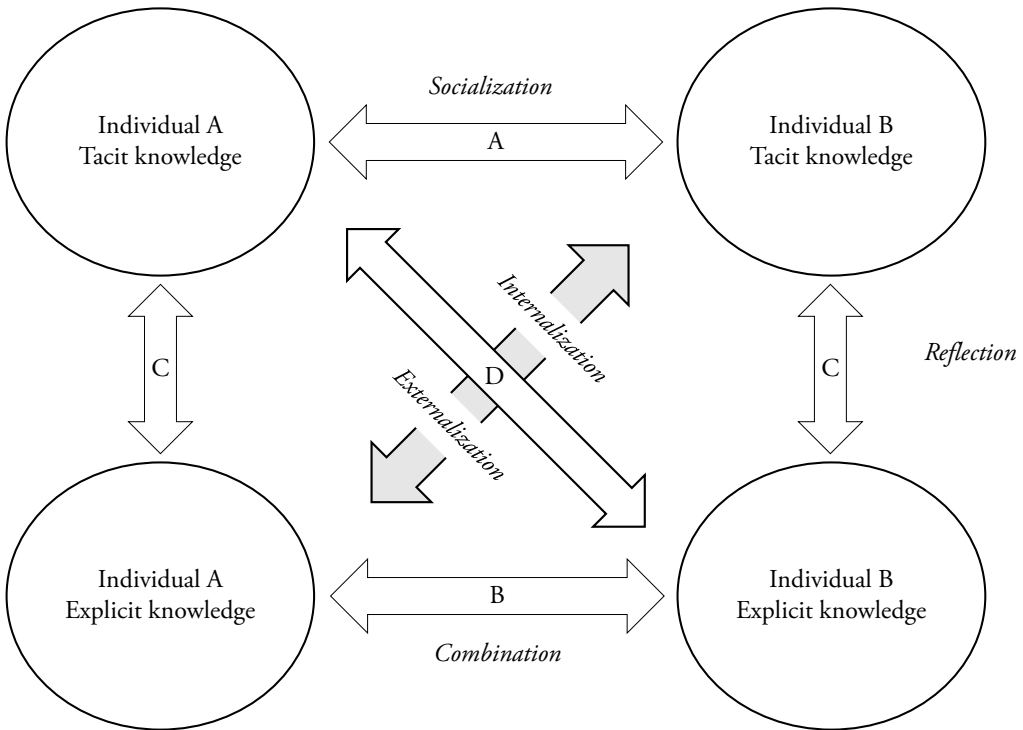


Figure 3.3: Knowledge creation processes (after Nonaka, 1994 and Alavi and Leidner, 2001)

The figure depicts the knowledge flows between similar types of knowledge (processes A and B) and between different types of knowledge (processes C and D). Processes A and B are essentially knowledge transfer processes in which knowledge is exchanged between a knowledge holder and a knowledge recipient. The recipient learns by acquiring the tacit or explicit knowledge from the other.

The first process (A) indicates the flow from *tacit to tacit* knowledge. This involves knowledge transfer by means of observing the behavior of others, by imitating and practicing, or becoming “socialized” into a specific way of doing things. Tacit

knowledge of experts flows to novices by simply cooperating on a task or a project. Knowledge in process A is not explicit because it is not verbalized.

Process (B) indicates the flow from *explicit to explicit*. Knowledge transfer in this flow involves exchanging and combining separate pieces of explicit knowledge into a new whole. For example, by bringing together different data sources to write a financial report.

Knowledge development happens in processes C and D. Process C indicates how individuals reflect on their actions and performance. Through their reflection, they become better able to verbalize their tacit knowledge and explain to others what they do and why they do it. And when they receive new information, for example by reading a book, they are able to reflect on the value of this explicit knowledge for their own work and integrate it into their daily tacit operations. Process C is the process of individual learning. Before tacit knowledge can be accessed, it has to be recognized as knowledge and articulated as such. Then, the individual's unique tacit knowledge can be accessed and applied in creative ways. This step is an essential element of group-level learning and knowledge creation.

The last process (D) illustrates knowledge creation in groups. The flow goes two ways: from tacit to explicit and from explicit to tacit. In both flows the outcome is new knowledge. The flow from *tacit to explicit* indicates the verbalization of tacit knowledge in groups with the aim to improve something. In group meetings, individuals can explicate their tacit knowledge, combine it with the experience of others, discuss the value of these experiences and synthesize it in creative ways to extend or reframe a solution. The results of such discussions can lead to documented improvements in procedures (e.g. a manual with work instructions), and to innovations in products. The discussions about the various experiences of individual knowledge holders allow the information to be compared, weighted and synthesized into new knowledge. When the resulting new knowledge is documented so that others can refer to it without having to meet with the tacit knowledge holders, tacit knowledge has become crystallized: it has become '*externalized*'.

Finally, in the flow from *explicit to tacit*, groups reframe or interpret explicit knowledge at their availability within their own frame of reference. New policies, new technology, or organizational changes all require that the explicit knowledge is reflected upon, discussed, accepted, integrated and thereby internalized in the tacit operations of the group.

Knowledge creation in organizations happens naturally at all levels from the shop floor to the board of directors, but by creating a culture for continuous learning and improvement, management can stimulate learning and knowledge creation processes. By stimulating the learning capacity of the entire organization, the

organization as a whole becomes better able to play on challenges outside of the organization (Argote & Miron-Spektor, 2011).

Knowledge storage, retrieval and use

Tacit knowledge that has not been externalized and resides in individuals is easily lost. Organizations merge, downsize, reorganize, and change clients, leaders or suppliers and so on. In all such examples, individuals with their valuable tacit knowledge disperse and their knowledge vanishes. But even documented explicit knowledge gets lost if it is stored in the wrong way or inaccessible for those who could need it.

Organizations are sometimes blamed for ‘amnesia’: having very short memory-spans because of the continuous loss of knowledge. In particular in organizations that rely heavily on expert knowledge, preventing amnesia due to individuals changing jobs or otherwise are dedicated to installing knowledge management systems to store and retrieve knowledge if needed.

The complexity of the issue becomes clear if you consider an international consultancy firm with clients all over the world. The knowledge of experts about clients is very much contextualized and therefore tacit: the specific habits and cultures, whom to address, and what was discussed with whom about what. If the consultant is not probed to explicate this tacit knowledge before she hands over the contract with the client to her successor, the client-consultant relationship may be harmed because the successor is ignorant about sensitive social issues.

The transfer of all types of tacit and explicit knowledge of individuals and teams into *organizational memory* is a question of knowledge management (Alavi & Leidner, 2001): about retrieving knowledge from the past, from experience and from events, into a shared or collective memory that can be accessed and used to improve today’s performance. Organizational memory contains both semantic and episodic knowledge.

Semantic knowledge is the knowledge that is documented – it is the explicit knowledge that can be easily accessed. For example, a carpet manufacturer opened a new production facility in China by exactly copying the facility it already operated in Europe. Following the exact same layout, machine building handbooks and using well-documented production manuals, engineers were able to realize the new production facility in due time. They used the semantic knowledge and were able to create a brand new copy of exactly the same production facility. However, when trial testing the new production facility, they did not succeed in producing the same quality carpets as the old production facility. From that point on, the

semantic knowledge no longer helped to get the new facility running. Experts joined together and started evaluating what could have gone wrong. From there on, the project relied more heavily on the episodic knowledge of experts.

Episodic knowledge is much more tacit. It is the shared knowledge of groups in the organization that links specific events. The groups would not have this knowledge if they did not share an experience. In the example, the experts started to trace back all design steps and process documents, to inspect if anything was overlooked. In the end, they figured out that the issue was in the production process of one of the suppliers, who followed a slightly different chemical procedure that caused a difference in the resources used to produce the carpets. This specific part of knowledge was not documented and caused a short delay in the productivity of the new facility. However, if the experts holding the episodic knowledge had not been available to share their experience, the delay would have been much longer.

In conclusion, knowledge management research focuses on social and IT-based systems that facilitate the transfer, storage, retrieval and use of knowledge in organizations. Knowledge management is the vehicle of knowledge use in organizations which, according to the knowledge-based theory (Grant, 1996), is what enables organizations to realize their goals.

Key research

The selected meta-analytical research that is presented in this chapter highlights some of the impressive evidence on formal and informal learning effectiveness in organizations and on the conditions for effective knowledge transfer and creation.

Formal learning effectiveness

1. *Training design and effectiveness.* Arthur, Bennett, Edens and Bell (2003) examined in a meta-analytic study which training design and evaluation features make training in organizations effective. They confirmed that well-designed training (using all the insights about how individuals learn) yielded the best learning outcomes. They plead that managers and HR professionals should critically judge the design of the training they purchase for their organization. Interestingly, they also found that the most used type of training evaluation (which is asking participants “did you like the training?”) was completely unrelated to the effectiveness of the training. The researchers follow Holton (Holton III, 2005) and prompt that training evaluations had better include a knowledge test, or ask participants if they feel efficacious in performing their new knowledge.
2. *Transfer of training.* Another big question focuses on what conditions would increase the likelihood that trainees will use the newly acquired knowledge in the workplace? In their meta-analysis, Blume et al. (2010) report three ways in which training transfer can be enabled. First, it was found that individuals who volunteered to join a training program are more likely to apply what they learned in training compared to individuals who were forced to participate. This implies that policy-makers should pay attention to motivating employees before going to the training. Second, this meta-analysis also implies that good training designs, aimed at improving knowledge and gaining self-efficacy in using that knowledge, can make a difference. Next, the *work environment* that trainees find themselves in when they go back to work matters for training transfer. A department climate where new knowledge is welcomed will provide a better environment for training transfer than one where colleagues and supervisors are suspicious about the new knowledge and unwilling to ‘give it a try’. In the latter case, the knowledge learned in the training will soon fade.
3. *Training effectiveness in various knowledge domains.* What type of training interventions best suit a specific learning goal? Which training interventions work best to develop leadership skills, and which work to prepare expats for their stay in a foreign country? There are meta-analytic overviews for many specific training domains like diversity training (Bezrukova, Spell,

Perry, & Jehn, 2016), intercultural training for expats (Morris & Robie, 2001), stress management training (Robertson, Cooper, Sarkar, & Curran, 2015), leadership training (Collins & Holton III, 2004), and for the training of specific professions such as surgeons (e.g. effectiveness of virtual reality (VR) simulators) (Haque & Srinivasan, 2006), to name a few. Each domain-specific training meta-analysis provides evidence about the dos and don'ts for specific learning domains.

Informal learning effectiveness

1. *Informal learning.* Cerasoli et al. (2018) examined empirical studies on the antecedents and outcomes of informal learning in a meta-analytical study. It was found that the most important conditions for informal learning to occur were support (from a coach or manager) and the design of the job (e.g. the amount of autonomy and having challenging tasks). In addition, personal characteristics like skills and experience and having a positive attitude towards one's job promoted informal learning. Demographic differences (e.g. age, gender, education) all had a small and inconsistent impact on informal learning. This supports the view that informal learning can be stimulated by offering a workplace that stimulates learning opportunities.
2. A meta-analysis on the effectiveness of workplace coaching (Jones, Woods, & Guillaume, 2016), a method to transfer tacit knowledge, provides additional evidence for the power of informal learning for performance improvement. In particular, informal learning was effective when individuals could work with an internal coach, often a manager or expert from within the organization.

Knowledge transfer and knowledge creation effectiveness

1. Organizations with higher levels of knowledge transfer show better performance and innovation scores (Van Wijk et al., 2008). The meta-analyses show that knowledge transfer at the organizational level that involves sharing knowledge between organizations in particular is important for performance and innovation. This supports the view that organizations that can better 'absorb' knowledge are more capable of dealing with challenges. The study also confirms that the transfer of tacit knowledge is much more difficult than the transfer of explicit knowledge.
2. In a meta-analysis of 104 studies on the conditions for innovation in the workplace, Hülshager, Anderson and Salgado (2009) found that team processes are important for groups to exchange and combine knowledge into creative solutions and innovation at work. Teams that are supported in innovative behavior, that have a shared vision which emphasizes innovation matters, and that communicate well with other units inside and outside

the organization (have good-quality social ties) show the highest levels of creativity and innovation.

HR practice

The HR practices section distinguishes between practices aimed at organizing individual learning and practices aimed at organizational learning and knowledge management.

Individual learning in organizations

Learning in organizations involves the question of how employees can best acquire the knowledge they need to perform their jobs well and to contribute to the team and the organization as a whole, as well as to be prepared for change and future demands. Traditionally, learning in organizations was equated with a planned, top-down process that involves the organization of classroom-based, formal learning events. More recently and in accordance with Marsick and Watkins' (2001) work on informal and incidental learning, learning in organizations was broadened to include learning that occurs when individuals perform their jobs: learning in the workplace.

Organizing formal learning

Formal learning in organizations is a planned process to address the knowledge gaps of employees in organizations. Planned formal learning (e.g. *organizing a training*) involves the following steps (Aguinis & Kraiger, 2009; Tannenbaum & Yukl, 1992):

1. Analyze training needs. What are the (changing) goals of the organization? Which jobs and tasks need to be performed to achieve those goals? Which knowledge and skills are needed to perform those tasks? How well are current employees able to perform those (new) tasks? Is there a gap in their knowledge and skills that can be addressed by organizing a training program?
2. Determine the learning goals for the training. What is it that learners will know at the end of the training? Which new skills will have been learned?
3. Design the training. Consider which training methods best suit the abilities and skills of the trainees. Will it be an instructor-based training with a lecturer talking in front of a classroom? Or some kind of simulation in which trainees can practice new skills? Or online modules which trainees can do anywhere?
4. Consider the pre-training environment. Do employees understand the reason for the training? Is some pre-training instruction needed? Do they agree on how the training will benefit their work?

5. Consider the post-training environment. Can the trainees apply the skills and knowledge directly in their jobs? Or is some post-training activity needed to ensure that the trainees can apply their newly acquired knowledge?
6. Evaluate the training. Were the learning goals of the training met? Do the trainees perform better in their jobs?

There is extensive literature on the effectiveness of each of these aspects of the planned formal learning process in relation to training outcomes.

Organizing informal learning

Workplace learning is different from formal learning in the sense that it does not happen in a designed learning environment, but in the workplace itself. A workplace is a physical location where employees perform work tasks and interact with others. The workplace is also connected to the larger organization and it is embedded in the norms, values and procedures ‘how things are done’ in organizations (Tynjälä, 2008). Workplaces can provide excellent learning environments, especially for informal and incidental learning.

Compared to training, there is much more ‘reality’ in the workplace. This makes workplaces an ideal environment to acquire tacit knowledge (Marsick & Watkins, 2001). Any challenge that the job brings, provides a learning opportunity. Through trial and error of new procedures to optimize or facilitate performance, and by reflecting on work experiences, employees’ (tacit) knowledge continuously grows. Employees who experience challenges at work will feel the need to learn and will (consciously or unconsciously) look for new knowledge. Moreover, by cooperating and interacting with colleagues and clients, employees learn continuously. Social interaction and dialogue are excellent learning opportunities.

Challenging tasks and social collaboration at work are examples of occasions for informal or even incidental learning. However, learning on the job can also be planned and formal in nature. Consider for example a formal, organized course that involves practice at work. Since employees can immediately use the knowledge they acquire, transfer of training is much less of an issue in workplace learning than in classroom trainings. Nowadays it is considered a ‘best practice’ to organize workplace learning into formal training programs.

Organizing informal and incidental workplace learning is a bit more of a challenge. Despite the fact that individuals will always learn in unintended ways, it is sometimes important and desirable to plan workplace learning. Think for example about onboarding or socializing new employees. Interaction is an excellent way to stimulate the transfer of knowledge between new and experienced employees. However, for this interaction to happen, it is a good idea to allow experienced employees some time for coaching new employees. Similarly, by creating project

groups with employees with different functional backgrounds, management can stimulate workplace learning to occur. Other examples of organized informal learning activities are ‘communities of practice’ (where people with similar jobs exchange their experience, e.g. in intervision groups), study tours, advisory boards, job rotation, sharing experience in meetings and task forces. These are all examples of group work that promotes knowledge exchange and the sharing of expertise, and thus enhances individual learning.

Organizing organizational knowledge transfer and creation

Organizations that effectively transfer and create innovation provide a work context that emphasizes the importance of learning. Learning in organizations will always happen, but it can be accelerated if it is supported by a vision, a strategy, a structure and a shared understanding that learning matters. Factors that support a focus on *organizational learning* include:

- Role modeling behavior of senior management: leading by giving the right example in sharing, transferring, and challenging others to do the same. Through top-down promotion of the importance of learning and by continuously reinforcing learning behaviors, management can create an organizational culture for learning and knowledge development.
- Work and organizational designs that enable cooperation, that provide the autonomy to experiment with innovations in work processes and where there are resources and time for learning, collaborating and experimentation.
- Structural factors to facilitate learning at large, such as inviting experts on human resource development for advice, ICT and knowledge management systems, and access to networks with knowledge holders outside the organization.
- Individual employees can be stimulated by making it the employees’ responsibility to keep learning and participating in knowledge transfer and creation. When it is ‘part of the job’, it can be reinforced by integrating it as an objective for employee appraisal and reward. In this way, learning, knowledge transfer and knowledge creation are an integral part of all organizational processes.

Storage and retrieval

A relevant example of the use of *knowledge storage* and retrieval tools is project work. Projects are infamous when it comes to knowledge loss. Sure, the end product or report is used (or stored), but all the knowledge about the route to get to the project outcomes leaves with the members of the project team when they go back to their respective jobs. To prevent new projects from encountering the same problems, management should take action to monitor and learn from the project processes. For example, the team can meet in a closure session during which all the critical

moments are reflected on. When the notes of such 'lessons learned' meetings are stored, future teams can use them in their start-up phase as a reference. Specific tools for effectively capturing the episodic knowledge developed in project teams are described in Schindler & Eppler (2003).

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Summary

The value of knowledge for organizations is a specification of human capital theory. Organizations with a better educated, more experienced workforce outperform their competitors, in particular when that knowledge is specific for that organization. There are different types of knowledge. Explicit knowledge, knowledge about what and why, is easily documented and explained. In contrast, tacit knowledge, knowing how and knowing who, is not found in manuals or textbooks but is learned in practice. Tacit knowledge is subtle, difficult to explain; it just 'is', but without it organizations would be unable to function. Tacit knowledge is what constitutes organization-specific knowledge. Managers should be as much concerned about tacit knowledge as about explicit knowledge.

Individuals learn in classrooms (formal learning), while learning their jobs and working on projects (informal learning), and by accident (incidental learning). Transfer of what was learned in formal education to the workplace may be difficult. Good training designs will blend formal and informal learning.

Knowledge is crucial for organizational performance. Knowledge-based theory states that the function of organizations is to ensure that individual knowledge is put to use in the organization. When individuals share their knowledge (both explicit and tacit), organizations can learn and innovate. Organizational knowledge creation happens in a continuous flow between tacit and explicit knowledge by processes of socialization, reflection, combination, and internalization or externalization. Learning organizations are those that succeed in creating conditions that facilitate the sharing of tacit knowledge, explicating tacit to explicit, storing and combining explicit knowledge and reflecting on new combinations of explicit knowledge to invent new tacit knowledge (Nonaka and Takeuchi 'spiral of knowledge creation'). Organizational features like hierarchy and teamwork facilitate the transfer of knowledge.

Despite all efforts to obtain and create knowledge, especially tacit knowledge is easily lost when organizations merge or downsize, when people leave or when projects ends. In order to prevent organizational amnesia, active management of knowledge storage and retrieval of semantic knowledge is needed.

CHAPTER 4

PERFORMANCE UNDER CONDITIONS OF CHANGE

Chapter in brief

How can human resource management help organizations to compete and survive in an environment of continuously changing technology, economy and society?

The key theories are:

- Planned change
- Dynamic capabilities
- Adaptive capacity / The flexible firm
- Absorptive capacity
- Innovative capacity / Exploitation and exploration
- Contested versus supported careers
- Protean careers
- Employability
- Flexicurity

The key HR practices presented in this chapter are:

- Planned change management
- Human resources scalability capability
- Organizational capability for innovation
- Career management practices

Introduction

Twenty-first century organizations are facing challenges that did not exist half a century ago. Internet technologies have changed the communication and collaboration within and across organizations. The other side of the world is only one click away and knowledge is more easily accessed than ever before. Within this landscape, the competition in markets is fierce and the speed of innovations is fast. These circumstances force organizations to adapt their workforce to meet such continuously changing demands of technology, economy and society.

To adjust their workforce, organizations can use many change strategies such as cut staff, hire temporary employees or use subcontractors, hire new staff with new knowledge, train current staff to become able to take on new tasks, reorganize jobs, tasks and business units, delegate responsibilities and allow employees more autonomy to deal with new demands, or seek to replace standardized jobs with automated processes or robots, just to name a few. A century of research on organizational change has provided some good evidence to shed light on the question of how organizations that desire to stay ahead in an environment of continuous change can best shape employment relationships.

There are essentially two types of organizational change theories which pervade the literature. On the one hand, there are scholars like Lewin (1947) and Kotter (1995) who conceptualize change as a planned strategy, where the current situation (the '*Is*' situation) is unsuitable to meet the changing demands that challenge the organization and the desired situation (the '*Soll*' situation) is well defined. Take for example an organization that is implementing a new technology. In the '*Is*' situations, employees work with old software. In the '*Soll*' situation, all employees embrace the new software and all (internal) customers are happy with the more efficient processes. This is a change that can be planned and organized, by carefully taking social processes into account that interfere with the willingness of employees to accept the planned change. Here, the view on employees is that they have to be managed through the change process to overcome their initial resistance. Hence, human resource management's role in planned change initiatives is to prepare employees for the changes ahead by involving them in the change, getting to know their concerns, examining their knowledge gaps and providing training and making sure all communication goes smoothly.

The other view on change management holds that change is very difficult to plan ahead because in practice there are many changes happening simultaneously. For example, right after planning the introduction of new software, economic turmoil requires budget cuts that make employees uncertain about their positions. Indeed, in the course of the implementation of change, managers and colleagues often change jobs, and new legislation challenges the requirements of the new system

so that it needs adaptations even before it has been launched. Such is the nature of modern organizations: changes do not happen in isolation but are connected to an ongoing flow of change, which make step-by-step planning for change an endless and ineffective Sisyphus task (Sisyphus was an ancient Greek king who was punished by the gods for his vanity and had to push a rock uphill only to see it roll back just before it reached the summit – for eternity). The alternative view of ‘planned change’ as a strategy to move organizations forward is to ‘be prepared for change’. This holds that if the organizational structures and the people working within those structures have the capability to easily adjust to change, no planned changes are needed anymore. By having the right capabilities, organizations are capable of efficiently dealing with dynamic changes while staying ahead in the market (Eisenhardt & Martin, 2000; Teece, Pisano, & Shuen, 1997). For employees, the consequence of continuous change is that lifelong employment at the same employer is unlikely. Career development is more likely to happen in various organizations and in order to move along, employees need to invest in their knowledge, skills and abilities to easily take on a new role or a new job. For human resource management, capabilities for continuous change are developed in practices like flexible workforce configurations and knowledge management.

As research evidence seems to be largely in favor of the capability for change approach when it comes to the question of what is most effective change strategy, the emphasis in this chapter is on theories of *dynamic capabilities*, which explain how organizations are prepared for continuous change and on theories of *dynamic careers* that explain how employees are prepared for changes in jobs throughout their careers. What both these theories about dynamism share, is that in order to stay in the market (for organizations) or to find another job (for employees), a capability to act in a *proactive* manner is essential. Proactive means that reacting to change alone is not sufficient anymore to survive the fierce competition. Instead, both organizations and employees need to actively explore opportunities and act upon those in order to endure ‘in the market’.

What follows is an economy in which organizations require flexibility in knowledge and number of employees, and a society where individual employees move in and out of organizations and employment. Finding a match between the supply and demand for employees when job requirements change all the time, calls for theory on the capabilities of sectors or even societies to deal with change. The capability of socio-economic systems to deal with continuous fluctuations in the labor market, involves examining the role of governments and institutions in terms of designing social security and education policies to optimize the labor demand and supply for continuous change (Hipp, Bernhardt, & Allmendinger, 2015).

In the next section, the key theories concerning planned change and dynamic capabilities of organizations and employees are presented.

Theory

The theory section will first briefly describe the heritage of Kurt Lewin's thinking on organizational change, which greatly influenced thinking about planned organizational change and which is still common in textbooks and consultancy practice today. The focus will then shift to organizational, employee and societal dynamic capability approaches that underlie much of the present thinking about dealing with continuous change.

Planned change

Organizational change, even if designed as a strategy that departs from point one to arrive at point two, is an uncertain process because it involves all kinds of social processes. Some individuals may be uncertain about what the change in the status quo will bring them, others may feel that the change will be good for their power position in the group, and those who may lose power will seek coalitions with others who resist the change and form a force that goes against the planned change.

As a German Jew who fled to the United States in 1933, social psychologist Kurt Lewin was intrigued by the question what was needed to move social groups from one state-of-being (such as an authoritarian Nazi state) to a next state (such as a true democracy) (Burnes, 2004). In the very first issue of the authoritative journal *Human Relations*, Kurt Lewin described a number of socio-psychological processes that contribute to keeping groups at a certain state or that can make change in groups happen (Lewin, 1947). His *theory of planned change* has been very influential in the development of group dynamics theories and in organizational change management practice. Lewin's key thoughts are summarized below.

First, Lewin reasoned that the current state-of-being in groups only exists as long as there are social forces that keep it at a certain equilibrium (see Figure 4.1, time 1). This is the level where all share the same values and where there is stability. If the majority likes the way they do things in the group (or instead of group, read: organization), there is no reason for change. When a minority (for example, a manager) wants to move the group to do other things, she is likely to meet resistance from the majority who are quite happy with the current state of affairs. In fact, all those who benefit from the current state of the group will use their power to keep things as they are (see Figure 4.1, time 2). Lewin proposed that before initiating change, it is helpful to perform a *force-field analysis*, to understand who may support the change and who may resist it. The trick to making a change initiative successful, is to find a critical mass of individuals who favor the change and who will welcome and support the change in the status quo. Hence, for successful change, the manager will need to find support for her change initiative in the organization. Knowing which social processes keep the equilibrium (current state

of affairs) going, is therefore the first step in a planned change initiative. In order to mobilize a majority to favor the change, the manager will have to understand what the advantages of the desired situation are as compared to the status quo. She can use these advantages to 'sell' the change initiative to those who may resist it. Lewin called this the 'unfreezing' phase of planned change. Once the majority favors the change, the initiative can be rolled out quickly. This phase of the planned change is called the 'move'. The sooner everyone works according to the new way of doing things, a new equilibrium will establish in the group (see Figure 4.1, time 3). The change has 'landed' and the equilibrium will 'refreeze' until a new change challenges the status quo.

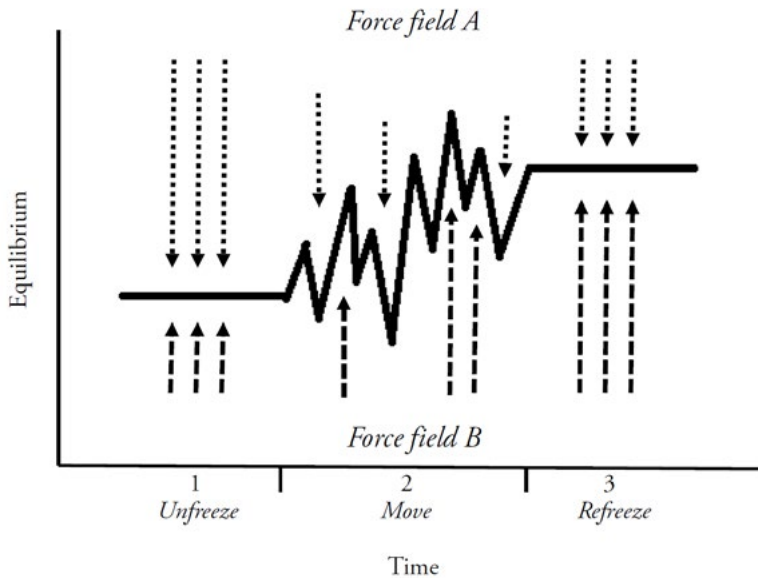


Figure 4.1: Lewin's (1947) theory of planned change

This view of preparing change by taking time to understand and manage social processes was further developed in the seminal work on change management by John Kotter, who popularized the original abstract theory of Lewin to become a tool on how to perform a planned change in organizations (Kotter, 1995). Many organizational change initiatives are still planned according to Kotter's guidelines (also see the section on HR practice at the end of this chapter). The value of Lewin's theory of planned change is that it shows that successful organizational change comes slowly because it is embedded in social structures and that emotions, organizational politics and pressures should be taken into account before and during change initiatives to make it a success.

Dynamic capabilities

Criticisms on the theory of planned change started to mount in the late 1980s. Critics held that market dynamics originating from the speed of technological innovation, regulatory changes, economic up- and downturns and the ongoing competition are too turbulent to allow for slow and securely planned change (e.g. Mintzberg, 1993). Instead, changes and external disruptions happen so fast that organizations hardly have time to finish one change initiative before the next is needed. Thinking about change management shifted to theories advocating a ‘preparedness for change’ management strategy rather than planned change management, which largely built on the work of Edith Penrose.

In 1959, economist Edith Penrose proposed that organizations should not be viewed as bureaucratic structures that have to be designed and managed to reach business objectives in a planned way, but more as enterprises: a word that ties to entrepreneurs and entrepreneurship and to business growth and innovation. Penrose wrote that an enterprising organization acts like a successful entrepreneur who continuously scans the environment and seeks opportunities to innovate, to find new markets and to improve her products and services. However, successful entrepreneurs are also believed to be clever with respect to their organization, because they understand that opportunities can only be seized if they are backed up by good resources like organizational and human capital.

Accordingly, organizations that aspire growth need to have an aspiring management team that is capable of behaving in an entrepreneurial way (Penrose, 1959), who can put together an organization that is capable of doing the two key tasks of successful entrepreneurs: scanning for opportunities and realizing that the organization is capable of seizing these opportunities. However, resources that an organization has at its disposal can limit the opportunities that can be dealt with. Hence, an entrepreneurially oriented management invests in a set of organizational resources that allow for growth through seizing opportunities when they come along.

The work of Edith Penrose greatly contributed to the development of *resource-based theories*. However, whereas the original resource-based theories concentrated on the quality and uniqueness of resources that organizations have at their disposal to perform at their best (e.g. physical, organizational and human capital; see chapter ‘Investing in People’), in this chapter we concentrate on resources that allow organizations to ‘enterprise’: dynamic capabilities.

Dynamic capabilities are an organization’s competence to continuously integrate, reconfigure, renew and recreate its resources (Teece et al., 1997). The competence to rapidly create situation-specific new knowledge, adapt to it and use this to lead change is the core of dynamic capability theory (Eisenhardt & Martin, 2000). An organization’s level of dynamic capabilities determines the extent to which it

can move along with the changing environment to attain and sustain competitive advantage (Wang & Ahmed, 2007). Thus, dynamic capabilities theory is about the organizational competence in changing and adapting its resources to deal with dynamic environments. Although dynamic capabilities may look different in every organization, it is possible to find some organizational processes that contribute to having dynamic capabilities (Eisenhardt & Martin, 2000; Wang & Ahmed, 2007). These are:

Adaptive capability: The capacity of the workforce to quickly adapt to new ways of doing things and the preparedness to give up old ways of working. Adaptive organizations can respond to changes in the market by swiftly adjusting business priorities, management systems and organization structures.

Absorptive capability: The capacity of organizations to bring new information and knowledge into the organization and making it part of the own knowledge base, and using it to improve products, processes, services and the business in general. Absorptive organizations have a high level of learning capacity, which helps the organization to understand and react to changes in the environment.

Innovative capability: The capacity of organizations to develop and create new products and/or new markets. This requires management systems that support knowledge creation and proactive behavior at all levels of the organization, and a strategy oriented towards innovation.

All three dynamic capability processes have a strong foundation in human behavior and interactions. It is therefore easy to understand that human resources play a vital role in achieving organizational dynamic capabilities.

Human resources' contribution to dynamic capabilities

Given that the grassroots of dynamic capabilities theory rest in social and behavioral processes (Teece, 2007), human resource management has an important contribution to make. For example, a flexible workforce contributes to an organization's adaptive capacity, while knowledge management, training and development are the pillars for achieving absorptive capacity and, finally, investing in people will result in a skilled, proactive and motivated workforce capable of contributing to innovations (Garavan & Shanahan, 2016). Table 4.1 summarizes how human resource management is at the core of achieving organizational dynamic capabilities. Organizations that increase their human resources' adaptive, absorptive and innovative capabilities are nowadays referred to as '*agile organizations*' (Dyer & Shafer, 1998). Theories about the flexible firm (Atkinson, 1984), absorptive capacity (Cohen & Levinthal, 1990) and innovation (March, 1991) explicate the important contribution of human resources in fostering organizational agility.

Table 4.1: Contribution of human resource management to the dynamic capabilities of agile organizations

Dynamic capability processes ¹	Key actions	Human resources' contribution ²	Theoretical foundation
Adaptive capability	Flexible adjustment of business priorities, management systems and organization structures	Human resources scalability capability	<i>The flexible firm</i> (Atkinson, 1984)
Absorptive capability	Bring in and use new information and knowledge	Organizational learning capability	<i>Absorptive capacity</i> (Cohen & Levinthal, 1990; Zahra & George, 2002)
Innovative capability	Develop and create new products and markets	Organizational capability for innovation	<i>Exploitation and exploration</i> (March, 1991)

¹ Eisenhardt & Martin, 2000; Wang & Ahmed, 2007; ² Garavan & Shanahan, 2016

Human resource scalability capability

The *human resource scalability* capability indicates the speed with which companies can adjust their workforce quantitatively (in terms of employee numbers), but also qualitatively (in terms of employee knowledge and skills) (Dyer & Ericksen, 2005). Timing is an important aspect of human resource scalability. For example, when rules for laying off people are complex - as is the case in many European countries - it is difficult for organizations to quickly adapt the size of their workforce. But growth requirements can also be hard to meet due to a lack of skilled employees on the labor market. The task to optimize the size and quality of an organization's workforce is therefore not just a matter of hiring and firing, but of strategic planning for the right numbers of the right quality employees. Hence, human resource scalability implies developing strategies to ensure that the right numbers of the right types of employees are there at the right times.

A first model to describe the different options for increasing human resource scalability was introduced by John Atkinson of the Institute of Manpower Studies in 1984. At the time, the British economy was facing a dark recession, resulting in shutdowns and masses of layoffs in traditional manufacturing industries (steel, coal, machines). At the same time, the economy was changing from industry-based towards a service economy (e.g. banking and consulting) and many employees found themselves with qualifications that were no longer valued by employers. In his essay called "*The flexible firm*", Atkinson (1984) stated that a strategy that combines

an increase in flexibility of the current workforce with the use of a layer of flexible temporary employees would optimize the scalability capability of organizations. He reasoned that workforce flexibility based on a combination of *numerical*, *functional* and *financial flexibility* would make organizations better able to deal with economic turmoil (see Figure 4.2).

1. *Numerical flexibility* is the organization's capability to shrink and grow the number of employees doing the same kinds of jobs. This can be achieved by hiring temporary employees who are not employed by the organization itself (external), but also by changing the number of hours that current employees work in their jobs (internal). Examples are overtime (temporarily working more hours), zero-hour or on-call contracts, or compressed working weeks (temporarily working fewer hours).
2. *Functional flexibility* is the organization's capability to move employees across the organization to different jobs if needed. To be able to do so, employees should have the knowledge, skills and motivation that allow them to take on different roles in the organization. Organizations that desire a qualitatively flexible workforce have to invest in training and development to upskill their employees (internal). If such investments lack, qualitative flexibility may be insourced on demand, for example by temporarily contracting an expert with specific knowledge, or by outsourcing part of the organizational processes to another organization that has the expert knowledge (external).
3. *Financial flexibility*. Numerical and functional flexibility can thus be realized either within the organization with the current employees, or by calling in outsiders. In either case, organizations should save some financial leeway to allow for organizing flexibility. For example, functional and numerical flexibility could demand for changes in pay and remuneration systems that promote numerical and functional flexibility.

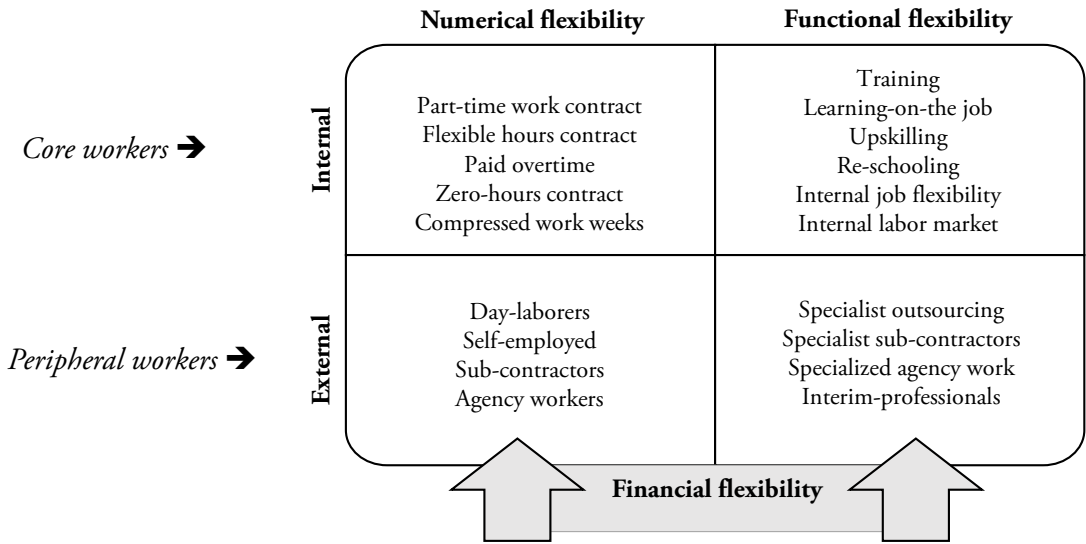


Figure 4.2: Employment modes in the flexible firm (adapted from Atkinson, 1984).

