Management for Professionals

Matthias T. Meifert *Editor*

Strategic Human Resource Development

A Journey in Eight Stages

With a Foreword by Dave Ulrich

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Foreword

In the last 50 years, the human resource (HR) profession has evolved dramatically. Originally, this organisational function was created to help managers respond to unions. Through Industrial Relationship, managers would negotiate terms and conditions of work for employees. As managers began to realise that people were more important than plant and equipment, Industrial Relations morphed into a personnel function which created policies and practices for staffing, training, compensation, communication, and organisational design. These policies enabled managers to lead people in ways that would help them feel more engaged and committed. Many innovative policies and practices were created as managers worked to attract, develop, motivate, and retain talented employees.

In the past decade, HR management's focus shifted to a focus on strategy. Strategic Work goes beyond treating people respectfully, it is also about raising employees commitment. It gave direction to people's commitment. Commitment without direction is unfocused energy. With a given direction commitment becomes a tool for serving purpose and achieving goals. The direction of a firm comes from its strategy. Therefore strategic HR was used to direct employee's focus on implementing business strategy. This is why employee's commitment gained direction and purpose.

In more recent years, the economic recession has changed the way we think about the importance of HR. The economic uncertainty, coupled with technological change, employee demographics, industry consolidation, investor and customer expectations, and globalisation have affected both leadership and HR. Under crisis, leaders need to be able to manage treacherous paradoxes of short and long term, cost and growth, domestic and global, management events and cultural patterns, and so forth. HR professionals who deliver value help with these paradoxes and create HR practices that deliver in both the short and long term. The source of these innovative practices will come from around the world and change leadership, staffing, training, rewards, communication, and organisation design. These ideas focused on HR professionals adding value to a firm's performance through the organisation capabilities they created (Ulrich & Brockbank, 2005; Ulrich & Smallwood, 2003).

Europe has a long legacy of innovative HR work. This includes the socio-technical work where technologies were matched with people to improve design and manufacturing of products and services (Emery, 1959). Relationships with unions through co-determination (Nutzinger & Backhaus, 1989), apprenticeship training, and global organisation (Evans & Pucik, 2002) can all be traced to strategic HR innovations in Europe.

This book of readings builds on the legacy of HR and offers ideas for today's issues. The book's focus is on German-speaking countries, but the ideas are drawn from and applicable throughout Europe, Asia, and North America. The essays in the book provide a sense not only of what has been done in strategic HR but also of what can and should be done going forward. These essays offer insights into what line managers can expect from HR professionals who deliver value to the business and offer specific guidelines for the processes and tools that HR professionals should be able to handle. As I read the essays, I identify seven themes that highlight where strategic HR should be headed in the future.

Linking Strategy to HR Practices

Meifert's (What is Strategic about Strategic HR Development?), Jochmann's (The State of HR Development – Taking Stock), and Hölzle's (Strategies for HR Development) essays lay out the need for HR to be linked to strategy to add value and the types of HR plans (people, functional, and business) that will enable HR to deliver value. They also point out HR's historical weakness in providing the more forward-looking plans.

Assuring Professional Standards

Kabst and Wehner (Institutionalising HR Development – Strategic HR Development in Germany and around the World) help point out the professional status of HR. This essay shows that HR professionals must be fully prepared to connect their work to the business and to master a host of processes (organisation development, corporate development, communication, and technology) to meet new professional standards.

We can say with certainty based on our research with over 40,000 individuals since 1987 that there are six key competency domains for HR professionals (Ulrich, Brockbank, Johnson, Sandholtz, & Younger, 2008):

- Credible activists: being able to build relationships of trust by knowing about the business
- Culture and change agent: being able to make change happen by turning what we know into what we do and building cultural patterns of sustained change
- Talent manager/organisation designer: being able to innovate, integrate, and align HR practices around people and organisation
- Strategic architect: being able to help shape a strategic story, execute strategy through HR practices and leadership behaviours, and facilitate strategy creation
- Business ally: being fully conversant with business issues and having business literacy

- Operational executor: being able to get the administrative duties of HR done flawlessly

  When HR professionals master these competencies, they contribute to the company's success.

Establishing Organisational Capabilities

The new HR is not just focused on talent and people but also on organisations and processes. Capabilities represent the identity of the organisation as known by customers and embedded in HR practices. Lemmer and Meifert (Controlling how? Measure, so you can manage) discuss control processes for cost, quality, strategy, and reporting. Combined, these processes shape an organisation's culture (Lassale, Weh & Meifert: Culture Management) and enable the organisation to have an identity tailored inside to the demands of customers outside.

Preparing HR Measures

For any discipline to move forward with rigour, it must have ways to measure both its activity and impact. HR has been on a measurement kick in the last decade (Becker, Huselid, & Ulrich, 2001). Essays by Girbig and Härzke (Controlling HR Development) and Girbig and Meifert (Comparing what? The Sense and Nonsense of Development Benchmarks) report both how cost of HR must be measured and how HR can and should benchmark against others to assure performance. As HR moves to become more of a science, workforce and workplace analytics must be in place to measure not only HR activities but also outcomes.

Innovating and Integrating HR Practices

For HR to move forward, traditional policies and practices must evolve. This anthology offers some useful insights into "what's next" for some of these key practices. Much of the innovation in HR practices will be the integration of the different practices. Von Preen, Blang, Costa, and Schmidt (Performance Management) show that traditional performance appraisal work needs to be connected with a company's culture and business results to be effective. Fredersdorf and Glasmacher (Qualification Management) show that traditional education can and should be linked with business strategies and external business conditions. Leinweber (Competence Management) discusses ways to expand traditional education courses into developmental experiences that align to business strategy. The competencies developed in education should be those that come from and drive strategy. In the concluding chapter, Bruch and Kunz (Organisational Energy as the Engine of Success – Managing Energy Effectively with Strategic HR Development) open an innovative vista for HR development: organisational energy. The two authors show how targeted energy management influences the effectiveness and efficiency of an organisation's members and thus contributes to its commercial success and cast a look at the implications this entails for HR developers.

Implementing the New HR

HR must be implemented in new and creative ways. Bittlingmaier (Persuading how? How to Handle the Sponsors of PD Projects) shows that HR processes can be divided into specific projects. Each project then can be managed with discipline and rigour to ensure HR's success. Too often HR policies are ambiguous and long term. The HR project focus emphasises results and accountability. We have talked about implementing or transforming HR by focusing on (1) HR practices, (2) HR departments, and (3) HR professionals. When all three components of HR are improved, HR moves forward.

Building Leadership Depth

One of the greatest challenges and opportunities in today's organisations is to create leaders who have skills to cope with today's economic uncertainty. It is even more important to build leadership, or the next generation of leaders, who can cope with tomorrow's unending uncertainties. HR professionals who build a leadership brand turn future customer expectations into employee actions and organisation processes.

Sensing and Aligning HR to New Business Realities

Müller, Thomas, and Müller (Globalising how? The Route towards International HR Development) and Hartmann (Responding how? Coping with Slimmer Budgets) talk about how HR must continue to evolve and be aligned to dynamic and changing business contexts. Changes in technology, competition, demographics, and globalisation will require that HR as a profession constantly adapts.

Collectively, these insights can and should be a guide for HR departments and HR professionals. Strategic HR will be able to turn concepts into action. This book lays out the intellectual frameworks around strategy, standards, capabilities, measures, integration, implementation, and business realities that will shape HR for years to come. The authors and editors are to be commended for making a statement about what the future of strategic HR might look like.

Dave Ulrich
Professor, University of Michigan
Partner, The RBL Group (www.rbl.net)

Further Reading

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Preface

Make things as
simple as possible
– but not simpler.
Albert Einstein

Writing a book about strategic human resource development (SHRD) can raise suspicions. The authors are soon suspected of writing under an obviously false label. Are we not contravening the trade descriptions act? Is *strategic* not merely a new dress for an old maid: professional, needs-oriented HR development? Or even worse – is SHRD not a mere artefact – an artificial phenomenon – that has no place in real life? Are not most companies already conducting modern, that is, strategic HR development? Is the term *strategic human resource development* another empty phrase? Why do we need this book?

As one of my own clients said with his inimitable style: "At our company, HR development follows the *Caribbean Holiday* principle. 'What do we want?' Not, 'what do we need?' Cocktails, not table water". What does the HR director of a major financial services company mean with his drastic description? He means to express his dissatisfaction with the status quo. SHRD has happily resigned to being determined rather by personal preferences of specialists than by needs of the business. That impression might be going too far in many cases, but it is an impressive sign that something needs to be done nonetheless.

Many international companies approach SHRD in a way that is not conducive to progress. Hardly a day goes by without some press release or official company statement underlining the great importance of HR development. At the same time, HR developers are under constant pressure to justify their very existence. Painful questions are being asked: What good does HR development do? How can we measure it? Have we spent our money wisely? Why does it cost so much for every single employee? Do we really need our own trainers? Or: Why do our competitors invest 30 % less than we do?

This is where this book comes in. It was written as a plea for a new way of looking at HR development. The key is to consistently align HR development with the business strategy. In short: truly strategic HR development. This requires a consistent and sustainable alignment of all HR development tools and activities with the strategy of the organisation. Specifically, HR development should be managed in close conceptual and chronological proximity to the development of the corporate strategy itself. HR development should see itself as a (business) partner of its neighbouring units, whom it should support with its unique expert knowledge in the pursuit of its own strategic objectives. This new approach turns HR development from a mere source of costs into a fully accepted business unit with its own set of services, which makes a visible contribution to the success of the business.

Admittedly, this is not a new claim. But still, sustainable strategic awareness remains a rare beast in the hard reality of the workplace – be it due to a lack of resources or expertise or because of a sheer lack of determination. The end result is that companies lose the opportunities well-executed strategic HR development can offer. An op-ed in an American publication describes the situation in harsh terms: "After close to 20 years of hopeful rhetoric about becoming 'strategic partners' with a 'seat at the table' where the business decisions that matter are made, most human-resources professionals aren't nearly there. They have no seat, and the table is locked inside a conference room to which they have no key" (Hammonds, 2005, Why we hate HR. *FastCompany, 97*). This is exaggerated on purpose, but it shows us the dilemma at the heart of HR in strong contrast. Everybody is talking about strategic partnerships, but few people are actually forming them. What does that mean for HR developers at German businesses? SHRD needs to break free from the old stereotype of the *office educationalist,* who only cares about soft issues. Rather, it needs to become a (co-)entrepreneur. That requires a change in mindsets, competences, and underlying structures. This book is meant as a practical manual for how to support and speed up that process.

Since its first publication in early 2008, the German version of this book has seen a number of reprints and has consistently defended its place in the bestseller lists. This great demand is a point of pride for the authors, the publisher, and myself, as the editor. The success has encouraged us to publish an English-language version of our work – in a slightly revised form – for our international readers. The demand also shows that our book fills an old lacuna in what is already a substantial body of literature on HR development. It is the answer for people who want a clearly structured and practice-oriented, but never simplistic, introduction to strategic HR development in for-profit and non-profit organisations.

The German-language editions of this book have been met with great interest among readers and were received favourably by reviewers. It makes me particularly proud that the book's audience includes so many practitioners, academics, and students. The echo from my colleagues at other consultancy firms has shown that the concepts introduced here have already been used effectively in their client projects. The eight-stage concept has proven an effective tool for reducing the complexity of what is often a rather tough nut to crack.

Finishing this book was only possible with the aid and support of many friends and colleagues. First of all, I thank our authors, who have been highly committed throughout the process, willing to revisit their work and delivered their chapters right on time. I am also grateful for the cooperation and support of our partners at Springer, above all Martina Bihn and Ruth Milewski. Maria Wirt has managed and overseen the entire publication process with her unique and unrivalled precision.

I owe particular thanks to three people for their inspiration and the many ideas they contributed: Dave Ulrich, Rüdiger Kabst, and Klaus Döring.

One note about the following chapters: some minor redundancies and repetitions in the arguments were left on purpose, since each chapter represents a complete argument in itself. All chapters in this book have been chosen carefully to match the general argument. Introductory chapters and a good number of illustrations have been included to structure the book and guide the reader. Every author has his or her own characteristic style, which was deliberately not revised or streamlined to preserve his or her unique identity. Solely for reasons of legibility, the texts usually use the masculine form alone, even though we are naturally speaking about men and women in the book. I hope it will be an instructive and informative read. May it do its part to finally secure the place of HR development in business. It is a place that I sincerely believe it deserves. I am always interested in hearing your comments and ideas; you can find my contact details in the authors' list.

Berlin, Germany Matthias T. Meifert
August 2012

Contents

Part I

What Is Strategic HR Development?

What Is Strategic About Strategic HR Development?

Matthias T. Meifert

"Strategic" is a modern term. It is a term used to excess in keynotes and speeches by management practitioners. Managers speak about strategic planning processes, the need for business area strategies, and some even aim to emulate the strategies of mice (Johnson, 2000). In the vocabulary of almost any executive manager we come across, strategy will be, to a lesser or greater extent, a common feature. Googling "strategy" will produce an amazing 971,000,000 results.[1] HR development is not immune to this catch-all term – as the title of this book readily reveals. In this first chapter, we will introduce the current discourse on strategic HR development and the concept for later chapters of this book.

It is worthwhile to look at the two key terms – "HR development" and "strategic" – independently from each other. We will begin by discussing the concept of HR development that is used in this book. After that, we will look at the promise of strategic HR development by identifying the common mistakes and shortcomings of HR development in the workplace. With a mental triple jump – strategy – strategic management – HR development strategy – we will then discuss the notion of strategy that is used in this book. In the next part, the arguments are combined, looking at what we mean by strategy-oriented HR development. Finally, we will look ahead at the individual parts of this book to see the many particular areas that strategic HR development covers.

[1] As of: 24 July 2012.

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1 What Is HR Development?

Any book dealing with strategic HR development would do well to define exactly what is meant by HR development. This is not simply adherence to academic customs, but essential for our understanding, as Neuberger's list of 18 separate definitions of the term reminds us (Neuberger, 1994, p. 1 ff). Put simply: there is still no consensus among academics or practitioners about what HR development actually means. Many misunderstandings arise from the question of where to put the line between occupational training and true HR development. A narrow interpretation of the term, common in traditional HR theory, simply equates HR development and occupational training. A more liberal use of the concept, on the other hand, defines HR development as the sum of the activities that are conducted for an organisation's people under one single systematic umbrella. "Their object is to change the qualifications and/or the performance of the individual people of an organisation across many levels of hierarchy by means of training, career planning, or work restructuring. These changes are made with due consideration for the occupational environment, moving towards the achievement (or advancement) of professional and personal goals. This focus already points to the particular nature of HR development activities: integrating the chosen personnel in understanding their needs, planning and conducting programmes, and controlling their progress" (Berthel & Becker, 2007, p. 226). Expressed in a more condensed form: "HR development covers all qualification, training, and organisational development activities that are planned, conducted, and evaluated purposefully, systematically and methodically" (Becker, 2005, p. 8).

These definitions show us that HR development needs to be seen in much broader terms than straightforward occupational training. HR development resembles such training in that it also affects the qualification profiles of its subjects, but it uses a far broader repertoire of instruments and concepts to do so. In this sense, occupational training is one of the constituent elements of HR development. In the language of systems theory: occupational training is a subsystem of the HR development system.

2 The Challenges for Corporate HR Development

How are things looking for HR development in the business world? Despite all attempts at (and progress with) professionalising their work, HR developers in German companies are still faced with a critical internal audience. Scores of "specialists" see it as their natural right to debate the pros and cons of HR development initiatives under the belief that "anybody can do HR development".

What are the reasons for this strange state of HR development in German businesses? To put it differently: Why are professional HR developers still struggling with showing their expertise and underlining how they contribute value to the business? In fatalistic terms: Can HR development ever justify its existence? This question is more relevant than ever before. In response to current economic

Table 1 Typical SWOT analysis of occupational HR development (strengths & weaknesses)

Strengths	Weaknesses
• Great range of HR development tools • Awareness of the importance of HR development exists in business • Development know-how is well-developed in corporate organisations or larger SMBs • HR development has established internal customer relations with executives • Good customer feedback about aspects like service quality, customer focus and needs orientation	• Programmes, tools, and general HR development efficiency is hard to measure • Development tools are typically not well organised • Tools are too complicated • A dedicated strategic process is lacking • Lack of strategic corporate models of competence • Opportunism and fixation on the short term • Poor development know-how in smaller organisations
Opportunities	**Threats**
• Acceptance of HR development as a factor for commercial success • Holistic vision of corporate development • Acceptance of controlling concepts and causal chains in HR development	• Cost awareness and toughening of input–output relations • HR quality and competence profiles • Virtualisation and outsourcing of HR processes and tools

developments, many large German organisations have begun to roll back or outsource their HR development programmes. Döring sees this trend in what seems to be a dangerous time for HR developers: "Almost no other area of business has such a severe break between ideology and reality. Despite all statements to the contrary, HR development still has the bitter *aftertaste* of something secondary, subordinate, *not-so-important*" (Döring, 2008). Bringing together the insights from many consultancy projects conducted by Kienbaum Management Consultants GmbH, the state of HR development appears as follows (cf. Table 1).

Which causes can help explain the state of HR development as it is today?

Kienbaum's consultancy projects regularly point to seven distinct phenomena, which will be granted a closer look in this chapter. Naturally, this list only paints an abstract picture with rather broad brushstrokes, but it does reveal the footholds for future development. We are speaking of:

1. HR development's inability to communicate,
2. Fear of the controller,
3. Obsession with trends,
4. "Bad penny" responsibility,
5. The trap of its own dynamics,
6. Silent obedience, and
7. Obliviousness to strategic considerations.

Inability to Communicate

This aspect refers to a common problem among HR developers: their lack of truly engaging communication. HR developers find it hard to speak the language of their internal clients. This may be a blanket statement, but it is not without reason. Many HR developers believe that their special qualifications (e.g. as behavioural trainers, coaches, systemic consultants, etc.) have given them a versatile set of communication skills. How could they possibly have any shortcomings in this area? Before answering that question, let us take a more general look at the people behind HR development.

The literature on the topic names a range of different groups responsible for the development of human resources. All of these could be called HR developers in their own ways. In the first instance, it is the employee himself or herself who stands up for his or her development and knows his or her individual shortcomings. Next, there is that employee's immediate superior, as the frontline HR developer. This means that he or she must know the qualification needs of the position and introduce suitable development activities for his or her people. The supervisor is, in turn, supported by dedicated full-time HR developers. This is the group of people that we are speaking about. Naturally, the first two groups of people also have their distinct flaws and failures, but we are concentrating on the latter group.

Researchers have long been looking at the quality of the people behind the functional unit of HR development. "People enter HR development work [. . .] for very different reasons, pertaining to qualification, training, or career [. . .]. As a result of the uncoordinated routes into HR development, the erratic career tracks in the field, and the fact that HR development is not considered a fundamental profession (we could even call it an 'anything goes' profession), the urgently required acquisition of the necessary qualifications and work experience takes place primarily and individually in the HR developer's workplace itself" (Niedermair, 2005, p. 579). In view of these shortcomings, included under the general term of "professionalisation" is the call for a stronger "criteria-driven approach in the work of people in educational functions" (Döring & Ritter-Mamczek, 1999, p. 132). This means the specialisation and academisation of occupational know-how transforms into specialist professionalism (cf. Faulstich, 1998, p. 228 f). If HR developers are to be able to use their qualifications effectively for specific situations, a number of preconditions are required:

- Fixed qualification and training routes towards becoming a professional.
- Clearly defined admission criteria to limit the number of candidates and maintain a certain measure of homogeneity.
- Specific income and career opportunities with the promise of a certain social prestige that enables the growth of the profession's distinct work ethos.
- Forms of representing and asserting its interests in industry associations (cf. Faulstich, 1998, p. 229).

The debate about professionalisation leads to the interpretation that the people in HR development require a broad base of qualifications to match the range and intensity of their work. Despite this long-standing interpretation and some progress in the right direction,[2] there still is reason grounds for unhappiness in applied HR development. This is essentially due to the fact that many HR developers have a different mental framework compared to most of their internal clients (middle managers and top executives). HR development mostly recruits personnel from humanities and social sciences (Sorg-Barth, 2000). In their academic upbringing, these graduates have learnt that no explanation of social phenomena is ever complete, and that a certain degree of sketchiness is actually desirable (cf. Schanz, 2000, p. 46). Representatives of those disciplines have learnt to "look at characteristics and typical constellations of conditions in order to find explanatory concepts they can deliberately abstract from the many particularities of the individual case in hand" (Schanz, 2000, p. 47). As a result, they are faced with the basic accusation that they lack "precision" and "meaningfulness" in the theories they produce. "The disciplines often described as 'soft sciences' have to live with this handicap, since many different reasons will presumably make it impossible for them to ever catch up with the natural sciences in this respect" (Schanz, 2000). In their work as HR developers, people socialised (sozialisiert) in this academic milieu will then be confronted with managers who come from a completely different world of experience. Many of the decision-makers are economists or engineers. Relying on the "ceteris paribus" condition,[3] many of the former have simply forgotten the existence of ambiguity and intangible phenomena. The latter, engineers, will by nature follow the premises of the natural sciences rather than those of the social sciences.

The consequences of these different disciplinary upbringings are evident: everyone construes his or her social reality through the filter of experience. The effect is a lack of common ground. In other words: few HR developers will be speaking the language of their clients. This means that the constant effort to professionalise HR development must not forget this aspect. The socialisation of HR developers should take place in closer vicinity to their later clients, and they should be trained in the topics that their clients are interested in.

Fear of the Controller

When people discuss the place of HR development in business, they emphasize that it is an essential instrument. It is essential for placing the best candidates in the right positions; it is essential for promoting an attractive employer brand; it is thus essential for fortifying a company's competitive punch by ensuring a supply of highly qualified people (cf. e.g. Lung, 1996, p. 40). Real life has produced a paper

[2] A number of target-group-specific postgraduate courses have recently been introduced in German-language academia.

[3] "Ceteris paribus", is a conceptual condition often used by economists. In simple terms, it assumes that all environmental conditions of a model can be seen as constants, with only a single variable factor.

mountain of corporate statements about the special importance of people in general and the role of professional HR development in particular. “That people – and thus their qualifications – are essential for the commercial future is a common article of faith. Few would dare challenge this creed, even though economic growth has lost all visible links to the growth of employment and the number of highly qualified job-seekers is increasing” (Faulstich, 1998, p. 2). HR development professionals are, as already mentioned, also subject to an increasing demand for self-legitimisation. Businesses expect HR development to be effective and to create value. This means that its results are scrutinised by qualification control. Despite this, or actually because of it, HR developers are often faced with considerable resource cutbacks in economically tougher times. The reality of business practices begs the question whether the “HR development contributes value” creed should not be rephrased as “HR development is a luxury indulgence”. As long as the budget allows, HR development will continue. Drucker, one of the first people to point out that human resources have unique organisational performance potential, criticises this development. According to him, all companies nowadays subscribe to a common mantra: “Our people are our capital.” But few practise what they preach – let alone believe in it (cf. Drucker, 1993). Expressed in more drastic terms: “How can employers claim that ‘people come first’ when the annual income of the chairman exceeds the complete training budget of the business for the next five years?” (Friedmann, Hatch, & Walker, 1999, p. 3). Merk believes that global competition has already had a massive impact on the attitude towards in-house HR development (Merk, 1998, p. 86). The Cologne Institute for Economic Research has identified a period of stagnation in HR development budgets: spending in this area has remained virtually the same since 1995.

Why has the reality of HR development moved so far from publicised ideals? Looking into the system can reveal one possible answer. Many HR developers shun controllers like the “plague”, and for a simple reason: they believe that the controllers could never be convinced. The insights in our chapter about HR developers being “unable to communicate” have already shown the fair amount of truth in this believe. But the problem does not stop here. The effect of education has been the subject of much debate for more than a century, but the problem of how to calculate and account for HR development investments has not yet been resolved. No causal chain between educational progress and commercial success has yet been found. One reason for this might lie in the simple fact that the targets and progress criteria for HR developers are difficult to express in quantitative terms. As long as there are no clear standards for choosing the right HR development strategy or monitoring the effect of HR development, the exact link between development and commercial success remains a matter of interpretation. Gebert and Steinkamp express this pointedly: “The reader should not need any further explanation why trying to come up with unambiguous proof of HR development’s economic effect should be considered a hopeless endeavour” (Gebert & Steinkamp, 1990, p. 3).

The debate about intensive qualification controlling in the 1990s has produced many concepts for quantifying HR development performance, but the usefulness of HR development in commercial terms still remains undetermined. The two evangelists[4] of qualification controlling, von Landsberg and Weiß, conclude: "If you start breaking it all down to costs, you are in danger of missing the 'added values' and the 'strategic thrust' of qualification" (von Landsberg & Weiß, 1995, p. 3). After reviewing different concepts[5] for measuring the benefits of professional HR development, Weiß also arrives at the conclusion: "These examples show us that there can be ways of broaching the topic of how to measure benefits. They also show us the limitations of these approaches very clearly. All of the chosen approaches give only partial insights into the development of such benefits or are so vague in their results that reliable decisions cannot be made on that basis. In the end, every company has to decide for itself which level of precision it requires and which resources it wants to allocate to that end" (Weiß, 2000, p. 95). To use Albert Einstein's memorable phrase: "Not everything that counts can be counted, and not everything that can be counted counts." It remains to be said that a certain element of HR development's impact will always evade strict quantitative measurement. This is certainly one of the key reasons why HR development so often becomes a pawn in the fight over the allocation of a company's limited resources. Nonetheless, the debate about qualification controlling offers enough reason for HR developers to lose their fear of the controller. Even if the success of development can never be quantified with final accuracy, it can be approximated. We must not forget that controllers will face many similar problems in their regular work, e.g. when trying to allocate overheads to the right cost accounts with anything approaching fairness and accuracy.[6]

Obsession with Trends

A third phenomenon that casts a certain negative light on the actual practice of HR development is the impact of fashion and trends. The tendency of companies to blindly follow the benchmarks of other companies leads to a constant change of low and high tide of one trend after the other. Almost no other area of business has seen as many "fashions" come and go in recent years. A list of sound bites and buzzwords suffices to illustrate this: workplace-related development, needs-oriented development, coaching, ISO 9001–9004, self-organised learning, eLearning, CBT or WBT, distance learning, blended learning, etc. (cf. Merk, 1998, p. VI). Disregarding the actual suitability of many of these individual

[4] They consider themselves the vanguard of the idea of qualification controlling itself: "Years ago, we had the idea to combine the areas of qualification and controlling. Back then, this was a new and daring idea" (von Landsberg & Weiß, 1995, p. 3).

[5] Weiß distinguishes between ways of measuring performance via key indicators, participant satisfaction, client satisfaction, qualitative analyses, calculating the opportunity costs, and human capital accounting (Weiß, 2000, pp. 85 ff).

[6] i.e. costs that cannot be allocated directly to a single cost account. When distributing these costs, certain assumptions about their origin have to be taken without final certainty.

Table 2 The actors in HR development and their responsibilities

Actors	Responsibilities
Executive management/ board	Defines the strategic framework for the company and determines the need and shape of HR development; actively represents HR development in the leadership process
Organisational unit HR development	Translates the corporate strategic principles for HR development; produces the required HR development tools; acts as a service provider and partner of managers; manages all HR development activities
Managers	Act as HR developers on the frontlines; play a primary role in operational HR development
Employees	Are responsible for their own competence profiles and learning process; actively identify their developmental shortcomings

concepts, we can see that the system of professional HR development is constantly being confronted with new ideas that need to be checked and, possibly, be used. There is an obvious danger that HR developers will not check the actual usefulness of these innovations with a sufficiently critical eye before putting them into effect. An obsession with trends seems to be the result, and simply following the trend seems to become more important than their functionality within the system.

Bad Penny "Responsibility"

We have already seen how many different actors can be considered responsible for the development of human resources. In the first place, we mentioned the employees themselves, their managers as frontline HR developers, and finally full-time HR developers. As conceptually sound as this distinction is, it becomes problematic in the workplace. Specifically, it means that the responsibility for HR development remains ambiguous. Executive management delegates it to the functional HR development unit, who call on managers to act as "front-line developers", who in turn feel overwhelmed by the multitude of responsibilities they are expected to fulfil – and are happy to take off their "developer hats". An unambiguous allocation of responsibilities is essential to avoid a laissez-faire approach to HR development. Table 2 sketches the outlines of how to distribute the roles and responsibilities.

The Trap of Its Own Dynamics

Like any dynamic system, HR development is also subject to change and evolution. Becker (1999, p. 2 and p. 29 ff.) and Bäumer (1999, p. 267) distinguish between three phases in the evolution of HR development:

- Institutionalisation (1st generation): "We need to do something."
- Differentiation (2nd generation): "We need to proceed systematically."

- Integration (3rd generation): "We need to turn recipients into participants."

This expresses that HR development is not the product of a single rational process, but the end of a dynamic evolution. Literature on the subject compares this perspective with the evolution of organisations (cf. Bäumer, 1999, p. 267; Becker, 2005, p. 14 ff). Seen in this light, there are fewer clearly recognisable motivations powering the evolution of HR development. The evolution of HR development develops in response to situational demand. If this happens without referencing the development of the organisation itself, HR development falls into the trap of its own dynamics: its evolution diverges from its original purpose. In the worst case scenario, HR development becomes an end in itself.

Silent Obedience

The actual direction of HR internal dynamics is typically determined by a few active personalities. The personal preferences of such decision-makers have a major impact on the progress of HR development. Impulses can come from people who have come across other forms of HR development with previous employers. People who have special power to influence decisions in the organisation (e.g. directors) may also influence the direction of HR development. Bäumer illustrates this effect with a number of statements from interviews with HR developers. This statement from the head of HR development at a large publishing house can be considered typical: "We have a director in charge of HR. He has seen the urgent need to do something for our executives. So the board made a decision [. . .]. Yes, development was always a great concern, kicked off by the proprietor" (Bäumer, 1999, p. 270). The author has experienced a similar situation during a consultancy project for a mid-range banking client in late 2005. The director in charge of HR regularly reviewed all development proposals for this bank and compared them to the situation at his previous employer – a corporate bank with tens of thousands of employees. However beneficial the sponsorship and involvement of the two top executives from these examples were, it should always be considered problematic if HR developers simply execute their superiors' ideas in silent obedience. They lose their role as experts and become mere agents of someone else's will. In this sense, silent obedience is the wrong option, as it is counterproductive.

Obliviousness to Strategy

The last four phenomena are closely related to the following final aspect: the strategic obliviousness of HR development. Döring reminds us that many companies neglect all discussion of strategy in this field. In a time of complex global economic mechanisms and markets in constant flux, 3-year or even 5-, 8-, or 10-year plans are deemed unrealistic (cf. Döring, 2008). The effect is that many processes and campaigns run on intuition, without clear integration and a higher frame of reference. Becker states: “In HR development, it is not unusual to find HR developers introducing activities without a systematic requirements analysis, a feasibility check, nor effective means of evaluating progress. Much of today’s HR development is left to chance” (Becker, 2005, p. V).

