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## Training questioned

The accepted wisdom is that companies looking after their employees, providing plenty of training opportunities, are bound to have the edge over their competitors. Training and job security must be at the heart of any effective employer offering. They go with the territory.

But do they? A new report from Watson Wyatt, the human resources consultants, is challenging these assumptions. More than that, it casts doubt over the effectiveness of all-round, or "360-degree", management appraisals. And it also questions the use of temporary workers as a way of managing cyclical fluctuations in demand.

Watson Wyatt's Human Capital Index\*, an annual survey of HR practices, has centred this year on some 600 European employers, measuring the impact of various HR strategies on shareholder value. According to this year's survey, the impact is growing. In the past five years, the companies that score highly on the measures experienced twice the increase in shareholder value of those that do not.

So far, so good. There seems plenty for HR departments to be celebrating. But the picture is not quite as clear as it seems. There is a discernible pattern in the types of HR management that are perceived as effective.

The highest impact on shareholder value appears to be in the areas of costs and the pay package. Where HR can demonstrate that it is improving the bottom line, either in helping line managers to meet their business needs or in improving the business's revenue earning areas and cost control, it can increase shareholder value by more than a fifth, says the report.

If anything, it says, the impact is slightly larger in the way employees are rewarded for good work and made accountable for any inferior work. It suggests that well aligned reward packages are important, as are pension schemes, as is providing employees with a stake in the company, either through the direct award of stock or through options.

Other areas that can make a significant difference include effective recruitment practices and providing opportunities for employees to direct their own development. Flexible workplaces with good two-way communications and what it calls a collegiate "integrated leadership" approach also help to drive value.

This is the good news. The bad news is that some HR practices do not appear to be adding value for businesses. One of these is developmental training - the sort of managerial training that provides the employee with the skills to do a more responsible job. Not surprisingly, this often results in the employee demanding the better job in question, or, at the very least, a commensurate pay rate. Alternatively, they leave - so the employer loses the investment in their training. In these cases, the training is good for the employee but not for the company.

"The research suggests that you should buy talent, not grow it. The problem there is that if you don't grow it, who will?" says Doug Ross, Watson Wyatt partner and co-author of the report.

Another practice of questionable worth, it seems, is the creation of a so-called "disposable workforce" of temporary employees standing between the permanent workers and the damaging effects of fluctuating economic cycles. The problem here, apparently, is that the different pay rates and arrangements for different categories of employees tend to cause resentment and jealousy. When temporary workers are dismissed it unsettles permanent employees just as much as it would if the company were introducing a redundancy programme, says the study.

The research also casts doubt on old-fashioned paternalism. While a degree of paternalism is acceptable, it says, it is possible for an employer to make a workplace almost too comfortable so that no one feels the need to leave, or, for that matter, to work very hard.

The latest Watson Wyatt findings will encourage those who point to the growing evidence that good HR management can create a significant competitive advantage. The support for a collegiate way of working as a more effective organisational model than the hierarchical command and control style of management suggests also that the findings are pointing to something more complex than bottom-line economies. That said, the findings do seem to reflect a new harder face of HR.

The conclusions about training provision only underline the tensions that have existed for years between companies that invest heavily in training programmes and those that prefer to use the savings they make on an unspent training budget to lure qualified staff away from competitors.

The findings also conflict with other research. A European-wide study carried out by EP-First Saratoga, UK-based HR benchmarking consultants, found strong connections between investing in development training and commercial success. "It's not necessarily causal. It may be that successful companies can spend more on training and development," says Maurice Phelps, a partner at EP-First Saratoga. "But the connection is there."

It would be a brave HR department that abandoned its training budget, given such conflicting evidence, but there may be a case for revisiting the way that management training is provided and the way that employee development is linked to expectations of performance.

The value of these bodies of research is that they offer a deeper understanding of the relative effectiveness of various management policies.

Watson Wyatt, for example, is planning to research the factors surrounding the apparent failure of 360-degree appraisal. "We may be looking here at employers that have introduced it to reluctant managers. The principle may be sound enough but some companies and some people may not be ready to accept this kind of appraisal," says Mr Ross.

Accepting assurances over the rigour of the research, it is hard not to notice the growing popularity of this kind of study among HR and pay consultants - the very organisations that stand to gain business from introducing more sophisticated HR measures and programmes into client companies. But it may be churlish to introduce a note of scepticism.

The advocates of benchmarking are sincere in their beliefs. "If anything, HR departments are not getting into measurement fast enough," says Mr Phelps. "Until and unless they begin to talk the language of business, no one will take them

seriously and they will continue to wallow at a lower level."

There seems too much agreement between studies to ignore the linkage of HR practices to business success. The big debate over future HR effectiveness is likely to be centred more on questions of emphasis and focus than on whether or not it should command increasing influence in organisational management.

\*[www.watsonwyatt.com](http://www.watsonwyatt.com)

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