Atkinson's plea for flexibility in employment modes was the beginning of a stream of research and theories on the effectiveness of a workforce consisting of groups of employees with different employment modes (Lepak & Snell, 1999). This included for example employees with fulltime, permanent contracts with the organization and all types of temporary workers. In particular, the question concerned how to distribute the financial means for investing in employees. For example, training investments are likely to pay off for internal employees (with a full-time permanent contract), but in the case of temporary agency workers it is unlikely that organizations will see the returns of investment in training. The idea of differentiating human resource investments for people with more or less strategic value to the organization builds on Atkinson's distinction between core and peripheral workers. *Core workers* are those who are employed by and important to the organization, while *peripheral workers* contribute only marginally and therefore hold a lower strategic value for the organization. The HR practice section addresses this issue of workforce differentiation in a bit more detail.

Organizational learning capability

Dealing effectively with change largely depends on the capacity to envisage what is coming. Organizations that only react to change when the sales start to drop, have probably missed signals about market changes and technological developments. For example, retail organizations have faced tremendous changes in customers' shopping behaviors since the availability of online shopping. Instead of going to

buy their clothes and household necessities in big department stores, customers nowadays scroll the internet and buy at, for example, Amazon while sitting on their couch. Some department store organizations timely adjusted their concept and survived, while other long-standing stores failed to adapt or were too late. This led to the collapse of some well-known department stores that have now disappeared from the retail landscape altogether. The example illustrates a need for organizations to scan and learn from what is happening in their environment in order to adapt and survive.

Organizational learning capability emphasizes the capacity of the organization as a whole to access information from outside the organization, bring it into the organization, learn from it and convert that learning into new knowledge (Cohen & Levinthal, 1990). Organizational learning capacity is similar to *absorptive capacity*, the capacity of organizations to face external events by bringing new knowledge to the organization and making it part of the knowledge base (Zahra & George, 2002). Learning happens first and foremost because individuals go out and acquire new knowledge. By sharing individual knowledge, group and organizational learning happens and new knowledge develops (see chapter on knowledge management). Organizational learning capacity depends on the social process of *knowledge transfer*, and the effectiveness of this rests in the organization's human capital, social structures and organizational policies and procedures. These determine if the organization as a whole has the capacity to look outside, to learn from it and use new knowledge to its benefit. From the understanding of conditions for effective knowledge transfer it follows that organizations with high-level learning capabilities are characterized by a workforce that has a willingness to share and acquire knowledge not only within but in particular outside the organization.

Organizational capability for innovation

The *organizational capability for innovation* concerns management systems that encourage knowledge creation and proactive behavior at all levels of the organization, and a strategy oriented towards innovation. The origins of this dimension come from organizational decision-making and organizational learning theories developed by professors James March and Hubert Simon. In 1958, James G. March, emeritus professor at Stanford University in the social sciences, together with his tutor professor Herbert Simon, a Nobel Prize-winning economist, published their shared interest in organizational problem-solving and decision-making in their now classic book 'Organizations' (March & Simon, 1958). In this book, they addressed innovation as a means for organizations to tackle the challenges and problems they face.

In particular, they wondered to what extent it pays off to be innovative by doing things radically different, or to specialize and become the best by building on existing

experience. Doing things radically different bears a larger risk of failure, because radical changes are likely to meet resistance and misunderstanding if they do not connect to the experience and structures that already exist in the organization. Innovations should therefore always be integrated with existing knowledge in the organization to be used and appreciated. Innovations should therefore strike a balance between *exploitation* and *exploration* (March, 1991).

Exploitation means becoming better at what you do. Organizations that exploit their current knowledge by explicating it, and using the insights from explication to even further improve their specialism can become the very best. Being the best at what you do can provide competitive advantage to organizations. However, organizations using exploitation strategies are inward focused since it only involves improving what has always been done. This may blind them with regard to what is happening in the external environment of the organization.

Exploration on the other hand is the act of going out and trying and using new knowledge. A focus on exploration means being aware of changes outside the organization and experimenting with new ways of working. However, organizations have limited means in terms of finance, time and knowledge. Pursuing an exploration strategy only will come at the expense of becoming good at something, which, as mentioned above, is also important for organizations.

The dilemma about the advantages of exploitation and exploration can be illustrated in the example of professional musicians. If musicians want to book performances, they have to be really good at what they do. For instance, for a classical piano player, the best strategy is exploitation: practice, practice and practice until Rachmaninov's second has been mastered. Many pianists try to master Rachmaninov, and only a handful master his work so well that they book performances. For that reason, many musicians specialize in a genre or composer. Their specialization helps them to become top performers in their area. Trying to explore another genre at the same time, such as heavy metal, is possible but costs time and effort as well. The time and effort put in the exploration of a new genre comes at the expense of the time needed to master the other genre. A musician who often explores new genres, faces the risk of never becoming really good at anything. The chance of booking performances is likely to drop significantly if the musician frequently changes from classical to hard rock to rap. However, when the musician would experiment just a little bit outside his specialism and let this new knowledge merge with his existing skills, his performance would be 'innovative': he maintains the high levels of mastery of classic piano, but mixes it with knowledge explored in other genres.

This example illustrates that successful innovation is not about radical shifts and doing something completely differently, but about the integration of existing expertise (exploitation) with knowledge acquired in the broader context (exploration). The highest pay-off between both happens when there are still sufficient resources

dedicated to exploitation, while stimulating an open mind towards the outside world to find knowledge that helps to incrementally mix change with experience (Argote & Miron-Spektor, 2011). The same is true for organizations. Organizations too have limited means and time to exploit and explore at the same time. They have to make sure that sufficient time is dedicated to specializing in their core activity. At the same time, some inflow of new knowledge needs to be managed as well, both at the level of individual employees, and at the level of the workforce composition. The HR practice section at the end of this chapter illustrates which HR practices help build an organization where a balance between exploitation and exploration is maintained.

Concluding remarks on HRM and dynamic capabilities

This section has illustrated how three theories about people management (workforce flexibility, knowledge transfer and exploitation and exploration) contribute to achieving dynamic capabilities in organizations to be prepared for continuous change. Implicit in these theories on organizational dynamic capabilities is the preparedness of individual employees to be available to organizations when needed, with the right skills and motivation to contribute to learning and innovation. As such, organizational change and flexibility influence the careers of individual employees. Employees in continuously changing organizations often change positions, or employers, or become temporarily unemployed. Moreover, they have their own dreams and ambitions about work – and being a lifelong peripheral worker may not be the ultimate career dream of most individuals. Moreover, employees cannot always follow their dreams because often they are restricted in developing their experience, for example when being laid off or when they do not have access to training. In other words, the availability of an experienced and flexible workforce directly ties to career theories. Careers are all individual patterns of work experience in subsequent or parallel jobs - sometimes interrupted by periods of non-employment - in the time between labor market entry and retirement. Careers are important to individuals because successful careers promise wealth, status and personal well-being. However, organizations and societies also take an interest in individual career success, because a workforce in which many have successful careers indicates that organizations are doing well and unemployment expenses are low. For these reasons, organizations and policymakers are taking serious interest in career management strategies in this era of change and flexibility. Where organizations are primarily interested in the flexible availability of excellent human capital, policy makers are facing new labor market dynamics that necessitate new strategies to ensure that demand and supply of labor can timely adapt to the speed of change in organizations. The next section illustrates how career theorists have answered to the call for dynamic capabilities by suggesting pathways to balance individual careers with the request for continuous change and flexibility.

Capabilities for dynamic careers

Like for organizations, the context for careers has become more unpredictable. Whereas before many employees stayed at the same employer for their entire career, nowadays all employees are vulnerable to organizational change and workforce reductions. Moreover, technological changes happen fast and job demands change accordingly, putting pressure on employees to stay up to date by continuously participating in professional development and learning.

Career theories deal with questions such as what career success entails and which factors contribute to career success. Traditionally career success was defined as an upward linear pattern along the organizational hierarchy. Modern careers, however, are more unpredictable. Because organizations embraced workforce flexibility, the traditional upward career path in one organization has become available for only a lucky few core employees. In fact, a substantial amount of the workforce finds themselves employed under some kind of non-permanent work arrangement (Connelly & Gallagher, 2004). Within this group, a growing group find themselves hopping from one temporary job to the next for their entire career. Planning a career under such conditions is less under the control of a single organization, and individuals are also less in control because of the uncertainty of opportunities. While some may prosper and grow an impressive linear career moving from one rank in an organization to a higher rank in the next organization, others may find themselves struggling to find employment that fits their aspirations. Following dynamic capabilities theory, it would be wise for individuals to develop adaptive, absorptive and innovative capability skills to be prepared for the unpredictability of their career context. Dynamic career capabilities are an individual's *competence* to continuously integrate, reconfigure, renew and recreate career resources (Finch, Peacock, Levallet, & Foster, 2016), meaning that individuals over the course of their entire career timely develop the skills, knowledge and experience needed to find employment while pursuing their own ambitions for career success and personal well-being.

In the next parts, three influential theories on career progression within and between organizations are presented to shed light on the question of successful careers in a context of change and flexibility. First, the contested versus sponsored mobility theory (Turner, 1960) contrasts the possibility for individual achievement versus 'getting help from others' as key factors in explaining career success. Then, the protean career theory (Arthur, 1994) envisions how changes in the career landscape unfold opportunities rather than challenges for individual careers. Finally, the concept employability links individual achievement and career sponsorship in an effort to explain which factors make up the capabilities for dynamic careers.

Contested versus sponsored career mobility

Career success of those in the higher ranks of professions or management is often attributed to individual achievement: getting the best grades at school and good performance records are individual attainments believed to be crucial to move up. However, if these were the only ingredients needed for career achievement, one would expect the highest professional and management ranks to be a bit more diverse in terms of gender and race than they currently appear to be. Apparently, there are differences in hindrances and opportunities for various groups in the way to the top. In 1960, sociologist Ralph Turner took an interest in the causes for differences in upward mobility – the chance of every individual in a society to achieve a higher social status than they currently have. His theory on *contested versus sponsored mobility* explains why in some situations individual achievement does matter for upward mobility while these remain unnoticed under other circumstances (Turner, 1960).

Turner's (1960) analysis of the chances for upward mobility started with comparing school systems in two countries: the United States and the United Kingdom, where the first represent a system of contested mobility, and the latter one of sponsored mobility. In a social system based on contested mobility like the United States, upward mobility is the result of individual achievement similar to a sports contest: the best will win the race. Good performance is a prerequisite to move up the ranks in society. In a sponsored mobility system however, moving up the ranks is principally the result of being selected into the elites. The United Kingdom is a traditional class-based society, with elites speaking their 'upper class' English and keeping hold of key positions in the country. Those who are born in upper-class elite families are selected to join the elite community that eventually gets the opportunities to move up the hierarchy. In such a society, selection processes do not relate much to individual performance but much more to social status. Elite selection systems filter out potential good performers to fill the higher ranks in society and in organizations because they are not allowed to compete to start with. For example, those attending public schools have smaller chances of getting accepted into the elites. Once entering the right boarding school (sponsored by elite parents), the chance of getting accepted into a good college at university almost guarantees a good position among the elite in society. The group with whom to compete is much smaller if one has already been selected in an elite group. In contrast, everyone can join the competition in a contested mobility system, which makes the chance of success for each individual entering the competition smaller as compared to those who are selected into the competition in a sponsored mobility system.

The question of the relative importance of contest and sponsorship for upward mobility is easily applied to the context of careers in organizations. Traditional

career success implies moving up the ranks in an organization. Under a contested mobility career system, good performance would be the sole criterion for getting ahead in an organization. Under a sponsored mobility career system, management (who represent the elite group in an organization) selects a group of 'high potentials' who get more resources to develop themselves than other employees and thus have a greater chance to be promoted in the organization (Ng, Eby, Sorensen, & Feldman, 2005).

The two systems are not mutually exclusive. For example, organizations may have a formal high potential program to prepare a select group of employees for future managerial positions. Once accepted in this program, employees are part of the elite within the organization. However, the selection to get into the high potential program may be open to all well-performing employees, which would represent a contested mobility system. In this situation, the career system at first is based on contested mobility, and then turns into a sponsored mobility system for the higher ranks.

Also note that the concept of 'elites' in organizations does not have to be recognized or represent formal groups, but may be social constructions of how things are normally done. Subtle social processes involving social comparisons and stereotypes of those in higher positions influence selection decisions and reinforce an elite group. For example, managers are likely to prefer candidates who are similar to themselves. Hence, even in organizations that have a policy of fair hiring and equal opportunities for all, candidates who are similar to the current elite occupying the managerial ranks will have a greater chance to get sponsored to enter the elite (Merluzzi & Sterling, 2017). This is an explanation for the observation that the higher ranks in organizations and in society as a whole are less diverse than would be expected based on the diversity of the population.

The theory of contested versus sponsored mobility illustrates how the career development of individuals is not just a matter of individual performance and motivation, but it is often dependent upon some help by influential others. This understanding has consequences for the design of career management policies under conditions of continuous change: whenever there are opportunities for career advancement, it is likely that not all employees will benefit equally due to more or less access to networks that matter.

The contested versus sponsored mobility theory has influenced the recent theories on career dynamics such as employability and flexicurity theory. Before introducing those, the next section addresses the distinction between traditional 'objective' career success and the 'subjective' meaning of career success in the era of change.

Protean careers

In the late 1970s, the career landscape slowly began to change. From the end of the Second World War up to then, organizations predominantly adhered to an internal labor market model, which emphasizes loyalty between employees and employers. In an internal labor market model, individuals pursue their career within only one organization, where loyalty is rewarded by salary growth based on tenure rather than performance. Good performance was rewarded by opportunities to grow through the hierarchical ranks of the organization. Pursuing a career by moving between organizations was frowned upon, while progression from production to top management was highly valued. Economic and societal change at the end of the 1970s led organizations to slowly leave this model in favor of an external labor market model, where employees are recruited from outside the organization and dismissed if their contribution is no longer needed. Employment became uncertain; having multiple subsequent employers or even becoming self-employed was more accepted. Under this new model, it became normal for individuals to pursue career growth through working at a series of different employers. In 1976, management professor Tim Hall wrote an influential book in which he projected this change in career expectations would lead to the rise of employees favoring protean careers over traditional careers (Hall, 2004).

Traditional careers comprise pursuing one's career in one organization, working hard and moving up within the ranks of the organization. The psychological fulfillment of traditional careers lies in employer recognition of employee loyalty and performance, with salary growth and internal promotions as the tangible outcomes of this recognition. However, perhaps due to the inability of the majority of employees to pursue such traditional career paths, the expectation about psychological fulfillment from career development shifts from being employer-centered to individual-centered.

Protean careers involve a new mindset of career expectations. Such careers no longer include a desire for achievement and recognition within a single organization, but a desire for personal growth and fulfillment and the expectation that work will contribute to living a fulfilling life. Hence, jobs should add to one's feeling of living a fulfilling life, instead of adding to the organization in return for monetary recognition. This expectation of growth and fulfillment means that employees may change jobs during their careers depending on their interests, their life stages and their personal development. Such a mindset where individuals strive for job change depending on their lifestyle and aspirations has become known as a *Protean career*, named after an ancient Greek god that could transform himself into anything he liked. Hall says that protean careers are 'the path with a heart', while traditional careers rather emphasize the path that is favored by others. When employees pursue protean careers, their employment relationship with their employers becomes more

equal, as both remain partners as long as their interests are equal. Employees have the mindset to depart if the organization no longer provides psychological fulfillment. A protean career also implies that individuals can have multiple subsequent careers in different domains. Career growth is therefore not automatically linear, but it meanders along with changing life goals. Figure 4.3 contrasts a traditional career with a protean career path. The steps in a protean career involve growth within each step, with an exploration phase marked by the dotted end of a phase that marks the beginning of a next career.

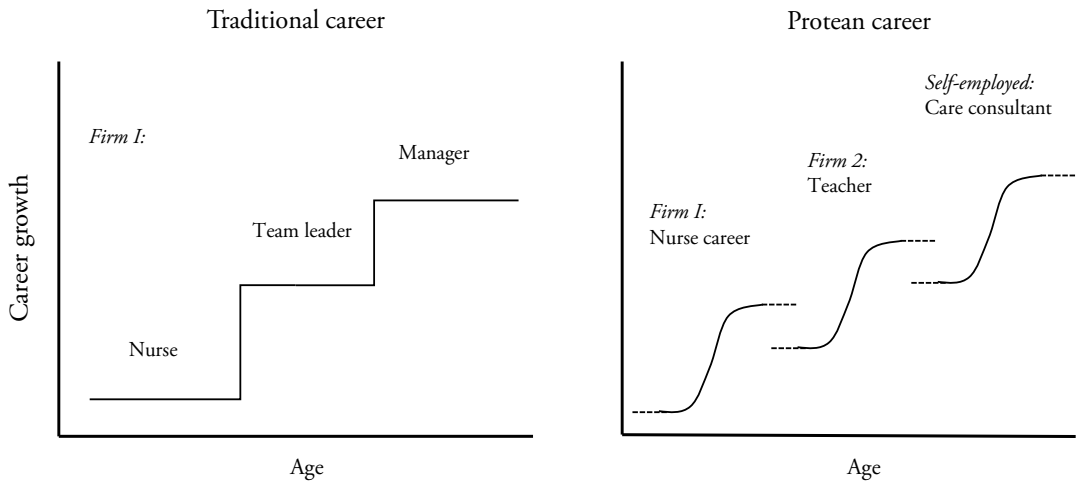


Figure 4.3: Traditional versus protean career paths

Of course, pursuing a protean career demands a new mindset of individuals because it puts personal initiative to the fore. The individual mindset associated with protean careers resemble characteristics of entrepreneurship: having a learning orientation, being open to change and actively exploring opportunities. Albeit with a different focus on individuals rather than organizations, the theory on protean careers resembles theories on organizational dynamic capabilities due to its focus on an entrepreneurial mindset to find career opportunities and seize them to maximize life satisfaction.

The contribution of the protean career theory is that it emphasizes the characteristics of a proactive, entrepreneurial individual mindset needed to build a satisfactory career under conditions of continuous change. Together with the idea of sponsorship from the contested versus sponsored mobility theory, a proactive mindset is part of the employability theory addressed in the next section.

Employability and flexicurity theories

The notion that employers can no longer provide job security has become a central theme in modern career theories (Baruch, 2006). Modern careers involve more change dynamics than traditional careers. The essential conditions for career success under conditions of continuous change are laid out in employability theory (Hillage & Pollard, 1998) and flexicurity theory (Wilthagen & Tros, 2004).

Employability theory

The concept employability builds on the idea that rather than reacting to job changes in retrospect, employees should be prepared for changes in their careers to come. *Employability* means ‘being employable’, being able to initially find a job, being able to keep it, and being able to obtain new employment if needed (Hillage & Pollard, 1998). Employability contrasts with being unemployable; a situation where finding and performing at a job is impossible due to a mismatch in qualifications, motivation or personal circumstances.

Although the essence of employability is easy to explain, it is more difficult to try and operationalize when someone is actually ‘employable’, because this is not just a function of individual skills and characteristics, but also dependent on requirements induced by organizational needs and technological changes. Employability is not an end state, but a process that needs maintenance throughout one’s entire career. Comparable to organizational dynamic capabilities, employees need their own set of dynamic career capabilities. Employability theories therefore focus on all resources that help employees develop their dynamic career capabilities (Finch et al., 2016). Employability definitions comprise a set of resources consisting of the potential offered by one’s current employability (employability radius), individual resources for future employability (employability competences) and resources in the employees’ environment (contextual constraints and opportunities) (Thijssen, Van Der Heijden, & Rocco, 2008).

1. *Employability radius*. This is the range of jobs and tasks that one is able to perform based on current education and experience. An example of small employability radius is a machine operator who performed the same a job on the same analog machine for over twenty years and who had no opportunities nor interest in taking part in training and development opportunities. Once an employee with such a profile is confronted with potential job loss due to digitalization of production, finding a new job will not be easy. The requirements for similar jobs in other organizations probably changed as well. In contrast, someone who kept on studying after leaving school and who took part in various projects outside his core job, will find it easier to find new employment if needed.

2. *Employability competences.* Future employment does not have to be limited to the current employability radius. Employability competences are a set of resources that helps individuals broaden their employability radius even when they are not actively looking for new employment. Examples of employability competences consist of knowledge development (to keep education and experience up to date with labor market demands), skills to find new employment (know how to present yourself and how to apply for a job), networking skills (to meet people and find out about employment opportunities) and having a proactive mindset (want to change, adapt, having ideas about your own career aspirations – all ingredients that reflect a protean mindset (Hall, 1976). Together, these employability competences enable individuals to broaden their employability radius and work beyond their current job.
3. *Contextual constraints and opportunities.* Individuals are sometimes hindered by their context even if they are able to perform a range of jobs (employability radius) and have employability competences. For example, the workload at a job may be so high that it allows little time for career development activities. Economic downturns may also reduce the number of job openings. Similarly, societal expectations about desirable careers for specific social groups can lead to discrimination in hiring (e.g. women, parents, older employees, migrant workers), and reduce career opportunities for individuals in these groups. Changing contextual constraints are difficult to tackle for individual employees. Success is more likely when some support is offered to mobilize career transitions (Turner, 1960). Support can be offered through human resource management policies for fair hiring, career development opportunities for all throughout all career stages and facilitating transitions of jobs between organizations.

Flexicurity theory

The overview of resources for employability illustrated above clearly indicates that employment transitions under conditions of continuously changing demands of organizations are not entirely under the control of individual employees. Many individuals need some kind of guidance to find their way into employment, to update their competences while working and to transition between jobs if needed. Although organizations can offer resources to facilitate career transitions, for a growing group of employees hopping between temporary positions, such organizational policies are not sufficient. Their tenure at organizations may be too short to benefit from career support policies. But more often, employers are reluctant to invest their limited resources in those employees who only briefly work at their premises. Training temporary employees is unattractive for employers because the returns on those investments will be grasped by another employer.

The risk of this situation is that temporary employees (who are so badly needed to allow human resource scalability capability) lack access to resources to invest in their employability (Forrier & Sels, 2003). However, when larger groups of workers lack employability resources, organizations will find themselves facing difficulties in finding the right quality employees. This illustrates how employability is not just a question for employees or for organizations, but for the constitution of the entire labor market.

Professor Ton Wilthagen, labor market expert at Tilburg University, proposes in his *flexicurity theory* that employability should be a joint responsibility of employees, employers and of social welfare policies (Wilthagen & Tros, 2004). He suggests a series of policy measures to motivate employees and employers to invest in employability. Flexicurity is an integral whole of labor market policies that allow maximum flexibility in hiring for employers, while at the same time offering maximum security for employees to be employed and have an income. The essence of the model is employment security – the likelihood to be employed throughout one’s career, which is to replace job security, which was at the core of traditional careers.

Figure 4.4 illustrates how flexicurity policies support the employability of individuals and secure human resource scalability capabilities of employers at the same time. According to flexicurity theory, the responsibility for the execution of career transition policies should be organized centrally, to ensure that all actors (employees and employers) take their responsibility in keeping flexible workers employable. The execution of flexicurity policies can be organized by the government, or by institutions that are sponsored by employers- and employee organizations such as labor unions and employers’ associations.

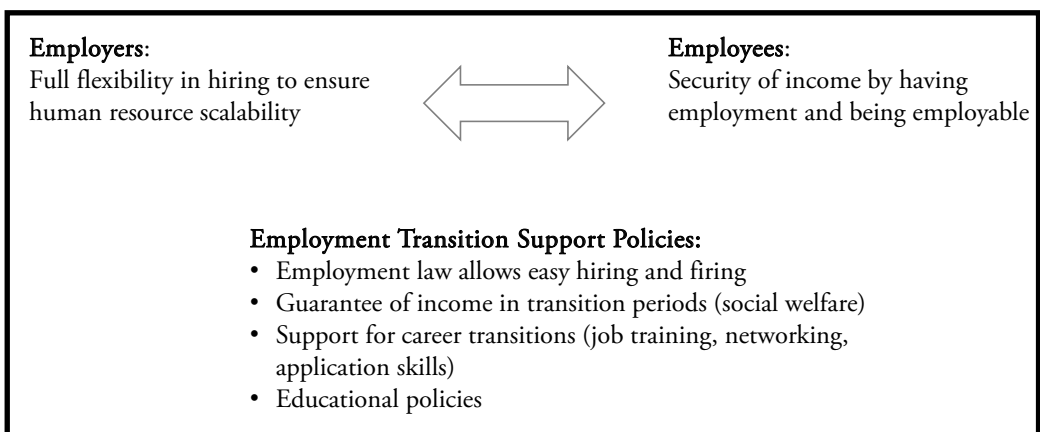


Figure 4.4: Optimal HR scalability (organizations) and employability (employees) under flexicurity policies

Because flexicurity theory integrates career theories with theories on change dynamics, it provides a holistic view on what it takes to maintain the performance of organizations under conditions of change while safeguarding the ability of employees to find employment when careers demands are changing as well.

Key research

The evidence of organizing human resources to prepare for effective responses to change points in the direction that investing in dynamic capabilities is more effective than planned change initiatives that involve workforce reductions through organizational restructuring or downsizing initiatives. However, some caution is needed in interpreting research on change. Even more than other research questions, change questions revolve around time. Longitudinal research designs involving multiple observations of the independent variables (e.g. dynamic capabilities, or a planned change program) and the dependent variable (performance) give a better indication of the causal relationship than studies that involve only one measurement of the variables. However, longitudinal research is complex to execute and therefore less available than cross-sectional studies. Hence, some caution needs to be exercised in the evaluation of cross-sectional findings with respect to change.

1. *Effectiveness of planned workforce reductions.* The most common reaction to negative external events, such as economic turmoil, is to cut the workforce and save expenses on salaries. However, management can also plan to restructure the workforce and ‘right-size’ it for the future. A meta-analytic study by Park and Shaw (2013) relying on a sample of over 300,000 organizations and units, indicates that a reduction in workforce (or ‘downsizing’) is negatively related to later organizational performance. Not only did they find that downsizing generally fails to improve the financial performance of organizations, but also that it may even lead to reduced financial performance (overall effect size of $-.15$). Even in case of financially healthy organizations that decide to restructure the workforce for proactive reasons (an example of a strategically induced planned change), the initial goals of the restructuring are generally not met and fail to improve the financial performance of the organization. These findings indicate that planned workforce reductions are very difficult to manage well.
2. *Effects of dynamic (HR) capabilities for organizational performance.* An increasing number of empirical studies support the claim that organizational performance benefits from having dynamic HR capabilities. Unfortunately, however, there is a lack of true longitudinal studies to substantiate such results.
 - a. *Human resource scalability capability:* In a sample of 117 US organizations, it was found that the level of qualitative flexibility of the workforce contributed to the financial performance of organizations in terms of cost-efficiency with a substantial effect size of $.28$ (Bhattacharya, Gibson, & Doty, 2005). Hence, in organizations where employees are motivated and able to take on

multiple positions within the organization and where there is a system of HR practices supporting internal qualitative flexibility (internal recruitment and job rotation practices that facilitate employees to change tasks or jobs within the organization), the largest levels of cost efficiency were achieved (Bhattacharya et al., 2005). Similar findings are reported in a sample of more than 600 Spanish organizations: investing in employees was shown to enhance the flexibility in skills and behaviors of employees, which in turn related positively to organizational performance (Beltrán-Martín, Roca-Puig, Escrig-Tena, & Bou-Llugar, 2008). However, meta-analytic research shows that organizations need some slack financial resources to make workforce flexibility work (Daniel, Lohrke, Fornaciari, & Turner, 2004). This finding is in line with Atkinson's prediction that financial flexibility is needed to benefit from employee flexibility. Without some financial reserves to invest in employees, cutting people to improve organizational performance will not be effective.

- b. *Organizational learning capability.* Human resource practices that are found to relate to increased levels of learning capability are shared decision-making, job rotation, cross-functional collaborations and practices that increase social relations between employees and units (Jansen, Bosch, & Volberda, 2005). The presence of such practices leads to an increase in knowledge transfer and innovative capacity in organizations, which are in turn beneficial to organization performance, as is shown in a meta-analysis of 241 studies (Zou, Ertug, & George, 2018).
 - c. *Organizational capability for innovation.* The contribution of employee training programs, induction programs to get new employees involved in a culture of continuous learning and exploration, team working, appraisal of innovative behavior and the stimulation of exploratory on-the-job learning by employees were all found to positively relate to product and technological innovation in a longitudinal study involving 22 UK manufacturing companies between 1992 and 1999 (Shipton, West, Patterson, Birdi, & Dawson, 2006).
3. *Dynamic career capabilities.* A meta-analysis was performed using data from 140 studies to find the most important predictors of objective and subjective career success (Ng et al., 2005). The key predictors for objective career success in terms of salary growth and number of promotions are one's level of education ($r = .29$) and having skills to find your way into the right networks and opportunities ($r = .29$). This corresponds with contested

mobility theory: the most qualified and cleverest employees have the best careers. But the sponsored mobility perspective was found to be equally important for career success: having access to career sponsorship ($r = .22$), and getting opportunities for training and development ($r = .24$) are also important for objective career success. The importance of career sponsorship for career success is particularly important for workers in temporary jobs, as they face the immediate need to find another position as soon as their contract ends. However, employers are often reluctant to invest in training and education expenses for their temporary workforce, fearing that their investment in these workers will not pay off for their organization but rather for the temp worker's next employer, as a study under Belgian organizations shows (Forrier & Sels, 2003).

HR practice

Looking after the human side of change management has always been one of the core responsibilities of human resource management, as can be understood from the abundance of popular literature on planned organizational change. After briefly referring to planned change management, the HR practice section turns to interventions that emphasize the dynamic capabilities theory and aim to prepare the organization and its employees to be prepared for continuous change.

Organizing planned change

When practitioners talk about change management, they often refer to planned change initiatives. There is an abundance of books on 'how to' do planned change initiatives. Much of this literature loosely builds on the ideas of Lewin (Burnes, 2004). In 1995, an article by John P. Kotter in the management magazine "The Harvard Business Review" succeeded to popularize Lewin's change theory into a hands-on 'how to' do change in organizations. Kotter translated Lewin's stages of change into a few practical steps, inspired by his observations of over 100 companies that were more and less successful in terms of change initiatives (Kotter, 1995). Kotter stresses that planned change initiatives should pay attention to organizational politics, while being sensitive to negative emotions, mobilizing support and trying to keep the majority of employees on board in making the change a success. His steps are often used to guide change management initiatives.

Human resource management for dynamic capabilities

There is a range of HR practices that contribute to an organization's dynamic capabilities. Following Table 4.1, we provide a few examples of HR practices that are used to contribute to human resources scalability, organizational learning capacity and organizational capability for innovation.

Human resources scalability. Many organizations have adopted Atkinson's model of core and peripheral workers, enabling them to fit the quantitative and qualitative workforce needs of the organization.

Quantitative flexibility involves managing all kinds of flexible work contracts. In practice, flexible labor can either be hired directly (for example temporary workers, self-employed workers on projects and day laborers), or obtained by making use of the services of flexible work suppliers, like temporary work agencies and subcontractors. A modern, flexible workforce is characterized by employees with different types of employment contracts working alongside each other (Cappelli & Keller, 2012). This situation invokes a number of practical challenges for HRM:

- *Coordination challenges.* Workers from flexible workforce suppliers report to their agency and to the organization that hired the agency. In practice this can result in unclear reporting structures. Who do hired workers report to? Who is responsible when something goes wrong? What are the consequences of flexible work for the maintenance and loss of crucial knowledge? Miscommunication and unclear responsibilities can lead to product failures, customer complaints and even litigation. To prevent such risks, hiring organizations have to invest in coordination structures to ensure that all workers contribute to the goals of the organization. Compared to the coordination costs for employees with permanent contracts with the organization, coordination cost can be substantial in organizations relying on a workforce hired from many suppliers.
- *Employee fairness challenges.* Levels of employment standards may vary between the hiring and supplying organization, causing differences between employees doing similar work with respect to wages and perks, but also opportunities for participation, training and development, health and safety conditions, feedback and appraisal (Wright & Kaine, 2015). The presence of employee fairness issues can reduce workforce morale and result in lower motivation to perform.

To consider the right balance between the need for scalability and coordination costs involved in the management of a flexible workforce, human resource management can use '*strategic workforce planning*': a methodical process of comparing the current workforce (numbers, roles, skills) against organizational goals and objectives, and then determine the workforce needs (numbers, roles, skills) to meet these goals and objectives (Mayo, 2015). In planning the size of the core workforce compared to the size of peripheral rink, any interventions to meet future needs should take coordination and fairness costs into account.

Qualitative flexibility can be realized in both core and peripheral workers. Human resource practices to improve qualitative flexibility aim at increasing the

employability radius of workers: the range of jobs and tasks that one is able to perform in the organization. This can be obtained by:

- Investing in employee development: offer training and development opportunities.
- Internal recruitment: announce job openings to all employees in the organization.
- Job rotation practices: stimulate a culture in which employees are open to taking on new roles in the organization every few years, and offer the opportunity to temporarily try out another role in the organization
- Job enrichment: give employees more complex tasks and responsibilities in their jobs

Organizational learning largely results from creating opportunities for knowledge transfer. Consider for example organizing weekly team meetings to stimulate information sharing and shared decision-making. Extending the possibilities for employees to acquire new knowledge, for example by means of job rotation and participating in cross-functional collaborations, would also be useful. Moreover, all interventions aimed at networking and communication between units will contribute to organizational learning.

Organization capability for innovation. Innovation in the workplace should be a mixture of HR practices that stimulate exploitation and exploration behaviors of employees.

Exploitation behaviors of employees contribute to the organization becoming better at what it already does. Since employees have the best knowledge of their own jobs and the work processes they are involved in, they are best able to notice potential improvements in the organization. By allowing employees *job autonomy* - the freedom to learn and experiment on how their jobs can be performed best - they will contribute to organizational exploitation. Job autonomy can be paired with teamwork practices that stimulate team learning. By inviting employees to work together (*teamwork*) and to come up with suggestions (*participation in decision-making*), they exchange the tacit knowledge needed to improve product or service quality. Hence, job autonomy, teamwork and participation in decision-making contribute to optimizing the current organizational work processes and outputs – the essence of exploitation.

Exploration behaviors involve actions to do something new. HR practices can stimulate employees to look outside their jobs and their organizations to acquire new insights. Examples of practices stimulating exploration behaviors are *cross-functional teamwork*, stimulating employees' *life-long learning*, and allowing employees some time to acquire new knowledge by organizing visits to other organizations or conferences. All these practices stimulate individuals and teams

to have an open mind towards new knowledge which can be integrated with their expert knowledge and be used to innovate.

In addition to HR practices addressing the behavior and attitudes of employees, the composition of the workforce can also contribute to the right balance between exploitation and innovation. Organizations can seek a balance in their composition of employees, such that there is a certain level of exploitation and a certain amount of exploration at the same time. Core employees typically have the best knowledge of the organization and are needed for exploitation. But bringing in new employees may also be a source of new knowledge entering the organization. However, to achieve the best mix of exploitation and innovation, there should be a continuous inflow of new employees on top of a stable majority of experienced employees.

Creating capabilities for dynamic careers

Career management involves all interventions aimed at developing the employability of all employees. The interventions can be clustered into four domains (Baruch, 2006):

- *Work experience interventions.* One's employability radius is predominantly affected by one's work experience. Work experience can be extended by offering learning-on-the-job opportunities. This can be done by ensuring that supervisors pay attention that all employees (core and peripheral) get challenging job assignments that allow them to add to their experience. On-the-job learning can be increased by training supervisors in delegating responsibilities to individuals and teams and by stimulating participation in decision-making. Moreover, communication about the importance of quality and innovation will stimulate individuals to examine their jobs and find learning opportunities.
- *Organize resources for formal training and education.* Transitions between jobs are easier once employees have the right qualifications in terms of education. However, due to workload and restricted budgets, not all employees have access to resources to improve their human capital. An organizational strategy that stimulates lifelong learning should therefore be accompanied by a budget that facilitates financial and time investments in education.
- *Opportunities for career counselling.* Having a dialogue about the range of jobs and tasks that one is able to perform, the aspirations for one's career and the opportunities and needs inside and outside the organization can help individuals plan for their employability. Career counselling can take many forms, ranging from talking to peers or a direct manager, to consulting with a professional career coach. The aim of such counselling is to find out about individual aspirations and opportunities, and about potential needs for development. Career counselling can be supported by training

managers to pay attention to the careers of their subordinates, supported by a professional unit offering information about development opportunities and support for developing employability competences.

- *Information about future opportunities.* To stimulate transitions between jobs, management should aim to reduce hindrances for employees to change jobs. This starts with providing information about job openings on electronic job boards and can be extended with organizing career networking events. Providing information about future opportunities also contributes to employee awareness about the need to continuously invest in one's career development.