Recent studies of HR management show that the take-up of general HR strategies has improved substantially in the recent past (cf. CapGemini 2009; Kabst, Meifert, Wehner, & Kötter, 2009; Werthschütz & Siemen, 2008). This does not, however, apply to HR development strategy: it continues to be a rare find and a lack of strategy and structure is still commonplace.

HR development continues to use a toolkit of different instruments without a “common thread”. This is not only a hypothetical danger, as examples drawn from real-life companies show. A financial services company uses different models of competence for recruitment, assessment, and promotion purposes. A large retailer uses a different form for staff appraisals at every branch. A large insurance provider selects, trains, and develops high potentials without a common set of criteria. What all of these examples have in common is that their HR developers give off the same impression: anything goes. In such cases, the common defence is that the HR development portfolio has grown over time or it should be seen in view of certain “commercial imperatives”. However reasonable these excuses might be, a lack of strategy is disastrous on an organisational level. Without it, HR development can only fulfil parts of its mission and is seen as an unstructured “smorgasbord” of services. This flaw does not have to originate in HR development itself, but the responsibility falls on HR development officials nonetheless.

Döring (2008) points out that many companies are actually only referring to the business plan for the next year when they use the term “strategy”. Such strategy is decided at the latest possible time in the year to ensure “planning security”. This undermines strategic plans, targets, and decisions that go beyond the one-year timeframe by turning them into more or less voluntary “considerations”. For the people in top management, it takes courage to think outside that box, as it would be risky in a time of accelerating change in the business environment. We are forced to ask the following question: How can HR development gain a sound strategic footing if there is no long-term basis for overall “strategy” in many organisations? Although Döring might be right with his findings, they remain unsatisfying. The answer is surprisingly trivial: a lack of strategy can only be remedied by developing strategy. This means that HR developers are always able to give their work a strategic grounding by reviewing the mission statements of their companies, and then designing their HR development strategies accordingly. They have to accept that the half-life of all strategic statements has shortened dramatically. What is needed, therefore, is a robust yet dynamic strategy.

An Interim Conclusion: The Benefits of Strategic HR Development

In view of the flaws and shortcomings affecting regular HR development outlined here, the need for strategic HR development is immediately evident. Its purpose is to free HR development from the impulse to justify its existence and rather imbue it with an unassailable raison d'être. This can only be achieved if full strategic awareness takes over from an obliviousness to strategy. The key is to align HR development consistently with the corporate strategy or, in short, to evolve a strategy-oriented HR development system. This refers to the sustainable alignment of all HR development practices with the corporate strategy. This is specifically relevant in the sense of producing a system in close conceptual and chronological proximity to the larger corporate strategy. HR development has to see itself as a (business) partner for the other parts of the organisation, whom it supports in the pursuit of their strategic goals by satisfying them with its specialist know-how. Put differently: the mission of the HR development function is to improve the success of the organisation by shoring up and improving the quality of decisions that impact the organisation's people. For that ambitious purpose, it is essential to

- Overcome the inability to communicate and learn to speak the language of its clients;
- Lose the fear of the controller and meet him as an equal partner;
- Move beyond trends towards a stance of 'critical pragmatism';
- Avoid responsibility being passed around like a bad penny by defining it unambiguously once and for all;
- Recognising the trap of its own dynamics and coordinate all changes to it with the greater system of the organisation as a whole;
- Forget silent obedience and learn to assert a confident and proactive position.

The next part of this chapter will try to answer what strategic HR development actually means and what it specifically relates to.

3 What Is Strategy?

In this chapter, we have looked at the field of HR development. The following parts will look at the meaning of strategy. Specifically: What concept of strategy is used in this book?

In its original etymology, strategy relates to the Greek term "strategós", a military title for a type of army leader. Thus, it concerns the question of how to lead units of soldiers successfully. The term became a staple of business management theory with the works of Ansoff in the 1960s. For Ansoff, strategies are "the activities used to ensure the lasting success of a company" (cf. Bea & Haas, 2009, p. 51). According to Porter's definition, strategy refers to the "intrinsically coherent coordination of activities that distinguish a company from its competitors" (Porter, 1999, p. 15). The route towards a sustainable competitive advantage consists in the "specific activity profile" of the company. This activity profile represents the strategy. Porter is particularly well known for his fundamental distinction between the three strands of corporate strategy: cost leadership, differentiation, and focusing/niche strategies.

4 From Strategic Management to Strategic HR Development

These general insights form the foundation of what is normally used to legitimise strategic HR development: strategic management. "Strategic management concerns the focused shaping of a business under strategic, i.e. long-term, global, environmentally aware, and development-oriented, considerations. It refers to the design and coordination of plans, controls, information, organisation, corporate cultures, and strategic performance potential" (Bea & Haas, 2009, p. 20). This turns strategic management into above all a management and leadership philosophy. The definition shows the immediate strategic relevance of HR development: the fact that it can support the overarching management and leadership processes. The exact mechanisms of action will be discussed later on.

In strategic management, the purpose of a strategy is to define how to safeguard the future of the business. In other words: for managers, it is the master plan for the future development of the business. In order for strategy to be able to fulfil that promise, it needs to be consistently aligned with potential for future success. At its heart, it does not, therefore, concern operational criteria like performance or liquidity, but the criteria that enable the company to perform in the first place (cf. Riekhof, 1994, p. 5). This includes, not least, the potential in the organisation for learning, knowledge acquisition, and adaptation, which is also determined by the type and intensity of its HR development.

A central element of strategic management is the concept of "fit". This refers to the need to align the company's competence profile in every respect with the needs of its commercial environment. The organisation must be made to fit its environment (system-environment fit) (cf. Bea & Haas, 2009, p. 16). This requirement concerns the insides of the organisation as well. Structure, personnel, culture and other elements of an organisation are not only the precondition for executing its strategy, but also represent a breeding ground for developing it. "Depending on the company's abilities, this can often have a direct impact on its ability to interact with its environment" (Müller-Stewens & Lechner, 2005, p. 29). A complex sales organisation can stop a company from achieving cost leadership because of its high cost of sales. At the same time, flexible sales processes and a motivated sales team can become the USP of the business. Strategic management thus has to achieve a double *strategic fit*: first, the external fit between the organisation and its environment, and second, the internal fit between the main components of the organisation.

Which components of an organisation need to be brought in to achieve this internal fit is still the subject of much debate (cf. Bea & Haas, 2009, p. 16 ff. Müller-Stewens & Lechner, 2005, p. 25 ff). However, experience has shown the 7-S model produced by McKinsey consultants to be sound (cf. Peters &

Watermann, 1982). The model is the product of its inventors' research on the success factors of businesses. They analysed numerous large companies to test their assumption. They hypothesised that not only quantifiable commercial figures alone, but also – and especially – people and their values make or break the success of businesses. The 7-S model calls for the components of "Strategy", "Structure", "Systems", "Style/Culture", "Staff", "Skills", and "Shared Values/Superordinate Goals" to be seen as the key levers of success and to be brought into an effective fit. What do the authors mean by these components?

Strategy: Refers to the behaviour and the responses of the company to changes in its environment.

Structure: Refers to the structural make-up of the company, i.e. the division into organisational units.

Systems: Refers to the informal and formal business processes and workflows that have a major impact on the efficiency of the organisation.

Style/Culture: Peters and Waterman define the term of culture as twofold. First, it refers to immediate corporate culture: covering the values, behaviours, norms, and other evolved aspects of how work is done at the company. Second, it refers to the style of leadership that is shaped primarily by the behaviour of individual leaders.

Staff: This aspect covers all processes concerning human resources. In particular it deals with career tracks, the integration of new recruits, and processes of socialisation. The idea of becoming "a member of the pack" is a good way of putting this.

Skills: Refers to the knowledge and abilities (core competences) of an organisational unit as well as its learning processes.

Shared Values/Superordinate Goals: Shared values are what bind all of this together. They can take many different shapes and forms. There can be official mission statements, but also informal visions that only insiders will understand.

Considering these terms, we can see a distinction between hard factors (strategy, structure, systems) and soft factors (style, staff, skills, shared values). This offers a good means of demarcating the job of strategic HR development: it is evident that the activities of HR development are particularly aimed at the soft factors. Its purpose is to promote specialised knowledge, establish a shared leadership style, convey values and norms to all people, define career tracks and processes of socialisation, etc.

These considerations represent the essential foundation for all matters relating to strategic HR development. In the interest of promoting *strategic fit,* HR development needs to be strategically aligned. It can support the execution of the strategy, and it can harness its own strategic potential.

This represents the theoretical basis for strategic HR development. In practice, things are more complicated. The question is how exactly to define the relationship between HR development strategy and the corporate strategy. Is the first part of the reason dominant (executing the strategy)? Or is the second aspect emphasized (harnessing strategic potential)? Or might there be a broader perspective? We can draw a mental picture of three possible constellations of the HR development strategy and the corporate strategy:

1. The HR development strategy follows the corporate strategy
2. The corporate strategy follows the HR development strategy
3. The HR development strategy is an integral part of the development of the corporate strategy

1. The HR Development Strategy Follows the Corporate Strategy

Our discussion of the role of HR development immediately points towards this perspective. For reasons of *strategic fit,* the HR development strategy should be designed to enable the execution of the corporate strategy. Thereby, HR development takes on the role of an executing agent. As logical as this argument is, two major problems appear in practice: first, all interventions in human capital have to consider the medium- to long-term timeframe. If spontaneous changes in the corporate strategy are required – not unthinkable in view of the pace of innovation and globalisation – their execution might be held back by a lack of sufficiently qualified personnel. Second, human resources – as people – have their own value creation potential, such as innovating or achieving a unique service experience for clients. Thus, this factor's momentum needs to be considered when developing strategies (cf. Müller-Stewens & Lechner, 2005, p. 437). It is therefore problematic to reduce the HR development strategy to the role of a mere agent in the system.

2. The Corporate Strategy Follows the HR Development Strategy

Following this argument further, we could say that strategies can only be executed if people have been enabled to carry them out. In a sense: the organisation can only do what its people can do. This perspective, called the resource-oriented approach, assumes that the corporate strategy is delimited by the human factor. This argument seems reasonable, but it is too one-sided and reductive about the capabilities of business management. In cases of uncertainty, a company can directly intervene by investing in training or recruiting resources from outside. This tactic would be applicable if the company wants to implement a strategy, for which its people are not ready yet. Human resources must not be a limiting factor to the organisation.

3. The HR Development Strategy as Part of the Development of the Corporate Strategy

In times of accelerated innovation, highly complex markets, and intricate global connections, the life expectancy of business strategies has dwindled dramatically. A number of practitioners and authors already believe that the era of traditional, long-term business planning has ended. This pessimistic outlook might be going too far, but real changes in the environment are creating a new challenge for strategy development. Therefore, the point of this perspective is to create a robust, but also flexible strategy. A certain degree of "vagueness" in the execution of the strategy needs to be anticipated with considerable foresight. Also, the special qualities and abilities of the workforce need to be considered when designing the strategy. When the strategy is executed eventually, people become its lynchpin and engine: the strategy does not work *against them* and not *without them*.

The strategy design process should therefore be seen as a process of interaction between certain disciplines that are represented in the organisation. The basic corporate strategy is framed by functionally specific strategies. The HR development strategy is one of these functional strategies and, in itself, a part of the general HR strategy. Its job is to specify and prioritise the tasks of HR department and to coordinate its interfaces with other functional areas. When designing the functional strategy, two basic aspects need to be distinguished. First, it should be a long-term, fundamental strategy. Second, it should deal with actionable strategic campaign management. While the former aspect can be understood as a master plan for the future shape of HR development, the latter refers to the actual implementation of that master plan. The assumption is that the strategy will remain in effect over a period of years, whereas campaigns typically work within a time frame of less than a year. This enables the system as a whole to respond to minor changes in its environment or within the organisation itself.

Recent discourse has challenged the basic assumptions of this facutal argument. The challenge is twofold: as hinted at above, there is the general doubt about the feasibility of using any strategy at all in view of the current global, dynamic, complex, and unstable markets. Can strategy indeed help companies secure and safeguard their futures? Is that belief not actually the expression of a mechanistic and thus outdated vision of business management? Does it not ignore the inherent complexity of commercial activities? This pessimistic worldview has gained new steam in the wake of the worldwide financial crisis of 2008. Few, if any, experts predicted the events, and there is (was) nothing close to an agreement about how to respond to the crisis. The vagaries of the economy have consigned many companies' strategies to the waste paper basket.

The second line of attack concerns whether strategies can actually have any guiding effect on business practice. Systems theory tells us that the success of interventions in complex organisations is doomed to be marginal at best. Applied to our topic, this means that strategies are more of an expression of management talk than actual practice. A look at the empirical data is indeed disheartening. Detailed studies and simple workplace experience both produce examples of the difficulty of executing strategic plans (cf. e.g. Fink & Hartmann, 2009). Strategic guidelines are bent, and counterproductive activities are common. Why is that? This happens because the systems strategic management is trying to change consist of actual people, their behaviours, and social structures. What is common to all of them is that they will resist – on principle and with good reason – change imposed from outside. Any educator, teacher, manager, or consultant will acknowledge this. The crucial point – also for the question of strategic HR development – is therefore to understand in which circumstances in which circumstances such interventions will fail and in which they will succeed in complex systems (cf. Willke, 2006, p. 6 ff).

What both arguments have in common is that they see the basic pattern of trying to master the future, with strategic visions and guidelines, in a critical light. This book, therefore, always asks how to avoid the sword of Damocles of the "irrelevance" of strategic commitments and ambitions.

This concludes our tour of the contents of this book. The point is to integrate HR development and strategic management, despite all apparent difficulties and the naysayers, and to do so in a manner that will increase the likelihood of its effectiveness. In concrete terms, this means coordinating HR development in close conceptual and chronological proximity to general strategic planning. HR developers should see themselves as (business) partners of the other organisational units, which they support in realising their strategic objectives using their specialised know-how. This means that strategy evolves from an organisational unit that does nothing but support a mature business unit with its service and contribution to the success of the business. This should end all discussion about why HR development exists.

5 The Structure of This Book

This book is made up of four main parts. The first part looks at the foundations of strategic HR development. These chapters show us why it is worthwhile to spend some time on the issue. Walter Jochmann's contributions, following this introductory chapter, survey the current state of HR development in business. He clearly pinpoints the obvious needs for intervention with his challenge: "As a central pillar of the HR function, HR developers – and their colleagues in the HR department – need to focus their work much more intensely on the strategic factors for success, the targets and ambitions of the company, and the challenges of the markets" (cf. Jochmann's "The State of HR Development – Taking Stock", also cf. Ulrich,

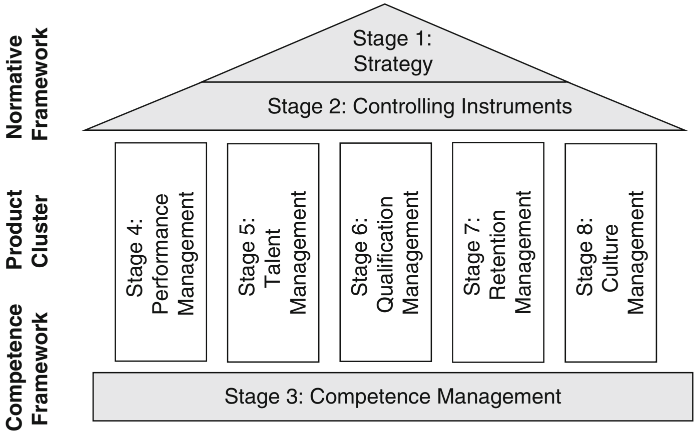

Fig. 1 Strategic HR development in the 8-stage concept

2005). Relying on empirical data, Kabst and Wehner then give us a prognosis for the HR Development in Germany and around the World. The three introductory chapters represent a form of justification for this book: they make the case for a fundamental reorientation of HR development.

The second part forms the core of this book. In a total of nine chapters, the core activities – our "stages" – of strategic HR development are analysed in more detail. After a short introduction to the stage-concept by Meifert, the discussion centres on the "roof" of the HR development house (cf. Fig. 1).

Hölzle's contribution shows how an HR development strategy is born and which factors need to be considered in its design. Girbig and Härzke explain how HR development can be steered and controlled. In other words: How can we see whether the defined HR development strategy actually has its place in everyday routines? These two areas can be seen as the normative framework for HR development. Leinweber's following chapter moves down to the foundation of the HR development house with his look at competence management. He reveals that a holistic concept of competence is indispensable for the right alignment of HR development instruments with a company's strategy, adding a number of pragmatic suggestions for use in the workplace. These service bundles are discussed in more detail in the following chapters, beginning with von Preen, Blang, Costa, and Schmidt. They explain the role of HR development in performance management and how remuneration can be used to manage the performance of employees. Bödeker and Hübbe turn to look at a topic that is the subject of much current debate: talent management. The question at its core is how talent can be identified in an organisation and how it can be put to sensible use. Fredersdorf and Glasmacher tackle a classic topic that has become more important than ever in view of the dramatic reduction in the half-life of knowledge and competence: qualification management. The authors show how occupational teaching and learning can be designed to live up to its purpose, that is, to empower employees.

The seventh stage addresses a question that was a topic of much debate at the turn of the millennium and has since lost some of its prominence: retention management. Meifert discusses the framework and opportunities for retaining employees. The second part of this book ends with a chapter by Lassalle, Weh and Meifert, which looks at how HR development can promote a corporate culture that sustains and fosters the business strategy.

The third part deals with some of the critical questions concerning HR development in practice. Its seven chapters represent answers to "frequently asked questions" about HR development. They ask and give answers to the following questions: How to persuade the sponsor? (Bittlingmaier), How to respond to budget cuts? (Hartmann), How to design? (Becker), How to control and benchmark? (Lemmer, Girbig and Meifert), How to globalise? (Müller, Thomas & Müller).

In a final chapter, Bruch and Kunz establish how the concept of organisational energy can improve our understanding of HR management in general and HR development in particular.

6 Conclusions

We have seen that HR developers have no easy stand in German businesses. Subject to the critical gaze of their colleagues, they are often placed in the uncomfortable position of having to justify their existence and purpose. This chapter has identified seven homemade problems at the root of this situation. These can be summarized to the point:

- HR developers lack communications skills,
- Are afraid of controllers,
- Are obsessed with trends,
- Allow the responsibility for HR development to be passed around like a bad penny,
- Are caught up in their own internal dynamics,
- Practise too much quiet obedience, and
- Do too little against strategy obliviousness.

This chapter has also defined what is meant by strategic HR development for the purposes of this book, relying on the concept of strategic management as our frame of reference. HR development must be strategically oriented in order to achieve *strategic fit*. It has to aid and abet the implementation of the corporate strategy, and it can foster and harness its own strategic potential. In concrete terms, this means that it needs to be approached in close conceptual and chronological proximity to the planning of the general business strategy. HR development has to see itself as sharing in an equal (business) partnership with the other parts of the organisation. It supports the other parts of the business in the pursuit of achieving their strategic targets by investing its unique expert knowledge. Looking at HR development in this light turns the old vision of an organisational unit that produces nothing but costs into a respectable business area with a distinct service portfolio and value contribution for the company. This vision takes away all need for justifying HR development's raison d'être.

This is where this book begins to unfold. It is meant as an appeal for a completely new approach to HR development. The key is to align HR development in every respect with corporate strategy: in short, strategy-oriented HR development. Chapters "The State of HR Development: Taking Stock" and "Institutionalising HR Development: Strategic HR Development in Germany and around the World" will show us how this can be done.

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The State of HR Development: Taking Stock

Walter Jochmann

For over three decades, HR development has been a fixture amid the traditional range of HR functions – support services, strategy, controlling, policy, and payroll accounting. It has grown from its original function, dedicated to analysing and developing the potential of young leaders and providing training and qualification services. Indeed, over time HR development has become the source and engine for central development concepts that go far beyond surveying individual training needs. There is a growing realisation in the business community that the failure of corporate strategies is most commonly due to a lack of qualifications or motivation on the part of key employee groups. The success of complex customer-oriented and service-centric business is determined by employee skill sets. This realisation has boosted the presence of HR development in line managers' minds. HR specialists are no longer alone in understanding that a number of HR development processes and concepts are decisive for the commercial growth of any business. The most common operational use of the term "human capital" refers to the development of transferable skills in all employees that aim to meet future business needs (Jochmann, Kötter, & Dievernich, 2006).

Nevertheless, the current status of HR development is not quite satisfactory. Discontent arises concerning the efficiency of qualification activities, the interchangeable nature of many requirements models, and the narrow focus on a selected group of high potentials. The key challenge for HR development in the coming decade will be to optimise the strategic foundation of its main concepts and toolkit. It will also be tasked with designing more effective qualification services, with a view to their workplace application. Finally, HR developers should concentrate more on strategically crucial or customer-oriented job families and on assessing the commercial viability of investments into HR development (Jochmann, 2006).

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1 The Rise and Rise of HR Development

The functional term HR development used here refers to the common responsibilities found in organisational charts, and, thus to the structural make-up of HR departments. This umbrella term typically covers the following specific functions:

- Designing (and sometimes executing or supervising) training concepts,
- Conducting potential analyses and status quo assessments for junior executives in increasingly higher rungs of the hierarchy as a part of executive development,
- Analysing qualification requirements,
- In-house development or procurement of professional and technical training modules,
- Advising management on questions of potential utilisation, performance optimisation, and career development,
- Supporting change processes with dedicated workshops and training,
- Establishing platforms for learning – from traditional training curricula to modern, web-based modules or interactive forms of learning, i.e.: “blended learning”.

Our recent HR climate index (Kötter & Ruppel, 2007) suggests that investments in HR development tend to follow the commercial status of the company or industry in question. Training and qualification budgets are a flexible variable that can be reduced at no great cost – at least for the short term. However, this can negatively impact the strategic success factors of a company over the medium term. The organisational infrastructure of HR development has seen a consistent positive trend in the recent past, especially in terms of its headcount and the number of key positions/specialists in the area. We can safely assume that 25 % of today’s HR professionals work in HR development or training functions. This quantity corresponds to the importance of its function, and its leverage, in terms of strategy implementation, corporate profiling, or innovation security in contributing to successful customer management. Figure 1 reflects the top priority awarded to HR and executive development within the wider canon of HR services over the recent past.

The pay bands and the typical career tracks of HR developers also attest to this emphasis placed on HR development by leading HR managers. It frequently turns out to be a route toward taking over overall HR responsibilities. In the past, this was reserved for HR policy or administration specialists. Increasingly, when given the required on- or off-the-job training, leading positions in HR or executive development can enhance an executive career track as much as experience in other top support functions (business partner principle or job rotation from other areas). Another insight into the growing importance of HR development can be gained by examining the strategic goals of HR as a whole, e.g. in terms of the following questions:

- What are the top ten current HR targets named in the relevant strategy documents?
- What are the top management’s main expectations concerning HR?

Figure 2 reveals the direct and indirect links of these considerations to the capacities of HR developers and confirms that HR development is a change catalyst

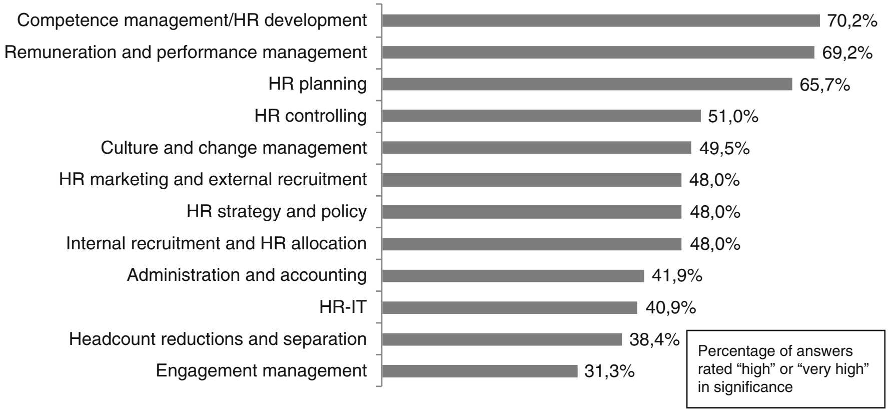

Fig. 1 Competence management and HR development as a top function of HR

Top 10 HR Targets*	Impact on HR Development
Improving leadership/management quality	
Remuneration and incentives	
Recruitment	
Qualification and training	
Change management	
Performance management/MbO	
Demographic trends	
Competence-and Skills management	
Succession planning/management	
Talent management	

Key: Direct impact on HR development Partial impact

Fig. 2 The leverage of HR development (source: Kötter & Ruppel, 2007)

in approx. 40–65 % of cases. In other words: certain HR development activities, which can offer a convincing conceptual basis and are implemented with a high level of competence on the part of HR developers and line managers, have a definite impact on the goals of HR and the services that top management expects it to provide. This is no longer restricted to the traditional combination of staff appraisals and potential analyses on the one side and functional qualification and empowerment for people's current or future tasks on the other. An essential element now consists of safeguarding the organisation's competences in strategic activities. Corporate competences refer to a selection of functional and personal qualities that are relevant for all individual jobs within a business. Competences also apply to all job groups across the organisation – with particular emphasis on product development, sales management, and corporate management. Successful companies understand that they need to mirror the strategic success factors within their markets, while still ensuring uniqueness with these distinctive qualities: their unique selling and unique competence proposition (Prahalad & Hamel, 1990). Recent research in intangible asset management has been considering the extent to which personnel factors play a part in achieving this uniqueness. Traditional asset evaluations include a survey of the company's current tangible assets and their development over time, including all balance sheet assets like buildings, production facilities, other real estate, etc.

By contrast, intangible assets cover the difference between the company value as traded on the open market (market capitalisation) and its book value (Kaplan & Norton, 2004). Analyses have shown that five to eight strategic success factors determine the makeup of intangible assets in many industries. Human capital accounts for 40–60 % of these intangible assets, followed by strategic and structural capital, customer value, and brand image. When we remember that a considerable share of human capital is determined by the quality of the right employee groups placed in key positions HR development appears to be a first-rate measure of crucial intangible assets. Quality, in this case, refers to the availability of inelastic competences, staff satisfaction, motivation and commitment.

2 The Processes and Instruments of HR Development

By contrast to the broad and comprehensive term "function", "processes" refer to specific workflows with clearly defined start and end points. Between these two points, most processes cover three to eight individual steps at varying degrees of detail. These steps form the habitat of the process' actual work application (relating to other business processes via deadlines, shared responsibilities, or linked competences or decisions). Figure 3 presents a typical process landscape, which distinguishes between strategic, supporting, and administrative HR processes. Some of its terms are represented as classic sub-functions in the organisational charts of HR organisations, whereas others – e.g. succession or performance management – make up a thematic umbrella for a set of related activities. The rationale consists of these qualities:

- Each process is based on performance criteria with defined timeframes, costs, and output qualities.
- Responsibilities are allocated with respect to the form of overall responsibility and reporting lines. Different roles are to be given to people in charge of specific activities and to decision-makers.
- The required forms of interdepartmental cooperation and shared work format in the sense of instruments, output records, and IT systems are defined.
- Quantity and quality can be benchmarked throughout the process.

Depending on the chosen level of detail, the end product consists of three to five exclusive HR development processes as well as neighbouring processes that involve HR development aspects.

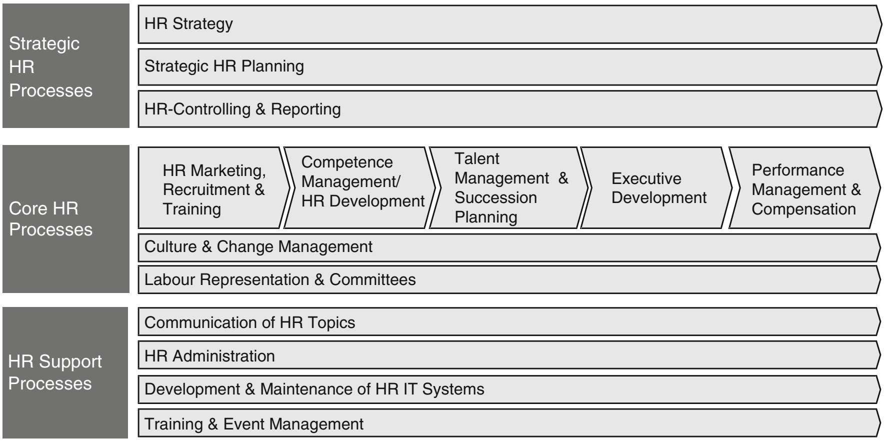

Fig. 3 HR process landscape

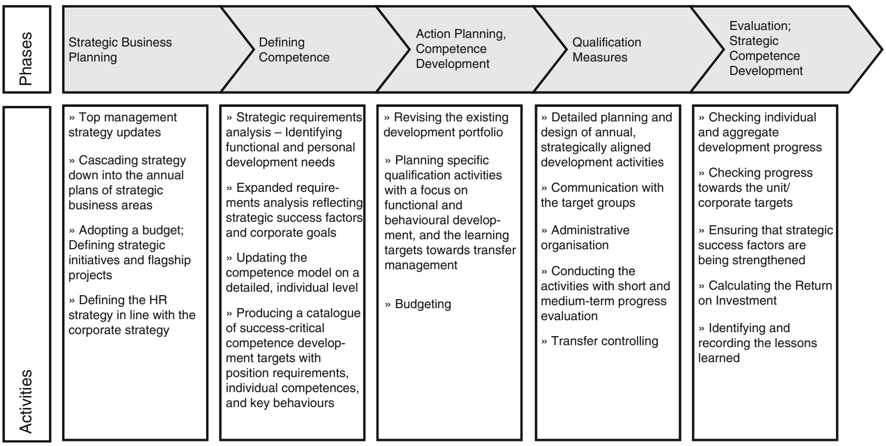

Fig. 4 The strategic competence management process

An example of such a detailed process is given in Fig. 4: "Strategic Competence Management". Building on a common conceptual foundation, companies should, however, develop their own, bespoke process profiles to match the required applications and the concepts and instruments that are already in place. In practical use, the illustration given here would also name all relevant instruments for each step in the process and include the responsibilities of the key actors. The process used in our example, strategic competence management, is a relatively recent development, evolving from the past focus on operational training processes. It pays particular attention to transforming the organisational competences already discussed above. The changes are to be structured using a corporate model of competence (Jochmann, 2006). In the currently dominant format, such models of competence cover 10–20 general dimensions of competence and are specifically relevant to top and key positions. This means that they tend to neglect essential job groups on the client-facing or operational side. They focus narrowly on management and leadership qualities, forgetting about key technical competences. In view of demographic change and the impending qualified specialist bottlenecks, safeguarding the supply of technical, information- and process-competent human resources is becoming increasingly vital. Integrated business models that cover sales, service, and high-quality customer service demand a lot more from many employee groups and give the technology- and client-related competences a central place next to the quantitative side of HR planning. The competence manuals produced by strategic competence management define what is to be considered average performance, special potential, or top performance for all job groups by giving clear examples or behaviourally oriented performance indicators. The strategic competence management process is not aimed at identifying individual people's training needs, but rather at assessing the need of qualification programmes for entire job groups or an even more comprehensive use.