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Summary

At the center of this chapter is the question how organizations can react to and act on continuous change in changing economic, technological and political circumstances. The theory of planned change explicates how organizational change should be well-prepared, taking emotions and organizational politics into account. Dynamic capabilities theory proposes that change is continuous and cannot be planned for. Organizations should therefore organize their resources in such a way that they can adapt quickly. Dynamic capabilities rest in characteristics of the workforce – the ability to grow and shrink the number of employees, the drive to continuously reach out to new information and the willingness to cooperate in creating innovation capabilities which were related to the theory of the flexible firm, to absorptive capacity and to exploitation and exploration.

In the second half of the theory section, the focus shifts to the requirements of employees in changing organizations. Career theories on the contested versus supported nature of career success and the changing attitude of employees in dynamic labor markets illustrate that employees need some support and a flexible mindset to find employment throughout their careers. Employability and flexicurity theory illustrate the conditions under which lifelong employment is feasible. Employability theory approaches lifelong employment from the needs of employees, in terms of skills, mindset and support. Flexicurity theory emphasizes the need for labor market reforms to ensure flexible employment for organizations and employability of all employees in the long run.

The research evidence largely favors investing in dynamic capabilities for human resource management over reactive planned change initiatives. Similarly, career success for employees is more feasible when employees, employers and labor market institutions invest in the development of employability of all workers.

The HR practices section focuses on practices that contribute to dynamic capabilities of organizations and to the employability of individual employees.

Part 2: Case and study questions

The second part of the book is about the business case for human resource management. It shows that strategical investments in human resource management can contribute to the performance of individuals, teams and organizations. The case about Resurrexit describes an organization facing all kind of performance challenges. The study questions at the end of the case will guide students in applying the theories of the chapters *Investing in people and business performance*, *Knowledge management*, and *Performance under conditions of change*.

Performance and change at Resurrexit

The renowned language institute Resurrexit has been based in Brussels for over 90 years. Due to the presence of the headquarters of the European Union and the NATO, Brussels is considered the language capital of Europe. Nowhere else in Europe so many different languages are spoken.

Resurrexit began as a small language school for religious travelers who wanted to spread Catholicism worldwide. Today it has become *the* leading language institute in Europe, with clients from all over the world. The institute is known for its high-quality language training. The training approach exists of immersing clients in a foreign language. A standard course takes two times five consecutive working days. From day one until to the last minute, clients are expected to express themselves in the language to be learned, regardless of their entry level. The immersion method is extensively researched and a proven for learning to master a foreign language. Resurrexit trainings are always personalized towards the learning goals of the client. Teachers take care of the intake with their clients and take responsibility for their client's learning paths. The approach has hardly changed over the years.

Teachers at Resurrexit must master at least two languages at the highest level (native speaker). Eighty percent of all teachers have a permanent contract. The remaining twenty percent concerns the deployment of teachers on an on-call basis. Many of the on-call teachers have also already been involved with Resurrexit for a long time.

Senior Language Teacher Veronique (French) from Resurrexit: *“It is truly unique what we do here. I put a lot of time into the preparation of a client. I live up to his or her wishes and needs. During the intake, I want to know everything about the world in which the client must express himself in the foreign language and how he is accustomed to learning. I mainly guide clients who follow language lessons because they are going to work for the EU. This means that I have to get to grips with the subject language, legislation, the functioning of the Union, and desired manners. There is a whole world in the use of words and how you pronounce them. Take for example the English word ‘interesting’. If a native English speaker says he finds something ‘interesting’, an ignorant listener may think that he likes it. However, the way in which and when it is said can*

change the meaning to 'strange' or even 'weird'. I must be able to teach clients about the nuances of the language. It is also important that I can properly assess the level of the client. The higher the level, the more refined the lessons. I love those challenging courses. Entry-level courses can be challenging as well, if you have to consider how you convey the basis well if you are very advanced in a language. Often, this profession can be a challenge!

The beauty of our approach here is that after three or four days you usually see something change in the client's level of mastering the language. Because clients stay here for 10 days, together with fellow clients, and they cannot speak in their own language, they are really immersed in the new language. That is exactly what makes us always achieve such good results. This also accounts for the high costs. Clients really get value for money. I am so proud that we do this already from the time that the nuns were still teaching here.

I regularly share my teaching approach and dilemmas with my permanent colleagues. We discuss questions concerning clients', specialized professional language and the use of new exercises. Together, we determine or teaching methods and we are very creative. Each language team also has one employee who is responsible for the quality of the trainings. He or she pays special attention to the results of our lessons and the experience of our clients. This way we monitor our quality and we contribute to our knowledge and development. We do not have much time for consultation because our schedules are very tight. If you want to do your preparation well, it is almost always partly in your own time. Clients pay a lot of money, so you want to offer them the best you can. I have no idea how freelancers do that. We hardly see them. It worries me a bit."

In the past years there have been increasing fluctuations in the demand for Resurrexit's excellent but expensive courses. New players in the field increase the competition and changing needs of customers challenge Resurrexit's business strategy. While management wants to maintain Resurrexit's unique strength in offering high-quality courses, they are considering strategies to improve the financial performance of the institute.

The challenges

1. The majority of customers are in business and politics. These are mainly expats who want to learn a high level of language in a relatively short time and who have to master specific professional language. Clients are Belgians who work abroad as well as foreigners who come to work in Belgium. This type of client increasingly demands for flexibility in time and location in following the lessons, without any loss of quality in education.
2. The number of freelancers who offer language lessons has risen sharply. Although quality and reliability of these teachers vary greatly, it is clear that these emerging self-employed trainers take of some of the clients. They

- provide for a large part to the need for flexibility of customers, and are sometimes even willing to offer lessons abroad on location.
3. Several translation apps - often simply accessible for free - decrease the number of potential clients. Although the practical use of advanced translation apps is still minimal, in the future translation apps may be used directly in real-life conversations, whereby the need for language knowledge would be reduced greatly. The extent to which this technological development affects the business model of Resurrexit cannot yet be predicted.

The challenges pose a dilemma for the management of Resurrexit. Profit remains the main goal, but providing quality remains important. The good name of the institute lies in its quality, which is its most important asset. Investments can and should be made for this. Management does not shy away from difficult choices to be prepared for the future.

Study questions

Answer the study questions using evidence from the theory and research described in each chapter.

Chapter 2

1. Find examples of physical, organizational and human capital that determine the unique capabilities of Resurrexit.
2. Find an example of individual differences that predict employee performance in Veronique's description of how she goes about to design a tailored individual language training. How could Resurrexit guarantee that all their employees have this knowledge, skill or ability?
3. Which of the dimensions of social capital - structural, relational or cognitive social capital - comes forward most clearly in Veronique's explanation of how she works together with her colleagues?
4. Have a look at what Veronique says about what she likes about her job. Indicate which parts of her job evoke social exchange and indicate which extra-role behavior(s) she displays in return.

Chapter 3

5. Give examples of explicit and tacit knowledge that are addressed in a language training.
6. Explain how the learning methods used at Resurrexit ensure transfer of training.
7. According to the knowledge-based theory, which organization characteristics (social structures, organizational design) facilitate or hinder language teachers to use their knowledge to work together with individuals on the common goal of the organization.
8. Give examples knowledge in Resurrexit that is difficult to transfer. Which knowledge in Resurrexit can be reshared easily?
9. What could the management of Resurrexit do to increase the knowledge transfer between all trainers, both permanent and freelancers?
10. Management and teachers of Resurrexit struggle with the use of new technology (language apps, for example) in individual training programs. Some teachers have started using apps, while others are weary to change their way of working. Use the *knowledge flows* of the knowledge creation theory to explain how knowledge on the use of new technology in language trainings can be created in the entire organization.
11. Think of a procedure for Resurrexit to store the semantic as well as episodic knowledge that is developed in projects for large client organizations.

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12. The management of Resurrexit wants their trainers to adjust more to their client's need for example through training on location and training in weekends. Given that trainings normally happen at the beautiful premises of Resurrexit and during weekdays only, this new strategy implies a change in the way trainers work. Use Lewin's *theory of planned change* to indicate the conditions for a successful implementation of this change.
13. Evaluate the level of *dynamic capabilities* of Resurrexit by finding evidence on organizational processes that contribute to having dynamic capabilities in the case description. How do you rate the current i) *adaptive capacity*, ii) *absorptive capacity* and the iii) *innovative capacity* of Resurrexit? In your opinion, which of the following human resource aspects would reap the dynamic capabilities of Resurrexit most directly: i) human resources scalability capability, ii) organizational learning capability, or iii) organizational capability for innovation? Explain why.
14. Who are the *core* and *peripheral* workers in Resurrexit?
15. How would you rate the current innovative capability of Resurrexit. What could management do to increase Resurrexit's innovation capability?
16. If you look at Veronique's quote from the perspective of the theory on *contested versus sponsored careers*, is it possible to recognize an *elite group* of employees at Resurrexit?
17. Give some arguments in favor and against the assumption that freelancers have a Protean mindset than permanent employees.
18. Compare the *employability* of permanent and freelance teachers working for Resurrexit on the dimensions: i) employability radius, ii) employability competences, iii) contextual constraints and opportunities.

PART 3

HRM IN CONTEXT



CHAPTER 5

WAR FOR TALENT

Chapter in brief

How can human resource management help organizations to staff their organizations with talented employees in times of labor market shortages?

The key theories are:

- (Neo)Classical wage theory
- Efficiency wage theory
- Internal labor markets (ILM) and transaction costs
- Equity and justice theories
- Expectancy theory
- Psychological contract theory

The key HR practices presented in this chapter are:

- Compensation
- Employee segmentation
- Recruitment
- Onboarding
- Performance appraisal
- Talent management

Introduction

In the nineties, McKinsey consultants announced that the future competitive power of organizations would not depend on having the best products, services or prospects, but on the ability to attract and retain the most talented employees. In their prognosis, they combined a number of societal and business developments that still exist today: an increase in the demand for high-qualified employees to perform increasingly difficult tasks and a shrinking workforce due to an aging population. As a result, they reasoned that only those organizations that succeed in hiring and retaining talents, would have the power to achieve their organizational goals (Chambers, Fouon, Handfield-Jones, Hankin, & Michaels, 1998). Although the report was criticized because it did not specify what talent means or how to measure it, it resonated with the experience of many executives that it is difficult to trace and attract employees with rare skills and knowledge for crucial jobs in many parts of organizations. There is a shortage of skilled employees in technical professions, nursing professions, and in jobs that people generally disapprove of, for example, working in the meat industry. The War for Talent happens on all levels; it is not only a struggle for star employees at the top of organizations, but this problem of labor market scarcity affects all levels and all organizations. Even countries face problems when there is insufficient labor supply to do all the jobs. Japan, for example, has been suffering from a long term recession due to an aging population and strict immigration policies (Ducanes & Abella, 2008).

This chapter takes the broad view that the War for Talent is about attracting and retaining employees who are qualified and productive, who are needed to run productive and profitable organizational processes, and who possess skills and knowledge that are scarce in the labor market. The War for Talent is a problem involving macro, meso and micro-level dynamics.

At a macro level, the War for Talent is about the balance between demand and supply in *labor markets*. This is the research domain of labor economics. Labor economists use workforce and gross production numbers to predict wages, and vice versa to predict how wages affect labor supply and demand. This chapter will touch upon *Classical* and *Neoclassical wage theory* without going into too much depth, mostly to familiarize you with the economic concepts used in researching labor markets.

The next level to consider is the meso or organizational level, which deals with managerial strategies to attract and retain talent. Strategic choices at this level involve wage levels and make-or-buy decisions. *Efficiency wage theory*, which predicts the benefits of paying above market-level wages, and argues why it is profitable for organizations to pursue this strategy. The make-or-buy decision involves a calculation of costs and benefits associated with raising homegrown talent

within organizations versus hiring employees with ready-to-use talents directly from the external labor market. The flexible firm, an organization where part of the workforce is hired from another employer, such as a temporary work agency (see chapter on Managing Change), is an example of a ‘buy’ decision. Instead of having all employees contracted and managed by the organization itself, flexible firms outsource the employee administration of some groups. This provides the flexibility to ‘buy’ additional labor or downscale quickly as needed. In this chapter, we introduce the *internal labor market* as its counterpart that promotes a ‘make’ decision in which sufficient qualified staff is developed in-house. Economists point to *Transaction cost theory* to explain which strategy is most profitable in a given situation. Efficiency wage and transaction cost theory are economic theories, which tend to emphasize the context of behavior (for example rewards, information and budgets).

The micro level in the War for Talent is the domain of psychological theories. It considers within-person preferences, thoughts and mental processes to explain behavior. Ultimately, individuals decide for themselves whether or not to apply for a job, accept a job offer, and like it so much that they choose to stay. Classic psychological theories to predict such behaviors are Equity and Expectancy theory. *Equity theory* concerns fairness evaluations about the processes and distribution of rewards in organizations. Fairness violations have negative effects on how people feel about their employer and can lead to them quitting. *Expectancy theory* relates to differences between employees in how they value rewards, and how that in turn affects their behavior. Recently, *Psychological contract theory* highlighted that many equity and reward expectations remain unspoken between employees and employers, which even further increases the risk of disappointing talented employees.

The central question in this chapter is how human resource management can support organizations in attracting and retaining talent in times of labor market shortages, in order to be able to meet the goals of the organization. Before setting out to explain the theories and their practical implications in more detail, the next section starts by defining some of the key concepts in the War for Talent literature.

Theory

Key concepts

Organizations need employees to perform the tasks involved in reaching their strategic goals. In turn, employees look for organizations where they can use their skills in return for benefits. The core of employment relations is the dance between employers and employees to find the right balance between organizational and individual needs. The first step is initiating contact, in which employers and

employees reach out to each other and explore the possibilities for teaming up. This is the attraction phase. Then, the dance takes off to the retention phase, when both partners continuously balance their needs and demands to determine if they desire to continue their relationship.

Employee attraction is the entire process before an employee engages in an employment relation. Attraction initiated by employers refers to *recruitment*. This is a very broad domain of activities ranging from employers' actions to bring jobs to the attention in the labor market, to motivating potential recruits to apply, to offering attractive terms and conditions, and to guarding that a job offer is accepted (Breugh, 2008). Employees are active agents who can also initiate contact to potential employers in their job search.

After a job offer has been accepted, the employment relationship commences. *Retention* is the prevention of *voluntary turnover*, which happens when an employee who is still valued in a job decides to quit. Because undesirable turnover is expensive, considering the loss of productivity and tacit knowledge and additional costs for recruitment and training, employers seek for human resource management strategies to retain valued employees (Holtom, Mitchell, Lee, & Eberly, 2018; Hom, Lee, Shaw, & Hausknecht, 2017). Involuntary turnover is initiated by the employer or by legislation, and happens for example when a temporary employment contract expires, in redundancies, or at the legal pension age. The abundance of research on voluntary employee turnover indicates that a combination of situational and personal factors precedes actual turnover, such as the presence of attractive alternative jobs (pull factors), or a dislike of the current job (push factors) (Griffeth, Hom, & Gaertner, 2000).

The balance between attraction and retention takes place in the context of labor markets, where labor surplus and shortage determine the relative bargaining power during the attraction phase and the relative value of the employment conditions during the retention phase. A *labor market* is a virtual place where workers and employers interact with each other. Employers compete with each other to hire the best employees, and workers compete with each other for the most rewarding jobs. The number of job openings at organizations determines the demand side of the labor market. The number of employees looking for jobs determines the supply side. Supply and demand of labor continuously change and fluctuate. There are periods of labor shortage, when there are many job openings but few employees suitable to fill these positions, and periods of labor surplus, when there are many workers looking for jobs but only few job openings exist. In periods of labor surplus, many workers find themselves unemployed. Labor shortage on the other hand can be threatening to organizations because it may impede the potential of organizations to get all the work done.

Labor shortage is the proportion of job openings relative to the size of the labor force population. This results in a score that indicates how hard it is for organizations to find employees. Low unemployment rates of less than 5 percent also indicate labor shortage. Variations in labor shortage exist between countries, between industries and between different categories of jobs. The fluctuations between labor shortage and labor surplus have many causes, some of which are temporary and some of which are structural.

Temporary shortage is due to foreseeable changes in the economy. In times of economic growth, the demand for labor is higher compared to when an economy is facing a recession. Labor shortages and surpluses fluctuate with the state of the economy. There are also fluctuations within each year due to the seasonality of some industries, like in tourism or in agriculture.

Structural shortage happens when there are too few workers for all the jobs, regardless of the economic situation. This is problematic for economic growth. Japan, for example, as the third-largest economy in the world after the United States and China, has been facing structural labor shortages for decades, largely due to an aging population resulting in insufficient productive people to fill all the vacancies. This is the result of *quantitative shortage*: a lack of a sufficient number of workers. However, structural shortage can also result from *qualitative shortage*. This happens due to a mixture of mismatches. A known qualitative mismatch happens on the *demand side*, between the type of labor demanded by employers and the type of skills and education that unemployed workers have. This can happen because jobs and job requirements change, but also because students prefer the ‘wrong’ education. For example, organizations look for professionals with technical skills like engineering or law, but students prefer studying event management. Another qualitative mismatch lies in the changing expectations of new generations about work. Younger generations are less likely to sacrifice their personal life for an organization and expect employers to provide them with, for example, flexible work possibilities. If employers do not adapt jobs to these expectations, they will face shortages due to a mismatch on the *supply side*, because potential employees do not like their jobs. Particularly in times of labor shortage, workers have the bargaining power to demand jobs that meet their expectations.

The debate on structural shortages caused by an aging workforce and changing employee expectations has raised employers’ interests in attracting and retaining talent to their organizations. Human capital theory predicts that organizations with the best employees will ‘beat’ their competitors. In the context of labor shortages, it becomes even more important to find and keep these talents. The word *talent*, however, has many meanings. It can refer to giftedness, to specific competencies in which one excels, to abilities and skills that predict good performance, to the potential to learn and become a good performer, or to high performance itself

(Meyers, van Woerkom, & Dries, 2013). The McKinsey report used a relatively narrow definition of talent by only looking at the top performers in the highest ranks of organizations (Chambers et al., 1998). Labor shortages in technical sectors, in health care and education, however, indicate a lack of good performers across a wide range of job levels. In this chapter, the definition of talent therefore includes all employees who possess qualities (education, skills, and experience) for which there is a labor shortage.

Economic theories of attraction and retention

Economic theories of attraction and retention explore how situational conditions lead to a match between employers and employees. Examples of situational conditions are wages and information, which can be used by employers to motivate employees to associate with and stay in a job. Wages are the overall package of base pay, incentives, bonuses, benefits, and insurances. Although there are theories that predict that various wage components have different effects on employee motivation (see for example Gerhart & Rynes, 2003), the theories selected for this chapter mostly focus on the overall effect of wages.

(Neo)Classical wage theory

The first economic theory views wages as the key mechanism that determines the balance between labor supply and demand. Classical economic theory finds its roots in Adam Smith's (1776) philosophy about the benefits of the free market for the wealth of people and nations. Just before the industrial revolution, trade was envisioned as a game where making a deal always involved a winner and a loser. Adam Smith proposed that trade did not necessarily need to be a win-and-lose game, but that under certain conditions buyers and sellers could both win. These conditions depend on the demand and supply of the good involved in the transaction. As long as the buyer knows he paid a fair price compared to the number of other buyers interested in the good, and the seller knows that the price is fair given the level of demand for the good, both parties will be happy with the deal. When there is a balance between the availability of the good (the supply) and the need for the good (the demand), the price would be at such a level that it satisfies both buyers and sellers.

In free markets, the need for labor derives from the demand for goods. The demand for labor increases in line with the increase in the demand for a good and vice versa. The motivation to work will increase when individuals see that putting hours in to work leads to more income, resulting in increased well-being. When the demand for a product increases, the demand for labor increases. To attract employees, employers will increase wages, which will result in an increased supply of labor.

The demand for labor also depends on the productivity of workers. In theory, workers should be paid according to their productivity. Workers with more knowledge and skills (such as IT engineers) are more productive than less skilled workers (such as cleaners). For each product sold, knowledge workers add more value to the product than less skilled workers. Differences in the added value of the productivity of workers justify wage differences. Since knowledge workers (the IT engineers) add more value to each product sold, they can demand higher wages. So, in sum and according to classical labor theory, wages are determined by supply and demand factors and workers who add more value to each product sold should be paid a higher wage. Organizations maximize their profit if the added value of each additional worker equals the additional costs of employing them.

This system in which wages are determined by the supply and demand in the labor market functions best when the market is a real *free market*; that is a completely competitive labor market. Conditions for the existence of such markets are:

1. There are many organizations with identical jobs so workers can compare and choose the best wages;
2. There are many workers who all have the same skills and who are perfectly mobile in switching between jobs;
3. Both workers and employers have all the information about wages and jobs to make rational decisions about wages levels and job acceptance.

In such markets, employers are wage takers. This means that their wage policy is completely determined by the market. Should employers pay lower wages than the competition, workers would not want to work for them. Should they pay higher wages, their production costs would outweigh the benefits. So according to Classical wage theory, there is not much employers can do to use wages as a strategic instrument to attract talent. At least, not any different than any other firm in the market, which in return means they cannot achieve a competitive advantage through their wage policy.

However, it is clear that these conditions are unlikely to exist in the real labor market. In reality, a number of causes obstruct the ideal-type free market and lead to frictions or imperfect labor markets. *Frictions* describe labor market situations whereby workers are not assigned efficiently to jobs and organizations. For example, think about the following situations:

1. *Imperfect labor supply*: In reality, not all workers have identical skills or interests in taking and performing any job in demand. To be able to perform skilled jobs, workers often require qualifications. These qualifications may require a lot of effort to obtain, so not all workers are willing to get these qualifications and the number of workers that does have the qualifications is limited as a consequence. Similarly, some jobs are disliked by many workers

because they involve heavy, dirty, repetitive or otherwise unpleasant work. This implies that wages need to increase more than would be predicted according to the demand-supply function to motivate workers to obtain the qualifications or to overcome their dislike for unpleasant work.

2. *Information asymmetry.* By no means do employers and employees know exactly what is happening in the labor market. Employers do not know how employees perform exactly, so they have to use proxy measures to get an idea of workers' performance levels, such as the degree of education. They also have imperfect information about the offers of other employers for similar jobs. Moreover, employees cannot compare offers of all available jobs, nor do they know exactly what the compensation of each job entails. In cases where one party (employers or employees) knows more than the other, information asymmetry arises and wage levels can be established below or above the value predicted by classical wage theory.
3. *Labor is not perfectly mobile.* Moving from one job to another always involves costs for workers, which in return can restrict their mobility. They may need additional training to gain the skills required in another company, or relocation costs occur while moving to another area. Moreover, systematic obstacles like educational opportunities or local laws restrict workers' mobility. An additional aspect to consider, regarding how wages influence employees' decisions to move from one job to another, is that wages are not the only aspect that workers look for when accepting a job, non-pecuniary aspects like colleagues and work content play an immense role. These different aspects lead to employees not freely hopping from one job to another. In return, employers are not only wage takers who are dependent on the market, but do have some power to influence the wages they pay to their employees.
4. *Monopsony power.* Some employers have the power to set wages in a certain region because they are the only employer and workers have limited options to decline the wage offer this organization makes. For example, in a town with high unemployment and one dominant employer who hires almost every adult working in that town, this employer has the monopsony power to set wages at a lower level compared to the national labor market. At the labor supply side, trade unions can drive wages upwards in a similar vein, because they speak for a large group of workers who give them power to set wages. Minimum wages are an example of labor-driven monopsony power.

Due to these kinds of frictions, the labor market does not follow a perfectly competitive and 'classic' demand-supply model. Neoclassical wage theory has fine-tuned classical theory to allow for the existence of frictions and imperfect labor markets, but is still working from the basic assumptions of classic labor market theory.

For example, instead of assuming full rationality, neoclassical wage theory assumes bounded rationality: individuals take rational decisions based on the information that is at their disposal. Because this information may be incomplete, it may result in suboptimal decisions. The theory is mostly used in macroeconomics. Apart from a better understanding of wages under different labor market conditions, it may hold little practical relevance for organizational strategies in the War for Talent. Efficiency wage theory and Transaction costs (make-or-buy) theory are two meso-level theories that are more practically relevant for strategic choice.

Efficiency wage theory

Nobel Prize-winning economist Joseph Stiglitz and his colleague Carl Shapiro at MIT started their Efficiency wage theory by wondering why there is always unemployment, even in high conjunctures when everyone who wants to work can work. Rather than looking at aggregate frictions in the labor market, they concentrated on the economic behavior of organizations and employees and the limited information that employers have about how employees perform to explain how employers decide which wages to pay. They reasoned that it can pay off for employers to pay more than the equilibrium wage as predicted by (Neo) classical wage theory because frictions in the labor market also have benefits for the performance of organizations (Shapiro & Stiglitz, 1984).

The starting point of the theory is that it is impossible, or at least nearly impossible for employers to understand the true worth of each employee's performance. Employers therefore lack information about the real value of employees. On the other hand, employees can choose the amount of effort they put into their jobs. Understandably, employers look for mechanisms that can make employees put in more rather than less effort to their jobs. One mechanism to motivate employees to work harder, is to increase the threat of unemployment for employees. According to (Neo)classical wage theory, unemployment is the result of frictions in the labor market. Employers cause frictions by paying higher wages than equilibrium level. (Neo)classical wage theory predicts that paying more than the market equilibrium would make organizations unprofitable. However, Stiglitz and Shapiro reasoned that there is profit in higher wages because the higher costs of the salaries pay for themselves in better performance of employees. There are a number of economic reasons why paying high salaries leads to better organizational performance. The most important reason in *Efficiency wage theory* is that high wages reduce employee shirking.

Shirking is economic behavior. As profit maximizes, employees seek to get the highest rewards for the least possible effort. When employees receive an average pay at the wage equilibrium level, they will do just enough to show their worth at that average level. In other words, at average pay, employees will put average effort into their

jobs. However, when employers increase wage, the wage equilibrium gets disturbed and cause unemployment. Therefore, employees will fear that their average effort will not protect them from redundancy. Hence, to avoid unemployment, employees will increase their effort. When employers pay higher wages, they increase the norm for shirking. This leads to better performance of employees.

There are additional benefits to paying above-average wages when it comes to the attraction and retention of employees. Efficiency wages lead to a *selection advantage* (Stiglitz, 1976). Organizations that pay higher wages attract more workers willing to work for them. By enlarging the pool of applicants, employers can select the most talented employees. Hiring talent is an investment in the human capital of organizations, an important resource for better performing organizations.

Another benefit of higher wages is that employers create a *retention advantage* (Stiglitz, 1976). Employees in higher-paying organizations do not want to lose their well-paid jobs and will not easily move to another employer. This results in low employee turnover levels. At low turnover levels, employers have to spend less on hiring costs and do not have to invest in training new employees.

A final benefit that Stiglitz and Shapiro included in Efficiency wage theory is *gift-exchange motivation* (Akerlof, 1982). Gift-exchange builds on Social Exchange theory, but stated in an economic rather than psychological manner. Employees who receive higher wages than they would earn in similar positions elsewhere feel obliged to return this gift by showing extra effort.

These four mechanisms together (reduced shirking behavior, selection advantage, retention advantage and gift-exchange motivation) explain why above-average salaries motivate employees to perform better. The Efficiency wage theory shows that salaries are an instrument for human resource management to use strategically in attracting and retaining talent.

Internal labor markets (ILM) and transaction costs considerations

(Neo)classical and Efficiency wage theories explain the role of wages in the external labor market to attract, retain and motivate qualified employees. Both theories focus on differences between organizations in the labor market in determining wages to 'buy' and keep talent. The third and final economic perspective presented here are *internal labor market* theories and *transaction cost theory*, which both focus on the costs and benefits of in-house talent development instead of buying it on the labor market.

In the period between World War two and the late nineteen-eighties, most employees spent their entire career at the same organization, slowly moving from one position to another. Apart from starter jobs, the external labor market had little relevance for those aspiring career growth. Most employees joined organizations at

a young age and grew during their careers through the organizational ranks. Career development was stimulated by the organization, often by providing company-specific trainings to employees (Dulebohn & Werling, 2007). This phenomenon relates to the existence of *internal labor markets*, which involves all job openings in an organization on the one hand, and the entire workforce of the organization as potential applicants on the other hand (Doeringer & Piore, 1985).

Internal labor markets bring cost benefits for organizations. Similar to Efficiency wage theory, they lead to lower costs for external recruitment and training expenses for new hires (Wachter & Wright, 1990). Promoting employees from within the organization to fill job openings saves expensive advertising campaigns and recruiter fees. Moreover, employees in an internal labor market career often do not know the value of their company-specific skills and lack knowledge of the external labor market. Because they fear being unable to find a similar level job outside the organization, and risk losing their current benefits, they prefer to stay with the same employer. By having loyal employees, organizations enjoy *reduced recruitment costs*. Another benefit is that internal labor markets bring a *productivity advantage*. Because promoted employees already know the organization, their onboarding program to the job can focus on the technicalities of the new position. Their training can be tailored to the organization, which results in company-specific knowledge for employees. Such knowledge is of high value in the current organization, but due to transfer difficulties is of less use in other organizations. Finally, internal recruits need no introduction to the social network of the organization, and because they are well aware of tacit internal processes, their time to adapt to the new job will be relatively short. This results in internal hires having higher productivity levels at the start of a new job than external hires.

In contrast to Efficiency wage theory, internal labor markets tend to have a *lowering effect on wages*. This can be explained by understanding typical career patterns in organizations with a traditional internal labor market. The entrance to a traditional career starts right after finishing education, when the employee does not have bargaining power yet. The salary can therefore be set at - or even below - the market equilibrium for a starting position. By just working and staying loyal to the organization, employees see their salaries increase gradually, year by year, because salary growth is mostly linked to years of experience in a job. The promise of career growth within the organization is another incentive for loyalty, since upward career steps for loyal employees relate to a significant growth in salary. Salaries in ILMs are therefore less a function of the labor market, but more a function of employee loyalty and the relative merit of each employee within the organization.

Economics refer to the tempering effect of internal labor markets on labor costs as *reducing transaction costs* (Williamson, 1979). These are costs associated with developing or managing goods or services in an organization, as compared to costs

associated with buying it ‘ready-to-use’ on the market. Doing something yourself minimizes transaction costs, but making something you buy fit your needs incurs additional costs. For external hires, these costs will be hiring expenses, contract expenses in terms of negotiated salaries and benefits, and costs for monitoring and training. External hires, since they are not homegrown, need more management control: their contracts should specify what they do and what reward they do it for, and managers need to watch more carefully if the new recruit’s behavior is in line with all the tacit processes in the organization. If you hire someone from outside the organization, you will need to be keener on monitoring this newcomer in the organization. For internal hires, the transaction costs are minimal: they are loyal and already understand all the implicit processes of the organization. Compared to external hires, internal hires require lower transaction costs. Since organizations with internal labor markets invest in developing talent from within the organization, they have lower transaction costs than organizations with an external recruitment strategy.

Despite these benefits of internal labor markets, there are risks as well. For example, loyal, long-term employees often enjoy protection against dismissal. In times of economic turmoil, such a loyal workforce can become a burden to organizations because it hinders organizational flexibility in employment quantity. To balance the benefits of internal labor markets with the need to adjust staffing levels, many organizations nowadays adopt a strategy in which a part of their workforce enjoys the benefits of an internal labor market, supplemented with a flexible pool of employees that do not enjoy these rights (Atkinson, 1984; Lepak & Snell, 2002). This again is a matter of transaction cost considerations: keeping employees strategically in an internal labor market minimizes costs for attracting and retaining talent that is difficult to buy, while easy-to-replace employees need minimal investment, which provides more flexibility and lower costs for this group.

Since salary systems in internal labor markets are designed to foster retention among employees, it is important that their design takes internal comparisons between employees and jobs into account. These include the complexity and responsibilities of a job, rather than the market price for identical jobs in the labor market. Decisions about what constitutes fair pay for a job can be determined using job evaluation analyses (Gerhart & Rynes, 2003). The next section of this chapter turns to psychological theories to understand how employees look at fair rewards.

Psychological theories of attraction and retention

Where the economic theories in the previous section focus on mechanisms that employers can influence directly (salaries, information), psychological theories look for explaining employee behavior at their mental evaluations of the world

around them. Three mental processes deserve attention in explaining if a talented individual wants to join an organization and stay there. The first process is fairness, the judgmental process in which employees determine if their rewards are in balance with their efforts at work. *Equity and justice theories* explain how employees weigh and evaluate if their rewards are fair. The next process is individual evaluations by employees about the worth of the reward. As the McKinsey ‘War for Talent’ report shows, talented individuals differ in how they value the type of rewards that organizations have to offer (Chambers et al., 1998). *Expectancy theory* shows how different rewards are motivating for different employees. Finally, much can go wrong in attracting and retaining employees because of misunderstandings between what employees and employers expect from each other. *Psychological contract theory* explains how this works and what employers can do to prevent the negative consequences of unmet expectations.

Fairness: Equity and justice theories

The question “*Is this what I get for what I do?*” sums up the essence of fairness. Fairness is the attribution individuals make about whether an outcome is justified, by weighing the conditions for obtaining the outcome. Conditions can vary from the amount of effort put into a task, to one’s qualifications, to comparisons with others. Outcomes should also be understood in the broadest sense of the word. Examples in a work context include financial rewards, promotions, or recognition by your superior. As long as an individual is satisfied with an outcome as compared to the conditions associated to it, he or she will be satisfied and carry on. However, problems arise when injustice is detected in the link between conditions and outcomes. An abundance of research demonstrates how unfairness at work leads to negative emotions in employees, to stress, to reduced motivation for performance and eventually to turnover. Fairness and justice theories are dominant in employee retention literature. Please note that authors often use the words fairness and justice interchangeably. To be precise, justice refers to the evaluation of conditions for the outcome, and fairness is the reaction to that evaluation. If conditions can be justified, then there is fairness in the outcome. Over the years, many specifications and extensions of the theory developed (for an overview see Colquitt, 2012). For this chapter, we concentrate on the theoretical foundations of organizational justice.

Academic thinking about the potential of fairness for predicting employee behavior in organizations took off in the 1950’s with publications on social exchange by Homans (1958) and social comparison by Festinger (1954). John Stacy Adams in 1963, at that time the lead behavior analyst of the General Electric Company, introduced *equity* as a condition for social exchange. Equity in social exchange happens when individuals believe that there is a fair balance between effort and rewards in the relationship. The judgment whether there is equity is determined by processes of comparison, if possible with objective standards, but if that is impossible,

in comparison with others, or with one's own beliefs (Adams, 1963). A feeling of inequity on any of these comparisons leads to a feeling of *deprivation*, the belief that you do not get what you are entitled to, given your conditions. The more deprived one feels, the more negative emotions follow: disappointment, dissatisfaction, anger, shame, and distress. Since people want to avoid negative emotions, they will seek to restore the inequity using mental and behavioral strategies. Mental strategies involve changing the comparisons that lead to the perceived inequity: maybe the reward is not so important after all, or on a second look the person to whom they compared themselves does seem to have better qualities. Consequences that are more negative happen when one starts doubting the importance of the exchange relation itself. This *cognitive withdrawal* from the social exchange relation reduces the motivation to put effort into the exchange. The results of withdrawal cognitions show in employee *withdrawal behavior*. Examples of withdrawal behavior are reduced effort in performance, taking sick leave, or engaging less with colleagues. The ultimate behavioral consequence of inequity happens when employees decide to leave the exchange relationship with their employer and go looking for another job.

Organizational justice theory extended on Adam's equity theory. Initially, research concentrated on equity in outcomes, but this research was unable to explain why employees sometimes judges inequity in outcomes as fair. This led Thibaut and Walker (1975) and Leventhal (1980) to explore the process that leads to the outcome as an additional condition for fairness. Later, Bies noted that procedures and outcomes are more acceptable if these are communicated by a trustful party, with consideration and interpersonal sensitivity (Bies & Shapiro, 1987). These additions lead to the distinction of three organizational justice conditions for fairness: *distributive* or outcome justice, *procedural* justice and *interpersonal* justice.

Distributive justice is the evaluation whether the distribution of outcome is fair. Examples are the distribution of wages, selection decisions, or the funding of training to employees. For judging an outcome as fair, employees compare what they get to standards. These can be performance norms by the organization, or so-called reference-others: other people with whom an employee compares themselves whether their outcome is justified, given their own and the other's performance. Distribution justice is about equity, which is the proportionality of efforts in relation to outcomes as compared to some standard or comparable other person (Adams, 1965).

Procedural justice means that the processes and policies that lead to decisions are fair. Individuals may accept the distribution of outcomes as disadvantageous to themselves, as long as they believe that the process leading to this decision is fair. Employees feel treated unfairly when they, or one of their colleagues or superiors, would have received a more favorable outcome if a fairer procedure was used.

Examples are annual employee performance reviews. As long as the criteria for the performance evaluation are clear, and the information used to measure the performance against these criteria differences in the distribution of average, good or outstanding performance are judged as fair. However, if employees see that a colleague received a better evaluation, seemingly because of being closer with their supervisor, employees will judge this as unfair (Leventhal, 1980; Thibaut & Walker, 1975).

Interactional justice is the fairness of treatment in interaction with others, which happens when the person who uses the procedures and decides upon outcomes does so with sensitivity for the needs and well-being of the employee. An important source for interactional justice are supervisors. A good-quality employee-supervisor relationship makes it easier to accept unfavorable decisions, because the employee will still feel appreciated as a valuable member of the team (Bies & Shapiro, 1987). Some literature distinguishes between warmth and trustworthiness in the interaction. Warmth is the sensitivity towards the employee. Trustworthiness is the employee's belief that the decision-maker used the right information to make an unfavorable decision. This is sometimes called *informational justice* (Colquitt, 2012).

To conclude, a positive evaluation of these organizational justice dimensions will lead to a favorable evaluation of fairness. As long as there is organizational justice in the eyes of employees, they will be satisfied with their jobs. The perception of unfairness, on the other hand, is among the main reasons why employees quit their jobs. Hence, ensuring organizational justice is important for retaining talented employees.

The value of rewards: Expectancy theory

Justice theories do not specify which outcomes matter to which employees. It is somewhat implicit in justice theories that employees who notice unfairness appreciate the outcome at stake. However, individuals differ in how they appreciate various outcomes. The authors of the McKinsey 'War for Talent' report interviewed 200 talented individuals at 77 top organizations in various industries, looking into why they work where they do. In addition, they conducted a survey among 5,679 respondents who represent the senior ranks in these organizations (Chambers et al., 1998). The reasons mentioned by talented individuals why they work where they do, prove to be diverse. High compensation and bonuses mattered, but mentioned less frequently than the attractiveness of the business (exciting challenges, a great company culture, a good management) and having a cool job (with freedom and autonomy, relevance, and the possibility to advance and develop). The report refers to a talent management strategy, where organizations understand what employees value, and adjust their recruitment, retention and development strategies for

talented individuals accordingly. *Expectancy theory* deals with the question how individual differences in reward appreciation matter with regard to their preferences for certain jobs and organizations and to their intention to apply. The central tenet of the theory is that the degree to which employees appreciate an outcome has consequences for their willingness to engage in a job.

Victor Vroom, professor in psychology at Yale business school, proposed his Expectancy theory in 1964 as a theory to explain employee motivation. He reasoned that the degree of effort individuals put into a task, depends on the extent to which they expect to gain a reward that is of value to them (Vroom, 1964). According to his theory, the motivational path consists of three conditions that influence each other in a multiplicative way. This can be summarized in an elegant formula:

$$\text{Motivation (Performance)} = \text{Valence} \times \text{Instrumentality} \times \text{Expectance.}$$

The *motivation to perform* is the amount of effort a person shows. Effort can be shown by behavior, by the intensity and duration put in-, and by extra role performance. In addition, effort can be shown by intentions to apply for a job or look for another job, by preferences about how much employees like to work in a certain job or organization, and by choices like accepting or declining a job offer (Van Eerde & Thierry, 1996). Especially the potential of the theory to predict intentions and preferences makes the theory relevant for understanding how to attract and retain talent. Below, the theory is illustrated with an example about a student's choice to apply to an educational program after high school.

Valence indicates how much a person appreciates an outcome. It is not the real value, but the anticipated satisfaction one will enjoy after the outcome is obtained. The more attractive, important or desired an outcome is, the larger its motivational potential. Valence works in two directions, if one dislikes a particular outcome, or thinks that an outcome leaves one worse off, the valence will be demotivating. In choosing a profession, for example, a high school student may appreciate working in a hospital and taking care of patients. The profession of a nurse holds potential valence for this student. However, working night shifts scares the student off. The student's valence of a nursing job consists of his total appreciation of all positive and negative aspects of the job. The more positive elements he or she sees, the stronger the student's valence for a nursing career.

Instrumentality is the perception about the probability that good performance will lead to the desired outcome. For example, the student understands he or she needs to have the right educational qualifications to be accepted at a school to study nursing. If the student has the right diploma, it is certain that he or she is accepted. However, if the student has a different diploma, or no diploma, the probability of being accepted at a school is reduced. In some prestigious schools, there is fierce competition between the best students for admission. In such a situation,

the instrumentality between good performance and receiving the valued outcome decreases. This will reduce the motivation to apply to the program.

Finally, *expectancy* is the belief that one is able to achieve the required performance to produce the desired outcome. If the admission requirement for a preferred school (valence) is to hold a high school diploma of a given level (instrumentality), the question becomes if the student expects that he or she is able to succeed in obtaining the right diploma. If so, the student has a high expectancy that he or she is able to meet the performance requirements. If this is not the case, the student will reconsider putting effort into applying for the school.

The theory reveals all kinds of risks for organizations in which employees and job candidates do not see valence, instrumentality, or expectancy in things that the organization offers or does. For example, employees differ in the outcomes they appreciate. According to the theory, managers need to understand what (potential) employees appreciate, in order to be able to motivate them (valence). Moreover, it is often unclear what the precise performance requirements are for a desired outcome, for example a promotion (instrumentality). A particularly problematic situation occurs when employees expect that putting all their energy and passion into their jobs will bring them their aspired outcome, but their performance efforts go unnoticed by their superiors (expectancy). Such a lack of due praise is an important source for demotivation.

The expectancy theory has been an influential theory regarding employees' appreciation of valued outcomes and their expectations about the likelihood of receiving these outcomes. However, research findings for the theory are inconclusive. A meta-analysis conducted on the theory and its extensions, demonstrated that the separate conditions of valence, expectancy and instrumentality each mattered for the predicted outcomes. The most important evidence concerned the prediction of the intention to apply to a job or organization, and the preference for a job, profession or organization. However, there was insufficient research evidence for the $M = V \times I \times E$ formula (Van Eerde & Thierry, 1996). Since each of the conditions in the formula also appear in other influential theories, for example in goal setting theory (Locke & Latham, 2002), self-efficacy theory (Bandura, 1977) and the theory of planned behavior or reasoned action (Ajzen, 1991), the interest in testing the theory waned. Nowadays, you will not find a lot of new research that solely uses this theory. Yet, expectancy theory's core ideas resonate in Psychological contract theory, one of the most cited theories in modern human resource management research.

Misunderstandings: Psychological contract theory

Expectations influence organizations in many ways. Employees hold expectations about what they ought to do at work and about inducements that their employer

promised to provide in return. Some of their expectations are based on explicit promises, written down in a formal job contract. Explicit terms and conditions in job contracts usually concern the contract size and duration, formal working hours, the number of vacation days and the salary that comes with the job. Other promises about obligations and inducements are implicit and will hardly ever appear in a formal contract. Some examples include the promise that a temporary contract will be renewed after good performance, or the expectation that the supervisor will be fair and trustworthy. Other implicit promises are opportunities to learn from colleagues, career opportunities or consideration for personal circumstances. Employers also hold expectations about what employees are supposed to do and how they are supposed to behave. Again, some of these are explicit in writing or verbally agreed, but many remain implicit. For example, an implicit expectation is that employees will put in extra effort in their job when it is busy, or help a colleague if necessary. This goes back to even the 1960s when the role of implicit promises about mutual obligations and inducements on organizational behavior was mentioned and referred to as a 'psychological contract' that exists in addition to the official written contract. In the 1990s, Denise Rousseau explored the meaning of psychological contracts in more detail in a series of books and studies. Because psychological contracts have not been formally agreed on, there is a risk of misunderstandings, which can have detrimental effects on employee satisfaction. Psychological contract theory is particularly salient in research on talent attraction and retention.

Psychological contracts are defined as an employee's perception of promises about obligations (what do I have to do) and inducements (what can I expect to get in return) between the employee and the organization. Beliefs about promised obligations and inducements go further than the legal employment contract (Rousseau, 1989). Although some promises are verbally explicated or written down, many are just beliefs, assumptions and interpretations from employees. It is difficult to understand for employers what the psychological contracts of their employees look like, which makes them difficult to manage. Psychological contracts are nevertheless important, because employees may be disappointed because of unmet promises the employer does not even know about. A closer understanding of psychological contracts follows by looking at their content and features, and their development and evaluation processes.

Employees perceive promises about many topics at work. The perceived promised expectations and obligations determine the *contents* of psychological contracts. These can cover many human resource management practices and organizational behaviors, such as promises and expectations about flexible working possibilities, career development opportunities, interesting tasks or projects, fair pay, equal treatment, how much effort is required, or skills development.

Psychological contracts can vary in their scope, depending on whether their *features* are transactional or relational (Rousseau, 1990; Rousseau & McLean Parks, 1993). *Transactional psychological contracts* resemble an economic exchange relationship. A precise task description for a short and fixed period, that is easy to observe and understand from a third-party perspective. Psychological contracts of day laborers, short term subcontracted types of work, or self-employed workers who offer their services to organizations predominantly qualify as transactional. However, because most contracts are more comprehensive than these are, most employment relationships qualify by social rather than economic exchange. In longer-lasting employment contracts, a mutual sense of trust and liking between employees and employers will result in a relational exchange relationship where norms of reciprocity apply (see Social exchange theory in the chapter Investing in People). Social exchange relationships induce implicit promises that develop over time, because the work develops and leads to all kinds of implicit assumptions. *Relational psychological contracts* contain many implicit promises and obligations, which makes this type of psychological contract prone to mutual misunderstandings.

Figure 5.1 illustrates psychological contract formation, process and evaluation. *Psychological contract formation* begins long before an employee engages in an employment relationship through processes of social learning (Rousseau, 2001). Societal norms and beliefs, conversations with peers and relatives, and information in the news or on social media all contribute to building a general idea what it would be like to work in a certain profession, industry or organization. The social learning that happens is passive but a general idea of the obligations and inducements settles in. During the recruitment phase, job seekers actively look for information to confirm their initial psychological contract. Confirming information will make them more eager to pursue a job, while disconfirming information may put them off. In this phase, organizational recruiters can actively send information to try and mold prejudices about working at their organization. In later stages of recruitment, when the contract is negotiated, new promises lead to further expectations. After entry, during the first weeks on the new job, the new recruit starts to actively seek for information about norms for obligations and inducements in the organization. In this phase, the new recruit is eager to learn and information comes through diverse channels. Any conversation, planned or not, will be used to understand the details of the psychological contract. After a while, the active phase of learning slows down and the psychological contract has largely been shaped. It will still develop and get even more elaborate as work experience builds up.

As may be clear from the development process, the psychological contract is dynamic and changes over time when there is new information that confirms or disregards perceived promises about obligations and inducements. In case new information confirms the present psychological contract, it will strengthen it.

Confirming information guarantees that the exchange relationship is based on reciprocity. *Psychological contract fulfillment* leads to positive reciprocal reactions, like job satisfaction, commitment to the organization or the willingness to apply for a job. However, in case of disconfirming information, an employee’s status quo about what they consider their rightful obligations and inducements is challenged. Like in equity and justice theories, a mental evaluation process begins to understand if the changes to the psychological contract are justified. Should the evaluation conclude that the change violates the psychological contract, then the employee will perceive this as a *psychological contract breach* (Robinson & Rousseau, 1994).

Formation	Process	Evaluation
<div data-bbox="251 578 464 684"> <p>Pre-entry Beliefs and norms about an organization, profession, industry</p> </div> <div data-bbox="251 702 464 826"> <p>Recruitment Formal and informal Information and experiences during recruitment and entry</p> </div> <div data-bbox="251 844 464 1001"> <p>Socialization Active search for information in formal and informal inductions in the first weeks after entry</p> </div> <div data-bbox="251 1019 464 1142"> <p>Later experiences Psychological contract expands with experience, more taken for granted</p> </div>	<div data-bbox="507 566 765 808"> <p>Confirming information</p> </div> <div data-bbox="507 826 765 1159"> <p>Discrepant information Change Perceived unmet promise</p> </div>	<div data-bbox="785 566 1043 808"> <p>Fulfillment <i>Pre entry</i> Attraction, accept job offer <i>Post-entry</i> Job satisfaction, commitment, retention, effort</p> </div> <div data-bbox="785 826 1043 1159"> <p>Breach Dissatisfaction, perceived violation <u>Withdrawal cognitions:</u> <i>Pre-entry:</i> May not apply <i>Post entry:</i> Demotivation, turnover intentions <u>Withdrawal behaviors:</u> <i>Pre-entry:</i> Opt-out, reject job offer <i>Post entry:</i> Reduced effort turnover, sick-leaf</p> </div>

Figure 5.1: Psychological contract formation, process and evaluation (based on Rousseau, 2001)

A serious perceived breach of psychological contract happens if employees believe that they met their obligations, but their employer did not reciprocate with the expected inducements. For example, an employee followed a training suggested by the organization to prepare for a more interesting job, but is not invited to apply when an open position for that job occurs. Perceived *violation* of the psychological contract by the employer is a severe event for employees, which evokes negative feelings like anger, frustration and disappointment (Wolfe Morrison & Robinson, 1997). This reaction is similar to what equity and organizational justice theories predict. The only difference is that it now concerns a comparison between the

inducements received from the employer and what the employee believed was promised. Since many of the perceived promises in the psychological contract are implicit, contract breach in the eyes of employees can happen without their exchange partner's awareness. In today's economy, organizational structures and processes, management and jobs are in a continuous state of transformation, which makes psychological contract breaches more likely to happen.

Psychological contract theory has raised awareness for implicit thoughts that employees have about promised obligations and inducements of their employment relationship. The theory explicates how misunderstandings can have serious effects on the cognitions and behaviors of (potential) employees. Psychological contract theory uses logic and language that also appears in Equity, Organizational justice and Expectancy theory. However, Psychological contract theory adds to these other theories the notion of perceived promises and the risks that comes with these when they are violated in the eyes of employees.

Key research

Employee attraction and retention have been subject to many studies and multiple meta-analyses. The core topic in attraction is *recruitment*: all things employers do to have a good-quality pool of applicants for positions in their organization. *Voluntary turnover* indicates that employees leave their employer at their own initiative, which is an important counter-indicator for employee retention.

1. *Recruitment*. Two meta-analyses show that characteristics of both the job and organization are important determinants of recruiting outcomes (Chapman, Uggerslev, Carroll, Piasentin, & Jones, 2005; Uggerslev, Fassina, & Kraichy, 2012). Second, how the recruitment is conducted has an impact on whether candidates are attracted to an organization or not. Third, personal candidate evaluations of their own preferences in relation to what the organization has to offer was a good predictor of candidate attraction. This indicates that targeted recruitment to candidates is effective, but the costs may be very high. It is comforting to know that, in general, positive communication about the job and organization is effective too.
2. *Voluntary turnover*. Quite a few meta analyses have been published that map all types of predictors of voluntary turnover (Cotton & Tuttle, 1986; Griffeth et al., 2000; Jiang, Liu, McKay, Lee, & Mitchell, 2012; Podsakoff, Lepine, & Lepine, 2007; Rubenstein, Eberly, Lee, & Mitchell, 2018; Zimmerman & Darnold, 2009). To prevent an exhaustive and potentially repetitive overview of all findings, we only discuss the findings of the meta-analysis by Rubenstein et al. (2018). These authors used machine learning methods to find the most important predictors of voluntary turnover. Machine learning is an analytical technique that seeks patterns in data without feeding the analysis with any theory-based expectations beforehand. If findings of a machine learning analysis confirm the findings of traditional theory-based (regression) analyses, these are robust findings. In line with the previous meta-analyses, the machine learning analysis confirmed a robust effect for withdrawal cognitions (actively thinking about leaving your job) to precede actual voluntary turnover. The findings further confirmed robust results for inducements besides pay, such as training or promotional opportunities, bonuses, and non-financial benefits. In addition, having an interesting and challenging job with sufficient autonomy, good leadership, a positive organizational climate, and organizational support were robust factors in predicting low turnover. Meeting expectations, an aspect of Expectancy and Psychological contract theory, showed varying importance across different types of jobs, organizations and labor markets. This could indicate that meeting expectations is more important when it is easy for employees to find what they expect at another employer, such as a nice boss. The authors

conclude that indeed “employees quit bosses, not jobs” (Rubinstein et al., 2018, p. 55).

Most evidence for the economic theories relevant to attracting and retaining employees exists for the Efficiency wage theory and the Internal labor markets and Transaction cost theory. The (Neo)classical wage theory is used in macro-economic research to predict unemployment and competitiveness levels by econometric modelling of imperfections in the labor market.

1. *Efficiency wage theory*: Peach and Stanley (2009) confirmed the Efficiency wage hypothesis in a meta-analysis, using 14 causal studies that tested the Efficiency wage hypothesis regarding organizational performance. Indeed, they found that paying higher-than-market wages at time 1 leads to higher-than-average profits at time 2 (Peach & Stanley, 2009). In the context of the War for Talent, Fulmer (2009) examined which factors explain the high wage levels for CEOs in a sample of 400 CEOs of US Fortune 500 organizations. After comparing experience, previous performance and responsibilities, she found that retention concerns were the most important driver for CEOs’ high wages. CEOs were offered these high wages because boards feared that their CEO would be ‘raided’ by their competitors. By offering high total pay and stock option plans, they hope to seduce a CEO to stay at the organization (Fulmer, 2009).
2. *Internal labor markets* as a strategy to retain employees has not received much attention in research since the rise of flexible labor models for organizations. However, a core tenet of internal labor markets is that internal labor markets offers open-ended job security for employees. What recent research does show is that internal labor markets still exist, but for a subgroup of employees that are of strategic value to the organization, or as the outcome of politics and power (more on this in the chapter ‘Power of workers’) (Osterman, 2011; Osterman & Burton, 2006). Employees who are in strategically important positions in the organization enjoy the benefits of an internal labor market and show lower quit rates than employees in less strategically important positions. They experience higher job insecurity and show higher turnover rates (Schmidt, Pohler, & Willness, 2018).

Meta-analyses on psychological perspectives generally support their importance for talent attraction and retention. Fairness theories are the most researched.

1. *Fairness: Equity*. In the spirit of Equity theory, Williams, McDaniel, and Nguyen (2006) performed a meta-analysis to understand what discrepancies between pay level expectations based on self-and-other comparisons in proportion to actual pay levels, meant for employees. They

found that discrepancies between expected and real pay leave employees quite dissatisfied with their salaries, which in turn related moderately to withdrawal cognitions (intention to leave) and behavior (absence and voluntary turnover).

2. *Fairness: Organizational justice* has been central in multiple meta-analyses. Findings show that distributive and procedural justice both have a positive relationship with retention (job satisfaction, commitment) and that they are negatively related to withdrawal cognitions and behaviors (Cohen-Charash & Spector, 2001; Colquitt, Conlon, Wesson, Porter, & Ng, 2001). In addition, employees' perception of justice evokes positive emotions, implying that HR systems alone can contribute to realizing positive organizations (Avey, Wernsing, & Luthans, 2008; Colquitt et al., 2013). A critical note follows from a meta-analysis on how cultural differences can temper the reactions to perceived injustice: it was shown that North Americans react more strongly to perceived unfairness than Asians (Li & Cropanzano, 2009).
3. *Expectancy theory*. The only meta-analysis that examined Expectancy theory in its entirety showed no evidence for the model in its totality (Van Eerde & Thierry, 1996). However, each of the theories' components (valence, instrumentality and expectancy) related positively to applicant behavior in terms of preferences for a job or organization, the intention to apply and the choice to accept a job offer. The preference for a job (valence) and the belief that one's qualifications are good enough (instrumentality) have frequently been studied and confirmed in recruitment research (e.g. Chapman et al., 2005).
4. *Psychological contract theory*. Most research on psychological contracts focuses on the effects of contract breach. Zhao, Wayne, Glibkowski and Bravo (2007) demonstrated that, as expected, breach leads to negative emotions such as withdrawal cognitions and withdrawal behaviors. Contract breach consequences in attitudes and behavior proved to be less severe for older than for younger employees (Bal, De Lange, Jansen, & Van Der Velde, 2008).

HR practice

Implications for effective human resource management practices to attract talent to organizations and retain them as long as needed are plenty. Below, we highlight compensation policies, employer branding, employee onboarding and talent management programs.

Compensation

Employee compensation is the central means in economic theories for attracting and retaining of employees. Compensation is not just the monetary salary, but encompasses the entire package of rewards, which can consist of various elements: a base salary, bonuses, incentive pay, employee stock owner plans, insurances like pension and health care, budgets for training and education expenses, commuting costs, equipment or costs for living expenses. The entire compensation is also called ‘*Total reward*’ (Gross & Friedman, 2004). Wage theories (Neoclassical and Efficiency wage theory) thus concern this total package. Given the administrative and legal complexity governing compensation, larger organizations often employ compensation specialists. Smaller organizations seek advice from accountants, employer associations or labor broking firms such as temp agencies. Managers often fear the strategic choice for above-market compensation because of the financial costs. However, attractive compensation packages do not need to be expensive, if components are carefully chosen and well-communicated, and if it leads to hiring and retaining (new) talented employees whose performance exceeds the total reward package.

Employee segmentation and tailoring compensation

The question what makes for a competitive compensation package, in the eyes of employees, is difficult to answer, given that the Expectancy theory states that individuals differ in how they value rewards. Ideally, managers should know the reward preferences of new and current talented individuals. However, this would be a time-consuming and expensive exercise. John Boudreau proposed a marketing approach called *employee segmentation* to create attractive compensation packages for various groups that populate an organization (Boudreau, 2010). For example, management could hold interviews or questionnaires among employees and ask what type of rewards are important to them and why. By grouping answers, clusters of employees with similar needs and rewards preferences can be distinguished. Management can then use these findings to compose different compensation packages of equal value. Employees can choose the package that suits their personal preferences best. As an alternative, management can use employee input to design a system that allows employees to compose their own compensation package that consists of several elements, up to a maximum. An employee segmentation strategy can further be used to distinguish between groups of employees relative to their strategic value to the organization. This also reduces the overall costs of a compensation strategy. However, managers should be cautious when using this strategy because segmentation that leads to big pay gaps between the highest and lowest paid employees in organizations will reduce the satisfaction of the entire workforce (Bryant & Allen, 2013). A glance at organizational justice theory enlightens the pitfalls of inequity that is perceived as unfair.

Employer branding

Knowledge of how current employees find valence in working at an organization can be used to develop an employee value proposition for prospective employees. A preview of unique rewards experienced by current employees can be attractive for prospective employees. For example, current employees may find value in the business ambitions, the work-life balance, the hands-on mentality and broad job descriptions. This input can be used to build an employer brand. *Employer branding* is putting employee valence in the organization to strategic use in communication to prospective employees. It can also be used to strengthen the identity of new and current employees. A strong employer brand can also benefit a business brand. The practice balances between the professional domains of recruitment, communication and marketing in organizations (Edwards, 2009).

Recruitment

Recruitment are all the activities performed to obtain a pool of qualified applicants to select employees for open positions in organizations. Pools can be sought in the external labor market (external recruitment) or in the organization itself (internal recruitment). Here we concentrate on external recruitment. Communication plays a core role in recruitment, from making potential candidates take note of the organization, by marketing the organization as an attractive employer, and during selection, in negotiating a job offer that recruits like to accept. For an extensive overview of recruitment practice and research, see Breaugh (2013).

Onboarding and socialization

The first days and weeks in a new job are important for socialization and building the psychological contract. During socialization, new employees actively look for information to learn about their new job and work environment. Without proper management, there is a large risk that unrealistic expectations develop. *Onboarding* includes all activities to prepare new employees to be effective at their jobs and the broader organization. Effective onboarding is more than training employees to make them proficient in their jobs. It also involves the awareness that communication in the first weeks will shape the new recruits' psychological contracts, which will influence how fair they judge any changes in the organization during their later employment. Thus, managing expectations is important during onboarding. Interventions to guide expectations are for example, welcoming meetings by senior management, supervisor and colleagues, training days, mentoring, bilateral talks with superiors to set realistic expectations, and regular sessions to facilitate an open conversation about mutual promises and inducements.

Performance appraisal

Employee *performance appraisal* is the periodical evaluation of each employee's performance against a performance standard. Performance goals are set at the beginning of a period, usually for a year but this can vary. Performance appraisals are an important management control device to align employee performance with the strategic goals of the organization. It is a moment to talk about the expected obligations and rewards in the psychological contract. The employees' superiors and HR usually prepare the appraisal ratings by collecting performance information on all employees. Some employees perform 'average', some 'good', and a few 'excellent'. The employees' direct supervisor communicates the appraisal in an appraisal feedback interview. Even with sophisticated rating procedures that are as transparent and objective as possible, performance appraisal feedback happens in a social context, where employees have psychological contracts and compare themselves to others for fairness. Performance appraisals are prone to employee disappointment and frustration and may lead to withdrawal behaviors if psychological contracts and social comparison processes are not carefully managed (Levy & Williams, 2004). Practical advice on how to prevent social damage while maintaining performance appraisal feedback as a device to align employee behavior with organizational goals includes supervisor training in conducting effective performance feedback interviews and holding regular in-between meetings about performance progress and expectations.

Talent management

Talent management is another critical HR practice from a justice and psychological contract perspective. Organizations have talent management programs for two reasons. First, it is a planning strategy to ensure that the organization has sufficient qualified human capital in the higher ranks of the organization. The HR practice here is performing workforce analytics to understand the organization's present employees with regards to the required human capital needed in a coming period. In the War for Talent, Talent management is a tool that is used to attract and retain qualified employees. In the communication, applicants develop expectations about talent development in their psychological contracts. Employees with rare qualities expect that organizations will care about their development. Especially young employees easily switch between employers when they feel that they do not have opportunities for development. These two reasons can lead to different strategies. If talent management is mostly there to ensure that crucial positions have successors, then only a limited group of employees or high potentials qualify for participation in a talent management program. However, many employees who do not qualify as high potentials in the eyes of the organization may experience unfairness and violation of their psychological contracts (Sonnenberg, van Zijderveld, & Brinks, 2014). Inclusive talent management programs acknowledge the risk of losing

employees when being restrictive about who is a talented employee. By allowing all employees to apply for development and open all vacant positions to all employees, procedures for promotion become more transparent. This will benefit both the perception of fair processes, as well as contribute to the communication of realistic obligations and promises.

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Summary

In the 1990s, a War for Talent was predicted in which the success or even survival of businesses had less to do with clever product marketing and organizational processes, but more with the ability of organizations to tie employees with rare skills to their organizations. No organization exists without human capital. Demographic changes and developments in employee expectations lead to a situation in which organizations fight a competitive war over obtaining and retaining the best employees. Attraction and retention under conditions of labor market scarcity have been studied in economic theories addressing macro-dynamics of labor markets, and in work psychology theories looking into considerations made by individual employees. The chapter highlighted (Neo)Classical wage theory and the Efficiency wage theory as examples of economic theories. Both theories link the demand for labor to scarcity and surplus dynamics in the labor market. Classical wage theory predicts that under conditions of a free market, wages (the price paid for labor) will be at a level where all vacancies are filled and there is no unemployment. In reality, labor is not that mobile. Due to all kinds of frictions, there will be scarcity or a surplus. Neoclassical wage theory includes labor market frictions (e.g. minimum wages) in the prediction of equilibrium wages. More practically relevant for human resource management is Efficiency wage theory, which explains why paying higher wages than competitors in the labor market may lead to more profit. These theories both draw the attention to wages as a means to attract and retain employees. Internal labor market theory is a meso-level theory about the benefits of developing a labor market within organizations. Transaction cost theory helps to understand the relative costs and benefits of recruiting employees from within or outside the organization. On the micro-level, psychological theories explain how employees make sense of what organizations offer them. Evaluation processes explained in fairness theories, Expectancy theory and the Psychological contract theory highlights how negative evaluations lead to employees not applying for or leaving their jobs. Organizational fairness theories consider distributive, procedural and interactional fairness perceived by employees. Expectancy theory illustrates how people vary in their preferred rewards by describing conditions of valence, instrumentality and expectancy. Psychological contract theory explicates that fairness may be violated even when employers were not aware that promises were made. It turns the attention to implicit thoughts employees hold about promises and obligations in the employment relation. Together, the theories are relevant for a broad spectrum of HR practices such as compensation, employee segmentation, employer branding, recruitment, onboarding, performance appraisal and talent management.

CHAPTER 6

THE POWER OF WORKERS

Chapter in brief

Employment relations: How do employees influence HRM?

The key theories in this chapter are:

- Power / Resource dependence
- Employee exit, voice and silence
- Critical and unitarist perspective
- Industrial relations theories
- Employee involvement theories

The key HR practices presented in this chapter are:

- Different types of direct and indirect participation
- Employee grievance procedures
- Employee ownership

Introduction

“Workers have interests in social change and redistribution” (Heery, 2010)

Employment relations involve the exchange of labor for returns between employers and employees. After agreeing on a more or less beneficial package of reimbursements, employees agree to submit their efforts to the employer and become the subordinate party in the employment relationship. Hence, in return for pay, employees allow employers to exert power over the things they do, the goals they pursue and the effort they put into their tasks during the time they get paid for work. By accepting an employment relationship, employees submit their time, skills and effort to a managerial prerogative, the manager’s right to manage, and this manager ensures that these skills are directed in line with the needs and goals of the organization. This means that managers can decide, without consulting employees, how to direct the workforce, the distribution of tasks, how to discipline employees if needed, how to adjust the number of employees according to the demands of the organization and decide about the strategic direction of the organization. Under full managerial prerogative, employees are silenced: the leeway to express concerns by raising their voice is limited. Indeed, full managerial prerogative infers an essentially one-way communication channel where all the power lies with management. This managerial prerogative has been opposed for various reasons by employees.

The first warning against full managerial prerogative is driven by fairness concerns. As the employees are the subordinate party in the employment relationship, there is little an individual employee can do to stand against unfair treatment. The main source of power for employees is to withhold their contribution to the organization, but that would imply breaking the employment contract and would likely result in dismissal. This makes the stakes of standing up against management too high for individual employees. However, when employees unite and voice their complaints together under the threat of a strike, the power balance between managers and employees becomes more equal. Strikes are disruptive for organizations and can harm their productivity. Therefore, when employees as a group exert their power, they can stand up to managerial power and negotiate an improvement of work conditions for all. One employee who complains is vulnerable, but as a group, employees can develop power to withstand managerial prerogative. This power play between employers and employees has been formalized in institutions like labor unions and employment law that nowadays guide ‘fair play’ between managers and employees. The origins of modern industrial relations coincided with the rise of industrialization about two centuries ago. As a reaction to the exploitative labor conditions under which mass production was realized, workers began to unite against and oppose, sometimes violently, their employers. The literature describing the power and influence of labor unions and organized labor representation is called industrial relations (Kaufman, 2010). For a long time, this represented the main

perspective on employment relations. The task of human resource management (or better; personnel management) was to ensure that employees were satisfied and that employment relations stayed as harmonious as possible. It was only in the 1980s that human resource management developed as an independent discipline which promoted the ideology that investing in employment relations not only safeguards harmonious employment relations, but also directly benefits the performance of organizations. It is indeed this ideology that drives the second warning against managerial prerogative.

The second warning against the weak power of workers is driven by concerns for business effectiveness. If managerial prerogative silences workers, then the knowledge of those who understand the most about work processes would get lost and improvements in business effectiveness would be impossible. Getting input from employees, involving them in decision-making about their own jobs and even the strategy of the organization may tap into a great amount of human and social capital and make organizations more effective in reaching their goals. Involving employees can take many forms, ranging from posting an 'idea box' to make suggestions about improvements, to incorporating employee representatives in the strategic board of organizations. The employee participation literature examines the pitfalls and benefits of different types of employee involvement.

Although the two warnings against managerial prerogative aim to increase the power of workers, their theoretical objectives are very different. The perspective put forward in industrial relations is one of conflicting interests between employers and employees. Employers and employees represent two parties who have different stakes in the employment relationship. Employers' first and foremost interest is to make a profit by keeping costs low and working as efficiently as possible. This goes against the employees' interest to gain a fair income for as little effort as possible. Given that the balance in the power of both parties is in favor of employers, any initiative aimed at increasing employee productivity, however nice in terms of benefits, training, or participation, is still an expression of managerial prerogative. For the real cynic, the word human resource management in itself is an expression used to mask that managers just want employees to work harder (Legge, 2005).

In contrast, the participation literature departs from the idea that empowering employees is beneficial to both workers and the organization. From this perspective, it is possible that the interests of employees and employers are both served: what is good for the organization is also good for the employees. This core debate between pluralistic or *critical scholars* who say that employment relations always involve conflicting interests and *unitarist scholars* who claim that investments in human resource management benefit both workers and organizations, dominates the literature on employment relations. For the ease of understanding the literature on

employment relations, both perspectives are presented separately in the section on key theories.

In practice, different formal and informal institutions like labor unions, statutory works councils and employee representatives, employer-sponsored participation initiatives all happen at the same time within organizations. In the research section, the key findings about the power that each of these institutions allows workers are presented. Moreover, some areas of conflict between different rates and types of involvement are highlighted.

Theory

Before this section goes into the distinct paths of theories about industrial relations and theories about employee participation, we need to understand their commonality and differences. The commonality concerns the question of power between employers and employees in the employment relationship, which is dealt with first. The difference lies in the perspective scholars take in the outcome of this power difference. Industrial relations scholars are critical; they see conflict as a result of the uneven power between employers and employees. Employee participation scholars on the other hand see organizational benefits in bridging the power gap between employers and employees. Hence, the outcome variable in employee participation literature is employee and organization performance, rather than conflict and justice. After this introduction, the separate literatures on industrial relations and employee participation are described.

The power question

The two main actors in the employment relationship are employers and employees. Positions in the upper part of the organizational hierarchy such as shareholders, executives and managers all act in the interest of the employer. Put simply, the employer's interest is to make a profit, or more broadly, to realize the strategic goals of the organization. Employees work in the lower echelons of the organizational hierarchy. The work structure, tasks and goals for employees are all laid out by the higher echelons in such a way that profit maximization will be realized. Employees in return accept their position in the organizational hierarchy in return for a fair reward that suits their interests: income, development, leisure time and interesting work. In this exchange relationship, the employer's power to control employees in the lower echelons of the organization is a legitimate means to achieving organizational goals. Employees accept their position because they accept their personal returns. In this way, organizations can function as a whole: allowing managers to manage (the managerial prerogative) so that organizations can function efficiently and realize their profit maximization goals.

In organizations, managers are the ones setting the agenda. In doing so, they determine which management decisions require employee involvement and which decisions are just a 'given' for the employees. Which subjects are discussed and which are not reflects the relative power that managers and employees have. Power is about having influence. It is the ability that individuals and groups have to exert influence over decisions by others that affect their physical and social environment (Hyman, 1975). The question then is how much power employees possess after they have accepted to subject their time, skills and effort to managerial prerogative in return for benefits.

The relative power of employees over employers can be understood as a form of *resource dependence* (Pfeffer & Salancik, 1978). Resource dependence theory states that the behavior of organizations can be best understood from their relations with other organizations. This is because organizations depend on resources and these resources ultimately originate from an organization's environment. This environment contains other organizations that own resources that another organization may need. Here lies a source of power for those who own the resource. Power and resource dependence are directly linked, because the power of organization A over organization B is equal to organization B's dependence on organization A's resources. Power thus exists in relations, depends on the situation and is potentially mutual between employees and employers. Labor is an important resource for organizations and unlike other resources, labor is not owned by organizations. Instead, it is power that resides in the workers themselves who can decide for themselves where they will work. Organizations with the right human capital perform better than their competitors. However, employees 'own' the skills and competencies important for the organization to succeed, and so they hold power over employers.

The degree to which employers are dependent on workers depends on the difficulty that the employer would face in replacing them or finding substitutes for them. The scarcer the knowledge and skills that workers possess, the more power they possess. Imagine a high-tech organization that only needs the most intelligent and highly educated workers. In today's labor market, such specialists are rare given that they are in short supply and organizations need them to perform various roles within their organization. Due to their scarcity, such high-skilled workers can demand quite a lot of employers. Following this same logic of resource dependence, employees can also exert power when they unite and act as a group. Perhaps an organization is not very dependent on a single non-unique worker who can be easily replaced because his or her skills are widely available on the labor market. However, when an entire workforce organizes a strike and stops working, employers become much more aware of the resource dependence. Hence, if employers' resource dependence on employees is high, the power of workers increases.

In contrast, employees are also dependent on employers. It may not always be easy to find another job and even if finding another job is feasible, it still costs employees a lot of effort and uncertainty to really leave. This factor will influence the degree to which employees feel free to exert their power in the employment relationship. Rather than feeling powerful, many employees experience degrees of powerlessness when it comes to their influence over their work, their teams and the organization as a whole.

The question of power and in particular employees' levels of influence on their work environment has generated two competing streams of literature: the critical and unitarist perspective. Both perspectives and their conclusions about the power of workers are explained in the following section.

The critical perspective

To understand the origins of the *critical perspective* on employment relations, we need to turn to sociologist Karl Marx. In 1867, Marx published the first volume of 'Das Kapital', the book that marked the beginning of socialist and communist politics (Marx, n.d.). The book is a critique on the classical market economy, and in particular on the malfunctioning of classical market principles when it comes to labor and wages.