The operational qualification process, by contrast, revolves around annual staff appraisals, focusing on investigating any potential performance shortfalls, assessing the employee's competence, giving behavioural feedback, and rating the employee's potential. This produces a set of behavioural goals and individual development activities for each employee, which are aimed at either maintaining his or her capabilities for the current function (compensating for any weaknesses or preparing for the future) or paving the way toward new levels of responsibility or a new functional remit. The sum of such qualification processes represents the organisation's annual plans for internal or external behavioural or functional training, coaching, autodidactic study, or networking/sharing of experiences. Donald Kirkpatrick and James Kirkpatrick's call for effective transfer and evaluation cycles (2006) remains a challenge, especially in the following aspects:

- Ensuring participants' grasp of the training contents in terms of the desired knowledge or methodological approaches.
- Encouraging the use of training in staff behaviour during key work incidents.
- Achieving better work performance.
- Securing a positive return on investment for the expenses that were necessary.

The succession management process includes the annual review of all key positions and their incumbents with a view to possible reappointments/rotations, preparation for new duties and identification of poor performance. This also entails giving preference to members of the talent pool in the allocation of training opportunities or appointments. In this respect, it is essential to cover the quantitative staffing needs of the key job groups for the medium term at the very least. The target should be to fill 60–80 % of key position vacancies with internal candidates and to ensure sufficient reserves for 80 % of acute necessity appointments. At the forefront, this process relies on the integration of the business plans and strategies in terms of executive recruitment needs. It also relies on the decentralised surveying of performance and potential reserves, ascertaining these with cross-comparisons and external benchmarks. Needless to say, matching the right positions with the right candidates in the transfer phases is particularly important to succession management. Finally, the process is responsible for designing suitable job rotation and qualification measures. With the goal of internal recruitment in mind, potential successors should be in place, with additional fallback reserve candidates, for each key position. The high potential pool, if available, plays a major part in this, as its members are already being groomed for a future in top management via preferential treatment or international assignments.

In the performance management process, the attention of HR development turns to the high-quality preparation and execution of cyclical staff appraisals. One important factor in this process is the supervisors' rating of their people's competences, as it

- Represents the root causes for performance successes or shortfalls in the competence rating,
- Identifies development needs with a view to possible future responsibilities or functional remits,
- Translates identified shortcomings into a set of suitable development activities, supported with dedicated action plans and, optionally, change scorecards,
- Supports the rating of the employee's potential for future duties and, possibly, greater responsibility, by defining potential indicators and ensuring a uniform assessment standard for the entire organisation.

These HR development processes need to be grounded in a set of dedicated concepts. The most frequent concepts are the following:

- Career and career track models (including career formulas, the role of international placements, job rotation policy, etc.)
- Corporate models of competence
- Development principles, with statements of the company's commitment, definition of staff's own responsibility, etc.
- The desired corporate culture, with leadership and cooperation principles, defined corporate and social responsibility statements, commitments to fair business practices, or statements on equal opportunities/diversity, etc.
- Corporate remuneration concepts, also in terms of variable-pay incentives for reaching development targets.

When putting these concepts into practice, companies need standardised tools, usually implemented in the form of purpose-built IT solutions. Medium-sized organisations typically require five to ten such instruments in their HR development activities, a number that rises to 15–20 at larger corporate organisations. These instruments include:

- Appraisal forms,
- Potential rating forms,
- Succession management forms,
- Career planning forms,
- Individual development plans,
- Target agreements,
- Supervisors' ratings,

- HR portfolio,
- Tools for the immediate and medium-term assessment of qualification activities. The HR development processes are sustained by a range of different roles:
- Supervisors – as mentors or coaches and immediate observers of their people in real professional situations
- HR professionals/HR developers – as business partners or specialists and advisors or coaches
- External trainers and coaches – as unbiased specialists and change agents

Good concepts and HR policy documents can only become a reality if these actors are fully qualified to make their contributions to the process. Key actors must also be aware of the need to communicate with their people about their work.

3 HR Development as a Building Block of HR Strategy

HR work is cyclical work. Periods of reacting to changes that affect the organisation are followed by periods in which it is important to take the initiative in the pursuit of benchmarks or ambitions. Figure 5 paints a picture of the current topics of interest and targets for HR professionals as revealed in the Kienbaum studies already quoted earlier and in many workshops and discussion forums on the topic. We can see the role of internal projects or strategic campaigns that span many years, e.g. the establishment of HR as a business partner, or the re-envisioning of the business model with an emphasis on support and shared service. Formulating a dedicated strategy for the function of HR brings these improvement projects together under a single vision or long-term ambition, a specific business mission, and a set of medium-term, strategic goals for HR. Such strategies determine where HR specialists will focus our work and how we define our unique service propositions. Formulating a business mission helps us define our value contribution to the other parts of the organisation, our key client groups, and the central commercial processes of the business. An internal analysis of around 70 potential HR targets reveals the following set of key targets:

- Performance management – remuneration and incentive systems, workforce productivity, HR costs, and work efficiency.
- Competence management – recruitment and retention, maintaining qualification levels, and improving leadership and management quality.
- Culture and change management – position of the employer, staff satisfaction and commitment, supporting growth and change processes.
- Internal goals of the HR section – efficacy and efficiency of HR processes, customer management, and measurability of the HR value contribution.

The place of HR development and competence targets as well as the projects and core activities that relate to them are also reflected in monitoring models. The measurement criteria for HR development command extra attention, in particular concerning performance indicators such as:

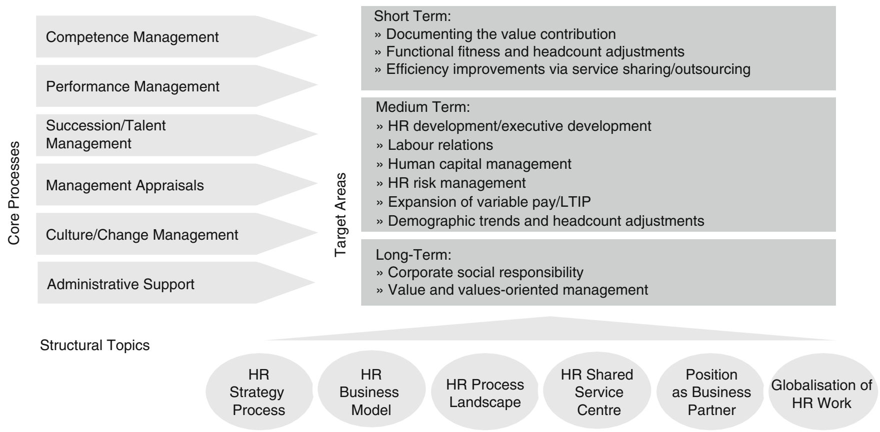

Fig. 5 HR trends 2009: processes, structures, and topics

- The fit of the competence levels for all essential job groups,
- Percentage share of top and key positions covered by succession management and talent pool systems,
- Cost benchmarks and the commercial viability of HR development activities,
- The degree of transparency of the available management and junior management potential,
- Readiness and aptitude for learning among essential employee groups.

HR development considerations play an even more central role in the core messages of HR function, often known as HR principles or people strategies. Many studies show that the most sought-after group of university graduates for any given position values the availability of development opportunities, ideally in combination with appealing career models, when looking for a potential employer. In turn, companies expect them to invest a certain degree of initiative, openness for feedback, readiness for self-development, and efficient learning skills.

The essential concepts and tools applied in HR development processes are typically overseen by a dedicated HR development competence centre. A decade ago, decentralised development teams working directly with their clients inhabited the development landscape. Today’s HR professionals/advisors, acting as local business partners and coaches, are the integrated source for all HR services. They support employees and executives in business units in all HR issues, in critical decisions or conflicts concerning promotion, potential analyses, career planning, or management changes. This does not affect the role of the line manager as the frontline developer, coach, and mentor of his or her people. Being constantly in touch with the employees, understanding their work environment in detail, and knowing the performance they produce makes the line manager the key source for feedback. This is reflected in the annual appraisals conducted by line managers, which combine performance target reviews with looking ahead at the employee’s career prospects. Central corporate HR development supports the HR professionals and line managers at the periphery with training and advice; it plans and implements – be it on its own or with outside consultancy support – necessary seminars for potential analyses or any other related support services.

4 Opportunities for Change and Targets for Intervention

Over the last few years the position of HR among traditional corporate functions has been unstable and often been questioned. However, a slightly positive tendency becomes apparent. Its equipment, in terms of personnel and budget, has been consistent or even improved slightly, and HR professionals have maintained their place just within the top third in salary rankings (Jochmann, 2005). However, there are obvious calls for change from the point of view of top and middle management clients, including:

- Justifying HR specialists' call for recognition as a business partner with substantially better personnel quality, an entrepreneurial outlook, and a better grasp of strategic instruments,
- Documenting the value contribution of HR in general and the pay-off of development investments in particular,
- Using more IT potential,
- Developing innovative concepts to respond to current demographic trends,
- Improving the sense of initiative and being proactive to counter a dominant administrative/specialist focus,
- Acting as a role model in terms of analysing and developing its own competences,
- Raising the HR profile in change projects with communication, mediation, and training services,
- Improving the strategic grounding of its essential activities and making them visible,
- Increasing its activities in terms of direct consulting and advice,
- Bundling and simplifying its toolkit,
- Improving the impact of its training services by integrating them with central business processes and reflecting critical professional incidents.

This wide spectrum of transformative ambitions reveals a basic pattern:

- The consistent use of functionally/behaviourally oriented competence management for HR professionals themselves – an example for others and leverage for the increasingly demanding functions of HR,
- The continued development of the chosen processes and methods in the pursuit of efficiency, efficacy, and innovation,
- The reinforcement of the HR development's cooperation with corporate and departmental strategies, coupled with a business-minded customer focus, adding to what is usually an excellent practical service mindset,
- The intensified reliance on key indicators in HR work with a view to its added value and profitability, as well as long-term human capital development performance tracking.

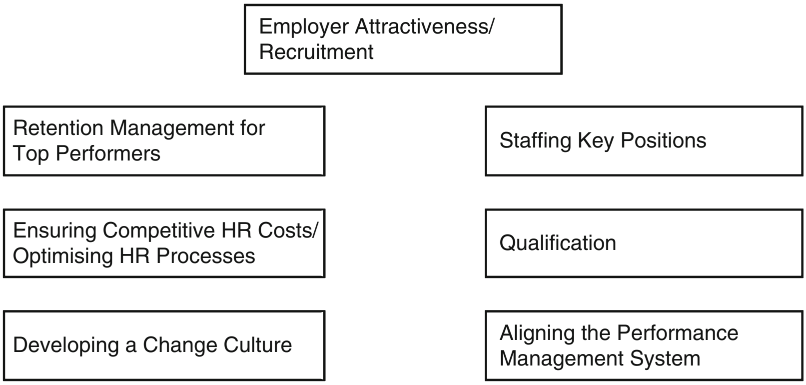

Fig. 6 Key HR activities that underline the success of the organisation as a whole

As a central pillar of the HR function, HR developers – and their colleagues in the HR department – need to focus their work much more intensely on the strategic factors for success, the targets and ambitions of the company, and the challenges of the markets (cf. Ulrich, 2005). Figure 6 outlines a sample of HR management challenges that result from the challenges of business. It clarifies that the successful development of business in tomorrow's global markets will be determined by the competition for economically viable competence and talent.

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Institutionalising HR Development: Strategic HR Development in Germany and Around the World

Rüdiger Kabst and Marius C. Wehner

1 Introduction

Research undertaken by Cranet[1] has shown that HR management is typically awarded a position of secondary importance in the various functions of business management. Although this phenomenon can be observed worldwide, the situation is particularly striking in Germany (Kabst & Giardini, 2006; Weber & Kabst, 2002).

Taking the representation of HR management on the executive level as an indicator of its organisational standing, the first Cranet results from 1990 were indeed sobering: only 33 % of German HR directors were part of executive management! Fortunately, HR management in Germany has undergone a period of professionalisation in the 1990s. Thus, it was able to gain ground in the corporate world. By the year 2000, the share of HR directors at the top level had increased to 46 %: a positive development—but no laurels to rest on. The same applies to the background of HR directors. While only about 23 % of HR directors were selected from the company's HR teams in 1995, this figure rose to 28 % in 2000. However, this means that a considerable proportion of HR directors is still taken from other functional areas (with no profound experience with HR management).

[1] The "Cranfield Project on International Strategic Human Resource Management" (or: Cranet) is a global research network of over 40 universities and business schools (with one representative per nation) that is engaged in an international comparative longitudinal study of HR management practices (Brewster, Mayrhofer, & Morley, 2000, 2004; Kabst, Giardini, & Wehner, 2009).

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Both the lacking representation of HR on the top executive level and the limited path dependency in the competence profiles of the actual HR directors bode ill for the state of HR in German businesses. This is worsened by the fact that HR management holds a much more prominent position in many companies in other Central and Western European countries.

Ten years have passed since the millennial study. It is worthwhile to take the time and check what has changed since 2000. Have German businesses "seen the light" and begun to regard HR management as a key engine for commercial success? Are German companies aware of the value of their human capital? Are they using focused strategic HR development to sustain and develop that human capital? Or, if the institutional backbone of HR management is already a cause for concern, what is the state of professionalism in strategic HR development in Germany? Are institutionalisation, strategies, and applied development practices unrelated entities?

The international Cranet survey of 2005 and the German focus sample of 2009 offer interesting insights.[2] Cranet uses a standardised questionnaire to survey the top HR managers at public and private organisations. In the most recent survey, this meant a total of 45,000 questionnaires worldwide, more than 7,200 of which produced meaningful returns (Kabst et al., 2009, p. 12ff.). In the 2009 German survey, a total of 4,000 questionnaires was sent out, with a participation rate of 10 %.

2 The HR Director as HR Business Partner

If we want the people in charge of HR to become human resource business partners (Ulrich, 1997) of executive management, they require sufficient responsibility and a place at the boardroom table when it comes to taking part in the strategic decisions. The Cranet data on the institutional representation of HR directors for 2005 seems to reconfirm the findings of earlier surveys. While 94 % of French businesses', 88 % of Swedish, and approximately 76 % of Spanish and Italian businesses' HR directors take part in the executive management, only about 45 % of German HR directors can claim this role their own. British HR directors have even less of an institutional voice (46 %) (cf. Fig. 1).

Germany does not (yet) seem to share its international peers' recognition of the strategic role of the HR director as HR business partner. Nonetheless, a look at the developments from 1990 to 2009 is encouraging and can be understood as a sign of organisational change (cf. Fig. 2).

The Cranet data shows that the number of HR directors who are part of executive management has increased consistently from 1990 to 2005. While only a third of HR directors were considered part of executive management in 1990, this

[2] No recent data for the other participant countries of Cranet was available at the time of writing.

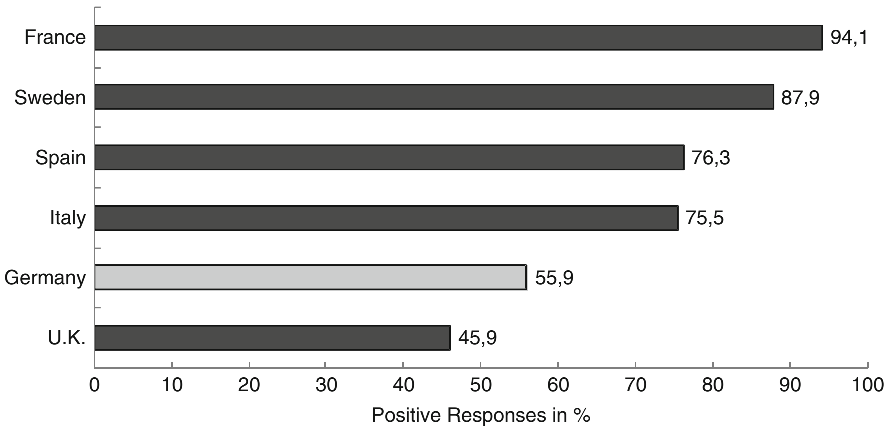

Fig. 1 Is the HR director represented in executive management? (International comparison for 2005)

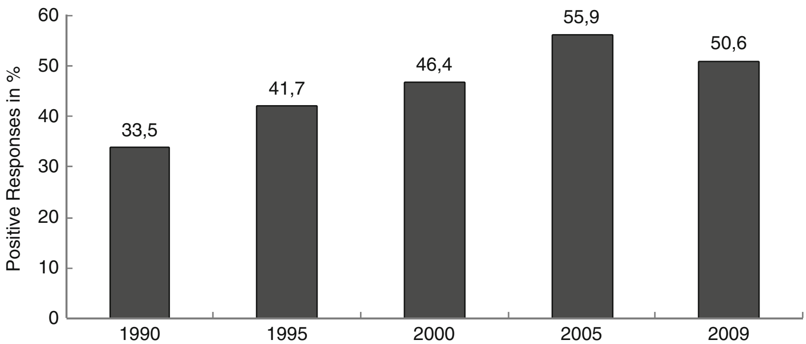

Fig. 2 Is the HR director represented in executive management? (Development in Germany from 1990 to 2009)

proportion has increased to a total of 56 % in 2005. However, this ratio stagnated in 2009 at 51 %, which means in only one of two German companies HR is represented in top management.

Although German companies still have a long way to go, with just over half of HR directors being part of executive management, the ostensible positive trends paint a promising picture. German businesses seem to have come to realise this flaw – the lacking recognition of HR directors as business partners. The positive trend seemed to be stagnating somewhat in 2009, but the general picture across all company sizes and all sectors of industry shows us that the degree of institutional representation of HR has been increasing consistently.

An international comparison shows Germany gaining ground in its pursuit of catching up with Sweden and France, where the executive management role of HR directors appears to be taken for granted since 1990 (cf. Fig. 3). Although there was

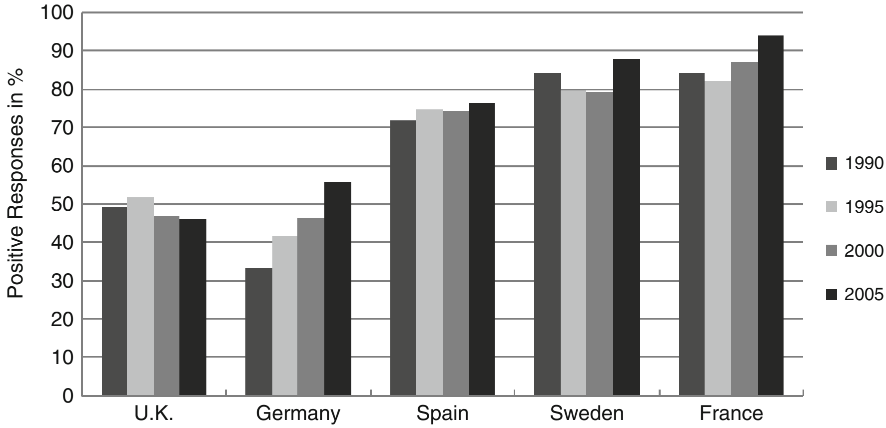

Fig. 3 Is the HR director represented in executive management? (International developments from 1990 to 2005)

a slight downturn in the figures for Sweden and France from 1990 to 2000, the data for 2005 still shows that almost nine in ten Swedish and French companies expect and appreciate the involvement of HR directors in making key decisions for the business. From a German point of view, this appears to be an ideal German businesses should aspire to. In British companies, the data for 1990–2005 reveals a decreasing trend or, at least, a consolidation at a low level, which does not reflect an increasing importance of human resources as a competitive factor. However, we can assume that a rethinking should and will take place in Britain as well.

The Origin of HR Directors

We can also measure the degree of professionalisation of HR management by looking at whether the people in charge had already been active in the field before taking up their duties as HR directors (be it at the company in question or with other employers). We should also assess whether they have a sound HR management competence profile. We can assume that an experienced HR director will be more effective, and thus more successful at conducting HR activities, than an HR director parachuting in from another (unrelated) area of the organisation with limited relevant experience in the field.

There is a twofold rationale for the assumption of an increasing degree of professionalisation in German HR management. First, the number of HR directors who had already worked in an HR department has been increasing continuously since 1995 and remained above the 25 % mark in 2009. Second, the recruitment of HR specialists from other organisations experienced a similar increase in 2009, having just passed the 40 % threshold (cf. Fig. 4). This means that the percentage of HR directors who had already gained experience in their HR departments overtook

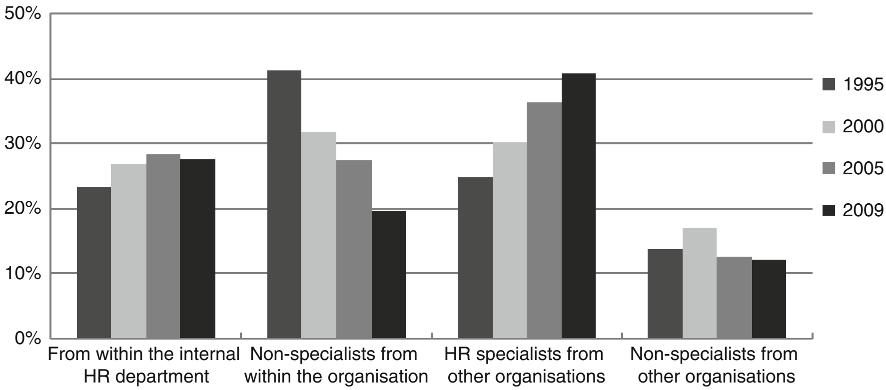

Fig. 4 The origins of HR directors before taking up their duties (development in Germany from 1995 to 2009)

the number of non-specialists for the first time in 2009. German businesses have recognised the significance of strategic HR development and have begun to recruit more and more HR specialists from other organisations. However, there is still a long way to go if companies want their HR functions to be led by HR professionals from their own talent pools.

At the same time, we can see that companies still tended to use non-specialists (i.e. without HR experience) for heading their HR functions in 1995 and 2000, instead of recruiting HR specialists for that job from within their own organisations or from other companies. The often negative experience with this recruitment policy in German businesses seems to have led to a rethinking by 2009: more and more of these posts are now being handed over to HR specialists.

The Significance of HR

When HR directors are asked about the significance of HR in their organisations, the results reveal a noticeable gap between self-perceptions and external perceptions.

59 % of the surveyed companies fully agreed that from the HR director's perspective "people are a strategic resource for the organisation" and 47 % approved the statement "HR (again from the HR director's point of view) contributes substantially to the success of the organisation" (cf. Fig. 5). However, the picture changes noticeably when it comes to human resources being the "source of competitive advantages" or regarding the level of "general appreciation for HR at the company": only 25 % and 17 % of HR directors "fully agreed" to these two items. The results have hardly changed since 2005. This shows that HR directors believe that people and the HR function are an indispensable strategic asset that contributes to the good of the business, but also that this viewpoint is not shared across the organisation at large or among its top managers. This finding may sound disheartening, but it hardly comes as a surprise. Such results were to be anticipated

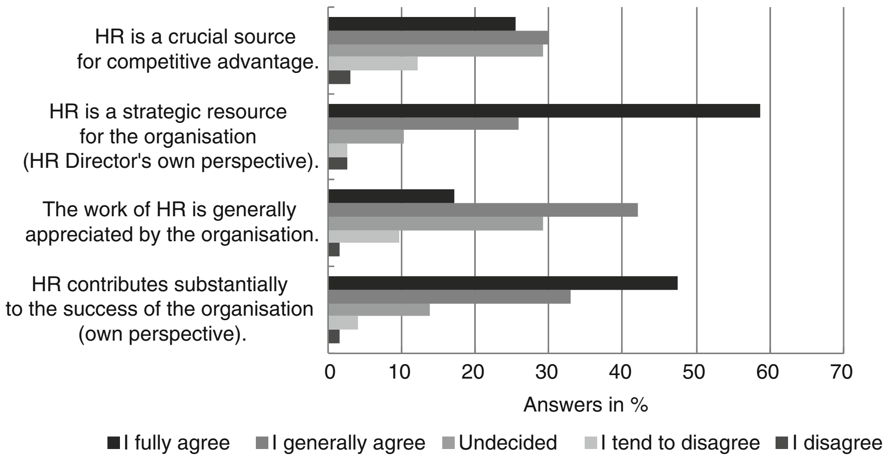

Fig. 5 The strategic importance of HR (Germany in 2009)

and seem to reflect the actual (and perceived) reality in business. At the same time, the results reveal the remaining potential for professionalising and boosting the standing of HR management even from the external point of view. When the two possible answers of "fully agree" and "generally agree" are taken as one, both the internal and the external perspective present quite acceptable results. The survey respondents believe that "People are a strategic resource" (84 %), "HR contributes substantially to the success of the organisation" (80 %), "HR is generally appreciated in the organisation" (59 %), and "HR is a crucial source for competitive advantages" (55 %).

No Strategy Design Without HR Representation

For HR management to be put on a systematic and future-proof groundwork, one factor needs to be understood as absolutely essential: the presence of an explicit HR management strategy, recorded and documented. Germany's companies continue to trail behind their international competitors in this area. While almost eight out of every ten Swedish and British businesses have a dedicated, documented HR management strategy, only a third of German companies do likewise. When asked about the simple presence of an HR strategy – documented or not – Germany still ranks last with 71 % of companies (cf. Fig. 6). It trails behind France (76 %), Great Britain (83 %), Spain (87 %), Sweden (90 %), and Italy (92 %). When we remember the importance of strategic HR development, this finding is alarming, since no sound development strategy can ever be found without an established and effective HR management strategy to build on.

With such discouraging findings regarding the presence of an HR management strategy in German businesses, the expectations for the presence of a dedicated HR

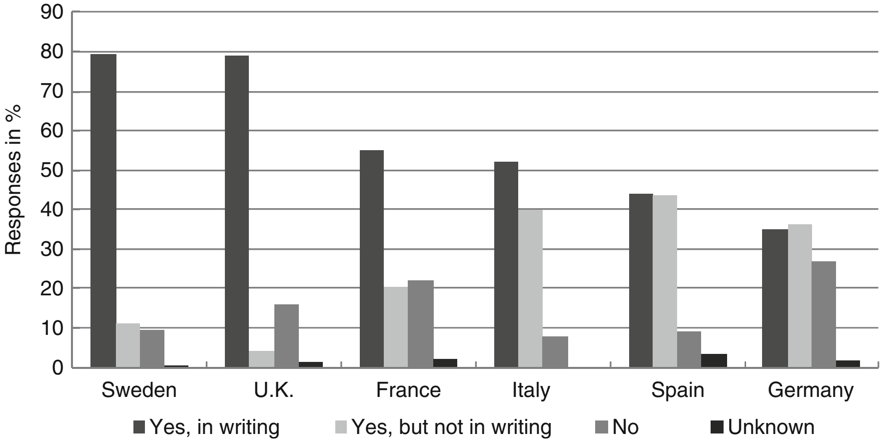

Fig. 6 Is an HR management strategy in place? (International comparison for 2005)

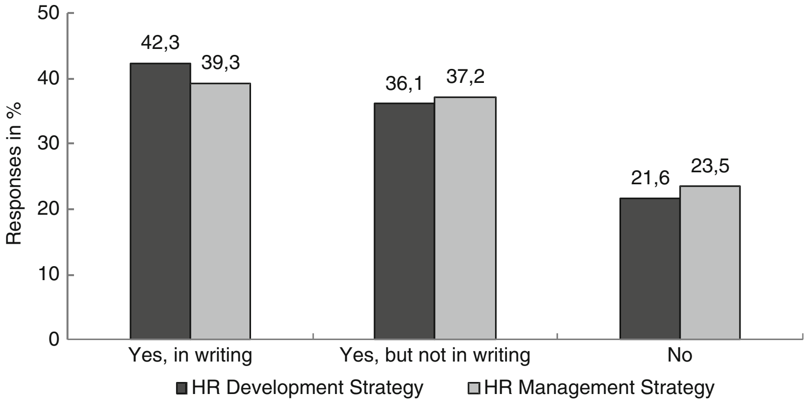

Fig. 7 Is an HR development or an HR management strategy in place? (Germany in 2009)

development strategy are naturally low. Indeed, the survey results for 2009 reveal a similar picture for both HR management and HR development strategies (cf. Fig. 7). Compared to their international peers, Germany's businesses still pay little attention to both the basic strategy for HR management and the specific design of strategic HR development.

The international comparison shows that Germany's leading HR managers cannot automatically assume that they will be included in their companies' strategy designs (cf. Fig. 8). Germany and Great Britain score the lowest ranks in this respect: the influence of top HR managers on strategy design is minimal in both countries. For successful HR management and HR development strategies, this is far from acceptable. HR management is not simply an executing function. It should hold an actively creative role as the HR business partner of the business as a whole.

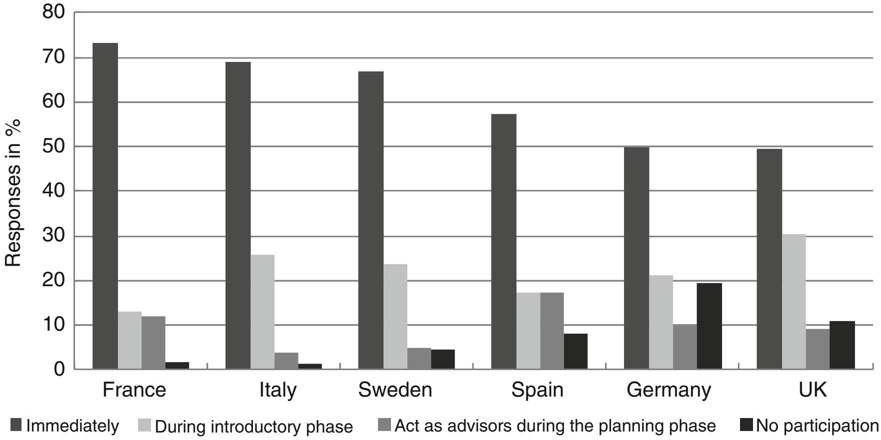

Fig. 8 At what point are HR representatives included in corporate strategy design? (International comparison for 2005)

For people committed to effective strategic HR development, this finding is truly a headache.

Our reflection on strategies and how they are designed shows that German businesses are still a long way from accepting their HR directors as equal HR business partners within top management. This gives their most essential strategic resource – their people – too quiet a voice, excluding them from strategy design. This oversight might negatively impact the development of human resources.

3 Strategic HR Development

We will now look at the investments of German businesses in HR development in more detail, and examine the practices of German HR development.

Investing into Qualification and Development

A crucial indicator for HR development is the share of annual training and development expenses in total payroll costs. The Cranet data produces two noteworthy findings in this respect: (1) many HR professionals do not recognise this indicator (or cannot name it spontaneously), (2) again the results for Germany match the familiar pattern, ranking somewhere close to the bottom of the international comparison.

Although Cranet surveys only the very top HR managers, almost half of respondents from Germany, Spain, Sweden, and the U.K. stated in 2005 that they did not recognise this indicator. In France and Italy, by contrast, virtually every

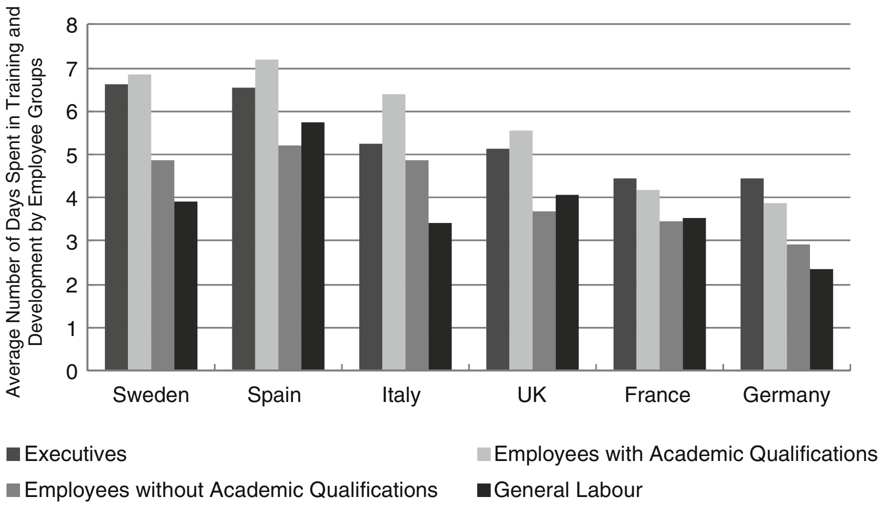

Fig. 9 Average number of days spent in training and development by employee groups (International comparison for 2005)

company could name relevant figures. Taking into account that almost half of the German HR managers could not respond to this question, the data shows that an average 2.3 % of HR investments go into qualification and development. This puts German companies at the very bottom of the international ranking. The top position is held by Sweden (investing an average of 4.0 %), followed by the U.K. (3.5 %) and Spain (2.4 %). Spending on training and development accounts for 3.3 % of labour costs in France and 3.5 % in Italy. Nonetheless, in Germany according to the 2009 data the trend is positive: investment into HR development increased by a whole percentage point to an average of 3.6 %. In view of the 2009 financial crisis, these figures should be taken with a pinch of salt, as the budgets in question were mostly still planned in the optimistic environment of 2007/2008. It can be assumed that the higher level of investment was not maintained in 2010.

The average number of days spent by the different employee groups in training and development – another key indicator for development intensity – reaffirms the disheartening picture for Germany (cf. Fig. 9).

German executives and employees with an university degree spent an average number of 8.3 days in training, trailing far behind Spain (13.7), Sweden (13.5), Italy (11.6), the U.K. (10.7), and even France. In 2009, the average time spent in training had increased by more than a day to a total of 9.5 days for this staff category. This has not, however, taken Germany out of the bottom third of the international comparison. Again, we need to consider that almost a third of the German respondents (for both 2005 and 2009) stated that they did not even know the number of days spent in training and development. In this respect, it is a promising sign that 45 % of the companies surveyed in 2009 at least stated that this number has increased "substantially" or "slightly" in the past 3 years. Meanwhile, 37 % of German companies reported it has remained "unchanged", and 18 % reported it decreased "slightly" or "substantially".

Both the bare figures for these indicators and the surprisingly large number of leading HR managers who did not recognise their importance lead to the assumption that German companies still have considerable latent development potential in comparison to their international peers. It would be too easy to say that German companies explain far lower training and development investments as a result of the more effective vocational training system in Germany. This explains neither the extent of the gap nor the low training figures for graduate employees and ignores the importance of lifelong learning. Add to this that the transition from Diploma system to Bachelor Degrees means that specialist and executive personnel will enter labour markets earlier than it used to. Subsequently, some of the development that was formerly a part of university education is now happening in the workplace (Balzter, 2008; Taffertshofer, 2008). If Germany wants to maintain its future competitiveness, a reassessment of development practices is in order. Foreign companies operating in Germany have long recognised the continued development of their people as a key factor for commercial success. This might mean that the "high potentials" among Germany's future university graduates will be poached by such foreign employers and be lost to domestic business.

Understanding Development Needs

Any worthwhile HR development activities have to begin with planning the actual HR development needs. These needs should normally be seen in terms of the company's targets, corporate strategy, and the specific HR development strategy (Giardini & Kabst, 2007, pp. 26–28). There is still a lot to do in terms of the integration of HR in strategy design and implementation in German business. On the other hand, 74 % of the German businesses surveyed in 2009 said they engage in a systematic assessment of HR development needs (cf. Fig. 10). A commitment to systematic requirements analyses and the existence of dedicated HR management/development strategies shows that systematic needs planning is typically done by companies that have an explicit strategy in place. This confirms our original assumption that all strategic HR development has to begin with a foothold in strategy.

A look at the actual methods used for such systematic requirements analyses shows that subjective recommendations and assessments by employees and their superiors are by far the most common approach in this respect. The second place is held jointly by insights gained from performance assessments, references to the company's targets, and forecasts about future or continuation of past trends. By contrast, very few German companies use analytical approaches.

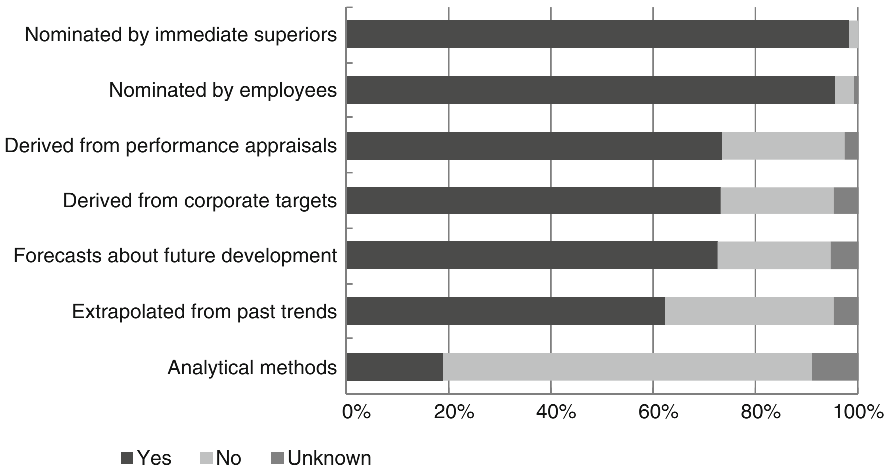

Fig. 10 Which methods are used for a systematic check of development needs? (Germany in 2009)

Tracking the Success of HR Development

Whenever strategic HR development is designed to match corporate or HR management targets, an evaluation of its activities' impact should stand at the conclusion of the process. This is also true when HR development is built on the basis of a systematic definition of the development needs. However, our data for 2009 reveals that only 61 % of the participating companies actually track the success of their HR development measures. This proportion is far too low for effective strategic HR development. Four out of every ten companies never check whether their HR development activities have had any impact at all!

A look at the concrete means used by other companies for evaluating the success of their development activities offers interesting insights. Unsurprisingly, the predominant approach is to use feedback from the actual participants. Such "happy sheets" are easy to use, but they suffer from several well-known weaknesses resulting in lower quality of the data. For a more thorough tracking of developmental achievement, other methods including pre- and post-tests are more valuable. Since such evaluation methods naturally require a lot of only around 20 % of the companies surveyed use such practices for an empirically sound check of their activities' impact (cf. Fig. 11).

We also need to consider the extent to which the newly acquired skills, competences and knowledge are actually translated into patterns of behaviour in the workplace. This can be checked by a subjective assessment by the participants themselves or by their superiors. The method is less objective than a dedicated closing exam, but it has been proven practically feasible, which might be the reason why approx. 80 % of the surveyed companies use this method.

In the end, the purpose of most companies' engagement in HR development is to positively affect their operational results. Therefore, any investment into training

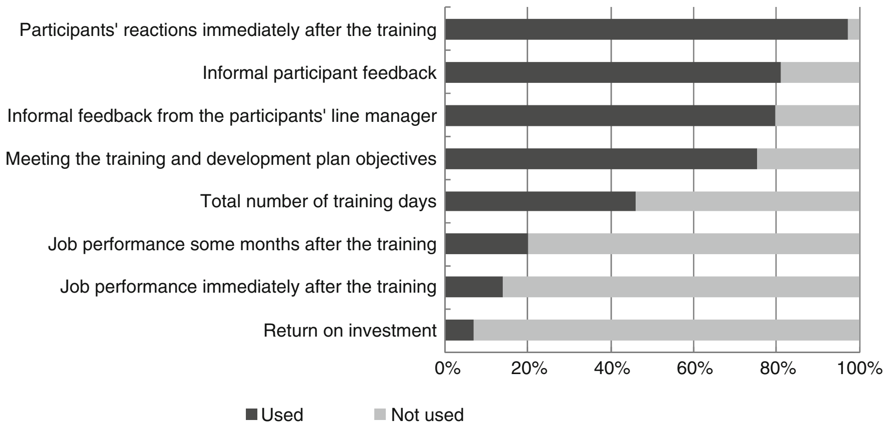

Fig. 11 Which methods are used to track the success of development activities? (Germany in 2009)

and qualification must be reflected on the bottom line. This makes it even more surprising that only around 7 % of the survey respondents evaluate the success of their development measures in the sense of their return on investment (ROI). Arriving at a credible judgement about the commercial validity of HR development activities is far from trivial; it is a highly complex business. In this sense, any spending on HR development should not be considered as short-term or one-off costs, but rather as a long-term, standing investment into the quality of the company's people.

4 Strategic HR Development in Germany: Quo Vadis?

Despite all of the challenges encountered earlier, the findings of the recent Cranet study represent an improvement over previous years. The trend shows that German companies have recognised and begun to counter the shortcomings in the institutional practices of HR work. However, international comparisons show that there is still a long way to go.

Recently, we have seen that the presence of HR directors as HR business partners of top management has received much more attention in Germany although it is still lagging behind other countries. The Nordic countries have held and continue to hold the top spots at the vanguard of this trend. Strategic HR management and its natural accompaniment – strategic HR development – require HR targets to be developed from the vision of the organisation. This can only be achieved if HR directors and executive management worked together as equals when defining goals and strategies for HR. Result of this process is the successful alignment of HR development with strategic objectives. If the HR director is included in this process too late or altogether left out all that is left for him to do is act as the executive management's handyman. A true HR business partner, by contrast, is defined by the HR manager's full integration in the key decisions, which is essential if a company wants to seize all of the potential of its people and benefit fully from effective HR development.

At the same time, the Cranet data reveals that while the crucial aspect of self-awareness is vastly given in Germany's HR circles, recognition and appreciation coming from executive management or other parts of the business are still lacking. Future Cranet studies need to consider the question of whether German HR managers are indeed raising the profile of HR work in their organisations.

A closer analysis of the status quo and the degree of professionalisation of strategic HR development has shown that German companies are still close to the bottom of international rankings when it comes to investments in training and development. While entire marketing budgets are sunk into improving companies' employer brand for university graduates or other high potentials, German companies are still investing too little in the development of people they already employ. The grand commitments to seeing people as a critical resource have to be translated into real actions in order to seize the full potential of employees. In addition to unambiguos targets and strategies for HR development, this requires sufficient budgets for training and development if Germany wants to bridge the gap and take its place among Europe's leaders in the field. At the same time, the introduction of Bachelor and Master degrees, the lower age of secondary school graduates, and the end of conscription will bring a flood of new graduates and young professionals into the German labour market. The Bologna reform leads to students spending significantly less time at university than ever before. Companies will have to act as a buffer for this new, accelerated approach to education and the competence gaps on the parts of graduates that might arise from it. This is another occasion for companies to enhance their commitment and investment into training and development.

A particularly problematic finding is the large number of companies that neither assess the development needs nor track the developmental progress of their people. Again, the underlying problem is that many German companies lack both an explicit HR management strategy and an HR development strategy. It cannot be overstated: without a clear vision of where to go, companies will always find it hard to understand their development needs, introduce suitable development activities, track the success of these activities, or define new targets on that basis. Germany's companies would therefore do well to recognise their HR directors as HR business partners and give HR equal weight as a strategic resource on a par with other functions of the business.

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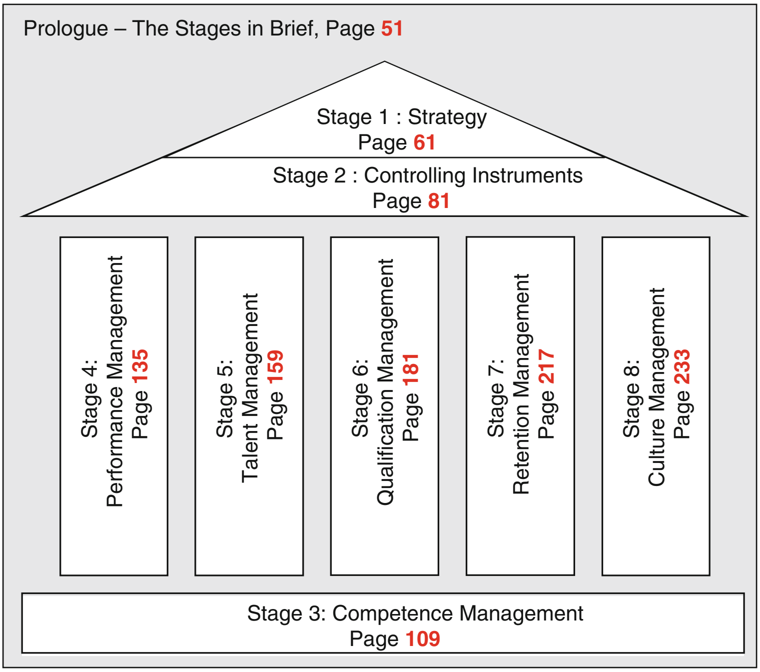
Part II

Strategic HR Development in Eight Stages

Prologue: The Stages in Brief

Matthias T. Meifert



In the second part of this book, we will take a look at how strategic HR development can be implemented. The first three chapters – which surveyed the state of HR

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development as is today – have shown us that this is easier said than done. The biggest obstacles can be found in a recurring set of problems: the intrinsic complexity of the issue (What belongs within the realm of HR development? What makes sense?), the lack of budgets and resources (What is feasible in times of hard-hitting cut-backs?), the lack of determination (Is it worth it? Will we be provided with time and resources necessary?), the simple fact that HR development often grows organically with the business (Why are we using such a mix-and-match toolkit? Where is the combining element?), and last, but not least, a perceived lack of competence on the part of HR developers (Why are we not accepted by line managers? Are we that different?).

How can these challenges be overcome on the way towards true strategic HR development? As in any long journey, the route will take many highways and byways and pass many rough patches along the way before the goal is reached and the project becomes a success. This metaphor of the long passage has shaped the eight-stage model we employ in this book: eight stages on the way to strategic HR development. The eight-stage approach has proven to be a helpful conceptual guide for many projects with a similar purpose. It creates a mental roadmap that helps lessen the overwhelming complexity of HR development. It helps navigate the topic in every sense of the term. At the same time, the eight stages represent a useful guideline for working with a focus on the key elements of HR development. To put it in more abstract terms: the stages reflect how the authors interpret the reality of HR development practices and purposes in an organisation. Despite its clarity and structure, the eight-stage concept must not simply be taken as an instructions manual. As the next eight chapters in this part will show, each aspect also concerns many different and oftentimes profound questions that need to be answered before any actual work can begin. In other words: the programme is not meant to be a one-size-fits-all solution. It is a bespoke suit: a recognisable, common design tailored exactly to match your look and feel. After all, HR development depends on the environment it is placed in. “No two companies are alike, and all of them need to have distinctive features from their competitors because only such distinctive businesses will offer the client real benefits and win the company its share of the market... If we want to understand which specific HR development measures are required, we need to know the organisation’s level of development and maturity” (Becker, 2005, p. 13f.). This book should be seen as an answer to and expansion of Becker’s challenge. If HR development is to become strategic (i.e., the need for strategic HR development, cf. Meifert, 2012), we do not only need to know the maturity of the business, but also the entire (explicit or implicit) corporate strategy and the degree of its application.

Many practitioners will already have their rebuttal ready: “That’s the problem. We have no clear strategic instructions from our management.” Or the challenges of everyday reality might be brought up: “One of the basic problems for business is that we cannot predict the future. We cannot predict changes in the environment, whether it be a new technology, changing customer demand, a competitor’s actions, or interventions by the state.” (Müller-Stewens & Lechner, 2005, p. 15). However justified these practical concerns are, they are not a legitimate reason for refusing a strategic turn in HR development. After all, even companies without dedicated strategies recorded in writing will have a de-facto, implicit corporate strategy. It shines through in their managers' operational decisions and is easily recognisable in the workplace when one knows where to look for it. The following sources have proven helpful for finding such implicit strategies:

- Investigative discussions with executive management concerning the future development of the business
- Analysing available documents, e.g. marketing, manufacturing, or innovation concepts
- Interviews with project managers in charge of high-profile projects
- Specialist interviews with industry representatives about the strategic alternatives available to the competition
- Reviewing past and current management decisions to find their strategic thrust (Is there a common thread?)
- Etc.

Naturally, it becomes easier when there is an explicit strategy to draw on. However, it can still be helpful to use some of these sources of information even if an explicit strategy is in place. This can flesh out the stated strategy or validate its actual use in some instances.

1 The Eight Stages in Detail

Before we turn our attention to the contents of the eight-step programme, practitioners will do well to stop for a minute and use the following table for a critical self-check of the current state of their HR development. The table allows HR developers to check the extent to which HR development is already strategic, i.e. already reflects and supports the corporate strategy. This self-check follows the stage concept and gives more impatient readers a quick way to find out where they will find the information they need in this book (Table 1).

Now each of the eight stages will be introduced in more detail for our more thorough readers – having already sent the more impatient readers ahead to the action areas that they are interested in. Figure 1 gives a first overview of the eight stage concept with the architectural metaphor of a house. It shows how closely the individual parts of HR development relate to each other, how they build on each other, and how they depend on each other. Just like no house could do without footing or roof there can be no credible HR development without a dedicated HR development strategy or without competence management. We can break down our HR development house into three tiers:

The top tier represents the basic strategic principles and the management tools that relate to it (stages 1 and 2). These form the normative framework for our concept and the roof for our house. This roof covers the entire structure and gives it its strategic "gestalt," or design. The rationale is simple: whenever HR development

Table 1 Analysing the state of HR development in practice

Indicator	No? You need…	Read more at…
HR development is guided by a dedicated management strategy that is fully in line with the company's corporate strategy	…an explicit HR development strategy	Stage 1, Page **61**
HR development is managed with dedicated indicators and can always prove its value and contribution to the success of the business	…a dedicated controlling system for HR development	Stage 2, Page **81**
HR development makes sure that uniform standards and requirements for employees and executives are in place and are in line with the corporate strategy	…a consistent model of competence as the basis for all HR development tools	Stage 3, Page **109**
HR development guarantees that employees and executives are managed in a way that boosts their performance in line with the company's goals	…an efficient performance management system	Stage 4, Page **135**
HR development supports processes that put the right person with the right skills in the right place at the right time	…a defined and working talent management process	Stage 5, Page **159**
HR development guarantees the needs- and strategy-oriented qualification of employees and executives	…a needs-targeted qualification system	Stage 6, Page **181**
HR development helps retain the people that the company needs	…a targeted retention process	Stage 7, Page **217**
HR development fosters a performance- and motivation-centric culture at the company	… a performance-minded and inspiring culture	Stage 8, Page **233**

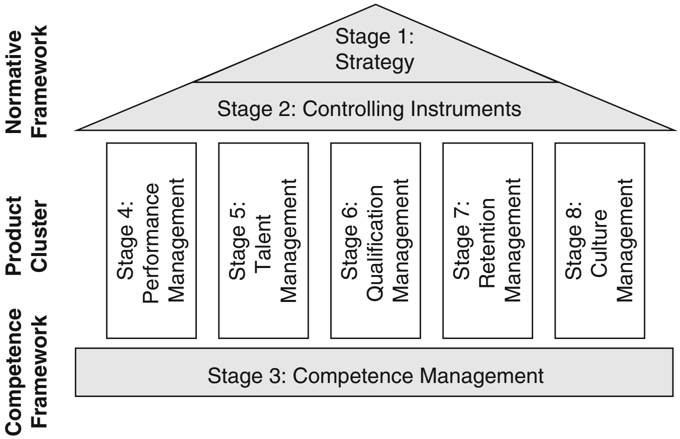

Fig. 1 The eight conceptual stages of strategic HR development

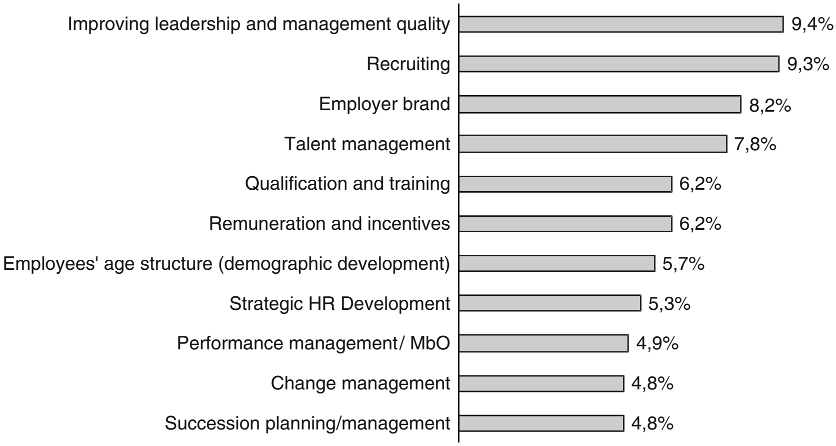

Fig. 2 The focus of HR work (Kötter, Kirch, & Zdravkovic, 2011)

instruments are to be used, their purpose needs to be defined by a normative framework. Otherwise, the people in charge of HR development are flying blind. Any good that arises for the company's goals from this type of development efforts is the product of mere accident, that is, it may or may not produce the qualifications that the company needs. This book also hopes to get people to understand their HR development strategy before they even begin to think about using actual HR development tools. The goal is to define the right criteria for the HR development strategy to understand whether the overall strategy is indeed reflected in use of tools and processes (management indicators).

Then there are the foundations for the HR development house in the form of strategic competence management (stage 3), which represents the competence framework. In many of Kienbaum's consultancy projects, the as-is analysis shows that the clients' companies already have a broad range of development tools at very different levels of functional quality at hand. Oftentimes, the problem is that they simply cannot be integrated with each other because of irreconcilable differences in the underlying competence models. The selection processes might differ considerably from those used when preparing for promotions, while trainee appraisals differ from staff appraisals and so forth. The consequence of this proliferation is chaos: how can the HR development tools hope to serve the company's strategy if there is such disagreement about what the "ideal employee" actually looks like? In this sense, competence management becomes the foundation for all development activities, as it provides a sound, competence-based framework for all job families (for this term, cf. Leinweber, 2012).

Framed by these normative and competence-based concepts, we find the practical areas of HR development work, i.e. its product portfolio. In other words: the product portfolio is formed and defined by the normative and competence-based framework. Which products have proven particularly helpful in the portfolio of HR development? Figure 2 shows which HR activities practitioners see as particularly

Table 2 The HR development product groups in brief

Product group	Definition
Stage 4: performance management	Managing the staff performance typically relies on target setting and feedback processes. HR development is the quality manager, advisor, and practical partner for these processes
Stage 5: talent management	Ensuring the staffing of critical positions in the company. HR development is an engine and competence centre for the process and an advisor for managers in the identification of talent
Stage 6: qualification management	Promoting and developing the competences of employees and executives in line with existing needs and the corporate strategy. HR development is the manager, competence centre, and management interface for the process
Stage 7: retention management	Retaining the critical members of staff for the company. HR development is an engine and competence centre for the process
Stage 8: culture management	Promoting the desired corporate culture to aid the chosen strategy. HR development acts as a competence centre and engine for the process

important. The most striking finding is that these are generally "typical" HR development activities.

With this data in mind and relying on the practical consultancy experience of the author, we suggest using the following product groups as the key instrumental areas for HR development action (see Table 2). This should be seen as the full-range model – it could make sense to leave out some of these elements, depending on the business model, maturity, and culture of the organisation in question.

This concludes the outline of the eight-stage concept. The second part of this book follows that structure in its chapters, moving from the roof of the house (stages 1 and 2) through its foundations (stage 3) to its individual rooms (stages 4–8).

Critical voices will naturally object, saying this eight-stage concept distorts the reality of HR development in its condensed form. After all, the rich variety of the practical world of HR development cannot be boiled down to eight stages only. They are right about the fact that this is a prototypical concept. Like any such model, its purpose is to reduce complexity, even if this produces a certain degree of practical fuzziness. Only an atlas with a 1:1 scale would be above that criticism. How practically useful it is then is another matter. Other critical voices will suggest that the concept can only work for large corporations. What small or medium-sized enterprise has the time for such sophisticated HR development concepts? However, following Peter Drucker, the purpose of management is not to do things right, but to do the right things. With this in mind, stages 1–3 help us do the right things.

This is not to say that all SMEs need to aspire to the same level of sophistication in their strategies and management tools as their corporate counterparts. A succinct HR development strategy with associated monitoring criteria can be recorded on a few A4 pages. Better to have a sketchy plan than none at all. Figure 3 shows how a company with 450 members of staff introduced such "manageable" strategic HR development.

The company in question is the German subsidiary of a Japanese corporation. The group as a whole is one of the world's leading producers of electrical equipment and electronics, focusing on IT and communications, aerospace and satellite communication, home electronics, industrial engineering, power, transport, and building services. The German organisation is in charge of sales and marketing in

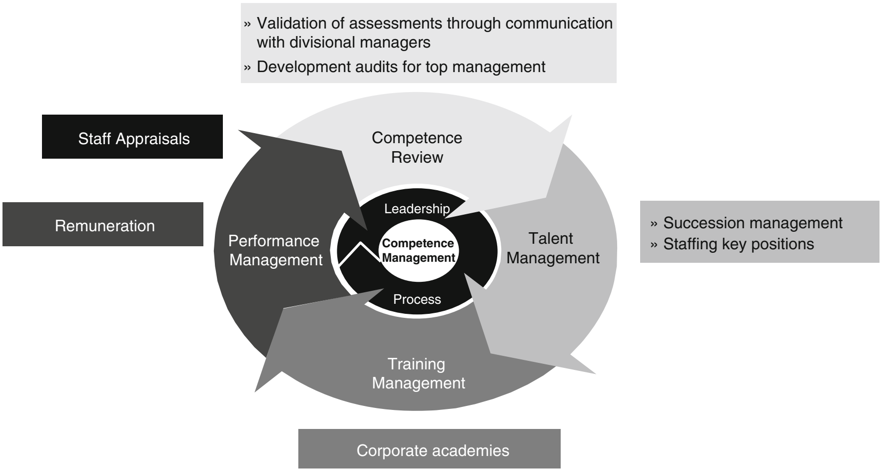

Fig. 3 How to introduce strategic HR development on a smaller scale

Germany. After outlining the normative and competence framework, regular staff appraisals were introduced as the lynchpin process. "Docked" to that process, performance, talent, qualification, and retention management were established in a very pragmatic and usable format.

2 Realigning HR Development in Practice

We have to ask ourselves whether the proposed eight-stage concept will be enough for a project that aims to realign an organisation's HR development. The answer is: yes and no. Yes, because it forms a conceptual umbrella for the relevant activities of HR development and thus offers practical guidance. And no, because conceptual structure alone will never suffice to complete such a project in the reality of everyday business. That calls for another way of looking at and tackling the project. What is needed is not simply a conceptual and structural framework, but an applicable project plan. The timeframe suggested here is only an approximation based on experience, and it can vary considerably depending on the environment of the project. Any such project should typically distinguish between four essential phases: analysis, conceptual design, implementation, and evaluation (cf. Fig. 4).

The purpose of the analysis phase is to understand the status quo of HR development. To do that, the tasks, processes and resources should be surveyed. The organisation, its instruments, and its documents (especially the corporate and HR strategy papers) should be analysed. Whenever appropriate, these documents should be compared with external information (benchmarking). In addition, the expectation and needs of corporate clients should be assessed. Such a survey can be important to understand people's satisfaction, but practical experience shows that corporate clients often have only hazy expectations when operational HR development is concerned.

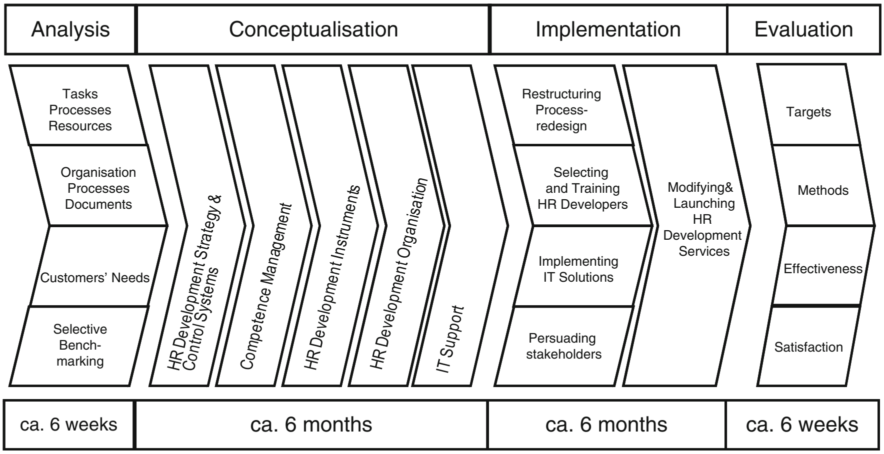

Fig. 4 Typical project phases when realigning HR development

Building on the findings of this analysis, a target vision for the organisation's HR development is drawn in the conceptual design phase. This requires an explicit expression of the HR development strategy. At the very least, it should provide an answer to the following set of questions:

- What do we want to represent?
- Which roles and values will determine our work?
- Which behaviours do we want to promote?
- What will characterise us?
- Which services do we want to offer and which do we demand from others?
- With which criteria will we measure our success?
- When are we successful?