The idea behind *Marxist theory* is that labor is the only thing that adds value to raw materials and semi-manufactures. Steel, crops, and bricks do not automatically turn into cars, food and buildings. Indeed, each material needs labor in order to be turned into a product. In old, small-scale economies, the person who owned the materials was also often involved in the production of goods. All the added value that followed from selling products rather than materials flowed back to the person who did the work. The clear relationship between labor, added value and income changed drastically with the rise of industrialization. In this new economy, the materials and the machines used to transform the materials were all owned by a small group of people. These capitalists hired labor to realize the transformation from raw goods to products. However, the largest percentage of this labor added value was now returned to the owners of factories and machines: the capitalists. The people who provided the labor, the working class, were still rewarded (paid) for the value they added but did not benefit fully from the value that they created. Moreover, the production process was so dull and far away from the real interests of employees, that they became alienated from their jobs: the jobs no longer provided them with meaning, fun and, importantly, there was no ownership. In this new situation, society became divided in two groups. On the one hand, an ever-decreasing group of capitalists who own all the means for production: the *bourgeoisie*. On the other hand, an ever-increasing group of laborers struggling to live off their low wages earned in jobs they did not like: the *proletariat*. Marx and Engels saw revolutionary

potential in the proletariat. They predicted that the capitalists were digging their own graves. The growth of the proletariat provided laborers with political power to overthrow the capitalist system: the “Kladderadatsch”. In an ultimate effort to try and turn the tide, the capitalists would become willing to provide workers with more say in labor negotiations. However, according to Marxism, eventually workers would take over the control of production.

Marxism is a theory about conflicting interests and power. The stake of the conflict is how much of the added production value should flow back to employees. Because individual employees have less power than employers, the odds of getting the largest share is in favor of the employers. This type of thinking in conflicts rather than harmony has developed into an important paradigm within sociology research. The essence of conflict-based theory is that social systems are always characterized by inequality between groups. Here we focused on the difference in power between employers and employees, but similar power inequalities can be observed in the relative status of men and women, and of high- and low-educated social groups or between local and foreign-born people. In any such social system of inequalities, interactions between groups are not defined by consensus, but by conflict.

A conflict-based theory like *labor process theory* for example warns us about hidden forces that employers use to make employees work harder for the same pay (Thompson & Smith, 2009). For example, flexible working arrangements where employees can decide where and when they work are apparently liked by employees, because they allow them more flexibility in combining work and private life. However, managers eventually use such ‘nice’ HR practices because they expect that employees will be more motivated and willing to go the extra mile. By allowing employees to work anytime and anywhere, the working day is also expanded into one’s private time. Therefore, this perspective on employment relations is called critical: initiatives of managers for employees can have a ‘hidden agenda’ of increased productivity expectations and should not be accepted without hesitation. By organizing labor, the power of workers can be enlarged and formalized. This way, workers get the ability to have a say in managerial initiatives and negotiate a better deal for themselves.

In sum, according to the critical perspective employees and employers have conflicting interests. Due to the unequal power between them, employers benefit more than employees, who collect less value than they add to the organization.

The unitarist perspective

Another element of the power question concerns the untapped knowledge and insights embedded within employees. If for any reason employees do not feel secure to speak up, their insights and valuable knowledge may not be utilized which can harm the productivity and efficiency of the organization. From the *unitarist*

perspective, power is a concern for managers not because its dilution could raise all kinds of protests, but rather the contrary: retaining absolute control assumes that managers know it all, and it is widely known that this is far from the truth. Following this line of thinking implies that inviting employees to participate in decision-making is beneficial for both employees and organizations. By collaborating, both the interests of employees and employers are simultaneously served.

In fact, most thinking about human resource management fits this unitarist perspective on the benefits of harmony and cooperation. Especially the work done in the area of investing in people and performance highlights that practices such as providing good wages, providing training and development opportunities, careers and providing information, will increase the worth of human capital, which in turn will benefit the organization (Legge, 2005).

The power question from a critical and unitarist perspective

Employment relationships are characterized by mutual dependence between employers and employees. This mutual dependence provides each party with power. The critical perspective warns against the power advantage of employers over employees, and takes a fairness perspective to judge the effects that the employment relationship has on workers. The unitarist perspective is eager to focus on unleashing the power of employees through the benefit of their knowledge and skills for the functioning of the organization. Both perspectives are interested in the likelihood that employees will voice their complaints or opinions to employers. To better understand the dynamics of voice, we present the work of Hirschman on exit, voice, loyalty and silence.

Employee exit, voice, loyalty and silence

What are the potential responses from employees when they are dissatisfied about how they are managed? Hirschman, in 1970, asked this same question about customers who are dissatisfied with the products or service that organizations provide (Hirschman, 1970). He noticed that dissatisfied customers can react in three different ways to the organization: they can *exit* doing business, they can *voice* their concerns, or they can stay *loyal* and feel dissatisfied but be unwilling or unable to complain or quit and fall silent. Similar reactions can be observed when employees are dissatisfied with their employer.

First of all, like customers, employees can simply decide to quit doing business with an employer. Specifically, such a reaction would imply leaving the organization and indeed, job dissatisfaction is an important reason for quitting one's job. The *exit reaction* is an example of the classical market mechanism: in case of dissatisfaction with one product, customers move to another provider. Likewise, organizations

that offer less attractive jobs will find it more difficult to find and retain workers as they will opt for different employers.

However, not all dissatisfied employees immediately leave their jobs. For various reasons they may still feel loyal to their employers. Customers who have always liked the service of the organization may not immediately quit but instead voice a complaint to the organization. In a similar fashion, employees may speak up and *voice their concerns* to their employers. Employees who do speak up to their employers enter the political game of exercising power. Employers are not necessarily opposed to employee power, as the exit option is also undesired from an employer's perspective. The costs of rehiring procedures are considerable. Think for example about recruitment costs, training new hires and the loss of organization-specific knowledge. Therefore, exercising voice is a way to address the interests of workers in the employment relationship, but it is also in the interest of organizations. Voice involves information sharing between employees and employers aimed at changing some policy or practice at the organizational level (Allen & Tüselmann, 2009).

The final reaction by employees to dissatisfaction with an employer is *silence*. This is the case when employees are dissatisfied with their jobs, but feel unable to quit or voice their concerns. Silence happens because employees who voice their concerns may be seen as disloyal or disruptive to their employers. For fear of being punished or laid off for not being loyal, they opt for not complaining and staying *loyal* to their employers, even if they are actually dissatisfied. This loyalty may present as neglect, when employees just accept the circumstances and continue business as usual. Or, their loyalty may become superficial. In spite of leaving or complaining, they accept the circumstances but alter their efforts and become less motivated and may show counterproductive behavior like showing up late for work (Farrell, 1983).

Voice from the critical and unitarist perspective

The critical and unitarist perspectives on managerial prerogative broadly inspired two related but separate streams of literature about the power of workers. Industrial relations fall under the critical perspective as it looks at mechanisms to eliminate employee dissatisfaction. The employee empowerment literature, on the other hand, focuses on capturing suggestions from employees in order to improve business performance and falls under a more unitarist perspective (Dundon, Wilkinson, Marchington, & Ackers, 2004). Table 6.1 summarizes the commonalities and differences in employee voice from the critical perspective (industrial relations) and unitarist perspective (employee involvement).

Table 6.1: Perspectives on employee voice

Perspective	Critical	Unitarist/Managerial
Topic	Industrial relations	Employee involvement
Focus	Improving fairness	Improving business processes
Voice behavior	Raising complaints	Influence (strategic) decision-making
Mechanism	Negotiations	Participation
Who	Mostly indirect (through system of representatives)	Mostly direct (every employee can provide input)
HR practice: collective voice	Employee representation (e.g. unions, joint consult committees, works council), employee ownership	Team meetings, quality circles, total quality management, cross-functional teams
HR practice: individual voice	Grievance procedures	Bilateral talks employee-superior, suggestion systems

The table illustrates that voice goes two ways. It involves expressing grievance and justice concerns on the one hand, and expressing suggestions for improving work and the organization on the other hand. The first is at the center stage of industrial relations theories where the focus is on justice, and the latter is central in theories of employee empowerment. The next section will explain both these perspectives in greater depth.

Industrial relations theories

The literature describing the power and influence of labor unions and organized labor representation is called *industrial relations* (Kaufman, 2010). Early industrial relations were proposed as a middle way between socialist revolution and pure capitalism. Although the classic market economy view predicted that employees would simply leave their organization if they thought they could get better conditions in other organizations, in practice it is often difficult to move. In many cases, workers have no other option than to accept disadvantageous employment conditions. Karl Marx proposed that this inequality between workers and the bourgeois would lead to a collapse of the capitalist system. The angry mass of workers would revolt against the capitalist system and turn it around in their favor. However, apart from Russia, Cuba and China, in most industrialized countries the predicted revolution never took place. Gradually and over time, the pure capitalist market economies started to build in all kinds of protections for workers, which reduced the need for a revolt. Industrial relations played a significant role in softening the consequences of a pure market economy.

Economist Joseph Schumpeter looked at the development of pure market economies into societal systems that build social protection for workers. He agreed with Karl Marx that the capitalist system was determined to collapse, but he rejected the idea that this would happen with a clash between different classes (Schumpeter, 1942). Instead, he proposed that the intellectual class, those citizens who were well educated and whose numbers were continuously increasing, would oppose the disadvantageous working conditions of the working poor and intervene by getting involved in politics. He envisioned politics as a means to represent the interests of vulnerable groups. According to his view, industrial relations is the politics to represent the interests of workers.

Hence, rather than fighting the bourgeois, industrial relations provided the political mechanism to balance the needs of workers with the requirements of organizations. By protecting workers against the detrimental consequences of free market mechanisms, industrial relations could avoid social unrest and enhance welfare. Early examples of the effects of industrial relations interventions in the free market for labor were laws against child labor (the first one introduced in Prussia (Germany) in 1839), and subsequent laws to protect workers from extreme working hours, illness and old age. By installing mechanisms through industrial relations so that fair wages and conditions could be provided, industrial relations were seen to function as a repair mechanism for failures of the ‘free’ market. In this way, labor gained a special position in market economic theories: although labor could be viewed according to the laws of demand and supply, it should not, because labor is not a commodity like other resources needed by organizations. Because labor is inseparable from people, it is not just another commodity and it ‘acts’ in accordance with its own specific laws involving politics, which all other commodities do not care about (Kaufman, 2010). The unique characteristic of labor being subject to human agency influenced by hierarchical structures, social norms, laws and the like, ensures that labor does not reach an equilibrium level in wages (the pure market economic expression of the value of labor). Hence, some kind of governance in the form of labor relations that determines what adequate pay and employment regulations could be is needed to create this equilibrium between labor demand and supply.

Just by taking a look at how employment relations developed in the past century, it appears that Schumpeter was correct. Industrial relations are institutionalized, and their role in determining the conditions of work has been accepted as the normal way of doing business. Figure 6.1 shows all stakeholders involved in modern industrial relations in Europe. The triangle represents the boundaries of the organization. In the upper part of the figure, you can see the employer and its representatives (employers’ association), the state and the workers’ representatives (unions). The interaction between these three (employers, employee, state) sets

the boundaries for industrial relations. The state prescribes laws that follow from political coalitions and negotiations with employer and employee representative bodies. Further negotiations, within the limits of the law, can lead to collective agreements that cover many employees within an organization or even within a complete sector. Together, the three-party structure of industrial relations enables social rest and economic prosperity – thus benefiting each party.

At the lowest level within organizations, industrial relations take the form of union involvement in managerial decision-making. These organizational-level industrial relations are again bound by the higher structures in the model. For example, the presence of a sector-wide collective agreement sets the terms and conditions to all that are covered by the arrangement. Hence, objections at the lowest level are unjustified as long as the agreement is active. This often implies that it is forbidden to strike as long as the collective agreement applies.

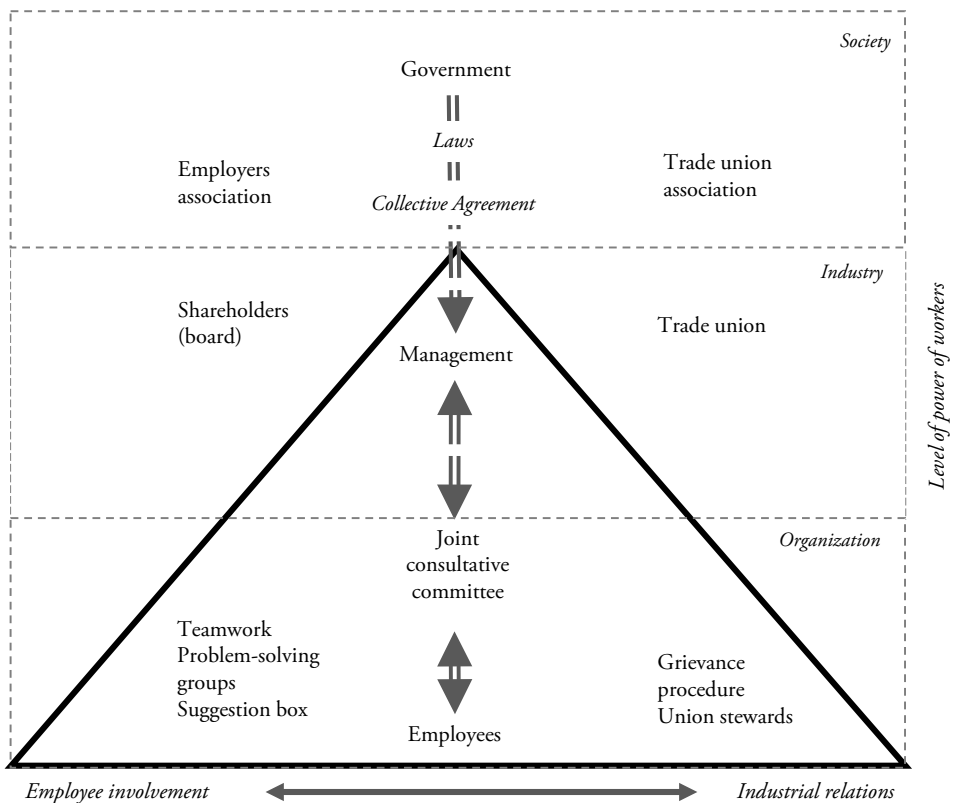


Figure 6.1: Overview of industrial relations and employee involvement

To conclude, industrial relations theory concentrates on the special character of labor and shows that labor does not act according to the classical market economic

theory. Instead, multiple parties (state, employers' associations and unions) safeguard the 'price' equilibrium for labor, resulting in stability and benefits for society, employers and employees alike.

Power of workers through unions

Trade unions are the representative body for individual workers. Workers who team up with trade unions are far less vulnerable than isolated workers (Hyman, 1975). An individual worker is easily dismissed, but when workers unite, they can exert power. However, the enthusiasm among workers to join a union has been waning since the 1980s. In Europe for example, on average 6 out of 100 employees are paying union members (Bechter & Brandl, 2015). This reduction in worker representation in unions affects the bargaining power of unions as their legal representatives.

There are several explanations for this decline in union membership among workers. The dominant explanations are free riding behavior, job uncertainty and substitution in the form of human resource management strategies.

Free riding. The welfare state provides for all, not just for union members. Pensions, insurance for illness and unemployment benefits are accessible for all citizens. In addition, the outcomes of union negotiations with employers' representatives often extend to all employees in an organization or even in a sector. This results in a taking-for-granted attitude among workers covered by collective employment agreements. The necessity for individual membership is no longer obvious, which causes free riding behavior.

Job uncertainty. Unions traditionally serve those who have permanent jobs with a single employer. Since the increase of flexible work arrangements and the uncertainty that this causes for employees, many decide not to join a union. Some may decide not to join out of fear of being perceived as disloyal to their employer, which could prevent their employers prolonging their contracts. Some may also think that the membership costs are too high when their income is uncertain. Unions have been accused of being too protective towards their members with permanent jobs and in fact this makes it more difficult for those on temporary contracts to obtain job security.

New types of work. Unions have done little to adapt to changes in the types of work. For example, there has been a steep increase in the number of workers who opt for a self-employed career. Many of them work alongside permanent employees, for example in the health care sector or in the construction industry. So far, unions are struggling to advance their position towards such new kinds of work arrangements.

Substitution. Finally, the rise of human resource management as a strategic management discipline may account for the decline in union power. With human

resource management becoming more strategic by investing in people to increase the value of human capital rather than viewing employees as operational costs that need be cut, many of the issues advocated by unions have become part of the managerial agenda (Fiorito, 2001). The effect is that human resource management practices in fact *substitute* the work of unions. Employees do not see the added value of being a union member because their interests are apparently looked after by their employer through various HRM practices.

To try and turn the tide and maintain bargaining power, unions have merged or now cooperate in confederations. One of the reasons why the system of industrial relations does not collapse, is because it not only benefits workers, but also employers, as is depicted in the next section.

Voice and industrial relations

Voice is one of the potential responses from employees when they are dissatisfied. Rather than leave or stay silent, they can express their dissatisfaction or concern to address a specific problem or issue with management. However, the risks of speaking up in a power relation between employers and employees rests with the employee. Although the complaint may stem from more employees, the one who voices the concern is the one bearing the risk of conflict or dismissal. The power unbalance between employers and employees reduces the likelihood that employees will speak out when they feel they should. However, the alternatives to voice, exit and silence, are equally undesired by employers as well as employees.

Freeman, in 1980, suggested that industrial relations in organizations can deal with the concerns of individual workers to voice their concerns by offering official channels through which voice can be expressed (Freeman, 1980). Three types of channels for voice are common in modern organizations: grievance, collective bargaining, and joint consult committees. Each of these channels allow for the expression of voice and are expected to reduce exit behavior, as is shown next.

Grievance procedures. The installment of an official grievance procedure makes it easier for employees to come forward to express their concerns. Many organizations today have such practices in place. They often involve a strict procedure following up on the complaint, including steps for a fair hearing of all parties included in the complaint. Think for example of cases of fraud or sexual harassment or violence at work. Grievance procedures allow a communication channel for victims (those at the low end of the power hierarchy) with built-in safety guidelines to prevent complaints from backfiring on the one raising the issue. Rather than leaving the organization (exit), the grievance procedure provides a safe channel for voice, whereby exit from the organization is prevented or at least postponed.

Collective bargaining. Bargaining procedures between employer and employee representatives (unions) provide a channel for putting forward expectations (e.g.

wage increases) by employees as a collective demand. This can reduce exit behavior by employees, because they will wait for the outcome of the bargaining before they decide to exit. The collective exit rates will be lower under employment arrangements that result from collective bargaining. Collective bargaining is also efficient from the employer's perspective because the effort of collecting information and negotiating wages with individuals is substantial.

Joint consult committee (JCC). JCCs are formal decision-making structures within organizations consisting of employee representatives (sometimes union members, in other cases elected employees) and management representatives who together take responsibility in managerial decision-making. In a JCC, part of the managerial prerogative is diluted to employees. In particular, all kinds of workplace decisions are made on the basis of negotiated rules in JCCs. Topics negotiated can range from employee benefits, to work procedures, flexibility and basically each human resource practice that affects employees. Employee representatives have easy access to their coworkers making the channel for upward voice easily accessible for all. JCC involvement in management decisions affecting the workplace guarantees that employee interests are looked after. The voice gained through JCCs is a safe way to collectively make work more satisfying, which reduces the potential of employees to exit the organization.

Freeman (1980) demonstrated that union members have lower turnover rates than non-union employees, proving the evidence that having voice (through union membership) indeed lowers the exit response in the case of job dissatisfaction. He notes the potential trade-off between exit and voice: if employees have voice, their quit rates will be lower.

Freeman's work opened the door to a more managerial perspective on the power of workers. Indeed, the view is that there is something to be gained for business performance by involving employees and hearing their voices. Managers have come to realize benefits that come with opening up voice channels to employees. Since the 1980s, researchers also became interested in the managerial perspective on employee involvement. In addition to employee retention following voice, appreciation was gained for the power of involving employees in decision-making because it can strengthen the functioning of organizations. The next section illustrates the key theories in the employee involvement domain.

Employee involvement theories

Releasing the power of workers can benefit not just employees' well-being, but it can also strengthen the functioning of organizations as a whole. Improvements often happen because employees work together in solving a task; through trial and error, they come up with new insights. Improvements are very hard to think of by just thinking about it behind a desk. Managers often lack real knowledge of the work

processes they supervise and have to rely on the information provided by employees to understand where opportunities for improvement exist. There is power in the involvement of employees in management, and human resource management can contribute to the willingness of employees to share their feedback, their ideas for improvement and their willingness to take charge in improving performance in their jobs, their team and the organization as a whole (Wood & Wall, 2007). Effective involvement of employees is depicted in two related behaviors: voice behavior (daring to speak up when having concerns) and proactive behavior (making suggestions and taking charge). The conditions that facilitate the willingness of employees to engage in voice and proactive behaviors is called ‘empowerment’, which literally means giving autonomy or power to employees.

Voice as behavior

Employees who enact voice communicate their suggestions, ideas, concerns, or opinions about work-related issues with the intent to improve the functioning of the organization. Examples could pertain to improving processes in their jobs, cooperation structures in their teams or malfunctioning IT systems, or customer treatment. Voice can go two ways: bottom up and top down. It can go downward if managers invite employees to speak up. However, continuously asking for input is not very efficient for management. Rather, managers like to see employees showing upward voice in which employees engage in voice behavior whenever they feel it is necessary.

Upward voice is discretionary (free choice) behavior of employees (Morrison, 2011). They do not have to do it; it depends very much on whether they feel apt to express their views or not. Engaging in free will voice behavior is anything but simple. Remember the loyalty issue introduced by Freeman (1980). Employees may perceive their engaging in voice behavior as an act of disloyalty to their employer because this involves questioning the status quo. If they feel that they have nothing to gain, or worse: something to lose, they will not engage in it. Fear for consequences may lead employees to withhold their ideas and concerns from management (Morrison, 2014). This is a serious issue influencing the effective functioning of organizations. Interviews with employees indicate that at least 40 percent of employees have withheld information from the organization because they felt that it would not benefit or even harm them. Organizational functioning can be seriously hindered if this happens. Consider for example an employee who knows about a colleague who engages in dysfunctional activities that may harm the organization. Not speaking up about it will prolong and increase the harm done. However, raising serious complaints against a colleague or even against management may backfire at the whistleblower. Many cases of whistleblowing illustrate the severe consequences for the individuals who spoke up, ranging from damaged social relations within the organization to even losing one’s job. The fear of negative consequences following

voice is therefore not completely unjustified. Although consequences of day-to-day voice behavior will not be that severe, it illustrates how employees may hesitate to speak up even if they should to help the organization.

Staying silent rather than expressing voice also affects employees' satisfaction with the organization, which will hamper their performance and reduce their overall commitment to the organization. An additional consequence of employee silence (the opposite of voice) is lower employee morale. For the reason of incorporating voice in normal behavior at work, research and practitioners have turned to the somewhat broader construct of proactive behavior, which emphasizes alignment of employee initiative-taking behavior for improvement with the goals of the organization (Bindl & Parker, n.d.), rather than just speaking up – the essence of voice behavior.

Employee proactive behavior

Rather than just speaking up in case of unfair treatment or dissatisfaction, proactive behavior is about taking the initiative to actively change and improve one's own work, team and the organization as a whole (Crant, 2000). It goes one step further than voice behavior because it involves taking charge in suggesting improvements. Not only voicing a complaint, but also suggesting how to improve it. It is about not only voicing an idea, but also showing how it can work and be implemented.

Proactive behavior is an appreciated, much-desired activity because of its positive contributions for both organizations and employees. Proactive employees show better job performance because they take the initiative to really improve the way they do their jobs. Moreover, employees feel good about taking charge: it gives them confidence in themselves and it makes them better like the jobs they do. Moreover, by showing proactive behavior, employees have to connect with others in the organization and in this way they contribute to the social capital of the organization (Thomas, Whitman, & Viswesvaran, 2010).

Although some employees are more likely to engage in proactive behaviors than others because of their personality, it is possible to create environments that promote voice and proactive behaviors, as is shown in the next section on empowerment.

Empowerment

The managerial interest in employee involvement comes forward in the word 'empowerment', which refers to all initiatives aimed at increasing employee performance and motivation through delegating authority to the lowest level in the organization where a competent decision can be made (Seibert, Silver, & Randolph, 2004). In the 1980s, empowerment became a big management hype, leading to the introduction of so-called self-managed teams who, without managerial interference, could decide for themselves how to organize work, when

to order supplies and to improve production processes if necessary. One famous example is that of the Volvo factories in Sweden, which completely transformed the traditional production line into workshops where teams of production workers together assembled a complete vehicle. Before, employees only performed one task on the production line and felt no responsibility for the end product. The success of Volvo inspired many other organizations to adopt team working structures and greater delegation of responsibilities to employees. Today, reorganizations to reduce the level of hierarchy and managers can be understood within the context of the drive for greater employee empowerment.

Empowerment practices aim to give employees the opportunity to make decisions, to have access to information to make good decisions and to support in the form of feedback, and to receive help if needed, and to have all resources needed to take responsibility (Spreitzer, 2008). Hence, empowering employees is about creating a context that facilitates employees to feel responsibility when making decisions. This is not an easy task. For employees to really take the responsibility for delegated authority, they need to feel able and motivated to do so. Empowerment should therefore be understood from a contextual perspective (which structures are there to facilitate empowerment) and from a psychological perspective (do employees really feel empowered).

Structural empowerment refers to all initiatives taken to delegate authority to the lowest level and involve employees in managerial decision-making. Structural empowerment can be achieved by considering the composition of teams, by changing the design of jobs (providing decision latitude, autonomy and teamwork), by changing the style of leadership (a coaching rather than authoritative style), and by providing organizational support (resources, help, feedback, information).

Psychological empowerment is a psychological process by which employees feel empowered. Cognitions are influenced by the environment in which people work (Thomas & Velthouse, 1990). No matter how nice the structural context for empowerment, if employees do not feel that they have the power to make their own decisions in their jobs, nothing much will happen. Psychological empowerment is a psychological state that is necessary for individuals to feel a sense of control in relation to their work. The motivation to engage in empowerment will only happen when employees feel that there is reason to do so (meaning). For example, an employee might feel able to change a certain work method, but if this employee does not have a good reason to do so then they will not initiate the change. Moreover, employees must feel that they are capable of acting in an empowered way (self-efficacy). Furthermore, empowerment will only happen when employees think that it will lead to desired results at acceptable costs and risks (impact). The last mechanism is the 'energized-to' mechanism, which states that an employee will

be more likely to engage in proactive behavior if he/she experiences positive affect related to acting autonomously (self-determination) (Spreitzer, 2008).

Clearly, psychological empowerment relates to structural empowerment. As the impact of each separate empowerment practice is limited, it makes sense to bundle them together so that all practices are aimed at creating a state of psychological empowerment. For example, the effects of delegating responsibility to the team will be hindered if combined with an authoritarian style of leadership.

To conclude, psychological empowerment is a state of mind in which employees take ownership of their jobs and show proactive behavior in order to align their performance in the best interest of the organization. Such behavior is of great value to organizations and can be facilitated by effectively designing jobs, providing support and matching leadership styles, all to promote employee empowerment.

Involvement and industrial relations

The two streams of literature presented in this chapter (industrial relations and employee involvement) are in practice often intertwined. Initiatives to improve bottom-up involvement of employees exist next to union and non-union formal employee participation institutes like joint consult committees, as is depicted in Figure 6.1.

Power to the workers?

The question arises how effective these forms of participation are in realizing the power of workers. Or, put differently, which forms of representation are the most effective in pressing the interests of workers? If worker interest is phrased as the redistribution of power in such a way that the wealth and well-being of workers gains more weight in managerial decision-making vis-a-vis making business profit (Heery, 2010), the effectiveness of all participation and involvement initiatives can be held against this outcome. Although any type of participation gives some power to workers, the effectiveness of various practices differs. Clearly, a suggestion box system that asks employees for input to improve business performance is less effective in redistributing power to employees than a joint consult committee.

The effectiveness of participation practices in redistributing power to workers depends on the scope of topics of employee interest that they can participate in (the breadth of employee involvement) and on the actual say that employees have in each topic (the depth of employee involvement). For example, a joint consult committee can be an effective vehicle to redistribute power, but only if the topics discussed are of interest to the employees, and only if the committee meets regularly and if their decisions really influence work processes (Cox, Zagelmeyer, & Marchington, 2006). Hence, to be effective, the combination of involvement practices should give enough breadth and depth to making a difference so that the employees' voice

is heard and listened to. These practices can be derived from industrial relations, but also from managerial initiatives to stimulate employee involvement.

Industrial relations scholars have been struggling with the position of human resource management in relation to the power of workers. Since the introduction of the term ‘human resource management’ in the 1980s, critical scholars warned against the seizure of employment relations by managers, because they viewed human resource management predominantly as a vehicle used by managers to make employees work harder. The concern was that in organizations investing in HR practices that are generally liked by employees, unions would have less influence. They reasoned that if management rather than unions got involved in organizing employee involvement, it would ‘silence’ employees (Marchington & Grugulis, 2000). However, research shows that management-initiated human resource management does not silence unions. Instead, it appears that in organizations that have active industrial relations (union involvement), the adoption of modern human resource management practices also happened more than in organizations where industrial relations only play a small role (Benson, 2000). This apparent lack of conflict of interests between management and unions in relation to employee participation requires a new perspective on employment relations that can unite the critical and unitarist perspectives that dominated the debate up to 2000.

A new perspective: Pluralist view on employment relations

A concluding note should be made about the conflict and unitarist perspectives introduced at the beginning of the chapter. A new paradigm comes to the fore in the study of employment relations that does more justice to reality than a pure conflict or a pure unitarist perspective: *Pluralist employment relations theory*. The idea of a pluralist view is that there are multiple stakeholders involved in employment relations who all have different interests (Budd & Bhawe, 2008). For example, the key interest of employers is organizational performance, while employees want a fair income and good jobs, and the state has an interest in social stability. The number of stakeholders in employment relations can be extended to include customers (who may require fair trade products), the natural environment and the economy at large. With so many parties having a stake in employment relations, conflict is inevitable. However, rather than being problematic, conflict is perceived as something that happens naturally and that can be resolved. If you look at systems of employment relations, you notice that they always develop towards some equilibrium in which the interests of all parties are balanced, until something happens which eventually results in a new equilibrium of the system. All parties involved eventually strive for continuity and balance. Conflict according to the pluralist view is therefore constructive, and not aimed at disrupting the system.

The application of a pluralist perspective to the issue of human resource management initiatives in stimulating employee involvement versus industrial relations explains why these can co-exist. Unlike the warning of critical scholars that human resource management has a hidden managerial agenda to make employees work harder, in a pluralist view this agenda is not secret but it exists next to the agenda of workers who have their own interests. Human resource management practices aimed at employee participation and performance and industrial relations aimed at strengthening the bargaining power of workers can therefore co-exist and reinforce one another.

To conclude, the pluralist view on employment relations integrates the apparently conflicting interests between managers and employees and shows how redistributing managerial power to workers can benefit both parties.

Key research

Due to the differences in research traditions in industrial relations and in employee involvement, there appears to be more ‘evidence’ for the causes and consequences of managerial induced involvement and empowerment than for industrial relations. Since much of the industrial relations research is qualitative, involving cases, country comparisons or historical analyses, there are virtually no meta-analyses in this research domain. However, there are a number of large-scale studies that can shed light on the effectiveness of industrial relations with regard to redistributing the power to workers.

1. *Industrial relations and the power of workers.* There is some research on the effectiveness of diverse participation practices in giving employees a voice in managerial decision-making. Several large-scale studies have investigated the consequences of combinations of direct and indirect employee involvement practices on employee satisfaction. According to the exit-voice tradeoff, employee satisfaction can be perceived as a proxy for the redistribution of power to employees. The logic is that when participation practices lead to higher levels of employee satisfaction, the voice mechanism in reducing exit intentions is effective. Results of a study in ten European countries (Denmark, France, Germany, Ireland, Italy, The Netherlands, Portugal, Spain, Sweden and the UK) using data from almost 6,000 workplaces revealed that the incidence of direct involvement practices is considerable, but that the breadth and depth of topics in which employees are involved was quite limited. The study also found that in workplaces with more breadth and depth in employee involvement practices (EIP), indices of employee exit behavior and silence were lower (sickness, absence, employee turnover). In addition to this study, analyses of the largest employment relations panel data in Europe using workplace characteristics and employee reports, the Workplace Employee Relations Survey, indicates that the depth and breadth of employee involvement eventually determine how satisfied employees are (Cox et al., 2006).

2. *Employee involvement and empowerment.* The amount of research on structural and psychological empowerment is overwhelming. A meta-analysis published in 2011 largely supports that structural empowerment practices such as high-performance managerial practices, socio-political support, participative leadership styles, and work characteristics are each strongly related to psychological empowerment (Seibert, Wang, & Courtright, 2011), and that an increase in structural empowerment has lasting effects on improved job satisfaction (Laschinger, Finegan, Shamanian, & Wilk, 2004).

HR practice

Different types of direct and indirect participation in organizations

The overview below sums up the most common employee involvement and industrial relations practices within organizations. The overview begins with practices that originate in industrial relations and then moves to employee involvement practices, with joint consult committees taking a middle position (also see Figure 6.1).

Collective agreement (CA). Collective agreements regulate the terms and conditions of employment for employees and employers. They are negotiated between management (representatives) and unions (employee representatives). Large organizations can have their own CA and smaller organizations often follow (by law) the CA for their sector.

Grievance procedures. These are formal procedures, often invoked by collective agreement, about the sequence of reactions and the hierarchical levels involved following a (written) complaint by an employee.

Union representatives in the organization. These are appointed union members who look after the implementation of collective agreements in the organization to make sure that management and employees are in compliance with industrial relations laws and regulations. They can also act as spokespersons for employees who have grievances against the organization. They also recruit new union members and disseminate information from unions to employees in the organization.

Joint consultative committee (JCC). A group of people who represent the management and employees of an organization. The JCC meets for formal discussions before decisions that affect the employees are taken. In many countries, JCCs have statutory rights about the issues for which co-determination consent is due, either prescribed by law or agreed in collective agreements. Other words used for JCC are works council, Betriebsrat in German-speaking countries, or enterprise council in most European countries. The employee representatives in a JCC can be union and non-union members. Non-union members are mostly elected by employees, but sometimes non-union workers are appointed by management to participate in a JCC. To get an impression of the variety in JCC arrangements and practices in Europe, see Bechter and Brandl (2015). On the spectrum between employee involvement and industrial relations, JCCs take a middle position. Their task is to look after employee interests, but they take an equal interest in improving the organization's performance.

Employee surveys or employee satisfaction surveys. By means of a survey, management can understand how employees feel about their jobs, the organization's culture and its management. Issues that emanate from the aggregate survey results are input for managerial decision-making.

Employee briefings or Information sessions. Used by management to inform employees about organizational performance, strategy, or changes. Although essentially a top-down communication tool, management can use such briefings to get a feel for the sentiment among employees, for example to see if there is support for organizational changes.

Self-managed teams. Self-managed teams have full decision authority on how they realize their goals. Tasks that are traditionally performed by team managers are delegated to the team, including performance appraisal of team members. After reaching agreement on the performance targets for the team, employees can decide amongst themselves how to distribute tasks and which resources are needed. They monitor their own performance costs and gains and adjust when necessary.

Team meetings. These are (often weekly) meetings between a manager and his or her team of employees aimed at discussing operational issues and ideas for improvement. Management uses team briefings to update employees about decisions, and managers can ask employees to respond. There is no formal decision-making power for employees through team briefings, but they are a useful channel to involve employees.

Bilateral meetings. These are one-on-one meetings between managers and each of their employees. Managers use these to understand their employees' motivation and to discuss performance and ideas for job and career development.

Quality circles or innovation teams or suggestions system. Teams of employees are elected (by management) to discuss quality issues (quality circles) or to come up with new and better ways of working, improved business strategies, or new and improved products and services (innovation teams). Many organizations also have systems through which individual employees can make suggestions for improvement (idea box). The intent of such bottom-up employee involvement practices is predominantly aimed at improving organizational performance.

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Summary

Workers in an employment relationship accept that business owners and their delegates (managers) determine what they do during the working day, in return for pay. The decision power about organizational strategy, targets, job design and the like therefore lies with management; not with employees. This is called managerial prerogative. However, workers are not commodities: they can think, act and feel and they can exert power to object to managerial prerogative. This power play between managers and employees can be studied from a conflict perspective, a unitarist perspective and a pluralist perspective.

Labor relations takes the conflict perspective: that managers and employees have conflicting interests, and that negotiations and worker action (strikes) are needed to protect the interests of workers. In most countries and organizations, these are institutionalized in negotiations between worker unions and employers, who exert power over terms and conditions of employment.

In contrast, the employee involvement literature argues that management takes an interest in listening to employees' voice because employees know more about the actual work in the organization than they do. Employee involvement is about voice behavior, as well as structural and psychological empowerment.

In practice, labor relations and employee participation structures operate simultaneously: labor unions, statutory works councils and worker representatives and employer-sponsored participation initiatives all happen at the same time within organizations. This exemplifies the existence and importance of a pluralist view on employment relations.

CHAPTER 7

DIVERSITY AND INCLUSION

Chapter in brief

The key theories in this chapter are:

- Moral perspectives on equality
- Legal perspectives on discrimination
- Social cognition and stereotypes
- Social identity theory
- Inclusion theory

The key HR practices presented in this chapter are:

- Preventing discrimination
- Advancing the representation of minorities
- Inclusion-oriented practices

Introduction

The demographic pattern of people in organizations has changed tremendously over the last century. Consider how globalization and migration have increased the ethnic, cultural and religious diversity of the labor population, how women's labor participation increased in many parts of the world, and how people work until older ages than ever before. In this chapter, we address issues like equal opportunities and discrimination, as these are pertinent issues that occur as a result of a diverse workforce. Before diving into the theories and HR practices that inform evidence-based diversity and inclusion management, let's illustrate how diversity manifests itself in modern organizations by zooming in on visible and less visible diversity types.