Apart from these questions of principle, the following five recommendations can offer a good guide for the practical definition of an HR development strategy (following Harrison, 2005, p. 232):

1. **Nominate a strategy design team:** It is essential to choose a team from the broadest possible spectrum in the company. It should not only include key personnel from the business and HR departments, but also more critical voices to add some creative controversy into the debate about the right HR development strategy.
2. **Define the organisational mission of the company:** Identify the ambitions and long-term goals of the company that HR development is meant to support.
3. **Check the core values:** Analyse the perceptions of internal and external stakeholders concerning:
   – The public and internal identity of the company
   – Its visions and values: Are they shared by everybody at the company? Which values are supported by top management (or other groups)?
   – What distinguishes HR development from other functions of the business, in positive and negative terms.

4. **Use SWOT analyses[1] to identify the strategic aspects that the organisation is confronted with:** Use professional and internal expertise to analyse the data. Prioritise your findings according to the following criteria:
   – Aspects that should be tracked in the future, but do not need immediate intervention, although they could become potential risks or opportunities at a later point.
   – Aspects that the company can work on in parallel to its current plans and activities and that require no new strategy.
   – Aspects that need to be covered in the HR development strategy.
5. **Approve an HR development strategy and strategic plan:** Agree on the goals and strategy for HR development.

With this strategy in place, the remaining conceptual work can be addressed. This refers to the design of planning and controlling tools for HR development (cf. stage 2), the underlying model of competence (cf. stage 3), and the detailed HR development tools and campaigns (cf. stages 4–8). In addition to that, the procedural and structural make-up of HR development, the competence requirements for the actual HR developers, and, if required, the necessary IT support need to be determined.

In the implementation phase, the target vision produced up to this point is put into practice. This phase is where the project is ultimately tested. After all, the entire process is pointless if it is not turned into living reality. The process can lead to a sustained increase in the importance and general standing of HR development within the organisation.

The project ends with an evaluation phase that aims to check the quality and success of the initiative. The key is to assess whether the campaign has indeed reached its targets and where it needs more work. This allows practitioners to plan the necessary interventions in the HR development unit and to record valuable lessons learned for future projects of this nature.

3 A Summary

The second part of this books calls for an eight-stage approach to HR development. This is meant as a conceptual framework for understanding the many different faces and activities of HR development, not as an operational do-it-yourself manual. For its actual implementation, experience shows that classic project management, with its established analysis-design-implementation-evaluation chain, is most successful.

[1] The **SWOT analysis** (referring to **S**trengths, **W**eaknesses, **O**pportunities, and **T**hreats) is a helpful tool of strategic management. In its basic form, it covers both internal strengths and weaknesses and external opportunities and threats. By combining the strength-weakness perspective with the opportunities-threats perspective, the analysis helps derive a holistic strategy for the future direction of HR development as an organisational unit.

The eight stages can be arranged in three distinct frames of reference: first, the normative frame (stage 1: Strategy, and stage 2: Controlling Instruments), then the competences (stage 3: Competence Management), and, finally, the actual instruments (stages 4–8). The normative frame and the competences need to be in place before we begin to align our HR development activities to match and support the strategy of the organisation.

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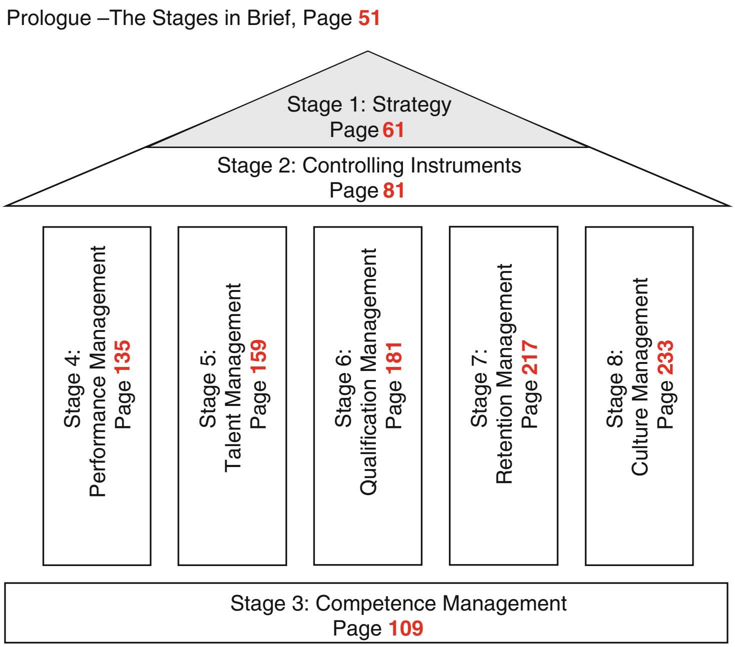
Stage 1: Strategies for HR Development

Philipp Hölzle



Do companies need HR development? A recent study shows that HR development and competence management processes are given high or even very high priority at every second company. Strikingly, however, only approximately 35 % of companies

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think that the work done in these areas is of a good enough quality (Werthschütz & Sattler, 2011).

"Strategically oriented HR development is aimed at systematically developing the *key qualifications that are needed for meeting the performance expectations defined by the corporate strategy*" (Solga, Ryschka, & Mattenklott, 2005, p. 18). While this statement is certainly correct and the development of strategically aligned key qualifications is, without doubt, one of the main purposes of HR work, strategically oriented HR development can contribute to the success of the business in many other areas as well. For instance, it influences the corporate culture, helps to motivate the company's people, shapes the corporate image, feeds into HR risk management and offers a versatile kit of possible actions that can be mixed and matched to suit the specific needs of the organisation.

HR development strategies are meant to define the roadmap for all qualification efforts at the company. Their key focus is to find bespoke targets for people development and to contribute to the success of the business as a whole. Many companies have begun to realise that growth is only possible if it is given strategic HR development support. Weaknesses in leadership skills have been identified as the obstacles on the road to growth (cf. Möhrle, 2005), and missing functional skills can mean that strategic opportunities go by unnoticed.

In this chapter, we will take a look at how a practically meaningful HR development strategy can be developed and put to use for the good of the company's commercial goals.

1 The Building Blocks of an HR Development Strategy

Over the recent past, discourse about the role of HR has come to recognise the role as a business partner as decisive for the position of HR in business organisations. HR units demand to be seen as equal partners in organisations. They do not only want to be a place to go to for certain services, but to actually have a say in designing and implementing strategies. No empirical proof that "good" HR strategies will help with the company's greater goals has yet been found. Indeed, some renowned thinkers have even begun to question this belief (cf. Roehling et al., 2005, p. 209: "Most SHRM research focusing on ‚fit' has failed to find a positive effect for the fit between HR and firm strategy"; also cf. Cascio, 2005; Lawler, 2005).

The strategic alignment of HR, manifested in its role as a business partner, has again become a topic of controversy. It is becoming evident that just a functional HR department and HR development strategy together do not live up to the full complexity of the issue. Such a strategy tends to be too far removed from the corporate context and typically reaches its limits when identifying sound, strategically relevant cause-effect mechanisms.

Going beyond the functional HR/HR development strategy, we need to consider the first evolutionary stage: the design of a "people strategy". The entire package of a strategically aligned HR unit (or sub-section, such as HR development) must evolve from three key components. The people strategy must address the question "What are the goals of our organisation in terms of our people?" The functional HR/HR development strategy should answer "How can we organise HR/development work to reach our strategic goals as efficiently as possible?" Finally, the business plan states which activities are to be conducted for which client groups and at what costs.

What?—The People Strategy/People Development Strategy

The people strategy represents a holistic strategy for the development of an organisation's human capital in line with the greater strategic requirements of the organisation. This means that the people strategy does not stop where the HR unit stops. It is not about making HR units work more efficiently. The organisation's line managers are among the leading actors in the people strategy as they are the prime levers to influence human capital. Other corporate functions, such as marketing, also take part, e.g. when it comes to raising the company's attractiveness as an employer, launching new brand campaigns, or measuring the satisfaction of customers. Going beyond the accustomed boundaries of HR has been recognised as the key to the success, or failure, of the HR function (cf. e.g. Cascio, 2005, p. 160).

The people strategy estimates where the organisation's people will stand in 3–5 years and which targets should be pursued over an even longer term (e.g. a 10-year horizon). Apart from the quantitative and qualitative requirements (how many people in which job groups and with which skills and competences), it mainly answers what the wider organisational framework should look like for these targets to become possible. Particularly relevant in this respect are recruiting strategies and instruments (in view of the current and future state of the organisation in question, wide demographic changes, the situation at its competitors, etc.). Retention management concepts, training and qualification, workforce flexibilisation and suitable separation concepts are also determinants, all with a sense for the mutual impact each building block has on the others around it.

Concepts in the current discourse about people strategies aim to make the value of the people factor become measurable. The concepts proposed up to now (a good overview is offered by Scholz et al., 2011; an English-language survey in Stein, 2007), however, still seem to lack practical applicability. We have reason to doubt that the many factors that influence the monetary value of human capital will be translated into accurate indicators and formulas in the near future. Even if this is finally achieved, there is some uncertainty about the worth of that effort for the greater good. If a company has managed to improve the monetary value of its people by 5 % in the space of a year (with "good" HR development), this might be a great figure to justify the existence of HR development, but controllers and shareholders will have reason to doubt the meaning of that figure. In the end, could the shareholder demand a payout of this 5 % in cash form?

It is not least due to such debates that the term "human capital" was chosen as the "non-word of the year 2005" in Germany, reflecting widespread dissatisfaction with how working people are reduced to a monetary value. A people strategy pursues a different objective. It defines human capital as the intellectual, motivational, and integrative performance of the people of an organisation. Following the approach of the Human Capital Club, it tries to re-appreciate the perception of the workforce, away from the (negative) perception of a cost factor to (positive) recognition as a significant part of the business, which rightly deserves a strategic emphasis.

How?—The Functional HR Development Strategy

Strategic HR development derives its targets from the people strategy. That strategy defines the output that HR and HR development, in particular, is expected to produce. This can be expanded with the internal targets of HR and HR development function: How do we want to organise ourselves? Where do we need to develop further in our work? What is our product portfolio and how do we share it with our (internal) clients?

The first step towards a functional strategy is agreeing on a concept for the function (e.g. Which role do we, as HR developers, want to cover in the organisation? Are we strategic partners, or working trainers?). Next, an agreement on the individual targets defines the actual product portfolio (What do we offer and in what form?). Finally, the core processes of the unit (How will we do our business?) defines the standardised rules for HR development work in the organisation at large. These latter rules can become particularly important in corporate or very decentralised set-ups. So-called governance rules or strategic guidelines define precisely who fulfils which role in which processes and what their degree of autonomy is. This should define which functions are involved when an employee is promoted to an executive position and who has the right to wield a veto. Another example concerns how top executives are advised: there is often need for specific rules about who can raise which issues at this level, which data can be shared, and how administrate support is distinguished from performance advice. The elements outlined in Fig. 1 represent a management model that can be used for assessing both strategic arms: the people strategy and the functional strategy.

With What?—The HR Development Business Plan

The business plan decides which services are delivered to whom and by what means.

Business plans helps us treat HR—and the HR development function in particular—as business partners. Seeing HR as "business" and checking its service spectrum regularly along normal commercial lines is essential for HR to be able to contribute real and recognisable value to the success of the organisation

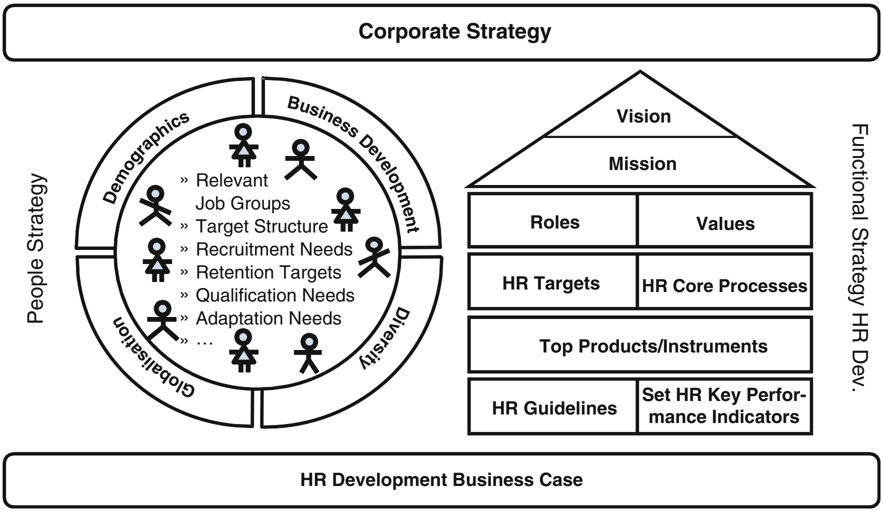

Fig. 1 The HR development strategy

(cf. e.g. Lawler, 2005) and for HR to stake out its claim in the current discourse about sustainability (cf. Boudreau & Ramstad, 2005). This point – the commercial perspective on their own work – is where the fault line for most HR organisations lies.[1] For the development function in particular, this is actually more straightforward than for the HR area at large. The latter is burdened with many more "dull routines" that cannot be reduced or excised simply to match strategic considerations.

For the purposes of this chapter, we will be using the term "HR development strategy" as a catch-all term for the people strategy, the functional strategy, and the business plan.

2 Forces Influencing the HR Development Strategy

When it comes to finding the right design for a company's HR development strategy, there are many tried and tested methods but no universally valid recipes. The best design is determined by many different factors. We will limit our survey to the most important ones.

[1] "It is nearly unanimous that HR can and should add more value to corporations. The best way to do this is by being a business partner – by directly improving the performance of the business. This can be accomplished through effective talent management, helping with change management, influencing strategy, and a host of other value-added activities that impact effectiveness. But HR does not seem able to position itself as a business partner in many cases. To analyze this problem HR has in transitioning to a new role, think of HR as a business and what products it should offer" (Lawler, 2005, p. 165).

The Environment

External and internal circumstances define the landscape in which the HR development strategy is developed. Regarding these circumstances, the following should be considered in any case:

1. Demography and the labour market
2. The economic situation of the organisation
3. The needs/wishes of (internal) clients

The first factors to consider when beginning on a people strategy are the labour market that the organisation has to operate with and the impact of demography and global trends on the labour market. For many job families, it is already becoming harder and harder to source the right people from external labour markets. Even a cursory look at demographic developments shows that "qualification bottlenecks" are becoming more and more prevalent, with few or no young recruits entering the labour markets in many regions. At the same time, fewer companies are ready to employ older employees. It is up to every organisation to find its unique response to these circumstances. For some, demographic trends might even resolve existing problems or pave the way for new growth (e.g. in the care sector). For others, employment concepts for mature employees, life-long learning, and alternative recruitment methods will come to be of utmost importance.

One must never forget the basic commercial health of the organisation. In economically troubled times, development budgets are often the first to be cut. HR developers will have to become used to working with limited means. In this case, a stringent strategy with a sound business plan will help them protect (or even recoup) the desired budget. This will only be possible when they can meet their superiors with a tangible and coherent strategy. Audience-awareness becomes a soft factor that arises from the hard facts of the commercial situation. An HR development strategy is not written for development specialists alone, or as guidance for central staffers working on competence management, or active trainers. Above all, it is written for the key stakeholders: the clients and the people who control the purse strings.

Like any other strategy, an HR development strategy must match the needs and desires of the client. The best-laid plans will stay dead on paper if they are not noticed or taken up by the client. The client's specific needs might mean that new services need to be included in the HR development portfolio. The expert's tunnel vision might not immediately consider such services (e.g. individual training measures). Other areas, which normally appear as a sensible addition to HR strategies, are left out completely, For example, not involving HR development in the appointment to executive positions if the corporate culture forbids it. Apart from influencing the service range, the client's wishes should also be considered when prioritising and budgeting for them in the business plan.

To understand the client's needs, HR developers first need to establish client categories (cf. the business plan) and then strike a balance between customer awareness and strategic focus. That balance is maintained with the role concepts defined in the functional strategy. For HR developers who operate as customer-oriented service providers in their organisations ("Ready to serve!"), considering all of their client's needs becomes much more important. The contrast would be HR developers who understand themselves as the long arm of management and respond first and foremost to their executive management as their primary clients.

Business and Business Area Strategies

Considering the working conditions is not enough. The HR development strategy needs to be seen as following the higher strategy of the organisation. "Higher" does not refer to hierarchy alone: this is not to say that the corporate strategy is the only source. "Higher", in this case, means all strategies of the organisation that pursue the organisation's mission, such as the product strategy, the sales strategy etc.

In addition to the explicit strategies, other salient sources should be considered when defining the purpose of HR development such as:

- Corporate vision
- Leadership principles
- Departmental targets, business line plans, medium or long-term sales forecasts, product plans etc.
- The targets of top management
- Strategic projects/initiatives

The last two sources are often particularly meaningful, as they offer a good source for orientation, especially in cases when the organisation lacks an explicit strategy. Management targets that are used to calculate long-term incentives often include the strategically relevant targets of the organisation in some form (or they should do so if the long-term incentive is expected to have any positive effect). These should be checked to uncover any footholds for defining HR development work. The same goes for the key projects and initiatives pursued by the organisation. Are any major globalisation ventures under way? Are mergers or acquisitions threatening the closure or relocation of branches? Are such large-scale entrepreneurial decisions opening up new skill sets that need to be integrated? Such topics should be considered in the eventual HR development strategy.

If there are any higher strategic statements, they need to be checked when designing an HR or HR development strategy. Furthermore, the HR development strategy needs to reference such statements adequately. A lack of a higher strategy is no excuse for skipping the HR development strategy as well. Even without a dedicated corporate strategy, a fitting HR development strategy can still be found to match the specific state of the organisation. There are many diverse sources for strategic orientation. Even if all sources named here are drawing blanks, a number of intensive talks with top and key managers will often suffice.

Business Model/Governance

The HR development strategy also produces a set of rules about how HR development works in practice (guidelines/governance). In their simplest format, they refer to allocated responsibilities, authorities, and, if relevant, measurement guidelines. For such rules to be viable and accepted in the organisation (avoiding the all too prevalent subversive tactics), it is essential to take a closer look at the other governance rules in place at the company. How does commercial controlling function? Who is responsible for turnover or budgets? Who is held accountable for which targets?

When a unit is completely accountable for its work and manages its budgets independently, it becomes very hard for HR developers to tell that unit's line managers which training courses are mandatory or, even worse, whom they can appoint as managers in their area and whom they cannot. In an organisation with a strong central presence (e.g. with central controlling, procurements etc.), it is possible for HR development to have a similarly strong negotiating position and not a merely advisory presence. However, few organisations are still able to invent such basic structures from scratch in their existing HR functions. Usually, the approach needs to fit in with existing structures or win support from the very top. After all, it introduces what can mean major upheavals in the organisation's nature.

The same applies to the eternal debate about centralisation and decentralisation. How are capacities allocated? How are responsibilities, tasks, customer contacts, etc. shared? Where these matters are concerned, a look at how other units handle this conundrum is another meaningful source for the design of the HR development strategy.

HR Supply and Demand Today and in the Future

Another essential consideration in the strategy design is the current situation of the organisation and its staffing needs in quantitative and qualitative terms.

The starting ground is an exact overview of the current workforce. The data required is usually contained in the personnel files, e.g. data about the headcount (absolute numbers and relative capacities), the structure (age distribution, seniority, wage bands), fluctuation (recruitment, attrition, internal reallocation, absenteeism) or current costs (fixed salaries, variable remuneration, severance packages). The qualitative data typically works with a much thinner basis. While most organisations still have quite a good sense for the formal qualifications of their people (at least about the educational achievements before recruitment), many HR professionals would be hard pressed to name the current competences and functional skills of their workforce. The same goes for data on current performance or potential. All available data should be checked to make sure that it is recent and of sufficient quality. If key data is missing and cannot be sourced with reasonable means, this can be an important finding for the HR development strategy. Then, there is obviously a need for developmental intervention.

The as-is data plays a dual function in the strategic process. First, it provides the basis for HR risk management, which is often within the remit of HR developers. Second, it represents the starting ground for the HR planning process. Strategic workforce planning (SWP) aims to answer the question of how workforce supply and demand will shift over time. In view of the natural ambiguity of such forecasts over longer periods of time, most approaches work with multiple scenarios.

For SWP, choosing the right "grain size" is essential. Long-term plans typically make no sense on the level of individual people or jobs. This means that only complete job groups should be considered in long-term plan objectives. The gap analysis between workforce supply and demand for each job group represents an important source for holistic HR risk management.

When all relevant conditions, influences, and circumstances are considered, an HR development strategy can be produced in the triple form of people strategy, functional strategy, and business plan. In the remainder of this chapter, we will take a closer look at how this is done in practice.

3 How to Develop an Integrated HR Development Strategy

The following model outlines five steps for the design of a bespoke HR development strategy.

Phase I: As-Is Analysis

The as-is analysis attempts to survey all relevant factors in the design of the HR development strategy. That strategy is tailored to the specific situation and purpose of the organisation in question.

It primarily concerns the conditions and circumstances already mentioned. Apart from the external factors, the as-is analysis also covers internal aspects, taking a look at the established HR development organisation, its personnel, infrastructure, processes, etc. Figure 2 gives a summary of the objects to be included in an analysis of this nature.

Suitable methods for the as-is analysis include a screening of available documents, semi-structured interviews, surveys (web-based/pen and paper), or the application of a SWOT analysis. Full-scale surveys (e.g. questionnaires for all executives) are normally not necessary, but it always helps to validate the results of a sample survey in broader review workshops. Later, if need be, more facts can be added to qualify individual aspects of the data. The SWOT method would arrange the results of the as-is analysis in four areas:

- **S**trengths
- **W**eaknesses
- **O**pportunities and
- **T**hreats

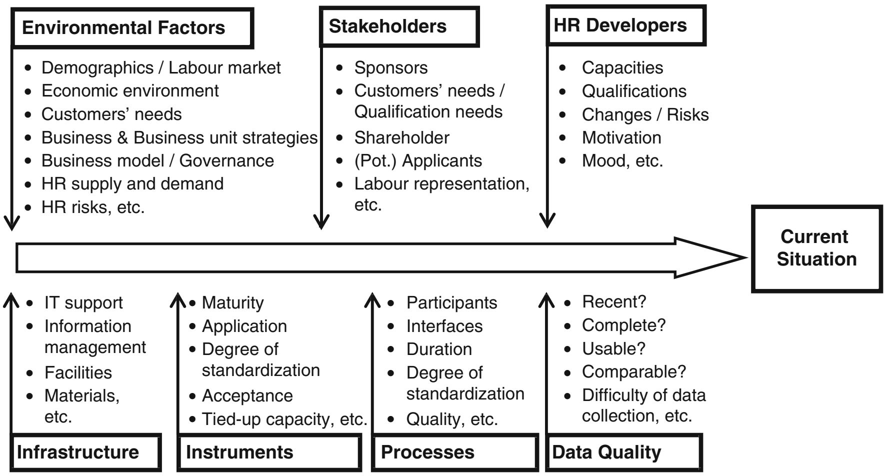

Fig. 2 Objects of the as-is analysis

Visualising our findings in this manner gives the current strengths an equal weight in the picture. This avoids the danger of devaluing the success factors of the current organisation. It also pays explicit attention to the external perspective (e.g. the environment) in the form of the opportunities and risks, and looks ahead at the future influences impacting the work. All four quadrants of the SWOT analysis can act as sources for strategic targets.

Phase II: Referencing Higher Strategies

Higher strategies, be they the HR strategy, the corporate strategy, or the functional unit's strategy, should be scrutinised for meaningful information that can be used.

A three-step deductive process facilitates such referencing. First, we collect the conceptual essence of the available strategies. Next, for each concept that is relevant for HR development, the right lever is identified. Finally, these levers are recorded in the form of primary targets or, if possible, concrete activities. Table 1 shows a selection of such targets.

Deductions of this nature produce a multitude of possible development targets and activities that have to be prioritised. After careful scrutiny these deductions may be included in the HR developer's canonical goal set.

Phase III: Strategy Design

Defining the Vision and Mission

The vision of an organisation or of one of its units represents its guiding idea, its driving force. It is a concise expression of aims, objectives and ideals.

Table 1 Deduction from higher strategies

Strategic concept	Lever in HR development	Footholds for HR development targets/ activities
Corporate strategy: reduce costs	Capacities in HR development Return on HR development spending Reduction of opportunity costs of development events HR development administration costs	Automate administrative processes (event management, booking, approvals, billing, certification etc.) Reduce external training Use more efficient development formats (blended learning, virtual classroom, . . .)
Corporate strategy: globalise, expand local presence	Language skills Intercultural competences Number of "pioneers"	Revise the model of competence Optimise international job rotation Identify "pioneers"
HR strategy: safeguard the supply of recruits	Employer attractiveness	Publicise development opportunities; career tracks, career opportunities etc.
HR strategy: link HR controlling with corporate controlling	Human capital management	Introduce HR risk management Introduce human capital metrics

When choosing a vision, as many people as possible of the unit in question should be involved with an active, creative role. Typically, 2-day strategy workshops are used to define at least the rough outlines of a vision, mission, role definition, strategic targets, and core processes for an HR development unit.

To arrive at a vision, brainstorming is used to collect the aspects that it should cover, which are then integrated into a draft vision. Figure 3 shows how this is done in practice.

The unit's mission is defined in a very similar manner, although on a much more concrete level. The mission defines the promised contribution of the unit by naming its purpose, top-line goal, and value proposition. Table 2 shows a traditional selection of phrases for different types of mission statements.

When generating a mission statement, group brainstorming is again helpful. One possible way of doing this is to ask every participant to produce two or three mission statements that are then discussed by the group. It can also help to arrange the individual aspects in a portfolio as done in Fig. 4.

For this example, one proposed mission statement would be:

> We contribute to the success of the company by aligning our workforce structure and the qualifications of our people (human capital) with the anticipated strategic challenges of the business.

Vision: The guiding principle that defines the ideal target state

Contents:

Accepted by top and line management

HR development as a strategic partner for shaping the future of the business

The industry benchmark for value-adding HR development

Excellent personnel defending the position at the top of the market

Accepted engine of innovation

Most attractive employer in the region

First-class appointments for all top and key positions

Proposed Phrasing:

As a recognised strategic partner of top management, we provide innovative, value-adding HR development instruments to ensure first-class appointments in all top and key positions of the company and to power our image and competitive position.

Fig. 3 Defining a vision in practice

Table 2 Typical mission templates

Basic idea of the mission	Typical phrasing of the mission statement
Mission/promise of the unit	"We provide. . ."/"We will. . ."
Top-line goal	"Our key purpose. . .." "We make sure. . ."
Defined value proposition	"We create value by. . ." "We contribute to the business by. . ."

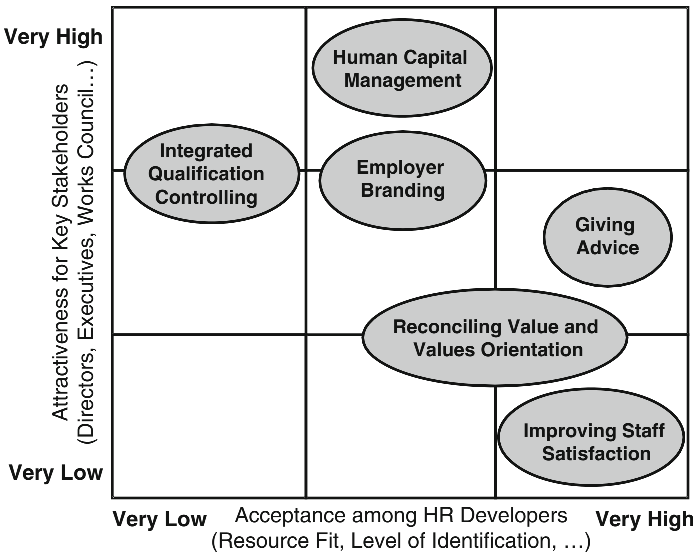

Fig. 4 Portfolio for arranging mission statements

Table 3 Possible roles for HR functions

Role	Definition
Service provider	Service provider for internal clients whose queries/needs are responded to with great customer focus
Specialist	Recognised specialist on diverse functional questions; more demand- than supply-oriented
Expert	Specialist with an external reputation. Claims to set the qualitative benchmarks and be a vanguard in the field
Consultant	Proactive unit; acquires commissions from (internal) clients and produces holistic solutions
Mediator	"Neutral entity" that mediates and effectively promotes compromises in the conflict between commercial value and moral values. Reconciles the interests of all parties
Change agent	Specialist for change processes; supports them to secure the lasting success of all organisational changes
Business partner	Equal strategic partner; works in close proximity to the business; key accountant for all HR matters; involved in the meetings of the functional departments; sounding board for all strategic questions

Describing the Self-Perception in Roles and Values (Table 3)

Defining the Strategic HR Development Targets

At this point in the chapter, we've shown that the strategic process produces many potential sources for defining strategic HR development goals. The first steps are in place from the conceptual application of abstract, high-level goals. Applying the vision and mission in this sense will produce further targets. When this is done, we should concentrate on how our (internal) client can see that the promised value will actually be produced.

The role/value discussion can also be a source for the strategic targets. Translating its abstract statements helps uncover strategic needs for action.

Apart from these conceptual approaches, we can use other means of defining our targets. A trendy method at the moment is the use of value lever trees. This method tries to understand the controlling systems of the company and to put the services of HR development to the test. The ultimate goal is to see where HR development services contribute value. The strategic targets are then docked onto those points where the most obvious causal relationships are uncovered.

Another method is to "look abroad" by trend scouting or benchmarking. HR development specialists should regularly set aside some time to see the direction that their discipline is taking. They should also examine the goals pursued by other organisations. Trying out good ideas that could be suitable for their own organisations can help strategic development, even when nobody within the company noticed that there was a need for it.

Adjusting the Product/Service Portfolio

With the defined targets from the people and functional strategy in hand, we need to review the product portfolio of the HR development unit. This means:

- Checking the established products and instruments in terms of their strategic contributions. Some of these may be cut out completely if they do not offer any noteworthy contribution to the strategic goals and are thus not necessary.
- Analysing where changes are necessary. Products/Instruments that do contribute to the goals, but that were shown to have flaws during the as-is analysis, are pinpointed. The eventual implementation activities need to include optimisation efforts for these cases.
- Understanding where more needs to be done. Goals and value propositions not yet covered by products or services demand new designs. Again, the eventual action plan should pay particular attention to this area.

Defining the Core Processes in HR Development Work

With the strategic targets and the fitting products in place, we can define which processes are particularly important in the work of HR developers.