Diversity refers to any difference between individuals on any attribute that may lead to the perception that another person is different from oneself (e.g. Williams & O'Reilly, 1998). Some diversity differences like gender, ethnicity, and age are easily observed, while other aspects like experience, gender and political preferences or disability only become apparent once individuals express themselves about it. We tend to notice that people are different once they have characteristics that set them apart from the majority. Workforce diversity refers to the presence of perceived differences in cultural or demographic characteristics between people that work together in a group (DiTomaso, Post, & Parks-Yancy, 2007). Workforce diversity relates to how groups interact and perform, which makes its management important to individuals and organizations. In this chapter we address the ethical, legal and psychological aspects of diversity in organizations.

Research shows that for individuals, being a minority member has consequences for fair treatment, salary advancement and their overall well-being. A brief overview below shows some figures on minority outcomes for women, ethnic groups, age differences, disabled persons and gender preference diversity. For example, the percentage of women (aged 15 or over) that have a paid job varies per country but exceeds 50% in the largest part of the world. Although the percentage fluctuates over time, as compared to 1990, a steady increase in women's paid labor participation is evident in most countries except for North Africa, the Arab countries, and South Asia (International Labor Organization, 2018; Korotayev, Issaev, & Shishkina, 2015). There are often barriers for women to participate in paid labor such as cultural norms about the position of women in society, domestic duties, safety risks like (sexual) harassment, or simply a lack of child care facilities. Next to a gap in paid labor participation, there is a persistent pay gap between men and women. According to the ILO's global wage report, women earn on average 20% less than men. The pay gap can, to some extent, be explained by women traditionally working in different occupations than men (occupational and sector segregation), such as in the care and education profession. In addition to the horizontal segregation of

men and women across professions, there is also a vertical segregation that explains some of the pay gap. Traditionally, men have tended to occupy the higher-echelon jobs in organizations more than women. Supposedly there is an invisible barrier popularly called 'the glass ceiling' that hinders women from progressing to higher organizational levels. Although traditional roles of women as caregivers and men as income earners may explain for the skewed representation of women across jobs and levels, there are also unexplained pay differences between men and women doing exactly the same jobs, even when controlling for education, experience, age and 'having kids' (International Labour Organization, 2018). This indicates the presence of subtle and difficult to change social processes that maintain the backward position of women in the labor market despite all positive interventions for equal opportunities.

Similar disadvantages for labor opportunities also exist for people of color from ethnic minorities such as those from African descent or indigenous peoples, Roma, and migrant workers. Although each of these groups face their own challenges, the fact that they stand out as different from the majority of a country's inhabitants may result in negative consequences with respect to equal opportunities at work (see the OECD for an overview of labor participation rates of foreign-born workers, OECD, 2020). When the number of women in top positions is low, the number of ethnic minority members in the higher organizational levels is even lower. There are numerous legal reports of ethnic discrimination in hiring and promotion which indicates a structural inequality in career opportunities between white and non-white workers (Pager & Shepherd, 2008). Minority disadvantages tend to accumulate over a lifetime. From childhood onwards, lower access to material wealth, educational opportunities and lack of access to social networks for career sponsorship add up to a weaker position in the labor market. The ongoing presence of conscious and unconscious discrimination against minorities makes equal representation of diverse employees at all levels of the organization an important priority for human resource management. Today, upheaval about the structural disadvantages of large groups of ethnic minorities in society pervades in the news, in societies and in the political debate, thereby putting pressure on organizations to reconsider the fairness of their human resource management policies.

Other social and demographic developments point at even more forms of diversity that matter for organizations. Consider for example increasing human longevity and the increase of pension ages, which means that people will have to work longer. Older employees are confronted with age discrimination in hiring due to prejudices about their ability to learn and their motivation to perform. Likewise, workers with visible and non-visible disabilities face prejudices about their workability which impairs their opportunities to participate in organizations. Diversity further manifests in alternative gender and sexual identities, in religious and in political

differences. As this overview illustrates, there are many different ways in which diversity manifests. As the needs of the diverse groups differ and may sometimes even be contradictory, managing diversity is a complex task.

Organizations attempt to combat discrimination or foster the inclusion of diverse groups into their ranks for various reasons. First, there are legal obligations about equal opportunities that all organizations have to adhere to. For example, it is forbidden to discriminate on certain legal grounds like gender, age, or ethnicity in hiring and pay decisions. For member states of the European Union, the minimal requirements for legislation is agreed in directive 2000/78/EC of the European Commission. Moreover, when there are regulations about quotas for certain groups, this will require a minimum percentage of employees with a certain diverse background, and non-compliance by organizations can result in a penalty.

Another reason why organizations strive for a diverse workforce is because they inherently believe that all people are equal and as such deserve equal opportunities. This is a moral standpoint that can bring about a strong intrinsic drive to bring about favorable policies for minorities. An example of a company that portrays itself with a moral obligation for equal opportunities is IBM. On their employment page they write, *“IBM has more than 100 years of work on diversity, inclusion and equality in the workplace. [...] Guided by our values and beliefs, we’re proud to foster an environment where every IBM-er is able to thrive because of their differences, not in spite of them”*.

A third reason to advance diversity is the belief that a diverse workforce is good for organizational performance, commonly referred to as ‘the business case for diversity’. For example, it could be argued that it is beneficial for sales if the employee population within an organization represents the groups of customers or clients they serve outside the organization. Individuals with diverse backgrounds also bring diverse skills and knowledge to organizations, which should lead to better informed decision-making (Ely & Thomas, 2001). Notwithstanding how appealing this line of thought is, research systematically shows that diverse groups are not necessarily better at making decisions or in increasing sales, or for innovation. In fact, diverse groups perform equally well or even worse than homogeneous groups (Bell, Villado, Lukasik, Belau, & Briggs, 2011). This is important knowledge for human resource management, because it shows us that in order to make diversity a success in organizations, it needs management attention. Just putting a group of diverse individuals in one place is not a guarantee for effective performance. So in addition to paying attention to equal opportunities and preventing discrimination, organizations are tasked with ensuring that all employees feel appreciated by each other and their superiors and that the potential benefits of diversity are realized. This task is to create a climate of inclusion that goes beyond adhering to legal requirements. The IBM example illustrates how an organization actively strives for

an inclusive organization climate, where diversity is praised as a human right and not as a business case. Insights from social psychology can contribute to developing inclusion policies, whereby diversity fault lines resulting in non-functional distinctions between them and us (based on gender, ethnicity, or age) are overcome and replaced by functional beliefs about ‘us’ as a functional team in an organization. Inclusion is the keyword to make diversity work for individuals and organizations. This is, however, easier said than done.

The central question in this chapter is, therefore, how human resource management can contribute to building and managing a diverse workforce, in such a way that all employees feel included and motivated to contribute to the organization.

The chapter is structured as follows. First, some additional background information is provided about the moral and legal perspective on promoting equality and fairness for all workers. This includes an elaborate definition of discrimination and equality. Then the chapter continues to set out social psychological processes that explain why overt and covert discrimination occurs in the organizational context. Theories of social cognition explain why individuals use stereotypes in their interaction with others. Social identity theory builds on social cognition and explains how subtle group processes that are important to our own self view can lead to exclusion in groups. These theoretical perspectives help gain insight into the ways in which discrimination can be prevented and inclusion fostered. The chapter is concluded with a summary of the key research findings and some practical examples of effective human resource management practices for diversity and inclusion.

Theory

The moral justice of equality

Equal rights and opportunities are foundational human rights laid out in the United Nations declaration of 1948. After the atrocities of World War 2, a large congregation of nations agreed on a set of moral standards for dealing with human rights that should be protected universally. The first article in the declaration states that *“all human beings are born free and equal in dignity and rights. They are endowed with reason and conscience and should act towards one another in a spirit of brotherhood”* (Article 1, United Nations Declaration of Human Rights, 1948). Many countries have similar statements about equal rights in their national constitutions; China’s 4th article for example reads that *“all nationalities in the People’s Republic of China are equal”*, while Brazil’s 5th article states that *“men and women have equal rights and duties under the terms of this constitution,”* and South Africa’s text explicates non-sexism and non-racism, whereby all citizens are *“equally entitled to the rights, privileges and benefits [...]; and equally subject to the duties and responsibilities of*

citizenship”, to name a few. At the same time, individuals are not always treated the same, thereby in practice ensuring that equality will have to be supported by laws and regulations on a national level and in organizations. Compliance is easier said than done, as can be illustrated by zooming in on Article 1 of the United Nations.

According to Article 1, human beings are equal in *rights* and in *dignity*. *Equal in rights* means that the same procedures apply to all individuals, no matter their differences. *Equal in dignity* means that all individuals can enjoy the same benefits (positions, status, income), no matter who they are. For workplaces, this would manifest in equal representation of diverse groups in all job categories, for example in an equal representation of men, women and people of color at the top of the organization. In practice, these two requirements can be conflicting. For example, a very equal procedure that treats everyone the same, can have the unintended outcome that individuals from disadvantaged groups do not pass the threshold of the procedure. An organization that requires all their employees to have a diploma from a prestigious university – which might be understandable from a human and social capital point of view – will unintentionally exclude other suitable candidates from social groups who find difficulties in attending such universities due to unequal chances in childhood. The consequence of such an apparent equal procedure is that it leads to unequal opportunities. In practice, there are many examples like this. An often-heard quote like “we only hire the best, no matter who they are” indicates equal treatment in rights, but can in practice lead to unequal outcomes in dignity since some individuals will never qualify as ‘the best candidate’.

This issue of equal procedure versus equal outcomes is expressed in the words equality and equity. *Equality* looks for fair treatment by treating everybody the same. It means that procedures should be the same for all, notwithstanding any differences between individuals. *Equity*, on the other hand, ensures fairness by making sure that everybody has the same opportunities. This means treating individuals differently, based on their individual needs, to achieve fairness in outcomes. Building on these different views on equal treatment, Tomei (2003) distinguished three models of equality that are found in organizations.

The first model is called *procedural or individual justice*. Here, organizations take a procedural view on achieving equality. All policies are checked for fair process, and are strictly applied to each individual in each situation where decision-making is concerned. So instead of recruiting in personal networks and doing an informal interview, which is prone to bias in favor of majority candidates, a fair procedure would be analyzing the job for required skills and knowledge, advertising the vacancy publicly, and reviewing the application forms strictly against the requirements of the job. Such procedures would advance decisions based on *merit* – the objective experience and achievements of individuals, instead of some unconscious prejudices. An example of a merit-based HR practice is anonymous applications, where all

identifying non-job-relevant information is hidden during the application process. This way, non-job-related characteristics like gender or a foreign last name cannot distract from the job-related achievements in an applicant's resume.

The second model is *group justice*. Organizations that look after group justice take an equity perspective on equal treatment. If an organization is concerned about the representation of diverse groups in their organization, management can seek to advance underrepresented groups by defining specific policies to help women, individuals of color, or persons with a disability to get extra opportunities for development. In some cases, this means that a job opening is restricted to some minority groups. Such policies are known as affirmative action: allowing unequal procedures, to achieve equity in outcomes. The ultimate goal of the group justice model is that at the group level, there is equal representation of all subgroups whereby all everyone is treated equally.

The third and final model that Tomei (2003) discerns is *equality as recognition of diversity*. It can be described as an objection against the ideal of assimilation: if equal treatment means that we all are the same, this disregards individuals' desire be respected for who they are. Diverse individuals do not only want to be treated the same as the majority, but also be respected for who they are, and they may not feel comfortable in assimilating completely. Equal rights movements for lesbian, gay, bisexual, transgender and other gender identities (LGBTQ) rights for example are actively fighting to be accepted for who they are, no matter where they are. The individual need to be recognized as unique, while at the same time be accepted and granted the same rights and benefits as everybody else is at the heart of the last model. Organizations that embrace this model celebrate the diversity of their staff by communicating the value of diversity and at the same time creating a culture of inclusion for all employees. This model is also known as *management of inclusion*, which will be addressed in more detail in the last part of the theory section.

All three models contribute to equality as proposed in the first article of the United Nations, but they differ in the principles used to determine equality. This illustrates that equality as a concept needs explication with respect to moral questions like 'equal in what' and 'equal how' – whose answers lead to various principles depending on the moral perspective one takes. In other words, the answer to which of the models is the best for advancing equality depends on one's moral view about what constitutes good or bad with respect to treating others. Practically, one could rank the models from meeting anti-discrimination laws (procedural or individual justice model), to more extended moral answers to the meaning of equality as equity (group justice) or inclusion (equality as recognition of diversity).

Discrimination and the law

While advancing equality leaves room for different strategies that organizations can pursue, constitutional law is clear about the limits of unequal treatment. *Discrimination* happens when individuals are denied their equal rights because they are treated differently than others under the same conditions, based on non-relevant, personal characteristics. Discrimination has the intended (direct) or unintended (indirect) consequence that the victim experiences impaired outcomes, such as missed opportunities for development, neglect of good performance or even harassment. Common *grounds for discrimination* at work are gender, race, age, disability and sexual preference, but these can be extended with many more grounds on which individuals may differ from each other, as can be read in Article 2 of the United Nations Declaration of Human Rights, 1948:

“Discrimination is denying people rights and freedoms as set forth in the universal declaration of human rights, by making distinctions between people based on characteristics like race, color, sex, language, religion, political or other opinion, national or social origin, property, birth or other status.”

From a legal perspective, this definition of discrimination involves three core elements. First, for an act to be considered as discrimination, it requires a difference in treatment. Second, this difference in treatment should have an effect on the person in question. Finally, the reason for the difference in treatment should be based on a prohibited ground (Weiwei, 2004). Without the third condition, discrimination in the sense of making distinctions between individuals is daily practice in organizations. Selection, promotion and rewards are all based on making distinctions between individuals. As long as these distinctions are based on merit, there is no case for discrimination. *Merit* is the connection between a person’s qualifications and the requirements for performance in a job. However, once a distinction is based on a prohibited ground, it qualifies as discrimination. *Prohibited grounds* are lists of characteristics specified in the law for which discrimination is never allowed. Common grounds for discrimination based on gender and race are typically on these lists, but countries have their own specifications. In Finland for example, it is forbidden to discriminate because of someone’s family relations; this means that being a parent is no reason for differential treatment. Ireland’s equal status act specifies membership of the Traveller community as a prohibited ground for discrimination. Some countries like the United States, do not specify specific lists but leave it to the court to determine if someone has been discriminated against.

Often, there is a distinction between prohibited grounds for discrimination in society in general, and for employment relations in particular. For example, in European Union member states, employees with part-time contracts should enjoy the same rights as employees with a fulltime contract, because the employment law

explicates that discrimination against part-timers is prohibited (EU Directive 97/81/EC). The law can also make exceptions for work conditions where discrimination is allowed. For example, working time legislation may allow discrimination on age to protect very young or very old workers against strenuous work weeks.

Despite the presence of anti-discrimination laws, discrimination does happen and it is not always easy to detect. Clearly, rejecting a candidate because of their skin color is an act of *direct discrimination*. However, oftentimes, discrimination is indirect. For instance, job advertisements can include non-job-related characteristics, which lead to systematic exclusion of candidates on prohibited grounds. This is known as *indirect discrimination*. An example of indirect discrimination is requiring flawless fluency in the domestic language for a job. This requirement discriminates against applicants who do not speak that language as naturally as their mother tongue. If the job requires a good understanding and communication in the language, the requirement of having no accent is discriminating. A judge will rule that both direct and indirect discrimination at work are prohibited. Legally, direct discrimination is easy to detect by referring to the prohibited grounds for discrimination. Indirect discrimination is more difficult to prove because making distinctions can sometimes be justified by job requirements. Sometimes, employers are unaware that job requirements cause unintended, indirect discrimination. When there is suspicion of indirect discrimination, an employer has to objectively justify unequal treatment by showing factors unrelated to discrimination. This means that it is important to critically evaluate if job requirements are really necessary conditions for being able to execute the job. If job requirements are just convenient and lead to indirect discrimination, an employer is liable for prosecution. Case law provides clues for legally justified examples of indirect discrimination. Examples are available in the Handbook on European non-discrimination law (Union Agency for Fundamental Rights, 2011). To prevent discrimination, employers have to install and adhere to fair processes for all personnel policies, including recruitment, compensation, career development, succession, and performance evaluation.

Organizations often want to improve the representation of employees from various identified groups at the higher levels. As an intervention, management may decide on using affirmative action. This is a policy aimed at recruiting and promoting individuals from less represented groups to restore the demographic representation. However, affirmative action is discrimination based on the same grounds for discrimination that the law prohibits. Put simply, affirmative action of women for senior roles discriminates against equally qualified men. Any employer who wants to use affirmative action should therefore seek legal consultation to see whether such a policy is justified. A judge will only allow affirmative action or *justified distinctions*, if it can be demonstrated that all other measures to come to a more diverse organization have failed.

In conclusion, anti-discrimination law provides the minimum standards for equality any employer has to adhere to. Although there are national differences, the common grounds for discrimination include those in Article 2 of the Declaration of Human Rights. Although the law may be clear, its application to specific cases is sometimes difficult, in particular when discrimination is indirect on apparently neutral grounds. Even the apparently neutral provision of merit may not be as neutral as it seems. Merit is partly a social construction, based on common beliefs of what qualities are needed for good performance in some jobs, and which therefore may lead to indirect discrimination. Criteria for performance should consequently always be carefully monitored to ensure they are truly neutral. The next section describes the social psychological processes behind common beliefs about stereotypical roles for diverse groups that lead to discrimination and inequality.

Social psychological processes of discrimination

Having experienced an era of extreme violence against social groups – the lynching of blacks in the United States (US) and the holocaust against Jews in Europe, social psychologist Gordon Allport wrote a book entitled ‘*The Nature of Prejudice*’ (Allport, 1954), in which he reasoned that antipathy was based on faulty generalizations about social groups and that every human has the tendency to think in such generalizations. Moreover, he wrote that people have a natural tendency to like people whom they perceive as similar to themselves better than those they think are different from themselves (Dovidio, Glick, & Rudman, 2005). This implicit thinking in ‘us’ versus ‘them’ terms often leads to subtle and sometimes overt forms of discrimination. The two most-cited social psychology theories on why discrimination happens are social cognition theory, and in particular the writings on stereotypes, and social identity theory, which explains the reason for in-group liking and outgroup disliking.

Social cognition theory: Stereotypes

Many of the things people think and do are based on implicit cognitive processes. In order to make sense of the world, people use implicit schema in their minds that help them do things automatically. People have the natural tendency to continually categorize things (Allport, 1954). This is a very efficient human characteristic: it helps us do many things without having to actively process information all the time. The mind works like a dresser with drawers that open when activated by some stimulus in the environment. For example, you only realize how convenient your morning routines are when you move to another house. All of a sudden, you need to update your mental schema that told you where to look for the plates, the coffee and the sugar. This updating process costs effort and energy. It is easier to rely on existing automated schemata than to put effort into creating new ones. Mental schema help us to effectively function and survive.

Automatic mental sense making is also activated when people process information about new social events that they encounter. The process of attaching meaning to interpreting events is called attribution. *Attributions* are favorable or unfavorable dispositions toward social objects, such as people or groups, places, and policies (Greenwald & Banaji, 1995). Attribution leads people to make inferences about the causes of behavior and events. Even if we did not really observe anything about the cause, we are still able to come up with an explanation for what we see happening. For example, a teacher can attribute a student's failing of an exam to the student's efforts, or to the difficulty of the exam. This indicates that attributions about the causes of the behavior of others can be internal or external. Internal attribution means that the explanation for the behavior is sought in the motivation and characteristics of that person. For example, the teacher can attribute a student's low grade to her lack of effort in studying. External attribution of behavior means that one thinks the behavior is caused by some external event. In this case, the teacher could attribute the student's low grade to the fact that the exam was far too difficult for all students. *Attribution theory* examines how inferences about the causality of the behavior of others develop (Fiske & Taylor, 2013). Many attributions do not involve much active information processing about what really happens. They are activated in a split second. Attribution processes play an important role in how we observe the world around us and the people that we meet. Most of the time, we rely on a series of attributions rather than truly process all the available information.

A collection of attributions used to make sense of the social world is called a *schema*. Schemas about the social world are not necessarily correct; they are just a mental representation of reality. Schemas themselves develop in social interaction by looking at how others attribute meaning to events. The formation of schemas begins early in life, when children firstly interact with their parents. Parents are important influencers of their childrens' mental schemas. Later on, school, peers and other people in the close social proximity of children help in attaching meaning and forming social schemas. Access to the broader social context is represented in socio-cultural norms, which are transferred and confirmed in social relationships at home and in school. The news, television and social media also continuously feed information about the world and shape its mental representation. This process of information processing about the social world is continuous over the life span.

So, social schema form throughout life and serve as relatively stable shortcuts to facilitate day-to-day life. Schemas are the mental structures that are activated in social events. They help us to be patient when we meet with older people in public transport, to politely stand in line and await our turn, and adjust our speech when we are at work instead of with peers. Schema are quickly activated when meeting new people. They help us to attribute meaning to someone that you have never met before. Such judgments about other people are literally made in seconds. This

happens because the mind needs minimal clues for activating a schema. The mind categorizes people according to salient characteristics and quickly activates the corresponding schema.

As schema activation happens based on a few characteristics, for example noticing that a woman is wearing a headscarf, the inferential attributions that are initially activated are also quite general. Schemas about people based on a few characteristics bear the risk of overgeneralizing or stereotyping, and that is precisely what happens. *Stereotypes* are socially shared sets of beliefs about traits that are characteristic of members of a social category (Greenwald & Banaji, 1995). Stereotyping is a trick of our brain to process information about others in an efficient way. It largely happens unconsciously, to everybody. It is impossible to say that you do not think in stereotypes, because that would mean that you first consciously process all the information about a new person before you form an image. As ethical as that may be, it is not how your mind works. However, this is not to say that stereotypes will dictate how you deal with others. The moment we learn more about another person, the initial salient characteristics will become less dominant and the stereotype is likely to be replaced by a more accurate understanding of the other person. Nevertheless, one should be aware of how stereotypes can influence our behavior.

Stereotypes can be triggered by a broad variety of stimuli, ranging from very subtle events (such as the presentation of a single word) to very obvious stimuli (such as explicitly reminding people of some group stereotype) (Wheeler & Petty, 2001). Easily visible characteristics such as gender, race and age are more likely to be used as categorization clues and are more likely to evoke stereotyped schemas than less visible characteristics such as work experience and education. Obviously, work experience and education are more important to the human capital of organizations than attributes associated with gender, age or other diversity categorizations. For example, some people associate the category 'older workers' with attributes like having physical limitations, conventional beliefs, lower productivity and being opposed to change compared to younger workers. The attributes related to an activated stereotype influence how people behave towards such older workers. When the implicit stereotype about older workers is active, recruiters will judge an older applicant also on stereotyped prejudices of older workers, which would lead to inaccurate and unfair selection decisions – discrimination. It is important to note that the implicit nature of stereotypes means that they will interfere with the judgments on the overall quality of the older candidate, even if the recruiter thinks that she is making a fair comparison between candidates based on job requirements. This illustrates how stereotypes can play with our minds and very subtly cause discrimination in organizations.

Whether or not characteristics become stimuli for stereotype activation, depends on the *salience* of the characteristic in a group. In a very diverse group, differences

between people are not that salient. However, when you are the only person representing some characteristic, that characteristic becomes very salient, meaning that both other people in the group and yourself become very aware of the difference. Being very aware of being different than the other causes feelings of threat, and stereotypes are quickly activated to cope with this feeling of threat. This reaction is called *stereotype-threat* and it refers to the stereotype activating process that happens after a difference between people in a group has become salient. The salient difference activates the adhering stereotype and in turn, this influences both the behavior of others and your own behavior (Wheeler & Petty, 2001).

Stereotype threat follows from behavioral norms and expectations that are associated with stereotypes. Behavioral norms describe what people who belong to a certain stereotype are like, and also how they are expected to behave. In particular, these normative expectations can lead to disadvantages for members of minority subgroups at work. Imagine for example a situation where a woman wants to be promoted to a senior leadership role in an organization. Stereotypes describe women as kind and nice to others, as submissive and following, and as warm and caring for others. In a male-dominated organization, the promotion of a woman to a leadership position would make her 'being different' salient. The salience triggers the attributes associated with women among those who judge if she merits the leadership position. Then, the stereotype is no longer a neutral overgeneralization about how women are, but it becomes an implicit evaluation of how this woman in particular is expected to behave in a leadership position. These expectations are called *social role expectations*. Social role expectations are stereotyped beliefs about what people who belong to a minority group are like and how they are supposed to behave (Eagly & Karau, 2002). Such social role expectations are activated as soon as differences are salient to others. They are both *descriptive*, in terms of what the other is like, but also *prescriptive*, in the sense that the stereotype tells us how the other should behave. Because of their implicitness, others are often unaware that their views of individual members of minority groups are being fed with stereotypical beliefs. Being visible as a woman rather than as a qualified candidate for the job ensures a woman faces a stereotype threat. The stereotype prescribes that she will behave in a 'nice and caring' way, which is in conflict with the general beliefs about effective leadership, which is more described in masculine attributes (decisive, aggressive, taking initiative and dominant) than in feminine words (Schein, 2001). Moreover, she risks being judged for her performance in the job because of the same stereotype threat. This shows how stereotypes interfere with common beliefs about what attributes of good performance are, and how these may lead to indirect discrimination. Stereotyped norms interfere with performance evaluations of individual members of minority groups without both the rater and the ratee being aware of doing so. This illustrates how difficult it can be to overcome unequal treatment of minority members in practice.

The same implicit stereotyping process that influences the behaviors of others when confronted with salient characteristics of a person of a minority position are also activated in persons in the minority positions themselves. To cope with the feeling of threat that follows from being visible as an outsider in a group, individuals tend to act in accordance with the stereotype. Again, this is a subtle and implicit process. In practice, it means that minority members lower their aspirations for career growth because they self-stereotype themselves as ‘less suitable’ for higher positions. This process of *self-stereotyping* is another explanation for the continuing imbalance of the demographic representation in the higher echelons of organizations. Positive examples of success achieved by minority individuals in prestigious positions can help overcome negative self-stereotyping. People like Barak Obama and Oprah Winfrey have provided great role models and thereby contributed to emancipating people of color around the world. Role models like Winfrey and Obama are important to mend common stereotypes about minorities.

As long as stereotypes are implicit, they will always influence our behavior. To change a stereotype, the cognitive schema needs a disruption that activates attentive information processing instead of automated information processing. Remember the example of cognitive schema disruption after moving house. When stuff, such as the sugar bowl, is not in the place where you used to find it, you need to mentally track each bit of information and reshape the schema associated with the location of the sugar bowl. A similar mental process is needed to mend stereotypes. Automated ‘other’ categorizations triggered by stereotypes have to be turned off by looking at the real characteristics of people, beyond the characteristics that are triggered by stereotyped attributions.

Social identity theory: Group processes

Being a member of a social group and comparing oneself with others and other groups causes people to build a mental representation of who they are. A social identity is phrased in terms of comparisons: “I am a young adult (not a child, not old)”, “I am a woman (not a man or alternative)”, “I play soccer (not another sport)”, “My family is from abroad (not local)”. All of these small statements and many more say something about who you are and make up your identity. Identity means that you identify with other persons to whom you are identical. Social identity plays an important role in understanding how discrimination works. As the work on social cognition and stereotypes highlights, discrimination is not the result of a direct dislike of minority groups, but it is the result of subtle cognitive reactions to perceived similarities and differences with others. Social psychologists like James (1892), Allport (1954), Festinger (1957), and Tajfel and Turner (1970s) have all contributed to the massive amount of theory and research on identity and group processes associated with discrimination and inclusion. Before Tajfel and Turner (1979) proposed the logic of the social identity theory, James (1890) introduced

the concept self-esteem and Festinger (1957) explained cognitive dissonance. These two theories were then adopted by Tajfel and Turner in their *social identity theory* to explain how one mentally uses group comparisons and disregards negative information to uphold one's self-esteem. This process is explained below.

Self-esteem was first coined in 1890 by physician, philosopher and first lecturer in psychology in the United States, William James. It is considered to be one of the first psychological concepts ever. James reasoned that we evaluate who we are based on the evaluation of the things that we have and do, the groups we associate with, and the values we adhere to (James, 1999). Evaluations of oneself in general or in specific domains lead to a sense of self-accomplishment or failure. People with a high general self-esteem may answer favorably to questions like "I feel proud of who I am". Domain-specific self-esteem shows in statements like "I am good at cooking". One can imagine that negative self-evaluations and a low self-esteem invoke negative emotions. Individuals low in self-esteem may feel depressed, insecure to act or lonely. Instead, having a good feeling about yourself is beneficial to feelings of happiness, health and an active and social life. It is natural that individuals prefer to feel good about themselves and strive for high self-esteem. Self-esteem is not dependent on material wealth. Very poor people can have a high self-esteem, and very rich people can feel entirely worthless.

To understand how the mind works in upholding a high self-esteem, we can turn to Festinger's theory of *cognitive dissonance avoidance*. Festinger reasoned that all individuals have an inner drive to hold their cognitions about the world in harmony and they try to avoid disharmony. For example, one's view of the world could be that the man should provide for his family, and that this is not a task for women. Often there is not much objective information whether your view on the world is right. In situations in which individuals cannot rely on objective information, they turn to comparing their opinions and abilities with others. In a patriarchal society, many others will share the view that women should not be the breadwinner. In this example, meeting a woman who does in fact provide for her family would disrupt the cognition of the world. To avoid cognitive dissonance, the mind immediately begins to reframe its attributions to the situation in such a way that one can reaffirm harmony with their world view and feel good about themselves again (Festinger, 1957). Maybe this woman's husband is ill, or maybe this woman is one of those stubborn feminists? By attributing causes to the anomaly, the mind reduced cognitive dissonance and succeeded in keeping a harmonious view on the world and to feel good about oneself.

Self-esteem and cognitive dissonance avoidance are important components of social identity theory (Tajfel & Turner, 1979). The contribution of the work of Tajfel and Turner is that they pointed at the importance of being part of a social group for self-esteem and for explaining cognitions about the world. People have a natural

tendency to see themselves as part of a social group. According to the *minimal group paradigm*, the silliest things can lead people to see similarities between them and form a smaller group within a larger group. For example, students who are put together because they like the same music will immediately start behaving as a group and consider themselves better than the other students in the group. Examples like these illustrate that social groups are formed naturally and that group participation automatically invokes social comparison processes. Experiments show that even when complete strangers are assigned to random groups based on no criterion at all, they immediately start identifying with the group to which they were assigned. An example of early experiments on the minimal group paradigm can be seen in the movie “The Stanford Prison Experiment” (2015).

Group membership is an important source of personal pride and self-esteem as it provides a harmonious frame of reference about the world and who we are. Individuals build their *social identity*, a sense of who they are in society, on the basis of the groups in which they participate. As illustrated above, a social identity links to different groups (like one’s generation, gender, sports or work activities, or ethnic descent). Individuals identify themselves and others with different social groups by forming categories into which they classify. *Group identification* is the outcome of this classification. “I am a woman, and you are a man, so we classify into different groups”. By comparing yourself and others to known social groups, individuals mentally categorize their social position and that of others in society. If one has a positive feel about the worth of their own group in society, this upholds one’s positive view on the self (Turner, Brown, & Tajfel, 1979). In contrast, when the evaluation of the group with whom they associate is unfavorable, individuals can develop a low self-esteem. This phenomenon can be observed in individuals from minority groups in society, who typically have a lower education and career expectations than those in more favorable groups.

Identifying with a group also means understanding the boundaries of group membership. *Social categorizations* are all implicit assumptions about who belongs to a group and who does not. Those that do belong to a group are the *in-group* members, while all others are *out-group* members. Members of the same social group are called in-group members. In-group members show high social exchange reciprocity to each other. They display solidarity with each other and help each other wherever possible. This reciprocity strengthens the social ties between in-group members, which results in in-group members feeling good about being part of that group and about their social identity derived from it. Out-group members are perceived to be ‘different’ from the in-group. By making comparisons between the in-group and out-group, individuals attribute meaning about their position in society. These comparisons can be quite rude when it concerns out-group members. Perceived differences between people in the in-group are often underestimated.

This contrasting that occurs between in-group and out-group members contributes to maintaining a harmonious view of one's own position in society and makes them feel good.

Being a member of a group brings many advantages because groups are naturally effective social structures for survival. Teamwork, learning, and caring all happen within groups. When all members of a work team identify as a group, this will benefit their performance. However, there will always be demographic and non-work-related diversity among the members of work teams. If not managed well, this diversity could activate social categorization processes that lead to fault lines along non-work-related characteristics. A workgroup that is divided between an in-group and an out-group along non-work-related characteristics can be characterized by bad communication, exclusion of knowledge and can cause overall lower performance. This is an explanation of why diverse teams are not automatically well-performing teams (Horwitz & Horwitz, 2007).

The process of categorizing people in 'us' and 'them' terms serves to maintain a positive self-esteem and ensure a coherent word view in several ways (Abrams & Hogg, 1988). First, comparisons with people outside of one's own group strengthen their identification with the in-group, which contributes to a high self-esteem. Downward comparisons with the characteristics, members, and benefits of other groups strengthens the social status of one's own group as well as one's belongingness to this group. Hence, when individuals evaluate their own group positively as compared to outsiders, this enhances their self-esteem (Turner, Brown, & Tajfel, 1979). However, when the social comparison favors the other group as better than their own group, one feels a threat to their social identity and self-esteem. To maintain coherence in their social cognitive structure, people will try to reduce this cognitive dissonance. They will use information about these outsiders to re-evaluate their beliefs about the in-group, the outsider group and their own self-identity. Especially when the out-group closely resembles the in-group, a process of active cognitive comparisons is triggered. This could lead to the insight that the out-group is not too bad after all, or worse, that the out-group is better than one's own group. In the latter case, behavioral and cognitive strategies are activated to re-balance one's cognitive harmony. For example, one may decide to categorize oneself into a different group and start identifying with a higher status group. Alternatively, one narrows the gap between groups by cooperating with the other group, or to merge both groups by cognitively reducing the perceived differences.

Comparison processes between self (in-group) and others (out-group) can explain why discrimination happens. In the logic of protecting the worth of their own group and enlarging differences with the others, it is easy to see how this can lead to exclusion. Luckily, social identity theory is not only important to understanding the causes of discrimination within organizations, but also provides clues for solving

differences between groups and creating stronger work units. One important lesson is that the inclusion of people in groups depends on the cognitive frame of what a group is. Many in-group preferences and much out-group discrimination are more motivated by preferential treatment of in-group members rather than direct hostility toward out-group members. By managing group composition so that a salient and symbolically meaningful work unit is fostered, by using inclusive communication styles and by applying inclusive management, the cognitive structure of 'us' can be mended such that 'us' and 'them' definitions happen more along functional distinctions between groups, rather than along demographic and non-work related fault lines.

In summary, social identity theory explains why social comparisons between the self and others happen along social categories and how these lead to preferences to work and live with those who are more alike than with those who are perceived as members of another social category. The theory also provides insights into preventing discrimination, by enlarging the perceptions of social categories along work-related characteristics rather than stereotypes.

Inclusion theory

Recently, scholars added a new perspective to the social cognitive and social identity approaches in order to understand the effective management of diversity. The perspective builds on the moral take that diversity is a value in itself, and not a problem that should be smoothened so that everyone is the same. Building on the concepts of self and group identity, Marilyn Brewer (1991) developed the optimal distinctiveness theory, which resonates in inclusion-oriented diversity perspectives.

Optimal distinctiveness theory states that despite the fact that group memberships are prerequisites to develop a social identity, within a group everyone still has the need to be seen as an individual with a unique worth (Brewer, 1991). In other words, there is a core to who you are that is unique to you and that makes you stand out in a group. In any close group with whom you identify, you have the innate need to be seen and appreciated for your dissimilarities. It is a basic human need to be considered a bit unique next to being a group member. For example, a lawyer's social identity at work is shaped by a proud membership of a prestigious law firm, and within that context on the team of direct colleagues who are specialized in tax law. However, among those close peers, each employee has the need to be appreciated for their unique experience and knowledge in, for example, family businesses and tax law. The same goes for social peer groups. For example, when one of the men in a close-knit group of childhood friends comes out as being gay, optimal distinctiveness appreciation by his peers will safeguard their friendship. The optimal distinctiveness theory predicts that individuals feel and perform at

their best when they know they are part of a preferred group and at the same time get room and appreciation for being unique. The optimal balance between social identity and self-identity is itself a social schema that develops within the context of family, peers and society throughout life. The need to be different may therefore be stronger in some cultures than in others. However, even in the most communal cultures, all individuals have this spark of uniqueness for which they care to be valued (Becker et al., 2012).

The lesson from optimal distinctiveness theory for organizations is that for the optimal performance and well-being of a diverse workforce, it is not enough to prevent discrimination, but it is also paramount to ensure that each individual in the organization is appreciated for their uniqueness. This notion is captured in the concept of *inclusion*. Indeed, inclusion is the outcome of optimal distinctiveness. In inclusive organizations, policies, practices and leadership are all aimed at valuing each individual for their ideas and contributions without them having to sacrifice their uniqueness or feel that they have to conform to the majority (Shore et al., 2011). Inclusive organizations foster a climate in which all individuals feel welcome in any formal and informal social gathering in organizations, that all hear about formal information and informal gossips and that all bond in the social network that is the organization, without individuals feeling left out. A *climate of inclusion* is the shared belief between all employees and leaders of an organization that each employee is appreciated for what they contribute to the organization as well as for who they are. A climate of inclusion cannot be realized by just stating policies and procedures. This is because a climate is a shared belief, and it therefore depends on how leaders communicate about the value of individual diversity, on role modelling, and on strategies to show the value of diversity.