If the HR development unit offers a broad range of services, it can help to map the process to understand the links between issues. It can also help integrate the individual products and instruments effectively. Switching to other perspectives is vital for this. For the HR development specialist, the more intricate elements will make sense, but the run-of-the-mill line manager simply will not see why different HR people are "stealing his time." It may seem he is being bothered for different purposes at different points in the year—with no sense of the higher goal. It is not uncommon for a line manager to be asked to conduct one (or more) annual staff appraisals and to record the results. Then, there is the 360° feedback that he will participate in, both as a respondent and as the focus person himself. At another point, he might be invited to act as an observer in an assessment centre, where he is asked to fill in competence profiles. These profiles might differ from the ones that he knows from the interview guidelines he is asked to use in recruitment interviews. Now, he gets new forms for the annual salary reviews for his people, and more forms for their work references, for regrouping people and so on. The list goes on and on. For a line manager without a sixth sense for HR, there is no unifying process or greater purpose in these many different instruments.

Designing the Business Model

The further refinement of the core processes results in the business model for HR development. This business model determines who is responsible for which activities, who executes them, and who is informed about them. This normally deserves some attention in larger, decentralised organisations. It usually does not make sense for each department to play a part in the conceptual side of an activity on top of being responsible for execution or administration.

The business model defines how standardised each process will be and to what extent it is mandatory for all parties. Typically, processes are arranged in four clusters:

1. Central execution: the process is executed in a centralised and standardised fashion. Example: designing the model of competence
2. Central standards: the process is executed locally, but according to uniform standards and with instruments defined by the centre. Example: potential identification processes
3. Central framework: the process is executed locally and with local instruments. Its framework and key components are defined by the centre. Example: annual employees' feedback for line managers. The local units are free to choose a method of their liking, but the data has to be reported in a defined aggregate format
4. Local process without involvement of the centre and without set standards. Example: interim feedback on an employee's developmental progress

Apart from the degree of standardisation, the business model also defines the most important interfaces. For HR developers, this normally refers to the boundaries between HR support (engaging with the client, sharing information etc.) and line managers (supporting the employees, holding responsibility, giving feedback etc.).

Phase IV: Producing a Business Plan

When drawing up a business plan, HR developers should not consider incomes and expenses alone. They should also focus on how the many different issues they are engaged in should be prioritised and how the capacities and budget resources should be distributed among them. At its heart, the method used for defining the business plan in HR development does not differ from other commercial areas. The column "costs" can be covered relatively easily. The targets derived from the strategy can be used to name which activities are necessary. Internal cost accounts for the HR development team's own capacities, plus the known costs of external assistance, can easily be added up with the required material expenses and other costs to arrive at a total figure. What is needed for this is a set of expertly applied targets. Otherwise, the strategy's practical application happens prematurely, while the business plan is being developed. Difficulties arise when the necessary support systems need to be designed. Often, a number of scenarios need to be prepared to have different projections contributing to the calculation. To avoid simply extrapolating trends from existing data and start to work truly strategically, the client base needs to be segmented. If this has not been done already when the strategy was developed, then now is the time to answer who the A-clients of HR development are – deserving particular, individual support, and who its B- and C-clients are – the recipients of more standardised service offerings.

The real difficulties begin when calculating the income side. A number of organisations use internal service accounting and calculate the services of HR developers as normal transactions with their internal clients. However, this is normally limited to the rather blanket format of "tuition fees" for participating in seminars or other development activities. But how is the design work that goes into a strategic model of competence billed? Detailed accounting of this nature poses the risk of making participation in strategic campaigns unpalatable to the "paying" line managers. Such budget-wariness can also come into play on a more practical level, with training opportunities for positions in line managers' areas or units. For such activities at least, central budgets should be in place.

More recent ideas try to mirror the benefits of strategically grounded HR development functions in a more generally tangible form. These distinguish between a monetarily accountable part and a purely qualitative part that cannot be expressed in financial terms. For the latter activities, the causal mechanisms are outlined; the benefit lies in their positive impact on the success factors of the internal clients.

For instance, HR development plans to introduce e-learning formats. A number of models are possible to assess their potential savings. Targets can certainly be defined for the amount of face-to-face trainings replaced by web-based means. However, the exact cash savings, in the sense of travel costs, accommodation expenses, trainers' fees etc., will have to remain an approximation.

The topic becomes more difficult in the case of less technical aspects. Let us take the case of the strategic target: "Improve the occupational quality for top and key positions". In practical terms, the corresponding activity could be: conduct management audits for the top executive levels to create transparency about current appointment quality. Produce an aggregate analysis of the major competence gaps and develop a corporate management development programme.

The costs for the management audit are relatively easy to predict, but it becomes harder to forecast the eventual scope of the management development programme, the nature of the development activities, and the costs incurred. This becomes even more of an uphill task when it comes to assessing the potential benefits of the initiative, even though this is not necessarily the point of the business plan. If top managers are not certain about the impact of the initiative on the company's performance, it will not be approved – the business plan only tries to prioritise the activities and shows which parts of the budget flow where. For our example, the development programme could be calculated effectively with the methods of target pricing. This should not be calculated as the sum of all required activities, multiplied by their market value, producing the budget. Rather, the budget for a management development programme is defined from the holistic viewpoint of the planned strategic initiative. The data from the management audit is interpreted from a strategic viewpoint and the priorities are defined with the bigger entrepreneurial picture in mind.

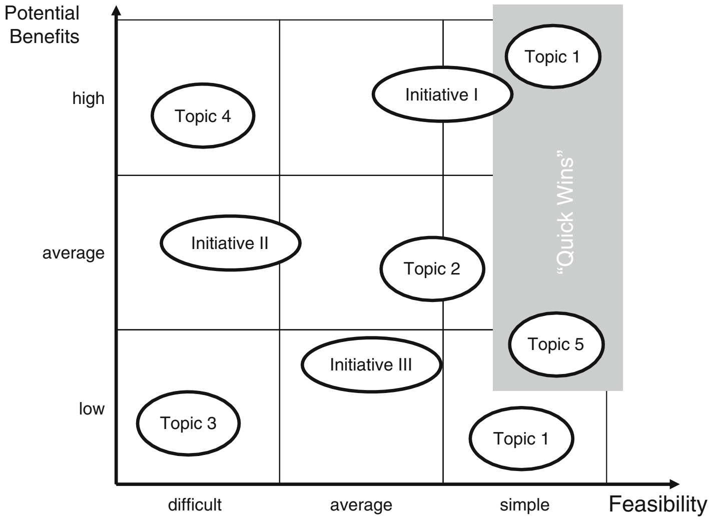

Fig. 5 Prioritising campaigns and activities

Phase IV: Planning Action

The business plan tells us which topics can be tackled with which capacities. Apart from the question of whether sufficient capacities and monetary resources are available, the chronological dimension becomes particularly crucial here. This phase deals with using the right strategic campaigns for implementing the defined targets.

The first step is to categorise all issues, campaigns, and projects by their complexity and the benefits they promise if they succeed (this should already be addressed when the business plan is drawn up). Figure 5 reveals a model portfolio in this sense that immediately shows where the quick wins are hidden: solutions that produce visible value without major efforts. A detailed analysis of the as-is state will often uncover a number of such immediate targets.

When planning the campaigns and activities, the classic ingredients of the project manager's toolkit should be put to use. First, a project structure plan (PSP) is produced to show the sum total of the necessary work packages, not focusing on their chronology yet, but trying to produce the most comprehensive picture possible. Once this PSP is in place, the work packages are translated into a phased plan that can be arranged along a specific timeline.

The project should prioritise so-called "lighthouse projects" that should be completed successfully as soon as possible. These are projects which can produce major changes in a relatively short timeframe and make people see and feel that the new strategy is having an effect. This shows both the HR developers themselves and their (internal) clients that the strategy is being taken seriously and is not just another corporate pamphlet bereft of real-life meaning.

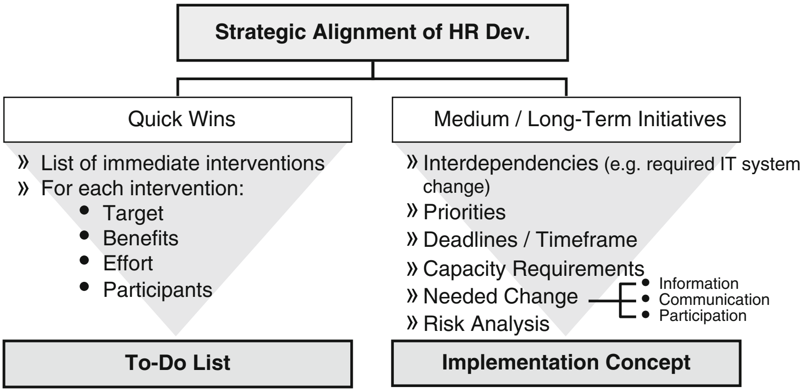

Fig. 6 Short-term vs. long-term activities

Communication plays a major part in this. Who is informed at what point and what about the HR development strategy? The people in HR development and all other areas affected directly or more indirectly by it should be told about the potential value contribution of the HR development strategy and about the changes it demands in established processes and tools (Fig. 6).

4 Success Factors and Pitfalls for the Strategic Process

The contents and approach used in the design of bespoke HR development strategies are easily explained, but the problems will already be lying in wait, mostly in development and systematic implementation. Table 4 outlines the most common pitfalls and ways of overcoming them, before we turn to look at the key recipes for success.

Stated in positive terms, strategic projects depend on the following key success factors:

Start today

– Get to work instead of finding cheap excuses because the circumstances are against you, you lack information, there is not enough time, or resources are in short supply.

Time & capacity

– Get the capacities you need for developing and managing the strategic targets.

Practice makes perfect

– Do not expect a mature HR development strategy to become active with all of its many elements in the first year: the process can grow over time.

Start small

– Begin with a few targets and activities and focus on what is important. Introduce a learning process and add new features year by year.

Table 4 The pitfalls when designing and introducing strategic processes and how to avoid them

Pitfalls	Responses
The launch of the strategic process is postponed; the issue is not given the time and capacity it deserves; everyday concerns steal attention from the process	Schedule a "strategy kick-off" date as soon as possible; have a dedicated meeting for this; do not relegate it to an agenda item of another event Nominate a core team that takes charge of the strategic work; inclusion in that team should be seen as a special honour
The strategy lacks transparency; its details are not felt by the organisation's people	Include the strategy in individual people's targets Produce a project calendar and make it clear who is involved in which projects/campaigns
Clients who voice their demands loud enough are given the old services even when these do not match the new strategy	Customer segmentation and service level agreements for the (internal) clients; no blanket rejection of "non-strategic" demands, but develop an awareness for the resulting costs for measures that do not help the company as a whole
The strategy is not assessed	Embed the strategic process in an annual structure; if possible, link it with the corporate strategy review processes; introduce strategic controlling/reporting that allows interim checks
Top managers are not interested in an HR development strategy	"Guerrilla tactics": launch the initiatives anyway and gain (belated) acceptance with positive effects to show
The statements of executives surveyed in the as-is analyses turn out to be baseless; real-life needs differ substantially from stated expectations	The participants in the as-is analysis are given a record of their responses, which is referred to in the strategy; major gaps in its operational reality are recorded and considered in the annual strategy review
The business plan is not sustainable; the resources do not suffice	Analyse the causes: if budgets are cut back spontaneously, new priorities need to be set and the strategic service spectrum might have to be trimmed. Use the lessons learned from poor planning this year for next year's plan
There are not enough people for implementing the strategy	The reason is often to be found in over-ambitious goals set during the strategy's original design; the gap often lies in the quality, not the quantity of the resources, so plan more cautiously with more feasible goals
Motivation dwindles as the effects need too long to take hold	Consciously find "lighthouse" projects that product highly visible quick wins; recognise and celebrate achievements (also at half-way points)

Validate and respond

– Make everyone see that the strategy is being taken seriously, that its elements are relevant, and that achieving, or missing, targets will have consequences.

Don't stew in your own juice

– Ask people for support and new ideas (e.g. colleagues from other areas who are experienced strategic processes designers or external consultants).

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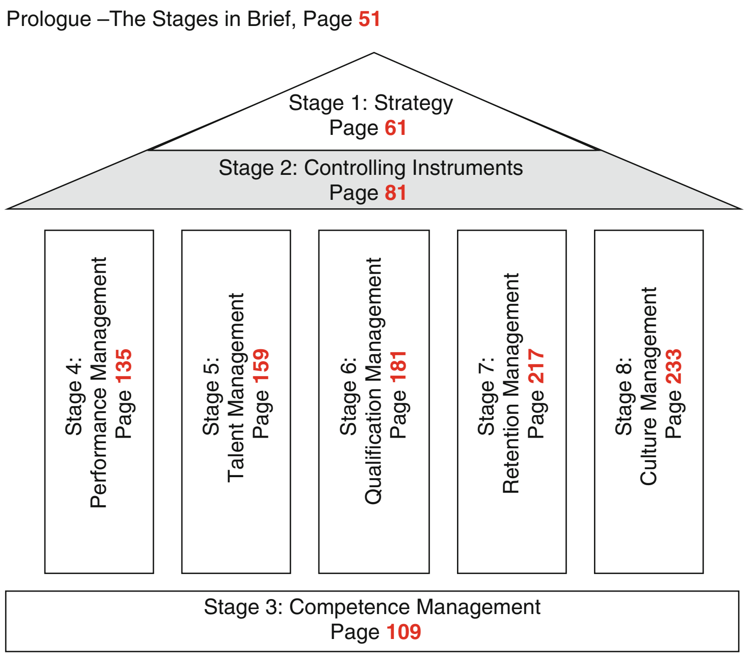
Stage 2: Controlling HR Development

Robert Girbig and Peter Härzke



What does strategically sound controlling of HR development look like in practice? What makes it succeed? These are the questions that this chapter will try to answer. In many HR units, controlling systems mean the mere reporting of a few

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selected indicators. A set of such figures is chosen to match the general practices in the industry. Their relevance is never tested, only taken for granted. However, HR development indicators are not an end in themselves. They are methods of turning the development strategy into reality, tracking progress towards targets, and pinpointing the gaps and shortfalls along the way.

Before we begin to speak about HR development controlling, we need to understand the development strategy as outlined in the previous chapter. Simply recording and reporting individual, disjointed figures makes no sense. Similarly, no strategy, as intricate as it may be, will function without a properly aligned controlling system. Without that compass to guide it, it would be flying blind. We will see that indicators are what give the strategic debate its final touches. According to Wunderer and Jaritz (1999), HR controlling refers to planning- and control-based, integral evaluating judgment and calculation used to assess the decisions of HR management, especially in terms of their commercial and social implications (Wunderer & Jaritz, 1999). New concepts in this area address many different purposes and are much more sophisticated in their alignment with target groups and their degree of organisational maturity.

Apart from this evolution of new concepts, modern indicators and controlling systems also need to reflect the conceptual realignment of HR development for itself. This refers to three aspects in particular:

- Over the last 2 years, the focus of HR development has shifted more and more towards holistic succession management with particular emphasis on commercial goals. The purpose of HR controlling is coloured strongly by matters of competence and portfolio management as well as by aspects of diversity.
- Another key aspect is the focusing of development activities on the overarching goal of employer attractiveness. More and more recent graduates and junior executives are beginning to rank interesting development opportunities based on employer attractiveness. This works outwards (attracting talent) as well as inwards (retaining high performers).
- Last but not least, HR development, at German organisations in particular, is expected to contribute to globalising the higher echelons of the organisation's structure. Apart from questions of diversity, this concerns the increasing presence of HR business partners as change managers. Specifically, this concerns empowering the business partner to become an engine for change and internationalisation in the organisations' leadership capacities.

We will begin by discussing the basic model for systematic HR development controlling. The model covers three groups that we will discuss in more detail before turning to a closer review of chosen practices and examples from the industry.

1 The Basic Model for an HR Development Controlling Toolkit

Our experience from many consulting projects has revealed several different footholds for introducing a systematic HR development controlling concept. Again and again, top managers repeat the same question: How can we measure and document the value added by HR development? HR developers also often complain about their poor means of controlling their department and activities with suitable indicators. Few companies track the success of their development efforts. The oftentimes-isolated IT systems used in HR development suffer from the scarcity and poor quality of data. A Kienbaum study (Girbig & Kötter, 2005) confirms: there is a long way to go for HR controlling.

The standard personnel file remains the primary controlling tool in many German organisations. 98 % of all businesses use the personnel file as a means of controlling their HR efforts. Strategic HR work is taking hold, however. A total of 86 % of HR professionals are already focusing their efforts on applied strategic targets (Girbig & Kötter, 2005). This is a reflection of the still comparatively young age of HR controlling as a discipline. The two-axis diagram in Fig. 1 traces the evolution of HR controlling in terms of the scope of the data it uses and its increasing focus on value contribution.

In the 1980s, HR controlling mostly meant producing a standard set of statistics, often for consumption by public institutions and not for any practical use at the company itself. Legitimating was the prime function. The accelerating evolution of IT systems opened up access to many new types of data and information. In the 1990s, this meant the breakthrough of HR controlling. At the same time, this also brought an explosion of reports and a veritable data glut. HR developers have since regained their sense for the focused use of data. Practical relevance has become the prime selection criterion.

The value contribution of HR and its key value and performance drivers are becoming ever more important. Companies can chose from many different controlling systems for this purpose, which we try to systematise in Fig. 2.

Value-adding HR controlling always needs to be built on the foundation of the corporate strategy and its daughter, the HR development strategy. We can identify three distinct target areas for strategic controlling in this sense.

The first area concerns development controlling of the human resources themselves. Such factor-oriented HR controlling is particularly helpful for quantitative and qualitative HR planning (Deutscher Wirtschaftsdienst, 1999). These indicators are especially interesting for line managers, as they can answer questions like:

- How many employees will be leaving the company due to old age within the next 3 years?
- How many employees fulfil the requirements profile for their job?
- How many top or key positions have a designated potential successor?
- How high is current employee engagement?
- What is the current leadership quality?
- What is the average target performance in the workforce?

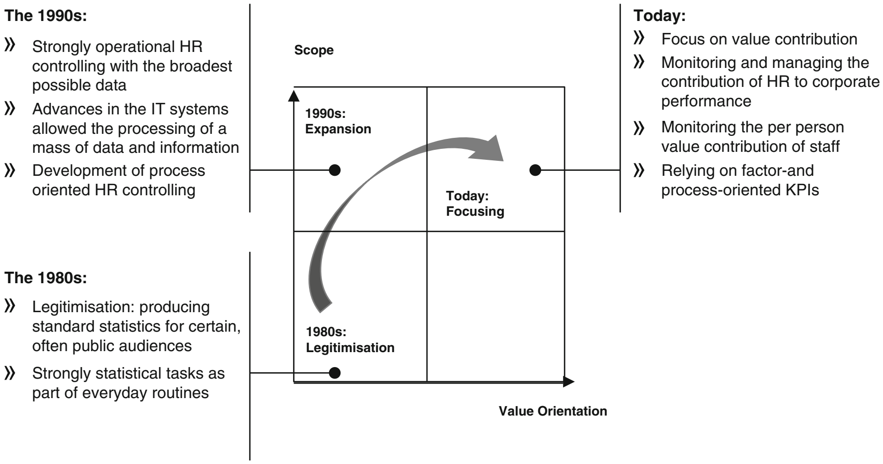

Fig. 1 The evolution of HR controlling

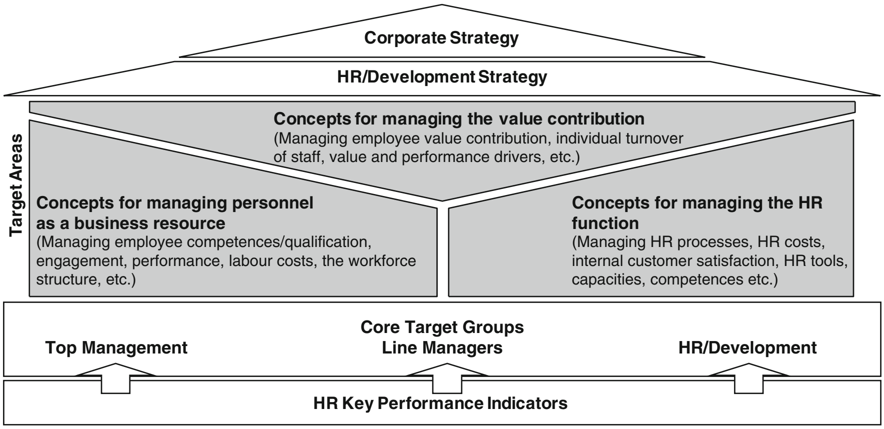

Fig. 2 Systematising the HR/development tools in current use

By contrast, the second area concerns instruments for HR developers to manage their own functional unit – that is, HR development itself. Often termed process-oriented HR controlling (Gmür & Peterhoff, 2005), it allows them to track the efficiency and effectiveness of their work by looking at HR activities like qualification, staff appraisals and so on. It can address the following questions:

- What is the current coverage ratio, i.e. the ratio of HR developers to employees?
- Have all planned development activities been completed?
- How well attended are the seminars?
- What is the average daily cost of a seminar?
- How many graduates of the junior executive programme have been promoted to their first leadership position within 12 months?
- How satisfied are the internal clients of HR development?

The current debate about controlling concepts is addressed by the third area: controlling the contribution of HR to commercial success. This works with human capital or value driver concepts that try to cover the value contribution per member of staff. Why are such concepts being used? The underlying reason is often management's unhappiness with the ambiguous value contributions of HR, a situation revealed again in the Kienbaum HR strategy study. The study shows that only a third of all participating companies were happy with this indicator. However, the current toolkit proposed for controlling such value contribution is still very new. These inventions still have to prove their practical sense and viability. It is, however, promising that 67 % of companies who rate their HR work as excellent have already begun to employ the new toolkit. Only 11 % of companies outside of that category do the same (Siemen, Werthschütz, & Kötter, 2009).

In the next part, we will review a selection of practical concepts for these three areas. When introducing HR development controlling, the primary focus should lie on the first two areas. HR development controlling in particular also concerns questions of qualification controlling that will be discussed in the fifth part.

2 Concepts for Managing HR Development

The following concepts have been proposed to help HR developers control their work. They cover both the input-side, e.g. capacities and costs, and the output-side, e.g. quality and duration. In practice, pure cost controlling is still dominant, even though it has little managerial significance. Since the costs for HR development are a minute item in the overall HR costs, we shall focus on their effectiveness. The following four examples of strategically aligned HR development controlling have established themselves in practice.

Managing HR Development Targets with Indicators

This concept revolves around the identification of suitable monitoring indicators to track progress towards a defined development target. In our interactions with clients, one insight appears again and again: a target plan is only ever complete if an indicator to measure it is in place. The right direction to take is only ever clear with an indicator to guide us. In one of our projects with a municipal utilities company, a first selection of possible key performance indicators (KPI) for the target "Improve Leadership Quality" resulted in the following items (Table 1).

It is clear that the chosen criteria interpret the actual target in widely different ways. While the attendance levels and investment figures are mostly input-oriented and aimed more at the actual processes, the other criteria are output-oriented and each apply a different focus. In addition to defining an indicator, it usually helps to define the tools, units, and frequency with which it is tracked. In these examples, the indicators are monitored rather infrequently, as they concern a strategic controlling tool used in strategy design and implementation. Once such indicators have been

Table 1 Applying the target "Improve Leadership Quality"

Target: improve leadership quality			
Indicator/criterion	Unit	Monitored by	Frequency
Executives' competence fit (match as-is and to-be profiles)	Points	Supervisor's assessment	Annually
Attendance level in executive development programme	%	Qualification database	Quarterly
Development investment per executive	€	Qualification database	Quarterly
Employee feedback	Points	360° feedback	Annually
Fluctuation rate	%	SAP	Quarterly
# high potentials named by executives	#	Potential nominations	Annually
Average performance in the business units	%	Performance target forms	Annually

found, their validity still needs to be discussed and they need to be prioritised effectively.

The approach described here is very common in German businesses: 86 % of HR professionals are already managing their work by way of such targets expressed in meaningful indicators (Girbig & Kötter, 2005). This seems to be the case, because it is a practically feasible concept and highly accepted by top executives everywhere. Such targets can then also be cascaded down to the level of individual employees by way of the usual MbO process.

Managing HR Development Processes with Indicators

The second approach is an expression of the increasingly procedural turn in HR. HR departments with a working structural and procedural organisation are distinguished above all by their HR processes. That is, the definition and documentation of all HR processes and their use is standardised in corporate HR core processes.

Improving an organisation in this manner works mainly by introducing a stronger reliance on processes. What does that mean in practice? The first step is to establish a process map covering the key development processes. Ideally, this map should be controlled and revised at regular intervals. It should cover such typical HR development processes as staff appraisals, event management, qualification, and succession planning. The description of these HR development processes can use any format or level of detail. The process map will be successful if it states the relevant process steps, the key activities in them, the instruments used for them, and the main milestones and responsibilities. It is also important to keep the success factors of HR development processes in mind when we try to define the quality criteria for controlling purposes. These can range from indicators of time or speed to costs or quality. At a German power company, we defined the core processes and KPIs for top management support services (covering approx. 0.2 % of the total workforce), as outlined in Table 2.

Table 2 Processes and KPI for advising and supporting top managers

Process	Key performance indicators (KPI)
Succession planning	Ratio of covered top and key positions Number of appointments from the succession planning process Number of appointments from the pool Number of executives covered in the database
Competence development	Comparison of competence profiles Development costs per member of staff
Recruitment	Internal recruitment Evaluation of recruitment success after 1 year
Performance management	Average performance

The increasing focus on processes can also be found in the practical controlling systems. Almost every second HR unit manages its processes with this concept (Girbig & Kötter, 2005). It is a particularly helpful concept for companies who see a need for improvement in their work and want to respond and manage with soundly efficient and effective criteria.

Managing Development via the Development Scorecard

The HR development scorecard brings all of these concepts together under one roof. Its theory is based on the balanced scorecard concept developed by Kaplan and Norton (1996), which was originally intended as a tool for managing entire businesses (Kaplan & Norton, 1996), but is now scaled down for HR or HR development purposes. The extent of this downscaling depends on the size of the organisational unit in question.

When transforming the concept to suit the HR function, we need to redefine the perspectives in the scorecard. The *financial perspective* will now cover the financial effect of HR development, which includes the costs of development, the value contribution per head of staff, or external earnings for seminars and programmes produced in-house. The *customer perspective* includes the internal customers (that is, top management, line management, employees etc.). It helps us make a meaningful judgment about questions of acceptance, quality, or supply and demand. The *process perspective* is virtually similar to the procedural concept described above. The fourth perspective is transformed into the *HR personnel development* perspective: it addresses questions of engagement, competences/qualifications, etc. Figure 3 presents such a development scorecard designed for the training and development section of an insurance company.

Our experience from many projects reveals three essential strengths of this concept:

1. The balanced scorecard (BSC) balances the rating and prioritisation of the four perspectives. While a corporate scorecard often gives prominent emphasis to the financial perspective, most HR developers care first and foremost about the internal customer. Whenever we critically scrutinise HR development strategies,

	Strategic Targets	Key Performance Indicators
Finances	• Reducing seminar costs	• Administrative costs as a percentage of total development costs • Cancellation ratio
	• Increasing external earnings	• Value contribution for external customers
Internal Clients	• Improving customer satisfaction	• Customer satisfaction index • Training days of staff per person
	• Improving responsiveness to demand	• Transfer controlling index • Number of development activities completed • Appointments from development pools
HR Development Processes	• Improving the efficiency of development processes	• Seminar attendance • Qualification speed (identification of demand to participation)
HR Development Personnel	• Using employee potential	• Competence fit (gap between as-is and to-be profiles) • Employee engagement index

Fig. 3 Sample scorecard for the development section of an insurance provider

we often come to see that the financial side is underrepresented. In such cases, this instrument is invaluable, as it expands our naturally narrow horizons by pulling the other perspectives back into focus.

2. By including forward-looking, anticipatory criteria, the scorecard becomes an early warning system of sorts. Financial indicators are usually a record of previous events and, hence, can only offer an insight into past periods. The other areas, by contrast, help anticipate financial performance in the future. For instance, bad scores for essential process indicators like the speed of qualification can be read as a warning sign for future performance problems.
3. Many different cause-and-effect links connect the KPIs to each other. This is a hallmark of quality for any well-designed balanced scorecard. The lower three perspectives should only include indicators that have a direct causal relationship with the KPIs. In terms of the example from Fig. 3, a high score for employee engagement would, for instance, cause higher customer satisfaction performance. The scale of that effect still has to be determined.

Almost 40 % of the companies participating in Kienbaum’s HR strategy survey are already using the scorecard actively (Girbig & Kötter, 2005). One reason for this is that the scorecard offers excellent support for the strategy design process. Another reason is that a balanced scorecard is a great tool for internal communication, as it helps make the strategic alignment and the performance contribution of the HR function more transparent.

Our process for developing such HR development scorecards is outlined in Fig. 4. The starting ground is a fully established HR development strategy and a clear definition and delineation of the four perspectives to be included in it. When allocating the defined HR development targets to the four areas, we often come to recognise that the targets are not actually “balanced.” A revision is often necessary or, at least, advisable. In absolutely exceptional cases, we can also limit the scorecard to a single perspective, with suitable KPIs chosen as in the case of

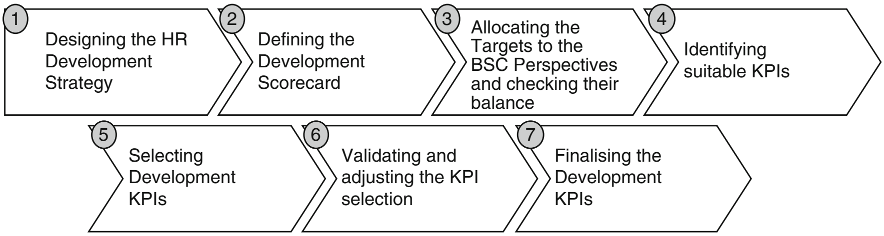

Fig. 4 The process when designing HR development scorecard

"Managing HR Development Targets via Indicators". Oftentimes, the result of this is a mass of 50 or more controlling indicators. Now, the trick is to find the essential indicators. The old motto of "less is more" holds true in the case of balanced scorecards as well. To make a scorecard manageable, it should not include more than 15–20 indicators.

The final steps are intended to ensure the quality of the scorecard instrument. This demands careful work, as we need meaningful indicators and correct causal relationships to get a constructive and effective tool for HR development management.

Managing HR Development Projects

Managing HR development projects means managing complex, interdepartmental projects as a means of executing the HR development strategy. In one of our projects at a health insurance provider, an intranet-based tool was established to give the HR managers quick access to project progress and performance in terms of deadlines and budgets. This allowed immediate interventions whenever anything went wrong in the project.

3 Concepts for Managing Personnel as a Business Resource

The second group of controlling instruments intends to manage human assets via suitable indicators. A number of possible solutions are already in use for quantitative indicators (capacities, costs, training days, etc.). The challenge consists in having access to complete, up-to-date, meaningful data. The situation becomes even more complex when it comes to covering more qualitative aspects, e.g. people's skills and competences, succession plans, or performance management (Hölzle, 2005). In this chapter, we will distinguish between three degrees of maturity in the various line reporting concepts:

- Many HR units use traditional topic-driven reporting. This is most common in smaller companies or businesses in which HR controlling is still in an early stage of its evolution.

- A greater strategic element is visible in the second approach: the link with commercial success factors. Here, the reported KPIs are derived from the actual requirements of the company or unit in question.
- The third approach – called line reporting – gives special emphasis to so-called HR portals. It gives line managers IT-based access to reports that can be flexibly personalised on a personal manager's desktop.
- In the following, we will cover the three approaches in detail.

Reporting by Topic

This type of reporting represents the simplest form of the controlling instruments evolution. In the course of the process, line managers receive reports with relevant indicators on typical topics of interest, such as labour costs, capacities, age distribution, competences, or engagement levels. Table 3 presents a selection of such reporting topics used at a medium-sized toiletries producer that are relevant for HR development purposes.

Some of these indicators should be viewed critically, e.g. the number of personnel with additional qualifications. This is the product of a general trend towards more dynamic working biographies and thus increased flexibility in the make-up of the workforce. The selection of the indicators should, however, always consider the specific context of the one company in question.

As already mentioned repeatedly, finding meaningful indicators is often the greatest difficulty in HR controlling projects. Many attempts already fail as a result of attempting to measure too much. Many indicators that might be appealing for a single analytical purpose should not be included in a more general reporting system. The available indicators should rate systematically to arrive at a constructive selection (one possible method is presented in Fig. 5). It is evident that each indicator should always be seen in relation to its intended purpose and in the wider context of the company's situation. The sample rating presented here would look completely different in other commercial contexts or with a different force in the system.

Linking with Commercial Success Factors

When a reporting system is to be established for line managers, HR professionals often find themselves in unintentional competition with their peers in charge of controlling. To take the example of a real-estate company, the finance section had already put three controlling instruments in place: contribution margin calculation, a balanced scorecard down to the level of individual teams, and a process KPI report. The report defined six to eight quality criteria for the core processes of the business, developed through painstaking collaboration with line management representatives. Figure 6 presents an overview of the reporting system.

Table 3 Typical reporting by topic

Table	KPI	Unit	Instruments
Competences/ qualifications	Average competence fit (gap between as-is and to-be profiles)	Points	Competence database
	Number of employees speaking French	%	SAP
	Average leadership skill index (gap between as-is and to-be in the leadership dimensions)	Points	Competence database
	Number of employees with additional qualifications (chamber of commerce certified)	%	SAP
Motivation/ engagement	Engagement index	Points	Staff survey
	Seniority	Years	SAP
	Fluctuation rate (resignations)	%	SAP
Succession management	Number of managers leaving within the next 5 years	%	SAP
	Number of top positions covered by designated successors	%	Succession plans
	Average age of managers by level	Years	SAP
Performance management	Performance assessment (potential analysis)	Points	Performance data
	Performance of the employee	%	Performance targets

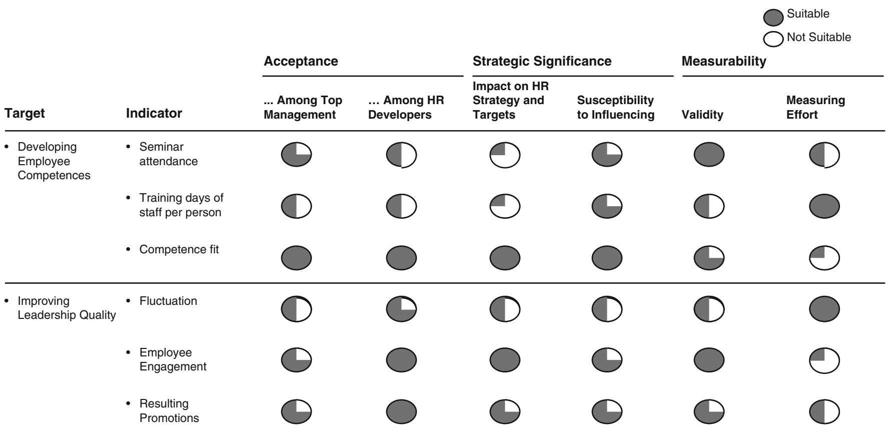

Fig. 5 A sample evaluation of key indicators

Two ways of defining controlling tools for the HR function were available. First, the corporate strategy was translated into the HR strategy, managed by means of an HR balanced scorecard. Some components of this scorecard were taken directly or indirectly from the corporate scorecard.

In order to give the line managers a suitable selection of HR indicators, the project team decided in favour of integration with the process KPI report. To that

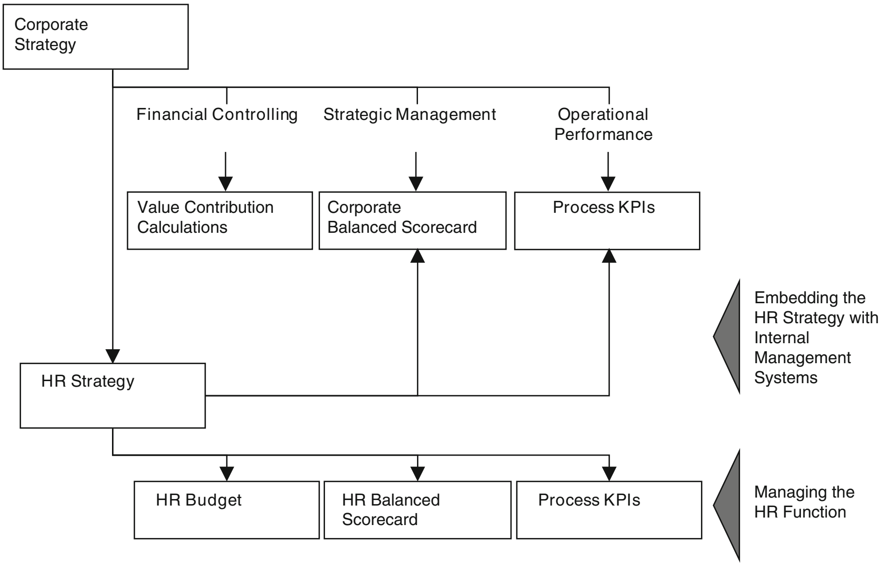

Fig. 6 The reporting system at a real-estate business

end, workshops were conducted with the line managers in which the relevant processes and their success factors were described. The HR key performance indicators were then derived from these success factors in a three-step process:

1. What are the quality criteria of a successful process?
2. What are the related HR success factors?
3. Which KPIs can make these HR factors transparently quantifiable?

An example of this derivation process can be found in Table 4.

What is essential for this approach is that the HR developers know and understand the business of their peers in line management and can actually work as business partners. It usually helps to concentrate on a small selection of relevant indicators for the line organisation.

HR Portals

The highest degree of maturity of HR controlling can be found in the form of HR portals, also known as manager desktops. These are characterised by the flexible format of the controlling reports, made possible by the use of effective IT-based workflow systems. They not only give managers standardised reports, but can also be adjusted flexibly to account for the relevant user group, type of requested information, and purpose of the KPI. At a car manufacturer, the tool was designed on the basis of the data cube outlined in Fig. 7.

Table 4 Defining HR success factors and HR KPIs for line reporting. Process: order processing

Process KPI	Related HR success factor	HR KPI
Throughput speed	Availability of HR capacities	Recruitment quality: number of new recruits leaving within their first 12 months Workload: overtime in hours
	Employee engagement	Employee engagement index
Rate of customer cancellations	Leadership quality	Leadership style index from staff surveys Take-up of target-setting instruments
	Competence development	Training results (results of mandatory post-training exams) Competence gap (supervisor's assessment)
	Customer focus	Service index from staff surveys

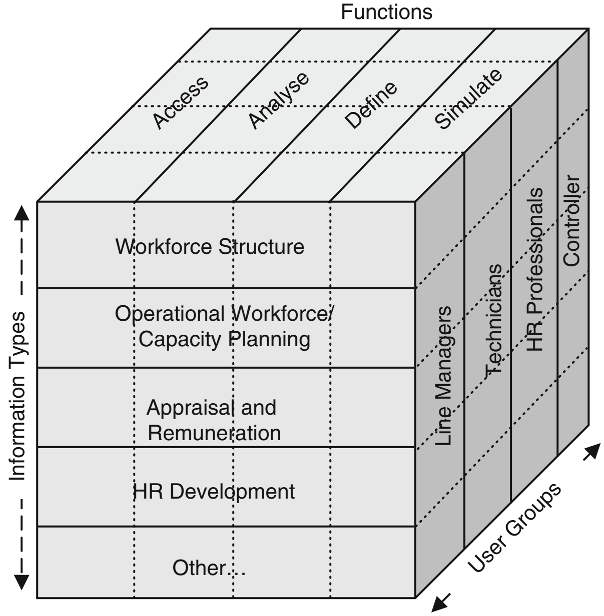

Fig. 7 Arranging the data for a management desktop

The first thing that needs to be defined is which target groups are to receive HR KPIs. In the case of the car manufacturer, it was mainly line executives and master technicians, but also the actual controlling and HR staff. It is evident that such diverse target groups will have different expectations about how they want to use the data. The second step needs to address the following options:

- Accessing pre-defined reports;
- Analysing pre-defined reports, with filtering functions, visual representations, or means of transferring the data to local applications, such as Excel;
- Designing personalised reports/queries with an option for limiting the data to specific timeframes, groups, or criteria;
- Conducting simulations, e.g. forecasts on the basis of historical data, analysing the impact of interventions, etc.

The third step should define the target areas for which data will be produced. For instance, HR professionals will be analysing the data on HR development when applying the following filter: all members of staff leading a defined department who have not yet taken part in facilitation or presentation training.

4 Concepts for Controlling the Value Contribution of HR Development

The debate about the value contribution of human capital and the role of factors that influence human capital – not least HR development – has come far in the recent past. Older concepts have been refined and developed further, although there is still no agreement on a standard means of valuating and controlling human capital.

The debate has gained new momentum in the wake of the recent financial crisis, which was, in essence, also a crisis of the right valuation of assets and risks. This has made the proponents of human capital valuation more hopeful that their topic will finally gain more attention among the decision-makers and asset managers around the world. In 2008, who could have guessed that one of the most recognised investment banking houses would simply disappear? The history of industrial society has always known shocks, such as Wall Street's sudden abandonment of Dow Jones stocks on Black Tuesday in 1929. The result was a call for the reform of corporate and financial reporting. Then, as now, investors and stakeholders wanted to be told which innovations should be taken seriously, which risks were predictable, which values the new economic reality had to produce, and how long the power of the figures would hold true. Since our modern knowledge economy has made human capital an essential engine for commercial success, the need for a reliable valuation of it is universally accepted.

Accounting principles forbid the valuation of self-produced intangible assets, a limitation that the authorities expect to keep up for the foreseeable future. This applies even more in the case of human capital, since people are not actually owned by the company in question.

This does not, however, mean that human capital cannot be subject to some other form of reporting requirement, e.g. in regular performance reports. The pressure on rating agencies, auditors, and analysts only has to increase to a critical mass before there will be a serious effort to establish a universal standard.

Which concepts for human capital valuations are currently being discussed that pay meaningful attention to the question of HR development?

Table 5 Concepts for controlling human capital (based on Scholz & Bechtel, 2004)

Group	Basic formula	Examples
Market-value-oriented concepts	$HC := f(Market\ Value, Book\ Value, Headcount)$	Market value/book value
Accounting-oriented concepts	$HC := f(Labour\ Costs, Depreciation)$	Knowledge balance over learning time
Indicator-based concepts	$HC := \sum Indicators$	BSC Humantics
Value-added concepts	$HC := Output - Input$	Market value added (MVA)
Earnings-oriented concepts	$HC := \frac{Earnings\ Indicators}{Cost\ of\ Capital}$	ICM Model Knowledge capital scoreboard

We can see a multitude of possible ways to evaluate a company's human capital (HC), which can be grouped in five categories (Table 5).

The market-value-oriented approach calculates the human capital on the basis of the company's value in the capital markets. It does so by considering the market value, book value and, optionally, the headcount of the company. The data produced by this approach is most interesting for external company valuations. Accounting-driven approaches draw their data from internal accounting, in particular, the labour costs and relevant depreciation. The aim is to account for the invested assets (e.g. sourcing, induction, and training costs) and the depreciation over a defined period. This leads to certain adjustments in the balances and the profit & loss accounts. Indicator-based approaches are not meant to produce a specific value. Instead, they are aimed at controlling human capital via suitable indicators, e.g. the key performance indicators of a balanced scorecard. However, this does preclude the option of a direct comparison between human capitals of different companies. Value-added concepts see human capital as the result of output and input indicators. One well-known example is the calculation of economic value added as the operating results minus the capital costs. The remaining value is then considered to be the product of human capital. Such an approach tries to determine whether the people of the company, on average, actually produce value that covers or exceeds the costs for maintaining the company's human resources, i.e. whether there is an actual increase in value. Finally, earnings-oriented concepts calculate human capital as the earnings of future periods, with a specified capital cost rate discounted from them. Such concepts also produce a financial value in the end (Scholz & Bechtel, 2004).

One much-debated approach in human capital valuation was the so-called Saarbrücken formula. The formula copied aspects of all of the named concepts and produced the following calculation (Scholz & Bechtel, 2004):

$$HC := \sum_{i=1}^{g} \left[\left(FTE_i{}^* 1_i{}^* \frac{W_i}{b_i} + PE_i \right)^* M_i \right]$$

HC-base market value	HC-knowledge depreciation	HC-value compensation through HR development	HC-value change
$FTE_i{}^{*}1_i$	$\frac{W_i}{b_i}$	PE_i	M_i

Reading the Saarbrücken formula

i Personnel groups awarded i = 9 for the criterion of "highest educational attainment" from basic education, secondary education, university-entrance qualification, vocational training, vocational degree, university of applied sciences, university degree, MBA, or doctorate
FTE_i Full-time equivalent numbers for group i
I_i Industry-average salary as the going price for labour in group i
W_i Average knowledge relevance over time for group i
b_i Average seniority of group i
PE_i HR development resources invested into group i over the last year
M_i Motivation index for group i

In essence, the Saarbrücken formula appears to be a market-value-oriented approach, as it does not intend to include an earnings-oriented valuation.

The Saarbrücken formula distinguishes between the relevant *personnel groups* and allocates a value to each group. There is no rule for how the groups should be defined, which allows a company-by-company approach.

The total value is calculated by adding the various group values for a *one-year period*.

Each personnel group (**i**) is rated on the basis of three value drivers:

1. The number of employees in **FTE**.
2. The average market salary (**l**) for the group, although not as a reflection of the group's labour costs; rather, it represents the expected baseline return and is, in this respect, potentially an element of the eventual human capital value. The formula does not consider company-specific costs.
3. The knowledge relevance over time is contrasted with the group's seniority (**wi/bi**) to act as a depreciation factor. Such factors are used for all commercial assets; in the case of human capital, the rule is that functional expertise will continually decrease – without investing in its development – while experience will increase. Both curves have their unique shapes, depending on the seniority of the employee in question. Their quotient defines the degree to which the employee can contribute capacities to match his or her market salary, not considering any investments into the employee's knowledge at this point.
4. HR development (**PE**) refers to the investment that the company makes into the knowledge, or functional expertise, of the employee.
5. The motivational factors (**M**) then indicates the basic readiness of the employees to actually use this expertise. It is the specific human factor in the equation.

The Saarbrücken formula thus tries to evaluate the basic capacity that a specific personnel group can contribute to the company. Costs and earnings are not explicitly part of the equation and must be established with other analytical means.

Simulations reveal that:

The personnel group (i) represents a capacity unit that is not specified in more detail in the Saarbrücken formula. However, any segmenting of the workforce needs to ensure a certain degree of homogeneity in the group and that a general comparability of the groups across organisational units is maintained.

The *number of FTE* (FTE) positions in a group has a major impact on the eventual human capital value. The higher the number of FTE, the higher the human capital value will be, all else being equal. Any truly objective comparison, therefore, needs to consider the human capital value per FTE unit. This would produce a meaningful insight for defining the right strategy to influence the company's overall human capital value.

The market salary (M) is the same for every company when calculating their human capital value. Higher or lower pay by comparison to the average (market salary) therefore does not influence the human capital value according to the Saarbrücken formula. The "comparatively" high salary of highly qualified personnel by contrast to the lower salary of their less qualified peers will – all other things being equal – have an effect on the eventual human capital value.

Another input parameter is the W_i/b_i quotient. The lower the quotient, the lower the final human capital value according to the Saarbrücken formula. In highly qualified personnel groups, that quotient can be expected to be lower, implying a need for higher investments into maintaining and developing their knowledge and, by extension, their knowledge relevance over time. Considering the length of time of belonging to a relevant functional group, irrespective of the actual current employer, would be more meaningful in this respect. Only this gives due consideration to the factor of expertise acquired over one's career as an essential part of knowledge relevance over time. Simulations have shown that companies can influence their human capital value via investments alone. A change in the data structure is probably not a realistic option for action.

HR development (PE) investments are included as a factor that works against the loss of knowledge. The formula only considers the costs incurred by the company in question; private training and development on the part of the employees is not part of this calculation.

In line with the basic idea behind the Saarbrücken formula, HR development investments should be able to recover human capital value lost. HR investments are thus a form of conservation.

The higher the HR development investment value, the higher the human capital value, all else being equal. This is where the additive relationship with the other parameters – FTE, market salary, the knowledge relevance/seniority quotient – takes its effect. Recovering value is only possible to a certain extent. If the W_i/b_i quotient in particular decreases, the formula would demand massive investments into HR development to keep the final value stable. More studies and debate are required to see at which point the investment into development would not be justified anymore.

Simulations have shown that increasing the employee groups' seniority by one year only (i.e. employees aging by a year) would demand millions of Euros of development investments to keep the human capital value stable. This was the case in a simulation for approx. 70 employees of a relevant personnel group.

As a second term of the Saarbrücken formula, the motivational value is the value with the greatest single influence on the human capital value. Therefore, it has a multiplier effect in the equation. This attributes motivation with top priority in the calculation of human capital value. The motivational factor has a critical impact on the capacity value (HC): taken to extremes, it could negate the HC entirely or double its impact.

A Critique

The Saarbrücken formula puts a monetary value on human capital. It focuses on a selected number of HR valuation criteria to allow an easily manageable valuation process.

It also allows a comprehensive valuation of the entire workforce, not only its constituent groups.

The free definition of the personnel groups allows the formula to be adjusted for each company's specific needs. A combination of company-specific and market-related data then makes it possible to compare human capital across companies.

Allocating the Saarbrücken formula to one of the conceptual categories outlined in Table 5 is not straightforward. We consider it to be a market-based approach, although it shows clear similarities to a cost-oriented approach.

The valuation does, however, still face a number of issues that need to be resolved:

- Knowledge relevance is not reliably definable, although it has a major impact on establishing the depreciation rate;
- Accessing market data makes any valuation challenging, as it requires comprehensive market analyses.

Studies have shown that there is no immediate correlation between the output of the Saarbrücken formula and regular balance indicators. Good HC values of personnel groups therefore do not seem to have an impact on the – reported – performance of the business.

One essential point of criticism is that there is no link with any tangible financial data. The value produced by the formula is a detached entity: linking it with the company's earnings or company value (expected earnings) requires additional calculations.

This criticism is, however, not reserved to the Saarbrücken formula alone; the current discussion by the Human Capital Club, DGFP, and Psychonomics also seem detached from the financial indicators. They are thus limited to a narrow HR world.

Which alternatives are there to bridge the gap between the commercial success of a company and its HR performance?

The PwC Concept

PwC's concept for assessing human capital uses the "PwC Advanced Human Capital Valuation" method and is intended to determine the monetary value of a company's human capital. The value is meant to be comparable to other intangible assets on the human side of the company value. For that reason, it always tries to evaluate the performance of employees in relation to the actual commercial success of the business.

The implicit purpose of this approach is to help optimise HR management, which is why it includes both quantitative and qualitative indicators. As such, the approach can be considered holistic, as it touches on HR-specific and financial parameters just as much as the value contribution of other assets.

Including HR parameters helps increase the validity of the general valuation. With increasing confidence about its validity, the human capital value can then also be used for HR controlling purposes relating to costs.

The process is not suitable when we want to assess the individual performance of single members of staff. It also (currently) disregards people's specific potential that cannot be realised at the company in question.

When a stable valuation process is in place, the resulting human capital value can be communicated across the organisation. Since human capital has become one of the most important and hardest to manage types of assets, meaningful reporting can be a great boost to stakeholder confidence in this respect.

In August, the German auditor's association Institut der Wirtschaftsprüfer (IDW) proposed an initially open standard for valuating intangible assets (IDW ES 5). This standard covers all relevant principles for the valuation of intangible assets, with some special conditions for the valuation of brands. The standard will be expanded to include more details on other specific intangible assets (e.g. customer portfolio, patents, or technologies). The "PwC Advanced Human Capital Valuation" was designed to resemble this new standard for the valuation of intangible assets.

Especially in cases where human capital contributes a major share of the company value, it deserves to be considered in strategic decisions. If 15 % or even 35 % of a company's future earnings capacity depend on its people, all decisions concerning the future of the business need to be checked for their potential impact on human capital. How will the decision influence the HC-RoI or the risk matrix? How will that influence the future commercial capability of the company?

Human capital is calculated in four steps:

1. Predicting Future Human-Resource-Specific Returns

Human Capital Return on Investment (HC-ROI)

No people – no business. No company can function without investing human capital. However, seeing the contribution of a company's human capital to its performance as a quantifiable figure requires us to identify suitable parameters for valuation of human capital.

One approach has already established itself in corporate controlling systems. In this approach, the profitability, or the RoI, for human capital (= labour costs) are taken as a function of the value contribution per head or group of staff. This link was first translated into a practicable controlling technique in the workonomics concept of the Boston Consulting Group. It defines quantifiable HR-related indicators, such as the "Value Added per Person" (VAP), built to resemble classic capital indicators, such as the "Economic Value Added" (EVA) or the "Cash Value Added" (CVA). The VAP is defined as the corporate earnings minus all periodical costs (without labour costs) and the relevant period capital costs. The resulting figure is then calculated against the number of employees. Subtracting the average labour costs and multiplying the results by the number of employees produces the CVA. The established capital controlling system is not replaced in this approach, but expanded to include the parts relevant for controlling human capital.

The link between the investment into human capital and profitability is even clearer in the Human Capital Return on Investment (HC-RoI). The HC-RoI determines the profitability of the assets invested into the company's people. The HC-RoI calculation was developed by Jac Fizenz at the Saratoga Institute. Taking away the operating costs (without labour costs), we arrive at an adjusted earnings figure. Dividing this figure by the labour costs, we get the returns for every unit of currency invested into the company's people – in other terms: the lever effect of the human capital investment. The data required for this calculation on a corporate or divisional level are usually freely available.

$$\mathbf{HCRoI} = \mathbf{Earnings{-}{-}(Operating\ Costs{-}{-}Labour\ Costs)}$$
$$\mathbf{/FTE\ x\ average\ payroll\ costs\ per\ FTE}$$

(FTE = Full-Time Equivalent)

By contrast to pure capital asset values, the HC-RoI covers the essential drivers of increased earnings relating to human capital. It can thus be seen as a key performance indicator for the effectiveness of an organisation. This precondition makes the HC-RoI an invaluable indicator when assessing a company's human capital or HC-related earnings.

However, it would be too simplistic (and an unfair distortion of reality), to use only the data on earnings, operating costs, and labour costs recorded in the company's official statements. This refers in particular to those parts of the company's earnings that are due to other, intangible assets, such as brands or patents. When calculating the HC-RoI, the earnings should therefore be adjusted to discount all specific earnings that could be attributed directly to such intangible assets.

If the HC-RoI falls below 1, the HC returns therefore become negative: investing in human capital therefore produces no actual profits, but losses. This threshold is called the human capital break even (HC break even).

Considering the Business Plan

The value of a company comes from its ability to use all forces that determine its commercial potential as means of producing a financial surplus for its owners. Forecasting this financial surplus is therefore the essential purpose of company valuation. Generally, past profitability is used as the foundations of plausible valuations. Past profitability only considers those surpluses that relate to actions already taken, or to fully documented business concepts. Should the expected earnings change as a result of internal reasons or of changes in the markets and competition, these changes also need to be considered. When all of these factors are considered, they can be translated into a business plan or forecast calculation for the business. Such a plan should be validated with a view to the logical coherence of the assumptions, available experience and market data. The business plan can act as a yardstick for assessing the company's eventual success and performance. For instance, when supply costs increase, this will – all else being equal – mean a decrease in the expected surplus. By extension, profitability of the company's human capital will also decrease. Although the causality cannot be verified, this link is indeed intentional. It is the job of the company's human capital, its management personnel in particular, to manage the company in such a way, and to anticipate future changes, to ensure that the company's commercial targets are indeed reached over the medium or long term. This simple fact is integrated in the PwC approach, although the valuation of human capital does recognise that not all earnings are attributable to human capital. Intangible assets clearly contribute to the company's value as well. While the company's people have produced these assets, they only have an effect on the power of their own inherent value. As is done when estimating the historical HC-RoI, the business plan and forecast calculation are again adjusted. The first step is to discount any special one-off influences. Furthermore, the earnings contributions of other intangible assets are also discounted, in particular brand or patent rights.

Determining Strategically Relevant Job Groups

Since the average HC returns cannot be simply shared out among specific functional groups, the human capital valuation needs to distinguish between clearly delineated functional departments. The point of this is to try to ascertain whether the majority of the returns are produced by, for instance, specific groups of specialists (e.g. technical staff or sales staff) or the human capital that is the company's management.

For this purpose, the entire workforce is divided into four groups along the company's value chain (cf. matrix) according to criteria that are specific to the organisation. This allocation includes the value driver analysis that is essential for any sound valuation process.

The process usually follows these steps:

- Breaking-down of the value chain by functional areas or functional groups, e.g. production – administration – sales – innovation,
- Allocation of functions to the functional areas (e.g. on the basis of existing job grading systems),
- Rating of the functional areas with key performance indicators (KPIs),
- Allocation of the HC returns to the functional areas in line with their KPI rating.

The sum of all KPI values represents the basis for allocating the HC returns. Separating the workforce into the four groups is a critical factor for the success of the entire valuation process: engaging the relevant specialists is the only viable means of identifying the right members of staff for the "strategic" groups. The assumption is that the members of those groups are managing the important processes that constitute the actual competitive advantage. By extension, those groups generate the human-capital-specific value of the business.

2. Human-Capital-Specific Risks

Defining the Capitalisation Rate

If we want to put a figure on the capitalised earnings value, we discount the specific capitalisation rate for predicted HC returns on the given calculation date. Company valuations usually use the so-called weighted average cost of capital (WACC) for the equity and outside capital of the company. This figure represents the minimum capitalisation rate that the company has to produce in return for the invested capital. Since the risks affecting "strategic" functional HC groups are not identical to the normal business risks, the corporate WACC needs to be adjusted for the human-capital-specific risks. That risk is established by means of risk scoring and applied accordingly to the WACC.

Human-Capital-Specific Risk Scoring

The risk of human capital does not need to be identical to the company's commercial risk. When human capital is concerned, this scoring approach includes other HR-related parameters on top of the regular capitalisation rate. For instance, a company with an aging workforce can expect to have higher recruitment and induction expenses for new recruits in the foreseeable future or it will incur a drop in its earnings, e.g. as a result of a slower pace of innovation.

This would increase the HR-specific risk and would have to be represented as a risk premium. To account for these differences, the main risks concerning the workforce structure are assessed in detail and represented in the form of a risk premium or discount on the capitalisation rate.

The PwC model brings all of these HR-specific risks together in a dedicated scoring model, which covers a selection of most HR indicators to estimate the viability of a company's workforce structure.

3. Human Capital Earnings Contributions

The calculation of the HR-specific earnings contributions works with the company's earnings in the same way as in the case of the HC-RoI. The aim is to remove all components not contributing to human capital.

All operational costs are included, since these usually occur irrespective of the actual HR quality. Furthermore, the calculation includes all HR costs for those functional groups that have been identified as value drivers in the business.

A sustainable result can be derived used on scores from a specific planning period.

4. Putting a Value on Human Capital

In order to calculate the commercial returns for a certain group of employees (that is, their human capital value given our assumptions in this chapter), the periodical revenue share is discounted with the human-capital-specific capitalisation rate for the reporting date.

Since absolute sums are not helpful for comparing one company with another, the human capital value should be divided by the number of FTE positions to arrive at the average human capital value per FTE.

Evaluation

More than all other immaterial assets, human capital helps us show the stability of a business and the sustainability of value-oriented management. Companies may find it helpful to publish the monetary value of their human capital in investor publications to promote their shareholder's trust in them or support their share price.

Many companies have begun to publish dedicated HR and social reports and/or sustainability reports. Like all voluntary market publications, their meaningfulness is limited in the sense that their data cannot be verified with commonly agreed parameters. They often include lists of indicators whose relevance for the company's commercial performance is not immediately obvious. The danger that such reports are mere marketing strategies is plain to see. Even in cases where the reports are scrutinised by reputable accountancy firms, the check can only ever verify the correct derivation of the data, not its actual significance.

Publishing the monetary value of a company's human capital can only ever make sense to the company is certain that its human capital is actually being managed actively to avoid any – unexplained and unexplainable – swings in the annual reports. Measuring human capital has, above all else, an internal purpose. It gives the person at the helm of HR a very specific figure to define the assets he or she is in charge of and those assets' contribution to the company's overall value. This puts the debate about maintaining and increasing this value on a totally new footing: people are a major source for costs in any business – but they are also assets. Only the balance of both variables allows the forward-looking and sound development of human capital.

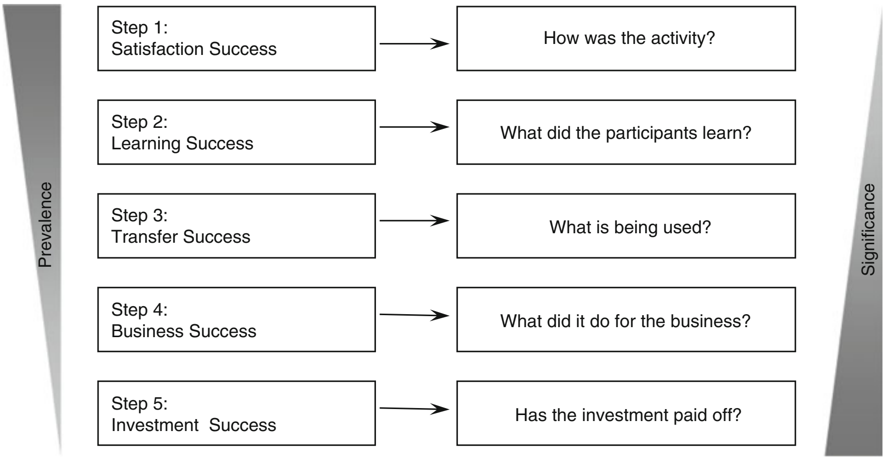

Fig. 8 Kirkpatrick's model for evaluating development activities

5 Qualification Controlling

When the perennial call goes up for HR to add value to the business, attention soon turns to the cost-benefit balance of HR development activities. Companies that introduce cost reduction campaigns often put their HR developers behind other priorities. In this situation, effective and strategic qualification controlling means a proven productive investment into the business' human capital. This means going beyond simplistic training efforts to the level of a sustainable, needs-driven development concept. This in turn means choosing seminars to fit with the company's commercial and strategic targets. The Kirkpatrick model (cf. Fig. 8) allows the step-by-step evaluation of the success of such development activities (Kirkpatrick, 1998).