Inclusion theory has transformed the view on diversity management from preventing discrimination, which suits the moral view on equality as procedural or individual justice, to ensuring inclusion, which fits the moral view on equality as recognition of diversity. The next section reports on research evidence related to the theories on diversity as described in this chapter.

Key research

There is an abundance of research on stereotyping and social identity. The meta-analyses selected below are relevant because they provide evidence for interventions that reduce discrimination and promote inclusion in organizations.

1. *Stereotypes*. Some interesting meta-analyses provide insight into the persistence and effects of stereotypes about demographic characteristics like gender, age and color and how they influence social role expectations about minorities in relation to expected job performance.
 - a. *Stereotype threat*. Several meta-analyses support stereotype threat theory; the idea that once a stereotype has been activated, the behavior towards target minorities will adhere to the stereotype, thereby having negative consequences for minority members. A meta-analysis by Appel and Weber (2017) shows how negative stereotypes about minorities communicated in mass media like on television or the internet really lead to stereotype threat behavior in real life, which impairs how minorities are treated at school and at work. The media play a key role in contributing to the forming and confirming of stereotypes.
 - b. *Gender*. There is much evidence that *leadership* is generally described with words like ‘power’ and ‘decisiveness’; which indicate behavior that is culturally ascribed to men (Koenig, Eagly, Mitchell, & Ristikari, 2011). This male stereotype about leaders can act as a barrier for women to enter leadership roles. In their meta-analysis, Anne Koelig et al. (2011) compared almost 200 research studies on how people describe leadership. These studies confirmed that common descriptions of ‘typical’ or ‘effective’ leaders better correspond with the social role of men than of women. Some nuance was found: the description of stereotypical leaders has become a bit more feminine over time, and was less strong when respondents work in sectors like education. Women themselves also attach less importance to masculine behaviors for good leaders. This change in the gendered stereotype of a good leader goes hand in hand with an increase of women in leadership positions and illustrates how stereotypes can be mended when there are role models that show that women are also good leaders.
 - c. *Age*. Thomas Ng and Daniel Feldman examined empirical evidence for stereotypical assumptions about older workers. They found 413 research papers that might confirm stereotypical views that older workers are less motivated, less willing to do training and development, less willing to support change, less healthy and endure

more family-related problems (Ng & Feldman, 2012). The research studies they selected all objectively compared older and younger workers' self-reported motivation, career aspirations, health and the like. Not only did they find no support for most of the stereotypes, but they even found that older workers report slightly higher levels of motivation and health than younger workers. The only stereotype for which some evidence was found is that older workers participate less in training and development activities. Ng and Feldman warn that this finding may be a result of stereotype threat towards older workers rather than a true dislike of training and development by older workers.

- d. *Ethnicity, color or race.* Discrimination of persons from ethnic or racial minorities at work is widely reported in much of the meta-analytical research. Eva Zschirnta and Didier Ruedin (2015) concentrated on discrimination in hiring by summarizing research using correspondence tests. In correspondence test research, researchers apply for real jobs with fake motivation letters and resumes. The application letters and resumes are the same, except for the manipulation of the name (domestic or foreign) and the place of birth (similar). By comparing which fake applications pass the initial round of selection, they can observe the effects of salient ethnicity markers for hiring. The few characteristics about minority applicants provided in the application trigger stereotypes about 'what such people are like', which tend to be more negative than those of the majority of applicants. By comparing 43 correspondence test studies performed in 18 different countries, they confirmed that discrimination in hiring exists across all countries and for all kinds of minorities (Zschirnt & Ruedin, 2016). In fact, they found that the chance to make it to the second round of the hiring procedure is 49% lower for minority members than for majority applicants. Zschirnt and Ruedin (2011) point at social identity processes that can account for this finding, where employers unconsciously prefer their own in-group candidates over out-group members.

This brief overview of research on stereotypes indicates how such stereotypes trigger behavior towards minorities, how job performance criteria are also stereotyped and may lead to exclusion when there is no stereotypical match between believed job requirements and an applicant's stereotypical characteristics, and how simple salient features in an application letter may trigger a stereotype that leads to rejection.

2. *Social identity* research happens both in experimental and in organizational settings. It shows the advantages of in-group identity, as well as the problems associated with in-group versus out-group distinctions in teams.
 - a. Heterogeneous groups are prone to social categorizations that result in diverse behavior towards in-group and out-group members. For example in their meta-analysis, Mesmer-Magnus and DeChurch (2009) found a persistent negative effect of team heterogeneity on team information sharing and consequentially lower team performance. Balliet, Wu and De Dreu (2014) did a meta-analysis on in-group and out-group dynamics across 212 studies reporting on decision-making experiments. They found that people behave more cooperatively with in-group members compared to out-group members. The findings indicated that intergroup discrimination in teamwork does not happen because of disliking out-group members, but rather is the result of favoring in-group members. Finally, in another meta-analysis, Robbins and Krueger (2005) found that individuals are more likely to ascribe others to be similar to themselves when talking about their in-group than when describing people in the out-group. Each of these studies illustrate how social identity leads to social categorization and favoring in-group over out-group members.
 - b. In-group favoritism is a positive attribute when it comes to employees' identification with the organization as a social category. Riketta's (2005) meta-analysis established that organizational identification positively relates to work-related attitudes (satisfaction and commitment) and behaviors (job performance, retention and absenteeism). Higher levels of organization identification were found for employees who say they work in more prestigious organizations and in high-status jobs. This confirms that the status of the social groups with whom one identifies relates to self-esteem.
 - c. A known example of the consequence of in-group and out-group distinctions is leadership. Meta-analyses on leadership effectiveness show that social identity processes happen with regard to subordinate-to-leader appreciation (Barreto & Hogg, 2017) as well as with regard to leader-subordinate appreciation (Yu, Matta, & Cornfield, 2018). Subordinates appreciate their leader by comparing them to prototypical leaders. If their group leader more resembles a prototypical leader, the leader is more favorably evaluated than less prototypical leaders. Comparing 35 independent studies, Barreto and Hogg (2017) found that leader prototypicality explained 24% of the variance in leader effectiveness evaluations. This illustrates

that it is harder for non-prototypical leaders to be accepted as an effective leader. On the other hand, leaders themselves also identify more closely with some of their subordinates than with others, which leads to in-group and out-group subordinates. A meta-analysis by Yu et al. (2018) shows that in-group subordinates who have a good relationship with their leader receive more attention and resources, which enables them to perform better. In contrast, out-group members have a more instrumental relationship with their leader and do not receive extra benefits and thus perform worse. Inclusive leaders that manage to have good relations with all their subordinates have better-performing teams.

There are other domains where research has demonstrated that social identity explains what happens, such as in mergers and acquisitions (how do employees of two different organizations form a new organization?), in performance evaluation and reward (how are the ratings of 'others' influenced by in-group/out-group dynamics?), in international human resource management (how do locals and expats collaborate?), and employee health and well-being (how does exclusion relate to bullying, strain and health complaints).

3. *Inclusion* has been researched in general populations and in organizations. Central questions on inclusion are how equality beliefs matter for the prevention of discrimination and for the well-being of all employees.
 - a. In the population as a whole, the question is what effect individuals' diversity beliefs have on the stereotyping of minorities and the support for diversity policies. To investigate this, Leslie, Bono, Kim, and Beaver (2020) collected 167 independent studies in different countries. They contrasted individuals' beliefs that minimize differences (equality as individual or procedural justice and group justice), with multiculturalism beliefs (equality as recognition of everyone's diversity). Multiculturalism beliefs proved to be the strongest predictor for lower stereotyping and higher support for diversity policies.
 - b. Organizational research has concentrated on how diversity management contributes to a climate of inclusion whereby all employees feel equally appreciated for their performance and at the same time valued for who they are as an individual. A meta-analysis of 109 samples about pro-diversity climates in organizations demonstrates that a climate that promotes inclusion relates to higher levels of employee well-being than a climate where diversity is promoted. This was especially the case in organizations with much ethnic and race diversity (Holmes et al., 2020). A similar

conclusion is drawn in a meta-analysis on the positive effects of inclusion climates in human service organizations (like nursing and childcare) (Mor Barak et al., 2016).

These studies provide substantive evidence that employees do well in and appreciate inclusive organizations that view equality as diversity from an optimal distinctiveness theory point of view.

HR practice

There are many HR practices that can be used to advance diversity and inclusion in organizations. The three models for advancing equality that were introduced in the theory section (procedural or individual justice, group justice, and recognition of diversity) each offer different human resource management practices.

1. *Procedural or individual justice-oriented practices.* This model is aimed at preventing discrimination by ensuring that all employees are treated equally. This starts with dealing with discrimination claims, taking into account the influence of stereotypes on employee-related decision-making, and changing stereotypes about minorities in all managers and employees.
 - a. *Anti-discrimination policies* that explicate what to do in case of harassment and discrimination claims can be adopted. Such policies include opening safe channels for complaints and the explication of the chain of responsibilities for validating the claim and describing the means to take appropriate action.
 - b. *Monitoring* means that all employee-related procedures at work are non-discriminatory and that decision-makers are held accountable for adhering to equal procedures for all employees.
 - c. *Prevent bias in decision-making.* Make all employee procedures for performance evaluation and decision-making for selection, development and advancement bias-proof. Some interventions include anonymized application procedures and using diverse groups when making selection and promotion decisions. By taking away all non-job relevant information about applicants from their applications, decisions cannot be influenced by stereotype threat. When this is impossible, it is a good idea to ensure that the decision-making team itself is diverse, so that the diversity of a minority candidate is less salient. This will reduce the chance of stereotyping the candidate. A procedure could be that all selection teams should consist of at least three members, of which one is a woman and one a minority member.
 - d. *Change common stereotypes.* Training and communication aimed at changing stereotypes about minorities can also be adopted,

with the aim of minimizing the triggers for stereotype threat. The essence of these interventions is to update the stereotype so that the differences between ‘us’ and ‘them’ become less salient, and that job-related characteristics rather than stereotyped characteristics can be used to judge the qualities of individuals at work. Examples include diversity training for all management and employees, especially training aimed at changing behavior and stereotypical cognitions about others (Bezrukova, Spell, Perry, & Jehn, 2016). In addition, it helps to provide minority role models and communicating about such successful minorities in the organization, making sure that their pictures are on websites, in information newsletters and in all company communication.

2. *Group justice-oriented practices.* Central in the group justice model is advancing minorities to eventually achieve a more equal representation of minority groups at all levels of the organization. Interventions that fit this model range from supporting minorities to strengthen their skills to compete for career opportunities, to making management accountable for hiring diverse candidates, and setting quotas for the representation of minorities in an organization.
 - a. *Recruitment channels.* If more minority candidates apply, the chances increase that a minority candidate meets the job criteria. Recruitment strategies can target minority candidates directly by using specific communication channels for specific minority groups.
 - b. *Training and coaching of minorities.* These practices are aimed at developing the skills of minorities for them to gain confidence in their own qualities and develop skills that prepare them for their careers. Coaching can reduce self-stereotyping cognitions that lead minority employees to think that they are not good enough. Training can support minorities in developing career competences such as leadership, presentation skills and networking (Foster Curtis & Dreachslin, 2008).
 - c. *Mentoring.* A mentor is a senior manager in the organization who can provide minority employees access to closed, “old boys” networks in the higher ranks of the organization. Through personal connections, the mentor can introduce the employee to social networks or provide referrals by suggesting the employee for career opportunities in their networks. This can help minorities to pass the initial screening that they would meet if they were in an open competition for that position (Merluzzi & Sterling, 2017).
 - d. *Accountability.* Make managers accountable for hiring and promoting minorities and embed this responsibility in their performance

- targets. Accountability can also be realized by including targets for diversity in the human resource management strategy and showing how the targets are met in a company's public annual report.
- e. *Affirmative action* goes one step further. Affirmative action policies actively promote the hiring and promotion of minority employees when there are also equally or even more suitable majority candidates. These policies are often disputed from a fair treatment perspective as they discriminate against individual majority employees. Another critique on affirmative action is that it leads to stigmatization because it serves as a lens that enlarges the salience of diversity characteristics which will evoke stereotype threat. Despite these concerns, affirmative action has proved to be an effective strategy to achieve group justice. The perceived risks can be reduced by effective management (Crosby, Iyer, & Sincharoen, 2006).
3. *Recognition of diversity; inclusion-oriented practices.* To advance optimal distinctiveness for all employees, additional human resource strategies are needed that build on the prevention of discrimination and the advancement of minority groups.
 - a. *Climate of inclusion.* A climate of inclusion cannot be produced from one intervention but grows slowly as a shared understanding of the organization's recognition of the value of diversity. Whether a climate of inclusion exists necessitates asking employees themselves. An organization is truly inclusive if all employees respond positively to statements about feeling free to be who they are, psychologically safe, safe from harassment and discrimination at work, appreciated for individual differences, and included in information sharing and team decisions.
 - b. *Individual consideration.* For every employee to feel included and able to fully participate, organizations need to consider the needs of every individual. Specific actions in this regard could involve removing practical obstacles like installing ramps for persons in a wheelchair, or attending to religious diversity by providing a prayer room for Muslim employees. Since every individual has unique needs, to be able to fully participate, organizations should plan regular conversations with employees.
 - c. *Inclusive leadership.* To employees, their supervisors are the closest representatives of an organization. Their behavior is crucial in realizing optimal distinctiveness for individual employees. Supervisors can be trained in and evaluated on using an inclusive leadership style. Such a leadership style would consist of leader behavior that facilitates belongingness (by supporting individuals

as group members, ensuring justice and equity, and involving all in decision-making) and that values uniqueness (by encouraging diverse contributions and assisting all employees to fully contribute) (Randel et al., 2018).

- d. *Vision.* Building a climate of inclusion starts with the tone set at the top of the organization. Top management should live and breathe a vision that embraces the value of diversity. For example, by celebrating diversity by being present on world women's day, or giving a speech at the gay pride, top management show their support for and value in diversity. Policies for procedural or individual fairness and group justice should fit this lived vision, making it easier to cascade them down into the organization.

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Summary

The increasing demographic diversity in organizations challenges the notion of equality for employees. Equality is a complex construct and requires reflection on how people are equal and on what basis. Three models for equality are proposed: equality based on individual or procedural justice, equality as group justice where diverse groups are equally represented in all layers of the organization, and equality as the right to be valued for being different. The three models are linked to social psychology theories about discrimination and inclusion. First, social cognitive theory explains how stereotypes are triggered and then influence behavior (stereotype threat) and attitudes (social role expectations) towards individuals with salient (notable) diversity characteristics. Next, social identity explains how the desire to uphold one's self-esteem and the need to compare with others to feel good about oneself results in subgroup formation about us (the in-group) and them (the out-group). In-groups are ascribed favorable characteristics while out-group members are described in terms of overgeneralized stereotypes. Finally, the optimal distinctiveness theory states that no identity is completely dominated by group membership because all humans have an innate need to be different and to be appreciated for their difference in the social groups to which they belong. Research provides substantive support for all three theories. For individual well-being, the prevention of discrimination is important, and the appreciation of uniqueness is even more important. Each model of diversity has its own HR practices to achieve equality according to the norm, for which the social psychology theories provide practical suggestions such as preventing discrimination to mend stereotypical thinking, affirmative action to build group justice, and promoting a climate of inclusion to appreciate diversity of all.

Part 3: Case and study questions

The chapters in part three of the book all discuss how aspects of the organizational context pose challenges for human resource management. The case presented here concerns a municipal town hall administration, which faces labor shortages, local politics and a diverse city population. The study questions at the end of the case cover the chapters *War for talent*, *Power of workers* and *Diversity and inclusion*.

Politics of diversity in a municipal administration

Suderstadt is a steadily growing, mid-sized Western European municipality of 150.000 inhabitants. The city has a long history with a blooming period in the mediaeval ages. Today, the city center is famous for its many historical buildings, good restaurants and fine quality shops. Located strategically near a central transportation hub, the municipality's economy is doing well. Its strategic position and favorable trade climate attract new business. Nowadays, the municipality's most important industries are logistics, agri-food, ICT and construction. The municipality hosts a renowned university of applied sciences where professionals for these core industries are educated.

The labor demographic characteristics of the municipality resemble that of the country's average. About 65 percent of all inhabitants aged 15 to 65 is actively participating in the labor market, either by being employed or because they are looking for employment. The long-term unemployment rate is currently 1,8%, which indicates that employers have difficulties filling positions. Due to the increase in the legal retirement age and the reduction in size of birth cohorts, the share of workers in the labor population aged 50+ is increasing. Another characteristic of the local labor market is that twenty percent of Suderstadt's population has a migration background. Of these, one third originate from one of the 27 EU countries, and two thirds from outside Europe. The majority of the non-European migrants are people descents from migrant laborers from North Africa and from inhabitants of former colonies in South America and Asia. Although the overall unemployment in Suderstadt is relatively low, rates vary for distinct demographic groups. Especially older workers (50+) and workers with a non-Western migration background have trouble in finding employment. This pattern is not unique for Suderstadt, but compares to other cities the country. For example, in 2015, only half of the immigrants in the country had a paid job, as compared to 75% of all native citizens. This difference of 25% is one of the highest in Europe. In the same vein, figures indicate that the unemployment rates of second generation, non-western immigrants are twice to three times higher. This figure is not just a matter of education mismatches, as also qualified and high-educated immigrants find it difficult to secure employment.

The municipality has a well-functioning city administration organization. It consists of the mayor and the municipality council on the one hand, and a supporting administrative organization of 2000 employees on the other hand. The administrative organization exists of five departments: City Maintenance and Control, Work and Income, Communities and Services, City Development, Strategy and Support.

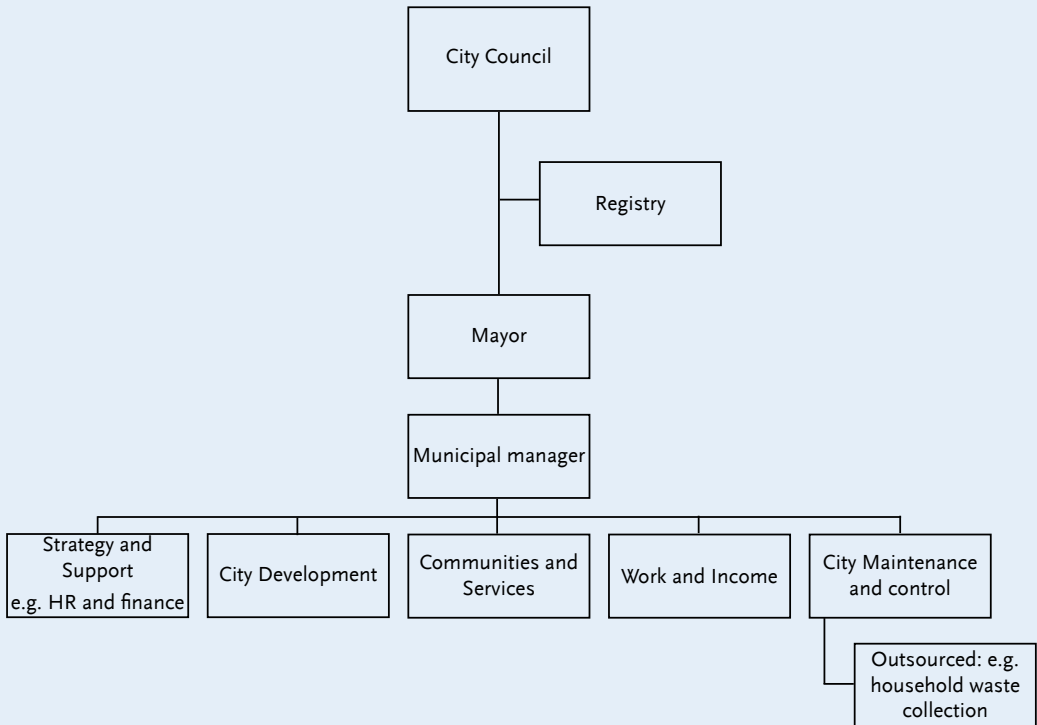


Figure 1: Organization chart of the municipal administration of Suderstadt

Since the 1980s, national government has repeatedly cut the budgets for municipality administrations in subsequent periods of economic downturn. Currently, the organizational models of city administration organizations resemble Atkinson's flexible firm model: there is a core of about 1000 permanent employees, with an additional 400 employees on temporary contracts and about 600 'outsourced' employees, who do work for the municipality but find employment at a supplying organization. This type of organizational structure grant municipality administrations with maximal numerical flexibility, but it also bears risks.

The average age of the core workforce at the municipality of Suderstadt is 46, which is quite old. These core employees received their permanent contract around the age of 35. Employment legislation protects employees on permanent

contracts for dismissal. Job security and relatively good employment conditions cause that most core employees intend to work in the city administration until their retirement. The turnover rate of core employees is therefore very low. This means that the municipality administration has a stable and very experienced but greying workforce. Younger employees tend to be found in the flexible ranks of the organizations. Moreover, the number of employees with a non-western migration background in the core employees is less than 10%.

Ranjesh, a young lawyer on a temporary contract in the city development department, states it like this: *“My job is everything I hoped for when I graduated, but still, I find it unsatisfying. I know that I have the right experience and that I could lead larger city development projects as good as my older colleagues. Even my supervisor agrees that my profile and my eagerness are what this department needs. Still, she cannot promise me a future in the organization. HR already renewed my contract twice, which means that I will have to start looking for another job if none of my older colleagues retires earlier in the next few months. I fear that this will not happen and that reduces my motivation. Worse, I notice that my colleagues often do not consider including me in their informal communication. I think that they feel I am a threat to them; I feel so unlike them! I know I am not alone in this feeling. At lunch, I sit with other young professionals and they all feel the same, namely that the older employees have built a kind of fortress that does not open for outsiders. Now sadly, I will have to seriously consider a job offer by one of the new international businesses in town. It is a less inspiring position, but at least they offer a good salary and job security.”*

Last spring, the city council has accepted a verdict that holds that the demographic composition of employees working at the municipality administration should resemble the demographic composition of the inhabitants of the municipality. To this end, the major has signed the European “Charter for Diversity”; a written commitment that the municipality administration wishes to ban discrimination in the workplace and aims to work towards creating a diverse workforce.

Some political parties in the city council advocate that the municipality administration should anonymize all applications. That way, people will have equal opportunities to be hired (or rejected). It would be impossible to reject applicants for their age, religion or migration background. The positions about the practicality of such an intervention within the municipality administration differ. Management fears that anonymous applications reduce the active promotion of minority employees. The works council also doubts that anonymous applications will resolve the diversity issues of the organization, because they know of cases where colleagues with a non-western migration background quit their jobs because they felt discriminated in the workplace. In their opinion, anonymous applications will not solve the broader issue of discrimination.

There are also some clues for problems within the organization according to Martin LeVert, HR manager: *“We do exit interviews with all employees leaving the organization. What worries me is that we seem to be unable to keep talented employees with a migration background. Recently, two employees told me that they leave because being dissatisfied about how they were treated by their colleagues and sometimes even by their superiors. For example, one employee complained that colleagues made jokes about her headscarf.”*

Both management and works council agree that the foreseeable retirement wave of older employees will create opportunities for new diverse hires. However, would these people like to work at the municipality if nothing changes? The municipal management tasks the HR team to draft a plan for evidence-based interventions to diversify the composition of the workforce at the municipality administration within the next five years.

Study questions

Answer the study questions using evidence from the theory and research described in each chapter.

Chapter 5

1. Which types of labor shortages exist in Suderstadt?
2. Which frictions in the labor market can you list if you read the case of Suderstadt?
3. Core employees of the Suderstadt administration are reluctant to leave the organization. Do their employment conditions resemble high wages in efficiency wage theory?
4. Use the internal labor market model to indicate costs and pitfalls of the current workforce composition in the municipal organization. Compare the transaction costs for the organization related to core employees with those of flexible employees.
5. Look at Ranjesh' quote and explain his feeling of reduced motivation using equity theory.
6. In what kind of rewards would high-educated employees like Ranjesh find valence in working in environments like the City development of Suderstadt?
7. Ranjesh' description of his employment situation expresses a feeling of unfairness. Evaluate which of the dimensions of organizational justice causes his feeling of unfairness.
8. Describe how Ranjesh' psychological contract developed before and during his time in his job. What can his manager do to prevent or restore psychological contract violation?

Chapter 6

9. Use the resource dependence theory to evaluate the relative power of talented employees with a migration background in Suderstadt to negotiate favorable terms and conditions.
10. List HR practices (interventions) that would enhance or limit the likelihood that employees who feel discriminated by their peers at work to voice their complaints.
11. Build on the previous question and give one example of an HR intervention that fits a critical perspective on the power question and one that fits a unitarist perspective.
12. Which stakeholders are involved in the system of industrial relations of Suderstadt's municipal administration?

13. Rajesh' complaints indicate that he does not feel fully empowered in his team. Which interventions in the structural conditions for empowerment could improve Rajesh' psychological empowerment?
14. Explain your view on the position of the works council of Suderstadt's municipal administration. Are they mainly representing employee interests, management interests or something in between?

Chapter 7

15. Which types of diversity come forward in the Suderstadt case?
16. Regarding the value of anonymized applications for increasing the ethnical diversity, one can understand the different views put forward by the city council and the management of Suderstadt' by comparing these to Tomei's models for equality. Explain which model is used in the city council and which by the management and works council of Suderstadt.
17. Is it allowed to make jokes about someone's headscarf? When would it be a legal case of discrimination in terms of the formal definition of discrimination?
18. Mention some clues for stereotypes that seem to exist in Suderstadt's municipal administration. How do stereotypes influence the interaction between Rajesh and his senior colleagues?
19. Use social identity theory to suggest a strategy to improve the collaboration between Rajesh and his senior colleagues.
20. Use optimal distinctiveness theory to explain why and how Suderstadt's management should respond to the headscarf incident.

PART 4
THE EMPLOYEE
PERSPECTIVE



CHAPTER 8

DECENT WORK

Chapter in brief

How can HRM contribute to decent work for all workers who contribute to the organization?

The key theories in this chapter are:

- Decent work definition and dimensions
- Stress theories
- Ethical HRM

The key HR practices presented in this chapter are:

- Corporate social responsibility
- Fighting excessive hours
- Flexicurity
- Health and safety policy

Introduction

Work is central in the lives of many people. Work provides a means for food, housing and leisure, it defines who you are and it offers connections with other people. During a lifetime, a large amount of time is spent working. Taking up such an important part of our lives, work directly impacts our quality of life. Just by looking in your own network of friends and relatives, you will notice differences in the extent to which work contributes to individual well-being for some and to problems, worries and stress for others. The observation that the quality of work determines the quality of life is the focus of this chapter.

What exactly constitutes good quality of life, is a philosophical question that occupies both scientists and policy makers. In this chapter, we take the World Health Organization's definition to understand the essence of a good quality of life, which holds that life is good when you feel well physically, mentally and socially (WHOQOL group, 1995). Physical health refers to the biological functioning of one's body, mental health refers to psychological sanity and well-being, and social health refers to the ability to healthily function within one's social and broader societal environment.

Human resource management practices can target work conditions that affect employees' physical, mental and social health. Incidents involving work-related injuries and diseases causing ill health can be traced back to unsafe work conditions and policies, which can be managed and improved. Likewise, unregulated overtime and excessive demands can stretch employees so thin that they become mentally ill and get 'burned out', unable to function effectively anymore. Moreover, organizational policies can determine how work is prioritized over family and community involvement and deteriorate social well-being. Hence, when not managed effectively, work can lead to ill health in all domains of life and incur serious costs for societies, organizations and individuals. The International Labour Organization (ILO) estimates that work-related illness and injuries cost about 4 per cent of global Gross Domestic Product each year. The European Union commission calculated that work-related stress costs member countries 15 billion Euros per year. In addition, hidden costs resulting from reduced productivity of employees with impaired health conditions stress organizations on top of the costs related with absenteeism and replacement. These impressive numbers underline the importance of good working conditions on both societal and organizational levels.

On the individual level, large differences can be noted on how good or how bad work conditions are. In general, the more uncertain, unpredictable and risky work conditions are from the point of view of the employee, the more severe the health impacts and the less life can be 'good'. Bad jobs exist all over the world, ranging from mere exploitation in case of child labor and home production work, to work

that is characterized by uncertainty about income continuity in case of many self-employed and temporary workers. In the United States, for example, one out of seven jobs is qualified as a ‘bad job’ because of a combination of job insecurity and social protection insecurity (Kalleberg, Reskin, & Hudson, 2000).

A shared moral concern exists worldwide that bad jobs should be abolished in order to improve the quality of life for all. One of the Sustainable Development Goals for 2030 proclaimed by the United Nations calls for inclusive and sustainable economic growth, employment and decent work for all. In the same vein, the European Union promotes good “quality of employment” and agreed on aims to raise the number of better jobs within a sustainable economic growth (Council of the European Union, 2001).

Let’s have a closer look at what is meant by decent work. On the continuum between bad jobs and good jobs, decent jobs are those that provide men and women with opportunities to obtain work that allows earning a decent income under conditions of freedom, equity, security and human dignity (Burchell, Sehnbruch, Piasna, & Agloni, 2014). Hence, it concerns both the access to work and a fair income for all, as well as the quality of the work that provides the remuneration. Decent work is not an economic concept. Words like freedom, equity, security and human dignity all indicate that moral rather than economic values prevail in judging if work is decent. This implies that jobs that raise ethical concerns should motivate human resource management to evaluate the minimum standards of decent work (Greenwood, 2002).

Two theoretical perspectives are combined in this chapter: the normative-ethical perspective that puts the individual worker and their well-being central as the target of HRM, and the bio-psychological health perspective that explains why employees suffer from bad jobs.

Theory

Decent work is a relatively young concept, and researchers and policy-makers still debate about its definition and dimensions. Despite this conceptual discussion, the theoretical perspectives that underline the decent work agenda have a long and convincing research tradition. In this section, we first describe the dimensions of decent work about which researchers and policy makers largely agree. Next, the two main theoretical foundations of decent work are outlined: stress theory and ethical HRM. Stress theory comes from the domain of health sciences and it shows the consequences of work to the physical, psychological and social well-being of working people. Ethical HRM theorizes how human resource professionals have an ethical responsibility to enhance the well-being of all workers.

Decent work definition and dimensions

Decent work is the minimal standard for work conditions that allow a good quality of life. Unfortunately, researchers and policy-makers debate about the content and measurement of the concept. Moreover, policy makers like the ILO and the EU use different operational definitions, and both do not follow theories and research traditions on job quality. Needless to say, economists, sociologists and psychologists all have their own traditions when researching the quality of jobs. A complicating issue is that jobs can be analyzed on different levels, ranging from the work environment of a job in a specific organization to broad labor market systems in which jobs are performed. Policy-makers prefer national level indicators such as the unemployment rate and child labor indicators to monitor progress on the policy agenda. Researchers, on the other hand, have focussed on theories concerning job quality, which look at work in organizations and tend to neglect the wider societal environment that also affects work conditions (Burchell et al., 2014).

An operational definition of decent work that serves both the elements of work availability and social security as well as the quality of work is offered by Anker, Chernyshev, Egger, Mehran and Ritter (2003). Following this definition, the first three dimensions concern the availability of decent work for all. These are more macro-level standards that say something about work conditions in a country and for groups of persons within countries. The last five dimensions concern the quality of work. These standards focus on the micro-level of jobs in organizations and can be used to determine if a given job in an organization is ‘decent’.

Availability of decent work

The three indicators below mostly relate to the economic, societal and regulatory environment of work that predict the chances to obtain decent work.

1. *Opportunities for work*: Employment opportunities for everyone who is available and seeking work. Work is defined in the broadest sense of the word: it can be a job in an organization, being self-employed, free lance work, or unpaid work in the family domain. Work can happen in the formal economy and in the informal economy. When unemployment rates are high, workers have difficulties getting work at all and are more likely to accept jobs of lesser quality. But even in countries that have very low unemployment rates, some groups have more difficulties finding a job than others. For example, the Japanese unemployment rate is one of the lowest in the world. Still, women find it hard to find employment. And although Europe is slowly recovering from an economic crisis, youth unemployment rates in countries like Greece and Spain remain around 40-50%. Thus, opportunities for work for all are the first indicator for decent work.

2. *Basic human rights*: The second indicator concerns the abolition of work that is objectionable based on international conventions regarding basic human rights. Every person has the freedom to choose work; no work should be enforced. Any type of forced labor like bonded labor or slave labor must be abolished. In addition, all labor performed by children under 14 or by children who have not finished compulsory education is considered forced labor and must be abandoned. Because much unfree work happens in the informal economy, it is hard to find numbers on the prevalence of unfree labor. However, reports on human trafficking illustrate that migrants and the poor are vulnerable to getting trapped in bonded labor (Rijken, 2011). Child labor (the percentage of children age 10-14 not enrolled in secondary education) ranges between 30-50 percent in some African countries, while in most middle-income countries this percentage varies around 15 percent or less (Ghai, 2003). Basic human rights are the red line for the worst types of bad work: crossing it means not just worse job conditions, but criminal employment.
3. *Social security*: The social security indicator concerns regulations for the protection of workers against contingencies such as old age, disability, death of the principal breadwinner and unemployment. Pensions, health insurance, adult education and welfare pay are policies that ensure workers' protection. Policies fitting this third indicator are often initiated at societal level and can be executed by governments, organizations or workers' associations. For international comparison, the percentage of the Gross Domestic Product (GDP) spent on social welfare and education are taken as a measure of the state of social security in a country.

Quality of work conditions

The five indicators in this section relate to the quality of jobs.

1. *Productive work*: Productive work means that the job provides employees with sufficient income to live as an independent person. To achieve this, the job should provide *adequate earnings* at least at the minimum standard of living in a country (Ghai, 2003). A common norm for minimal income adequacy is that the pay needs to be more than one-third of the median earning in a country. However, when excessive hours of work are needed to get the target earning, the work is not productive in providing an independent life. Very small jobs of just a few hours per week are also not adequate for obtaining an income to live a life as an independent person. Moreover, very small jobs reduce the chance of future productive work. This implies that *decent working hours* need to be taken into consideration before deciding that the earnings are adequate. The same holds for all types

of temporary jobs, such as agency work, self-employed and hourly waged jobs, because the trade-off between periods of work and unemployment reduce the net income over a longer period of time. So, *stability and security of work* are another condition of productive work. This does not imply that an employee needs to be in the same job for a lifetime. Key to stability and security of work is that there is assistance by the employer to enhance their employees' employability, which ensures the employees' attractiveness on the labor market. Organizations can support this by for example investing in training and education, since each investment in human capital increases the likelihood of further productive work.

2. *Equity in work*: Equal opportunity and treatment in employment means no discrimination on the basis of race, color, sex, religion, political opinion, national extraction or social origin, but equal treatment of all employees. Example topics concerning this indicator are equal remuneration, no exposure to violence and harassment and fair treatment with regard to grievances and conflicts.
3. *Dignity at work*: The job needs to allow a quality of life outside work, with respect to combining work, family and personal life. Dignity is present when there is job protection and monetary benefits when an employee needs to take absence due to family circumstances (for example because of maternity leave). But also, some day-to-day privileges regarding the need to integrate work and family by allowing flexible hours and the availability of adequate childcare are examples of dignity at work. When employees have no say in their working times or risk their jobs when personal needs interfere with job demands, this will hamper their ability to balance work and private life.
4. *Security at work*: The work environment needs to be safe, without hazards to physical and psychological health. Unsafe work conditions can lead to injuries and deaths at work. Moreover, working with dangerous substances causes work-related diseases and excessive work demands may lead to physical and psychological complaints. Hence, security at work is essential to ensure that employees are able to execute work.
5. *Social dialogue, employers' and workers' representation*: A social dialogue implies that workers have a say in their working conditions and that the employer takes employees' input seriously so that the work arrangements are beneficial to both employers and employees. Due to the power imbalance between a single employee and an employer, workers can associate themselves and appoint representatives who negotiate with employers on their behalf. Hence, freedom of association is a part of decent work since employees have the right to defend their interests. Examples of social dialogue are employer-employee (representative) negotiations, consultation of employees in case

of changes that impact work, exchange of information between employers and employees, participation in workplace decision-making and the right for employees to join a workers' association or union. Many countries have traditions of collective bargaining involving negotiations between unions and employers about the terms and conditions to come to a collective agreement. Another example of far-reaching social dialogue is economic democracy, where employees actively participate in the management of the organization. This can cover a wide field, ranging from representation on the governing boards and management committees to playing an active role in the administration of training and human development programs.

The decent work dimensions are normative statements that tell what a decent job should look like. They do not tell why these dimensions make sense to advance employee well-being. Obviously, a bit of policy debate has taken place before the decent work agenda was accepted as a UN policy. To date, the debate about which indicators should be used to measure decent work at country, industry and worker level continues. Therefore, it goes too far to say that decent work is a theory. However, the combination of criteria for decent work is grounded in a good tradition of research on healthy and unhealthy work conditions advanced by health scientists, psychologists and sociologists. The overarching theme in these different research traditions is stress. The next section zooms in on stress and the contributions to the development of stress theories in the health, psychological and social domains.

Work and health: Stress theories

Life is full of events that may cause stress and that have an impact on quality of life. Although events like illness, divorce, giving birth, relocation or the death of beloved ones are stressful, recovery is possible and natural but does not always happen. Some stress just causes too much strain and results in an incomplete recovery. Literally, strain refers to the maximum capacity that materials can be stretched. By putting stress on a thin iron bar, you can bend it many times, until it is overstrained and breaks into two. With human beings, stress refers to a condition in which the limits of effective human functioning are overstrained. Overstrained human beings experience the boundaries of their physical, psychological and social flexibility and experience loss of health and life quality. Since work is central in the life of many people, it makes sense to look at the consequences of work-related stress in more detail. First, general stress theory is explained, which describes the origins of biological stress theory (Selye, 1956), psychological cognitions that cause differences between people (Lazarus, 1993), and how one's environment can hamper or soften the ability to cope with stress consequences (Hobfoll, 1989) (see

Figure 8.1). After that, two work-related applications of stress theory are examined in more detail: burnout and work-home conflict theory.

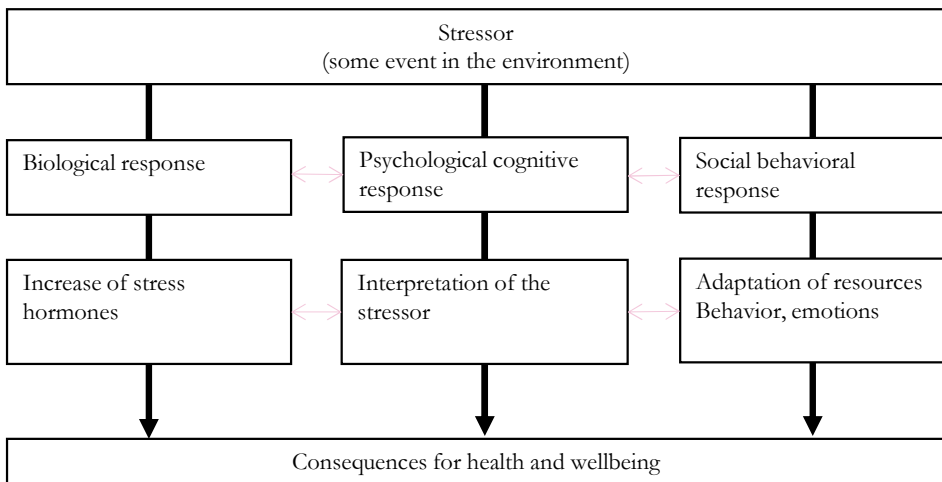


Figure 8.1: Overview of stress theories

Stress and health

In the 1920s, young medical student Hans Selye observed that no matter what health problem brought patients to the hospital, they all looked sick. He reasoned that being hospitalized after having some accident, surgery or disease does something to how you feel. This feeling of anxiety leads to a biological reaction he called ‘stress’, which he noted impaired the power of the cure administered to the patient (Selye, 1956). He noted that prolonged exposure to stress did biological damage in the end, which he called ‘the disease of adaptation’. Later it was argued that not only physical illness invoked stress responses, but that any event in life that is experienced as threatening can cause a stress reaction and do damage. After years of debate whether stress is a physical or a psychological state, research evidenced that stress reactions include interrelated biological, emotional and social consequences. Stress can make people sick, literally. It leads to negative emotions like feeling anxious or depressed. And it costs energy, which impairs the ability to function normally. All these consequences can be related to the inborn human balance restore system of homeostasis and allostasis.

When people function optimally, there is a match between what they can do and what is required of them. This state of *homeostasis* expresses the optimal level of physical, emotional and social stability. According to the *allostatic* principle, people have inborn mechanisms aimed at maintaining this stability by adjusting

their physiological, mental and social resources to match the demands in their environments. Strain happens in situations when people experience that their resources for healthy functioning are depleted by the demands required by the context. During demanding situations, the human nervous system secretes stress hormones, a biological response to the perception of threat. Stress hormones increase alertness, which helps people to survive in threatening circumstances. After the threatening experience that caused the increase of stress hormones has faded, the body needs some time to recover and bring the level of stress hormones back to normal. The *biological stress reaction* is a very adequate response of the body to increase alertness and energy levels in order to respond to a demanding or threatening situation. However, this adequate biological system has problems functioning healthily when the real or perceived threat is there to stay. Because stress hormones demand a lot of energy from the body, prolonged periods of stress lead to exhaustion of the physical system (Juster, McEwen, & Lupien, 2010). In a kind of domino effect, the biological systems in the body begin to overcompensate and eventually collapse, causing physical stress-related diseases like high blood pressure, depression and heart diseases. Known physical symptoms of stress reactions are muscular strain, reduced sleep quality and reduced attention – bearing an increased risk of getting involved in accidents.

Despite its original medical background, stress theory also proved to be useful in understanding psychological and social reactions to demanding situations.

Stress and cognition

There are large differences in how people respond to stressful situations. While mountaineering seems to be a nice challenge for some people, it can be a very stressful and demanding experience to those who fear heights. Since the activity does not change from one person to the next, it must be the way that the challenge is perceived that converts it into a stressful situation for some people. According to psychologist Richard Lazarus, stress involves a two-way process in which first the environment produces stressors, and second the individuals' reactions to that stressor. He acknowledged that there are individual differences in how individuals react to stressors, depending on how they mentally interpret the nature of the stressor. His conception regarding stress led to the theory of cognitive appraisal, a theory that explains the mediational process of interpretation between the stressful event and the behavioral and emotional response to that event (Lazarus, 1993). What does this stressor mean to me? Is it important? Is it good or is it bad? Does it frighten me or worry me? Lazarus showed that the mental processing of the nature of the stressor, which he called cognitive appraisal, ultimately determines how one will respond to the stressor. When the stressor is perceived as challenging or dangerous two things can happen. Either you think that you can deal with it and see it as a good thing. A stressor that raises your attention can actually lead you

to perform really well. Only when you think that you do not have the resources needed to cope with the stressor, the stressor starts to pose a serious threat. Lazarus showed how emotions interfere with the cognitive appraisal of the stressor. If you start thinking that the stressor is severe and that there is nothing that you can do to change the situation, you will develop a stress syndrome and be unable to effectively cope with the situation. Here is where cognitive appraisal meets health: the real or felt inability to effectively cope with a stressful situation leads to health complaints such as depression, anxiety, and sleep disorders.

The *cognitive appraisal theory* explains why people react differently to threats. Because perceptions of threats can differ from one person to the next (some fear spiders, others do not) and because stress responses depend on individual differences in stress resiliency (because of experience, age, cultural differences or personality), people show a range of coping reactions in response to demanding situations. Despite these individual differences, there appears to be a baseline of consequences related to prolonged periods of stress that is true across age, culture and individual differences; in the end, continued exposure to stress always leads to health issues (sleep quality, high blood pressure and mental illness).

Resources and stress

So far, there has been little attention to specific types of stressors. Sociologist Hobfoll (1989) reasoned that the level of stress caused by an event is indeterminately interwoven with the social system in which you function. Social systems also follow the allostatic principle. When there is a balance between what people aspire in daily life and the resources they have to fulfil their obligations and aspirations, they feel good and function well. Having a house, sufficient income, time for leisure and social support from friends are some of the key resources to live a happy life. A lack of resources to live a normal life is very stressful. Poverty for example makes people worry about primary needs for survival such as a home and food, and it impairs people to participate in social activities like sports and education and it can make people have a low self-esteem. When people keep trying to adapt their psychological and social resources under prolonged stress levels in order to survive, these resources will wear out eventually and start showing all kinds of malfunctions. Hence, poverty wears out people's psychological and social resources in many ways, which increases stress levels and causes illnesses like depression. The greatest stressor, however, is when important resources are lost and the social system is struck out of balance. According to the allostatic principle, one will try to overcome the loss of resources by compensating it with some other resource. The energy needed to compensate for the loss of the next resource causes a spiral loss of real, social and psychological resources that increasingly activates biological stress reactions (Hobfoll, 1989).

Each of the decent work indicators touches upon resources deemed essential for living a life without too many worries: a fair income, the freedom to choose where to work, social protection, safe work conditions and equal opportunities. It needs no explanation that prolonged exposure to precarious work conditions that fall short of decent work characteristics cause a threat and lead to increased levels of stress.

Burnout

Like metal that breaks if it gets stressed too often, human functioning collapses when exposed to chronically high demands. Dealing with chronic stress puts a high demand on the physical and mental functioning. Chronic stress deregulates the biological immune system and leads to vulnerability to illness. Similarly, when the mind continuously has to activate cognitive resources to adapt to chronically high demands, these get depleted over time. Metaphorically speaking, the oxygen that lights the human fire slowly burns out until it is exhausted and there is no light anymore. This is what happens in a job *burnout*: excessive demands and continuous stress from work and social relations are so high during a prolonged period of time that exhaustion develops a chronic state of physical and emotional depletion characterized by feeling chronically fatigued.

The syndrome called burnout was recognized as a job-related illness in the 1970s by Freudenberger, who interviewed social workers who helped drug addicts. He found that many originally highly motivated social workers became exhausted by the emotional demands from working with drug addicts. They did not believe in their effectiveness and they were talking cynically about their efforts and successes of improving the situation of those they were trying to help. In the same period, Christina Maslach found that symptoms of exhaustion that characterize the burnout syndrome always go together with feeling cynical about work and accomplishments and lead to withdrawal and detachment from work (Maslach, Schaufeli, & Leiter, 2001).

A job burnout develops over time. It begins with feeling a lack of energy and being tired most days. Then, problems with sleeping, having difficulties remembering things, increased heartbeat, high blood pressure, muscular pains, increased illness, loss of appetite, feeling anxious or depressed indicate that the system is developing problems in coping with stress. The body signals that energy reserves are exhausted, and cognitions start to get desperate – noticing that nothing helps whatever is tried, becoming cynical and feeling detached from work, combined with feelings of ineffectiveness and the full awareness of lacking accomplishment at work. Behavioral symptoms of burnout are withdrawal behaviors, like absenteeism, reduced performance or turnover. Health symptoms are cardiovascular and indigestive complaints and mental illness like depression and anxiety disorders.

Once a burnout is complete, it is impossible to function normally, and recovering from a severe burnout can take months to years and can leave lasting scars in physical and mental resilience to cope with future stress.

Given these severe consequences, theory and research examined which aspects of individuals, work and organizations increase the risk for burnout, which will be presented in the following section.

Preventing stress overload

As the causes of stress are many, preventing it has been found to be like fighting a multi-headed dragon. The causes and solutions for stress can lie in how individuals cope with stressors in the job design, and in the broader context of work existing in the organizational culture and work policies. Below is an overview of domains where stress overload can develop and be prevented.

Individual differences. Resilience is the individual ability to cope with stressors. Positive people suffer less from stress and show better resilience. Such a positive attitude is a valuable resource and is therefore called *psychological capital*. It involves the capability to stay optimistic, persevering yet flexible and confident in challenging situations (Youssef & Luthans, 2007). If problems occur, these characteristics help you bounce back and even to push you to achieve success. People with higher levels of psychological capital report less stress and anxiety, less cynicism and withdrawal behaviors and more happiness, satisfaction and commitment (Avey, Reichard, Luthans, & Mhatre, 2011). Intervention research has shown that even short trainings can contribute to improving psychological capital. So, in the prevention of stress overload, HRM could provide training to increase employees' positive psychological capital.

Job design. The job can provide opportunities to cope with challenges, or, by design, limit the ability to cope with demands. Hence, the way instructions, procedures and routines in a job are organized can be a resource or a hindrance in dealing with the amount and complexity of the tasks that have to be performed in a job. *Decision latitude*, which is providing employees with autonomy to take control over tasks and behavior during the working day (Karasek, 1979), helps people to balance the work demands with their skills, energy and interests and stimulates learning and development. Decision latitude may involve having a say in the working hours, the place to work, with whom to work, the possibility to make mistakes and learn from them, the sequence in which tasks are performed and the choice of tasks itself. In jobs with low decision latitude, work is meticulously controlled. Moreover, the returns that follow from the job help to cope with the stress induced from work. In particular when the *rewards* are in balance with the income and status of the job, there is a more positive and energizing cognitive appraisal of the demands. Many professionals like doctors and scientists accept the long hours because they value

the rewards and esteem it brings them (Siegrist, 1996). Other resources that can be provided in the job design are *feedback* and social interactions in *teamwork*. Feedback helps to clarify what is expected exactly and can therefore reduce uncertainty and anxiety. Teamwork increases the opportunities for decision latitude and feedback. Moreover, teams provide social support and are a good outlet for reducing stress. The list of job characteristics that serve as a resource to cope with demands can be extended and fine-tuned depending on the nature of the demands in the job. For example, blue-collar workers' job demands to work with heavy equipment would imply safety as an important resource to reduce stress. Modern job design theories emphasize that the more resources provided in the job match the job demands, the happier and healthier employees will be (Bakker & Demerouti, 2007).

Work climate. Although the social environment at work can be a helpful resource in coping with work demands, in many instances peers and supervisors create a work climate that is disadvantageous for some. Forms of *harassment* behaviors include bullying, threats, yelling, giving the silent treatment, exclusion, and even physical assault and sexual harassment occur in some workplaces. In such hostile work environments, stress is hardly imposed by the work itself, but originates from the work climate. The victim's attribution of who is to blame for the harassment (self or organization) influences which coping style is used. Victims who blame themselves for being harassed will develop a negative self-image, feeling ineffective and depressed. Those who blame the organization and the people who conduct the harassment are better at keeping their self-worth, but will reduce their effort to reciprocate to the organization. In both instances, well-being and performance are affected. Burnout, depression, frustration and health complaints are reported consequences of victims of harassment (Bowling & Beehr, 2006). Workplace harassment is common in work environments where other stressors exist, such as role ambiguity, role conflict and high workloads. Consider for example organization change processes when roles and tasks are insecure for many, or reward systems that promote individual greed, dissatisfaction and frustration. In a negative work environment, the workplace becomes a political arena where individual interests prevail over group interests and where a work climate in which harassment is common and can grow (Salin, 2003). The interventions to prevent harassment go beyond the level of job design and should address the work climate by ensuring effective leadership and fair organizational policies.

Work-family interference. If stress at work is continuously high, home would be the place to relax from work. However, work is just one of the domains in life that demand attention. Participation in the family role also takes energy, and stress from work then spills over to the family role. Work-family interference research focuses on the spill-over effects of both domains in life. This interference is not necessarily bad. The experience in one domain can help to better enjoy and perform in the

other domain. For example, team sport participation during leisure time provides the opportunity to develop collaboration skills that benefit working in teams at work. However, when work and private time becomes incompatible, there is a risk of a major stress factor called work–family conflict. In case of a work–family conflict, the participation in one domain (work or family) is made more difficult by participating in the other role (Greenhaus & Beutell, 1985). Consequences of work-family conflicts include health (recovery) problems, mental strain (worrying) problems, and behavioral (withdrawal) reactions like quitting work. For example, when working hours become too long, the time to recover and enjoy a healthy family life is diminished. Excessive 60+ hour work weeks are proven to bear health risks because the body does not get enough rest to recover from the efforts needed to perform during such long hours (Amstad, Meier, Fasel, Elfering, & Semmer, 2011). Many countries therefore have a regulation of normal working hours that ranges around 40 hours per week. Participation in work and family also bears the risk that worries about one domain continue while acting in the other domain. Parents who feel stressed from work find it difficult to enjoy family time and have less energy to play with their children, which in turn makes them feel guilty and causes a spiral of strain that affects health and well-being. Likewise, marital problems, private financial issues and health problems of relatives are all stress-evoking personal experiences that make effective functioning at work more difficult. Withdrawal behaviors like reduced effort, absenteeism and quitting work result from efforts to cope with work-family conflicts. Work-family interference is a complex phenomenon where social role expectations in the work and family domain interfere with how severe the experienced strain from work-family conflict is. Differences in social role expectations exist between men and women, between parents and non-parents and between countries and cultures.

Conclusion: decent work and stress theory

A healthy dose of stress activates alertness and improves performance. If stress is continuously too high, the physical, mental and social resources used to cope with the demands slowly get depleted and result in physical and mental health issues that can eventually lead to a burnout. Restoring the loss of resources to overcome a burnout takes time. Stressors come from the domains of work and home. Job characteristics and work climate generate job demands, which can spill over into the home domain, and vice versa. Individual differences in resources and the ability to cope with demands explain why people react differently to apparently similar demands. The bottom line is that no one is able to continuously function under levels of excessive stress. Because the decent work indicators were developed using insights from the stress theories presented in this chapter, it follows that these contribute to healthier and happier work conditions.

Ethical HRM

How much stress can organizations put on employees? Rather than a quantitative question, this is an ethical question. *Ethics* is the domain that examines moral principles that govern a person's behavior or how an activity is conducted. Views on which behaviors are ethically just have developed over decades from ancient Greek philosophers through Christianity, and the Renaissance. Modern ethics are largely influenced by utilitarian morality and by Kant. The essence of utilitarian morality holds that behavior is ethically just when it benefits the majority. Applied to human resource management, utilitarian ethics could argue that adverse work conditions for some are allowed, under the condition that the majority benefits from the cheap costs of products that result from cheap work. Kantian ethics disagrees with the utilitarian viewpoint, and holds that every action should be good with respect to all aspects that are affected by the action.

Reviews on ethics in human resource management state that the word 'resource' in human resource management suggests a utilitarian view on morality because it reduces the human to a resource just like machines and buildings. This conceptualization has been acknowledged and criticized. Marxist theory, for example, has since long disapproved of the managerial 'use' of workers to benefit a small group of capitalists, resulting in a critical stance towards the potential of HRM. Being part of the disguised managerial system itself, HRM is in a weak position to improve the position of employees.

Recent perspectives on ethical HRM have found a way out of the utilitarian morality in favor of a more Kantian perspective called stakeholder theory (Greenwood, 2002; Simmons, 2003). It states that because organizations have multiple stakeholders besides the shareholders, they have the moral obligation to take the well-being of customers, suppliers, employees, society and the natural environment into account in their strategy and practice. Although financial outcomes are important for organizations to survive and legitimize their existence, these should not hurt the well-being of people nor the environment. Since human resource management targets one specific social group, namely employees, it follows that ethical HRM should not see workers as just a commodity to reach organizational goals, but as an end in itself, meaning that employees should be treated according to some moral standards.

Basic rights are moral standards applied to workers in the Kantian tradition. They hold that if authority is to be exercised over employees to reach some organization goal, they deserve to be treated with respect. Respect follows from adhering to three fundamental ethical rights: the right to freedom, well-being and equality (Rowan, 2000). The right to freedom concerns the way managerial control over employees is exercised: are employees provided with sufficient income to live off

as an independent person? Do they have job security and a fair wage? The right to well-being points directly at the rights of individuals to pursue their own interests or goals, such as that all employees have the freedom of association and collective bargaining. It also emphasizes a safe work environment, both physically and socially. Finally, the right to equality refers to due processes in the workplace (equity, equal opportunity, justice). These moral principles can be mapped on the decent work indicators. The concept of decent work fits with this ethical perspective on HRM as it also aims for equal opportunities for all employees to be able to engage in work under free and secure conditions (ILO, 1999). Moreover, the standards explicitly ban discrimination and promote a safe and healthy work environment.

To conclude, the decent work indicators combine insights from research in stress theory, but they also take a moral position: employees have the right to be treated with respect.

Key research

Abundant meta-analytical evidence exists which underlines the importance of each decent work indicator for physical, mental and social health of people. Here is an incomplete but impressive summary of meta-analytic findings per indicator.

1. *Access to work.* The gut feeling that unemployment is an undesirable state of being is confirmed in meta-analytic research. Indeed, unemployed individuals have lower psychological and physical well-being than their employed counterparts. As compared to the employed, unemployed people report less satisfaction with life, more non-healthy behaviors such as smoking, report feeling more depressed, and score higher on objective ill-health indicators such as stress hormone levels (cortisones), which in turn relate to stress-induced illness (McKee-Ryan, Song, Wanberg, & Kinicki, 2005). These findings confirm that having access to work is important to well-being.
2. *Basic human rights.* Targeting research at people who lack the freedom to deny unacceptable work is difficult because much of the unfree labor happens in the informal economy. This makes 'freedom of choice of employment' a difficult area to research and a systematic analysis of quantitative studies is not available to date. However, a series of studies reported on physical and mental consequences for victims of human trafficking. Human trafficking refers to the practice of trading people for labor and making them work under circumstances they cannot easily escape from due to the threat of violence, debts or other freedom-restricting conditions. A systematic review compared existing reports on the most frequently studied cases of human trafficking: women and girls in prostitution (Oram, Stöckl, Busza, Howard, & Zimmerman, 2012). The review confirms the detrimental consequences of forced labor for individual health (e.g. HIV infections), threat of violence and mental distress, and emphasizes that the detrimental effects of prosecution of employment that violates basic human rights are non-debatable.
3. *Productive work.* Productive work means that the income one receives from the job allows for a decent life. When looking at income levels per country, it is found that lower income groups report less well-being, have more health issues and lower life expectancy than those who earn above average (Berkman, Kawachi, & Glymour, 2014). There is also meta-analytic evidence that perceived imbalance between the effort put into work and the amount of reward offered in return for that effort (the effort-reward imbalance) relates to ill mental health. Depressions, suicide and anxiety disorders in particular prevail among those who experience imbalance

between what they put into work and what they get in return (Stansfeld & Candy, 2006).

4. *Equity in work*: Equity in work can be linked to research on harassment, bullying and discrimination. Discrimination is a severe form of inequity. In a meta-analytic sample of 134 studies, the negative effects of discrimination are clearly present (Pascoe & Smart Richman, 2009). A wide range of physiological and psychological stress responses are developed after repeated exposure to discrimination, such as mental problems, unhealthy behavior and health problems. Dealing with experiences of discrimination may leave individuals with less energy or resources for making healthy behavior choices and is related to participation in unhealthy and non-participation in healthy behaviors.
5. *Dignity at work*. Work should allow a normal life outside work. To understand how work impacts family life, meta-analyses on work-to-family conflict can be consulted. Work-to-family conflict means that responsibilities at work interfere negatively with responsibilities at home. When work negatively interferes with family responsibilities, it makes people feel worse about their marriage and the relationship with their children (Amstad et al., 2011). But the implications go further: work-to-family conflict also reduces one's general well-being such as life satisfaction and health, and leads to psychological stress, anxiety, depression and substance abuse. The research also indicates that work that hinders normal social functioning at home backfires at the employer because it causes work-related stress, and reduces job performance and job satisfaction.
6. *Security at work*. Work hazards impairing security at work include occupational exposure to unsafe conditions including poisonous materials (such as asbestos), unsafe equipment (such as scaffolding without banisters) or lack of training and instructions to use tools and equipment in a safe manner (such as a driver's license to operate a forklift truck), and managerial prerogative putting excessive demands (such as demanding excessive production norms). The negative effects of unsafe conditions like excessive work demands for mental health are well-established (Stansfeld & Candy, 2006). Moreover, international reports on occupational diseases and injuries estimate that worldwide each year 100,000,000 occupational injuries happen (causing 100,000 deaths) and that 11,000,000 people suffer the consequences of occupational diseases (cancer, cardiovascular diseases that can be linked to work conditions), of whom 700,000 die each year (Leigh, Macaskill, Kuosma, & Mandryk, 1999). Apart from the reduced capacity for productive work, impaired health and stress consequences for victims of work hazards, occupational injuries and illnesses also cause

substantial social (care, work-family issues, divorce) and economic (costs) effects (Dembe, 2001).

HR practice

The value of the ethical principles such as the ILO standards for decent work is that these can serve to judge the minimal conditions that determine the quality of work to ensure a decent quality of life. This may prove to be especially useful when researching non-standard organizations, such as smaller organizations, non-standard work arrangements and work in the informal economy, where employees' reports about their well-being tend to be worse than of those working with regular contracts in large organizations (Tsai, Sengupta, & Edwards, 2007). Below are four examples of work that violates the decent work criteria. Each example also provides some research evidence about successful interventions to improve work conditions.

CSR: Decent work down the supply chain

Precarious work, also known as sweatshop work, represents working conditions which are typically characterized by low wages, unhealthy conditions, no training, few safety investments, and long working hours. The ILO calls precarious labor conditions adverse contractual arrangements and claims that these are working conditions that violate employee ethical rights and hold back individuals from making an independent living (ILO, 2011). Commonly, these conditions occur in developing countries. However, looking at supplier organizations in developed countries, precarious work can be found, especially at the end of supply chains, in production processes involving low-skilled labor (Kroon & Paauwe, 2014). A possible explanation for this circumstance is given by the construct of cost-driven HRM, which aims to get as much productivity out of workers at the lowest costs. Based on an economic argument that suppliers down the production chain are dependent on sellers up the chain who can dominate the pricing debate, this leaves little room for supplying organizations to negotiate higher prices, which in return makes it impossible for them to offer decent labor conditions (e.g. pay adequate salaries). Combatting precarious work can be part of *corporate social responsibility* codes (CSR). For example Locke, Kochan, Romis, and Qin (2007) report findings of factory audits of working conditions in 800 supplier organizations of Nike in 51 countries. After a course of criticism for sourcing its products from factories and countries where low wages, poor working conditions and human rights problems exist in the 1990s, Nike installed an audit system to regularly assess the labor-management practices and working conditions at the supplier factories. The audit results indicate that the more cooperative the relationship between buyer Nike and supplier manufacturer, the larger the improvements of working conditions over time, suggesting that CSR audits need additional management involvement to realize improvements.

Working hours: Fighting excessive work hours

Stress and the feeling of exhaustion can occur when employees do not balance their working and leisure time. There is a general agreement that workdays of more than 10 hours, or work weeks of more than 50 hours are excessive. Working excessive hours is especially common in demanding professional or managerial occupations such as medical staff, lawyers, or bankers. Additionally, differences between countries with regards to working over-hours are present. Japanese even coined a word for death by overwork (*karōshi*) and suicide by overwork (*karojisatsu*) (Kanai, 2009). Research shows that for example the US and Australia reveal similar levels of working hours per employee and that those appear to be higher compared to Western Europe (Caruso et al., 2006). Excessive working hours also prevail in informal hence uncontrolled labor relations as ILO reports illustrate. Excessive hours are detrimental to the realization of decent work indicators. First, if many hours are needed for an employee to make a living, the indication arises that work is not productive. Second, long hours lead to prolonged exposure to work stressors and are an important risk factor for work-related injuries and illness. Third, the longer an employee has to work, the less time remains for the family and participation in social activities. Finally, excessive hours may indicate that the dialogue between the employer and the employees is lacking (Anker et al., 2003).

Employers can prevent excessive hours by installing *overtime policies* and *alternative scheduling* options. However, intervention studies indicate that the instalment of policies alone is not effective if the causes for the excessive hours are not examined. In medical professions, for example, a culture of long working hours is transferred from one generation of physicians to the next, because senior medical staff shared the norms about acceptability of working long hours and the shared belief exists that medical staff in training undergoes the same regime. So, younger medical staff do not complain because they do not like to stand out. Although interventions that reduce the number of work hours by changing work schedules have positive outcomes both for employee well-being (sleep quality, learning) and for the organization (fewer errors), these will only be accepted if the subjective norm about 'normal' working hours changes (Caruso et al., 2006). Hence, any working schedule change should be accompanied by communication and training to ensure a shift in norms about normal working hours. This way policies regarding working hours do not only get implemented but are also internalized and thus accepted by all individuals in the organization.

Another cause for working excessive hours is insufficient staffing. Shortages in staff are detrimental to dividing the workload. The work needs to be done, and the number of employees simply does not match the demands. Growing volumes of sales or clients need to be met with the same number of employees. If no additional staff is available, the only flexibility the organization has is asking current

employees to work more hours. Strategic workforce planning should therefore be part of the HR strategy. It involves understanding the current amount of work and the employees needed and an analysis of future developments in both the requirements for the number and quality of workers, together with an analysis of labor supply. If shortages are to be expected, recruitment and training programs can be developed to build in-house capacity to deal with expected shortages. Many firms use young talent programs to ensure future managerial and specialist capacity for the organization.

Finally, wages that are too low to cover the daily expenses in life drive individuals to work excessive hours, just to raise their income to make a decent living. Especially those in small jobs find it difficult to live from their wages and often take on a second (or even a third) job. The mental demands following financial worries and the long and unpleasant working times induce mental and health complaints. National policies for minimum wage and minimum working hours are put forward in some countries to improve the working times and income of weaker groups in society.

Creating security in temporary jobs

The increase in organizational flexibility has led to a decrease in the share of workers holding permanent tenure with a single employer (Bidwell, Briscoe, Fernandez-Mateo, & Sterling, 2013). The number of temporary positions has substantially increased in the past decades. In particular, young workers, low-skilled workers and women are over-represented in temporary jobs.

Why are temporary jobs detrimental to decent work? To begin with, having work only for a certain period means that there is no stable income. Furthermore, people who do not permanently work for an employer are often excluded from work-related training and thus do not build their human capital, which can have a negative influence on future pay and employment prospects. Hence, temporary jobs reduce the ability of employees to obtain productive work. Additionally, research shows that temporary work, especially when the perspective of subsequent work is low due to high unemployment rates and the availability of many temporary workers in a country, is associated with serious psychological problems (Virtanen, Kivimäki, Joensuu, Virtanen, & Elovainio, 2005), and job uncertainty associated with temporary work has negative consequences for physical health, job performance and trust (Cheng & Chan, 2008).

Thinking about evidence-based actions that can be taken in this regard, the situation seems to present a conflicting demand because organizations are looking for flexibility, and workers looking for stability, growth and certainty. Initiatives in the European Union are making an effort to balance these two needs into a model that ensures both flexibility and security. The so-called flexicurity model is

an (inter)national policy aimed at enhancing the flexibility of labor markets, work organizations and labor relations on the one hand and at improving employment security and social security on the other hand (Wilthagen & Tros, 2004). *Flexicurity* is thought to benefit weaker groups in and outside the labour market who normally find it hard to find permanent jobs. Although the flexicurity model does not provide permanent jobs for all, it provides permanent security of employment, training and income. Hence, from a decent work perspective, the issue of productive work is met by assuring employment security rather than job certainty. This means that workers are supported by a welfare system that ensures income to bridge time between jobs and employer-led investments in training and work experience aimed at increasing worker employability, which facilitates transitions from one job to the next. HR practices within such a model involve support for training and development for all employees, including temporary workers, and demand an active role of employers in helping all employees make a smooth transition to a next job. To date, countries vary in the extent to which the flexicurity model has been successfully adopted. A notable example is Denmark, which heads the list of countries with the highest labor market participation rates in the EU.

Health and safety policies

Preventing harassment as well as supporting a healthy and safe work environment have always been part of the responsibility of HR departments. Rather than a compliance to satisfy health and safety law, it should be a strategic part of the HR agenda to promote decent work. To help organizations deal with the *health and safety* of their employees, there are international guidelines to assess and improve health and safety at work. The Occupational Health and Safety Assessment Series (BS OHSAS 18001) is an international standard used for developing sound occupational health and safety policies in organizations. The assessment includes an investigation of health and safety risks which then leads to an intervention plan, much like how evidence-based HRM works. The rationale for the interventions follows a hierarchy. First, if possible, health and safety risks should be eliminated by abandoning the work completely. The example of child labor is work that should be abandoned. Second, the risk factors should be substituted, or at least tried to be substituted, for example by replacing working with toxic materials to working with non-toxic materials. Third, by engineering controls, the work environment can be made safer. For example, rather than working with ladders, a platform with scaffolding can be built which reduces the risk of falling accidents. Fourth, administrative controls can be developed that instruct people how they should work under risky conditions. For example, in plants you will find instructions about where to walk and where not to walk. Finally, organizations need to provide personal protective equipment if there are no other means to prevent the health and

safety risks on the job. Personal protective equipment can be hearing protection, protective glasses or an adjustable chair.

Occupational health and safety (OHS) systems are common in larger organizations, and their benefits for employee health and well-being and also for economic returns have been confirmed in review studies. Smaller organizations and those in the informal economy often lack the means and monitoring to implement OHS systems, rendering the quality of employment in smaller organizations more adverse than those in larger establishments.

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Summary

This chapter presented the key dimensions of decent work which provide workers with the minimum conditions to reach a good quality of life. After discussing these dimensions, stress theory was used to explain how stressors in the working environment put demands on employees that, in situations of incomplete recovery, will lead to health issues like burnout or work accidents. Additionally, an ethical view on HRM pointed out that a moral component plays an important role concerning working conditions and managing personnel. Moreover, employees have a right to be treated with respect and be involved in issues regarding their working situations. Finally, four key HR practices were presented that showed how organizations can achieve decent working conditions from which both, the employer and the employee, will benefit eventually. The conclusion for organizations should be that they are aware of the fact that they are responsible for their employees and need to take action to ensure decent work.

Part 4: Case and study questions

Part four of the book places employees central as recipients of human resource management who can think, act and feel. The case presented here concerns the organization of work in production chains of supplier organizations and the challenges this poses to realize decent work for all employees. The study questions at the end of the case relate to the chapter *Decent work*.

Responsibility for decent work in production networks

For strategic reasons, market leader in cloud computing Techcosit has outsourced sixty percent of all work to temporary staff (10%), agency workers (10%) and third party contracting firms (40%). Outsourced work happens in all levels and divisions of the organization, including amongst other security guards, call-center operations, test engineers, legal experts and data project managers. The numbers of employees in the entire production network of all supplying organizations and Techcosit itself amount around 50.000 employees.

The considerable fissured workforce at Techcosit diffuses the responsibility for human resource management. The human resource department takes care of contracts and employment conditions of permanent and temporary employees, but has little involvement in negotiations with temporary work agencies and supplier organizations. When the purchasing department negotiates with supplier organizations, economic interests like costs, deadlines and quality performance usually prevail over concern for good work.

For example, Techcosit outsources the production of instruction videos for their products to Samsam, a creative agency specialized in the artwork for online learning applications. The small company works with solo-self-employed creative workers hired on a needs base. May Sue is one of the creative employees who frequently works for Samsam on projects of Techcosit. This is what she tells about her job:

“The client that I work with is a demanding one. They have a high position in the market (...), and I find this a challenge for me, because I want to meet their requirements. I have to deliver my work correctly, even better than expected, for I am never sure if I will have a next project. I work more hours than my contract states. It is always more work if you want to do a good job, but Samsam management never dares to ask for more time. So we are in this vicious circle where I do not complain and just try to complete my projects. And because the job here is often in that state, well, everyone here assumes that Saturday and Sunday are working days. (...) There are projects, even if I want or not, I have to work on Saturdays, Sundays, and even work overtime at night to keep up. I feel that I am on the edge of my resources. The peak was last Thursday, when I went home

at eight in the evening. I already bought food but I could only lie down, and did not know why my tears were falling, because I was so tired”.

Stories like these are common in a fissured workforce. The state of fragmented responsibilities for looking after employee wellbeing between Techcosit and supplier organizations worries human resources manager Sacco Soxe. He is proud of that his team at Techcosit can offer state of the art employment conditions to employees who have a contract with the organization. Not only are wages higher than at competitor organizations, but also opportunities for training and development and employee involvement are excellent for core employees. However, he often runs into conflict with the purchasing department. Contracts for outsourced work sometimes violate the simplest employment laws, let alone that these comprise of any of the more advanced people management practices his team implemented for core employees. He complains to a friend:

“In my heart, I detest how we as Techcosit deal with employees in outsourced work. But what can I do? It is true that when work is outsourced, Techcosit has no obligations for these employees beyond assuring that legal minimum employment conditions are met. I sometimes find it difficult to look myself in the eye as a human resource management professional. I wonder about the future of our profession in the reality of gig-economy jobs and the ongoing fissuring of employment”.

One day, Sacco Soxe decides to make a case for including decent work in Techcosit’s corporate social responsibility code. He believes that communicating a strategic vision on decent work would offer Techcosit, as a key player in the market, both moral and purchasing power in the production network. He hopes that by creating awareness for decent work, suppliers and purchasers will negotiate better contracts that improve the working lives of all employees, no matter their position in the production network.

Study questions

Answer the study questions using evidence from the theory and research described in chapter 8.

Chapter 8

1. Evaluate Mae Sue's job against the indicators for decent work based on the information in the case. Which indicators seem to be at risk?
2. Mae Sue's quote also indicates that she experiences stress. Which stress processes does she mention in the quote?
3. Which personal and situational conditions cause that Mae Sue feels stressed?
4. Which ethical perspective is advocated by Human resources manager Sacco Soxe?
5. Suggest interventions for Techcosit about how they could advance decent work in their supplier organizations. Which stakeholders other than Techcosit and the supplier organizations will they have to take into account, to realize the goal of decent work for all employees in Techcosit's production network?

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Evidence Based HRM

What (do) we know about people in workplaces?

Brigitte Kroon

Evidence based HRM: What (do) we know about people in workplaces? is an authoritative, practical text on using scientific and local evidence for doing Human Resource Management. It explains how making informed decisions about people in workplaces will benefit organizational performance, assure fit with the organizational context, as well as benefit employee wellbeing. The book provides a quick reference to the core theories and the key research evidence that inform present day HRM knowledge.

The text is distinctive because it:

- Provides a workflow for the diagnosis of HRM issues in organizations
- Covers the role of gathering stakeholder interests and concerns, both in the framing of HR decisions and the designing of solutions
- Reports the essential HRM theories in an accessible yet thorough way
- Provides practical cases and study questions to help students and managers understand and apply evidence based HRM

Brigitte Kroon is an assistant professor and director of education of Human Resource Studies (Bsc) at Tilburg University, the Netherlands.

Essential reading for any manager responsible for making decisions about people in organizations, it is suitable for undergraduate, postgraduate and executive students of HRM, Personnel Management and Employment Relations.