Kirkpatrick's multi-level model for tracking the success and commercial returns also allows us to understand the maturation process of qualification controlling efforts. The first step – using so-called happy sheets – is virtually ubiquitous. The second step, tracking learning effectiveness, often comes up against the barrier of the participants' acceptance. It frequently only takes place where regulations demand it, e.g. in financial advisors' consulting liability training or safety instructions for nuclear power plant operators. The third step, transfer controlling, means a cold-call check-up. This checks if the original purpose of the training was actually achieved in the sense of visible changes in the workplace after a defined period, e.g. 6 months. Professional HR developers will often see out this step. The fourth step asks what the individual development measure has done for the business. In what sense has the activity contributed to commercial success? A typical example of this is a proven sales boost in a product group that the sales force was trained for. The greatest difficulties are encountered with the fifth step – understanding the return on investment for the development activity. While the simple costs of an activity can usually be tallied up easily, most people will struggle with putting a price tag on its actual results.

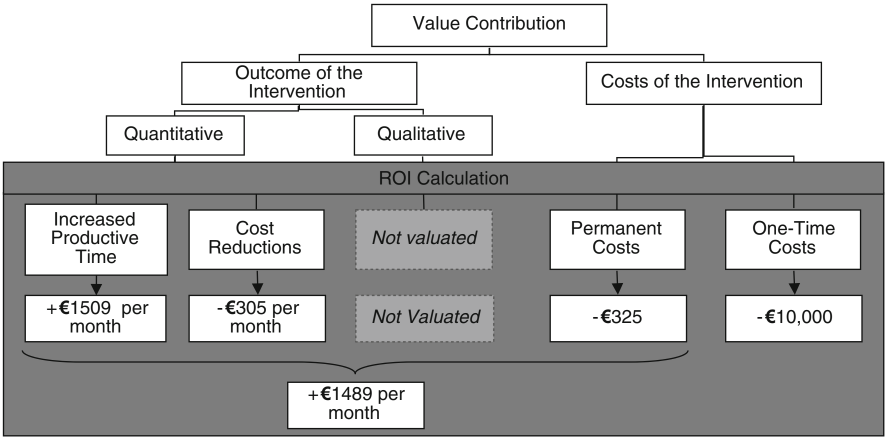

Fig. 9 Comparing a semi-autonomous workgroup and a control group

However, this is exactly what more and more top managers are asking for. The key is to define precise targets, to fill them out with clear tracking criteria, and to calculate their effect on financial indicators.

We have encountered this challenge in a project in the real estate sector. Facility management at the client was in the hands of teams of up to 40 employees. A number of pilot sections were chosen to try out a new form of working: semi-autonomous workgroups. In these groups of up to ten, people organised their work independently in terms of planning their assignments, leave, commissions, process improvements, or team conflicts. What was essential for understanding the financial benefits of this change was having defined specific targets and suitable monitoring criteria:

- Quality assurance and productivity improvements (indicators: utilisation, planned time, structuring time, reporting gaps, travelling time, timeliness),
- Improved autonomy and independence (indicators: proportional competence assessments),
- Working with, not against each other (indicators: parts of the staff survey, health and welfare, time effectiveness [productive time vs. presence]),
- Improved sense of identification with the company (indicators: parts of the staff survey, fluctuation rate).

To calculate the eventual added value, the project was broken down into individual constituent elements (cf. Fig. 9). The costs of the intervention were relatively obvious and could be split into one-off costs (training for project leaders, lost hours, instructions, laptops, etc.) and running costs (office and material costs for team meetings, travel expenses, etc.).

The benefits were split into three categories. Increases in productive hours (as a result of better staff health and better use of travelling time) and cost reductions (as a result of the optimised use of facilities, better travel planning, etc.) could be recorded in quantitative terms. The difference between these quantifiable cost-benefit effects produced a monthly – positive – total that showed the initial investment being paid off in less than a year. To exclude any possible side effects from this equation, the data for one semi-autonomous group were checked against a similar control group. However, there is a possible, unquantifiable effect hidden behind these financial equations. Even though this project managed to produce an estimate of the RoI, it did not express all of what was going on. The effects of greatly improved staff survey responses, especially for items concerning people's sense of fulfilment at work, should not be ignored. The key is to strike the right balance between answering the justified request for quantifiable data and keeping the entire spectrum of effects in sight.

All of this can take the form of prior business cases for the investment decision, as is becoming more and more common for projects of this nature. It might also surface in subsequent evaluations to decide whether, for instance, a pilot project is worth rolling out across the organisation, or to record the important insights for future investments of this nature.

6 Conclusion

The need to rethink HR and HR development controlling is obvious. HR developers have recognised that the old standard personnel records will not suffice as the only controlling tool when it comes to the ambitious goal of truly value-oriented controlling. Although the discipline is still a young member of the controlling family, it has already developed a number of promising concepts. Some of which, such as the processes concerning HR organisation, have already become a staple element in many controllers' toolkits. At the same time, there is much interesting debate about the right means for measuring human capital. Still, all of these means have yet to prove their practical usefulness. When a new controlling system is to be introduced, the first focus should lie on ways to control the HR unit and its resources. The following points deserve particular attention:

- **Focusing on the key indicators**: The reporting system should only cover KPIs that have definite strategic relevance and that can be tracked without disproportionate effort compared to their usefulness.
- **Considering output**: Many indicators are only concerned with input. To balance this, aspects of output should always be included: e.g. not only recording the number of employee inventions, but also their actual commercial returns.
- **Combining input-oriented data**: The relevance of certain input-oriented indicators might not be immediately obvious. However, such input-oriented indicators can become very meaningful indeed when combined with their output-oriented counterparts: e.g. combining the hours spent in training with the average performance rating after the training course.
- **Unambiguous indicators**: To ensure an indicator's transparency and validity, it needs to be defined precisely down to the detailed operational level. This can help avoid flawed decisions being made on the basis of weak data collection

		Disagree complet-ely	Disagree	Tend to disagree	Tend to agree	Agree	Agree complet-ely
1.	Is there a fully documented HR development strategy with defined development targets?	①	②	③	④	⑤	⑥
2.	Are the development targets represented in specific KPIs and target scores?	①	②	③	④	⑤	⑥
3.	Are the core development processes represented in KPIs and target scores?	①	②	③	④	⑤	⑥
4.	Are development targets cascaded down to the individual targets for employees?	①	②	③	④	⑤	⑥
5.	Do the line reporting indicators relate directly to the success factors for the various areas?	①	②	③	④	⑤	⑥
6.	Is the workplace transfer of development activities being tracked beyond satisfaction checks and activity controlling?	①	②	③	④	⑤	⑥
7.	Is the RoI of HR development investments being calculated/estimated?	①	②	③	④	⑤	⑥
8.	Are major investments into HR development made in the best interest of the business?	①	②	③	④	⑤	⑥

Fig. 10 Checklist: How is HR development being controlled?

processes. For instance: should staff fluctuation indicators record all exits or only those of employees resigning of their own volition?

- **Benchmarking by applying standardised indicators**: Whenever HR controlling is intended to allow a form of benchmarking, it can help to adjust the data collection and processing methods to match the standard repertoire of commercial benchmarking services.

The following checklist can be used for a short spot check of the maturity of the established controlling systems in HR and HR development (cf. Fig. 10).

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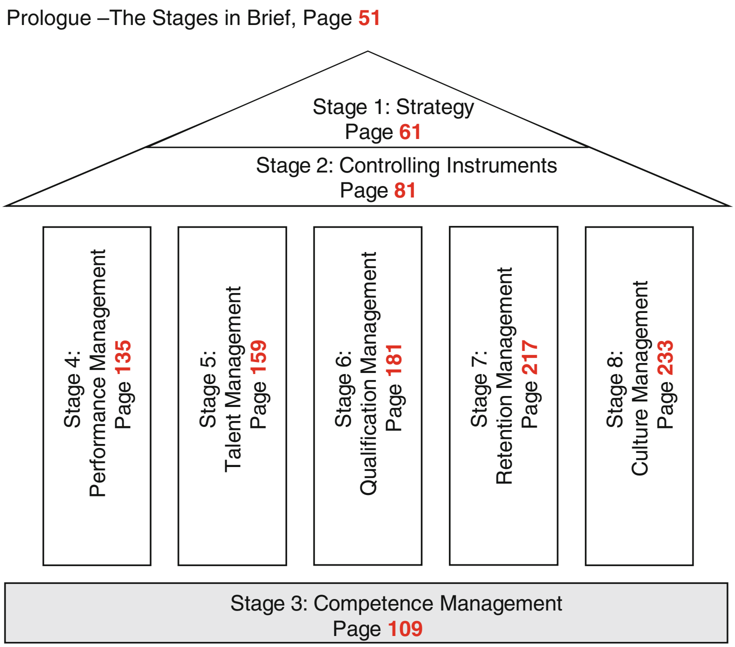
Stage 3: Competence Management

Stefan Leinweber



This chapter outlines one possible way of turning an organisation's HR development activities into a strategic engine. Real change is not introduced by managers designing a certain strategy, founding or shutting down plants, adjusting processes,

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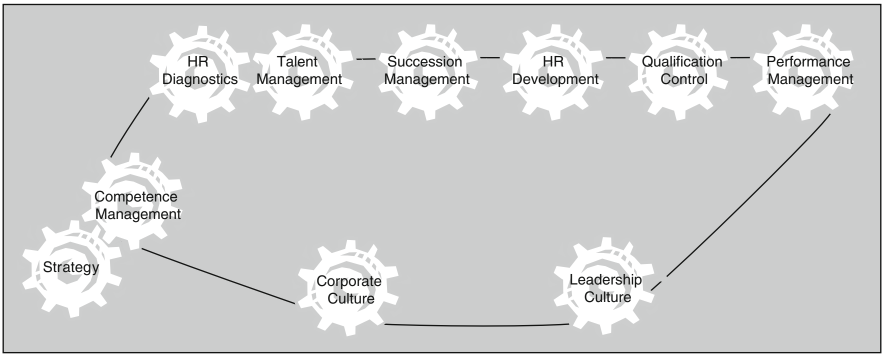

Fig. 1 Linking corporate strategies with competence management and other HR processes

or shuffling departments around. Corporate strategies need to infuse the living, breathing reality of people's everyday practises. Change can only be possible if people fully align their behaviour with the strategy of their organisation. This is where HR development can employ strategic competence management. The process begins by breaking down the organisation's abstract vision or strategic direction into patterns of behaviour that can be observed and influenced. This makes it possible to coax the behaviour of people in the direction of the target behaviour. Strategy-compliant behaviour is encouraged and the realisation of the corporate strategy is supported. As an essential foundation and starting point for all of this, a model of competence needs to be developed and integrated consistently in all active HR development instruments.

It all begins with deriving a model of competence from the corporate strategy that tells which behaviours and competences are expected from the organisation's people in order to reach its strategic goals. The competence model provides a description of the organisation's actions (in the sense of the collective actions formed by individuals) and makes them measurable and susceptible to development. The culture and values of an organisation are nothing other than the behaviour that the people within it show every day, be it internally or in public, be it in leadership or in sales.

Consequently, the corporate strategy and the model of competence provide the basis for defining the actual interdisciplinary requirements for functions in the organisation. Strategic competence management is not interested in the currently established portfolio of competences alone, but also in changing people's behaviour toward the desired strategic competence portfolio. In turn this allows HR managers to appoint people to posts on the basis of defined competences, using the HR tools of the organisation's diagnostic and development toolkit. Strategic competence management thus becomes an engine for applied strategy and an engine for change (cf. Fig. 1).

If – as mentioned – people's behaviour is to be channelled in a specific direction, it helps to take a moment and consider whether people's competences are actually susceptible to change and development. This goes beyond the structurally essential, but sometimes rather static assumptions used when defining and introducing models of competence. The following paragraphs will therefore first define the language used when speaking about competence before taking a look at the developability of competences. Later, the process used when designing competence models is outlined and the role of competence management as a strategic force in the organisation is discussed.

1 The Terminology of Competence Management

Competence (lat. competere – to come together) refers to a capacity (psychological)[1] or, in legal language, the authorisation of a person (or other entity) to conduct certain tasks independently. The distinction between the psychological and the legal definitions of competence is essential for understanding competence management. In this case, the psychological definition alone is relevant, that is, the abilities and not the authorisations of a person. Competence can be defined as the general capacity of a person to master certain challenges in their lives; for the purposes of professional competence management, this can be limited to occupational challenges. It also helps to distinguish between discipline-specific and interdisciplinary competences. Models of competency typically only cover interdisciplinary competences, often known as "soft skills" or "social skills". A common definition for *competence management* is: "Competence management is a discipline of management tasked with defining competences, making them transparent and ensuring the use and development of these competences in line with the personal ambitions of the employee in question and the goals of the organisation." (cf. North & Reinhardt, 2005).

A more thorough notion of competence management, however, requires a more detailed explanation. One relevant distinction is the basic split between resource-oriented and learning-oriented approaches:

- The *resource-oriented approach* is interested in the utilisation of the potential that exists in an organisation with the aim of maintaining long-term welfare and viability. This is done by accumulating the right set of resources and standing apart from the competition. The competences are defined directly from the corporate strategy (top-down). Correspondingly, a competence model is derived from the company's strategy, which serves as a target for the behaviour of employees.
- The *learning-oriented approach,* by contrast, focuses on the individual as the holder of competence. It revolves around measuring, evaluating, bringing to light and transferring individual competences (bottom-up). This approach describes how a model of competence is put to use in the measurement, allocation and development of the available competences in the organisation's people. To that end, the current status quo is surveyed and recorded. It is then developed in the direction of the intended target state outlined by the model of competence.

[1] Capacity refers to the entirety of what a person, animal or machine can do and achieve.

In practical terms, these approaches cannot be separated from one another, as it is their unique interaction that gives competence management its strategic value. Specifically, this is done by first pursuing a resource-oriented approach and defining which competences the organisation's people need to bring with them in order to put the corporate strategy to work. Then, the available store of competences is surveyed and the gaps between the status quo and the objective state become evident. Following a resource-oriented approach bridges these gaps, recruiting or reshuffling the workforce or using focused HR development interventions. In the end, the necessary resources need to be redefined on a regular basis to account for changing requirements or a change in the strategic direction. The resource and learning-oriented approaches interlock in a cyclical, regularly reviewed and coordinated process.

In order to exploit the strategic value of competence management for the organisation, the corporate strategy is used to define the competence model according to the resource-oriented approach. Learning-oriented HR work is then used to apply the requirements for the organisation's workforce. Practical experience shows that such HR interventions are typically necessary, because not every employee can be expected to possess all of the competences required for his or her area of responsibility. If effective HR development is to be used specific cases, it helps to consider which dimensions of competence are actually developable. To that end, defining certain factors of potential becomes essential, as these often refer to a set of competences that is hardly ever susceptible to further development.

2 Can Competences Be Developed?

There are competences that can be developed with little effort by applying different development activities. At the same time, there are other competences that have been anchored deeply in people's personality structures either by natural disposition or by their social upbringing – by nature or nurture. These competences therefore take a long time to be developed further. Sometimes further development of these innate competences is impossible. Certain skills, such as a person's powers of persuasion, abilities as a negotiator or motivational techniques can be developed further in training courses with comparatively little investment leading to immediately visible improvements. Compare this to basic analytical capacities that are substantially harder to train, since they are part of a person's intrinsic, unchanging intellect. Methods for processing complex materials can, naturally, be learned, but this would not improve the intellectual grasp that lies beneath this ability. While people can and should keep their brains fit by engaging in new and diverse tasks or regular mental exercise, they should not expect this to lead to a boost in their basic capacities.

Less developable competences thus include *analytical competence* as an element of intelligence. Aptitude diagnostics refer to the quality and speed with which solutions are produced for unfamiliar tasks (i.e. tasks outside of a person's routines and experience). A general rule is: the higher up the hierarchy, the more unfamiliar, complex and less structured the tasks and challenges will become. This is why analytical competence is seen as one of the best predictive factors for career success – especially in positions of leadership – and should be treated as an indicator of potential.

The motivational make-up of a person seems similarly unresponsive to training. This includes his or her *performance motivation* in the sense of personal ambitions and the readiness to invest above-average efforts into work (even under increasing workloads). It also refers to the will to improve oneself. Further, performance motivation refers to sustained passion for one's work (also seen as high levels of task-orientation or intrinsic motivation). If this fundamental attitude is missing, the person's potential should be seen in more cautious terms. Put bluntly, there is a world of difference between traditional officialdom and an entrepreneur's intrinsic drive. No major developmental progress should be expected at short notice. Consequently, performance motivation should also be seen in terms of an indicator of potential.

Oftentimes, *resilience* is also included as an indicator of potential. This can be considered the offshoot of a scientifically sound psychological concept – neuroticism, which refers to the emotional stamina of a person. Some people – everybody knows the type – have the proverbial "thick skin", seem untouched by anything, maintain an aura of confidence, and manage to stay on top of even high-pressure situations. Some of their peers, on the other hand, display a rather delicate nature, typically try to avoid conflicts or problems and often show signs of mental or physical exhaustion after longer periods of pressure. If an employee is to be promoted to a higher-profile job, possibly including leadership responsibilities, a more resilient candidate would appear as the more suitable choice in terms of potential. This is not least due to the fact that a person's resilience is often determined by personality traits and past experiences (at work or at home). It needs to be stressed that the candidate's soft skills should not be forgotten because of his or her "thick skin", which might also indicate a less empathetic nature. These are indispensable for the emotional management of people. Without emotional intelligence, people have a much narrower potential for the motivation or development of other people. Higher resilience alone will not make up for shortcomings in the soft skills area.

Aptitude or readiness for learning and change also represent a good indicator of potential, as they again refer to a decisive factor of personality psychology. In tandem with other factors, this tells a lot about a person's character. Some people look for new challenges, open up to new experiences, find new stimuli and seek opportunities to learn more or develop themselves. Other people prefer to leave things how they are, enjoy a calmer, stable work environment and like to follow tried-and-tested methods and the established order of things. Without judging the latter preferences, people with the former outlook can certainly be credited with more potential for higher positions. Their peers' outlook is not negative in any sense, but it would not qualify them as readily for high-profile duties. These preferences are deeply settled in a person, therefore these traits seem hardly susceptible to much change or development.

These dimensions of competence can therefore be named as a good set of potential indicators. Nonetheless, the design of any model of competence should always consider the particular culture of the organisation. Such cultural factors can point to other, possibly quite different indicators of potential.

These dimensions of competences, relatively immune to development efforts as they are because of their roots in people's intellect and personality structures, should therefore already be in place in employees or, at the least, be considered in recruitment or development centres (or orientation centres, ratings of potential, status quo appraisals, etc.). There, they should represent a type of threshold criterion (for more details on the definition of requirements and job profiles and the related identification of such thresholds, please refer to Chapter Controlling How? Measure, So You Can Manage).

The requirements for competence models have thus been defined. Now, the attention turns to the actual design of the model and its strategic application.

3 Designing a Model of Competence

A strategic model of competence is created by distilling the corporate strategy down into concrete key tasks. These tasks are then translated into behaviours that can help or hinder in certain position-specific situations. In line with the concept of the learning-oriented approach, this aids the effective selection and development of employees. In this sense, the model of competence represents the behaviours that people are expected to show. When employees complete their key tasks with the behaviours defined in the model of competence, they contribute to the achievement of their organisation's strategy (cf. Fig. 2).

Step 1: Success-Critical Behaviour

Speaking about the design of competence models therefore means speaking about the behaviours that put an organisation's strategy into practise. This means that the first and foremost consideration has to be the vision, strategy and core values of the organisation: What do we want to achieve with our company (vision, goals)? How do I want to reach those goals (values, mission statement, corporate governance)?

These goals, derived from the strategy, define the key tasks that are decisive for reaching the targets in the individual operative areas. The foremost question has to be: which key tasks are required to meet the company's goals?

What remains is to understand how these key tasks can be completed successfully in order to reach the organisational goals: which behaviours will ensure the successful accomplishment of these tasks? Through this cascade of questions, managers translate the strategy first into goals and tasks and then into specific behaviour for their employees.

To expand on this inward-looking perspective, it pays to take a look around: What are competitors doing effectively and how are their people contributing to

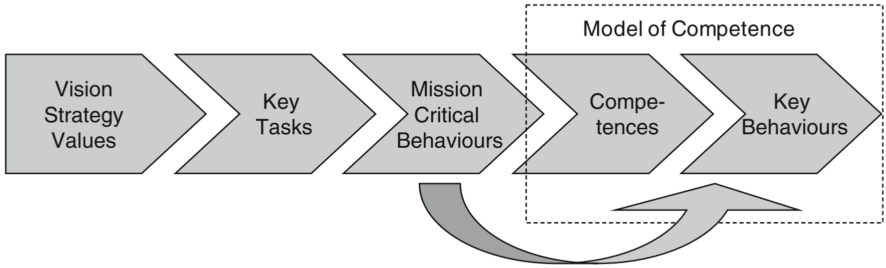

Fig. 2 From the vision to the completed model

this? This comparison might also reveal some significant differences in the competing organisation's strategic stance.

The role of HR development is to guide managers by asking the right questions. In this respect, HR developers first need to understand the strategically significant areas in terms of concrete tasks. They use these to identify the behaviours that help or hinder when it comes to mastering incidents. One method from academia has proven its worth in business: the "Critical Incident Technique". In this method, a set of incidents that are critical for the success of an organisation is collected and the behaviours that have proven to lead to success or failure are analysed.

Understanding the meaning of "Critical Incidents" (a sample).

Think of the behaviour of a member of staff that could be representative of a particularly effective or ineffective approach to work. Describe the situation and the behaviour displayed in it as concretely as possible. Ask yourself the following questions:

- What are the root causes or circumstances that have led to this behaviour?
- Describe the concrete behaviour of the employee. What was particularly effective or ineffective about it?
- What were the consequences of this behaviour?

Source: Schuler (2001)

Analysing key incidents in this manner can produce quite a substantial list of success-critical behaviours. These are the behaviours in which realisation of the organisation's strategy is turned into observable, tangible actions.

This process should include not only managers, but also employees in the initial interviews. These interviews begin the process of thinking about goals, key tasks and helpful behaviours. Momentary actions are recalled and consciously reviewed with an eye towards intended strategic goals.

Step 2: Distilling Competences from Behaviours

As a next step, the list of identified behaviours needs to be reduced, condensed and arranged rationally. This can take many different forms, differing in terms of precision and applicability. A statistical grouping can be applied, in which the behaviours are included in a questionnaire to be completed by a sufficiently representative sample (>100 respondents). The data gained from this is then grouped via statistical analyses to consolidate those behaviours that often appear in tandem or are heavily interconnected. The result is a certain number of comparatively distinct behavioural trends, each of which describes a specific competence. This process is methodologically sound, but not very practical and hardly ever viable in a pure format. A more viable approach is for experts to reach a consensus about how the behaviours should be grouped. The analysis is based on experience and intuition, trying to answer the question: "Which competence underlies each pattern of behaviour?"

Step 3: Structuring the Model in Areas and Dimensions of Competence

When the relevant dimensions of competence have been produced, the model of competence can be structured and filled with contents. Figure 3 sketches the process: typically, *areas of competence* help to arrange the contents in the model of competence's design. These refer to higher categories that cover certain types of competence (cf. Fig. 4).

The areas of competence are arranged to reflect logical distinctions in their objectives, e.g. leadership skills (managing other people, using leadership instruments) or motivational structures (referring to one's own personality) or to account for the cultural particularities of the organisation in question. When trying to give the model an even stronger, culturally specific and inspiring impact, the best results can be reached by referencing the organisation's values or principles. The model should connect these principles with areas of competence or even provide value-rich titles (e.g. "We promote autonomy" instead of "leadership skills", or "We are ready" in the place of "Motivational structure"). The following areas of competence are common:

- **Problem-Solving Skills** (Covering people's ability to analyse problems, reduce their complexity, find new solutions and make decisions/actions)
- **Leadership Skills** (These include traditional topics, such as motivation or staff development and delegation, but also the manager's personal impact and persuasiveness as a leader)
- **Motivational Structure** (Including dimensions that refer more to factors of personality, individual dispositions or personal convictions)
- **Management Skills** (This area includes dimensions of competence that reflect the traditional entrepreneurial qualities, such as strategic thinking or customer focus)

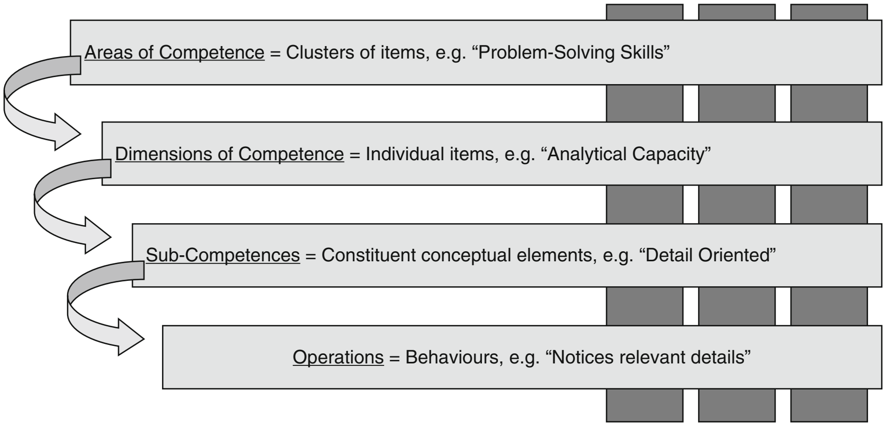

Fig. 3 From areas of competence to key behaviours

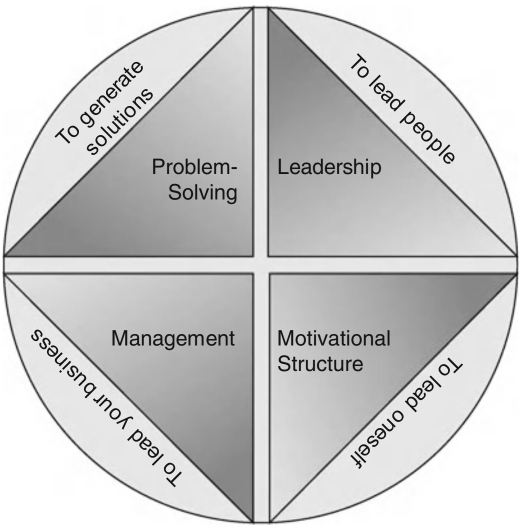

Fig. 4 Bundling areas of competence

When the areas of competence have been defined, the individual dimensions are allocated in line with the logic described here. Figure 5 presents a sample model of competence.

As discussed in Part 1 "The Terminology", most models of competence limit themselves to interdisciplinary competences and hardly ever include functionally specific dimensions. This seems reasonable from the point of view of competence management, since a model of competence that includes more detailed functional elements cannot provide a universally applicable basis for all employees. Rather, it would be a haphazard jumble of many exceptions to the rule. It seems virtually

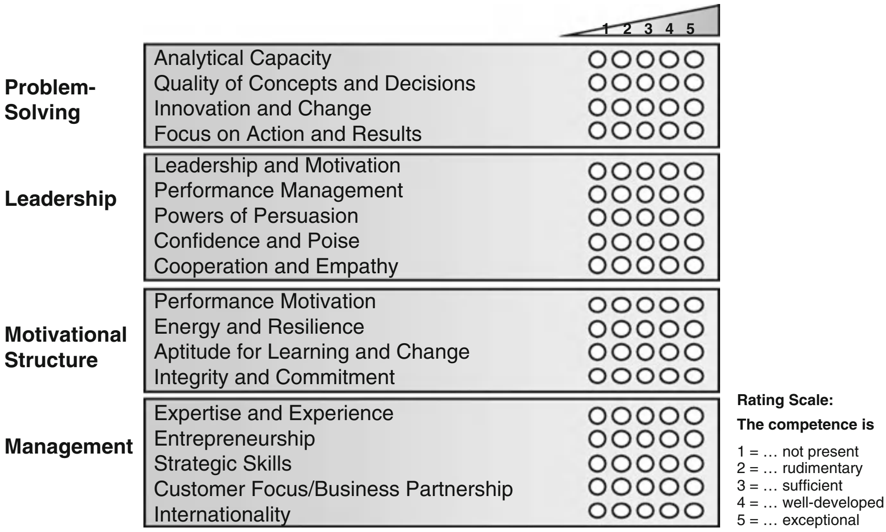

Fig. 5 A sample model of competence

impossible to cover all of the specific functional skills required in a typical company in a single model of competence that retains any semblance of structure or practical usefulness. Assessing people's job-specific skills can, however, offer meaningful insights when it comes to understanding their future potential. This should refer mostly to the range and depth of their experience. Considering a person's age and past career can provide a good forecast about his or her vertical potential.

A common question concerns the optimum number of items to be included in a model of competence: should it be 10, 20 or even 40? The last number, appearing to be relatively high, is actually not exaggerated. Internal lists of competences that have not yet been systematically streamlined for integration in various HR processes often produce a vast number of individual competences which, in an ideal scenario, would all deserve a place in a structured model of competence. But apart from the obvious problem of confusion, such high numbers of competences have another characteristic drawback: they offer no additional information compared to models with fewer competences. Research into human intelligence has worked on identifying the basic processes or dimensions that determine our intelligence. In the end, diverse verbal, numerical and visual skills can all be traced back to a handful of basic dimensions. The same is true in the design of competence models. Take a minute or two to conduct a factor analysis for the dimensions included in such a competence model, i.e. a statistical process that condenses any number of variables to their shared, basic dimensions based on correlations between them. The end result will be the same: only a few meaningful or, to use statisticians' terminology, selective dimensions will remain. Within the dimensions of competence, additional sub-competences can be distinguished (cf. Fig. 3) that help in translating the core concepts expressed by the dimensions into key behaviours. These sub-competences should, however, not be listed in the finalised model of competence.

When defining dimensions of competence, the question of sufficient selectivity should always be kept in mind. It should also be considered whether too detailed dimensions can be adequately represented and validly measured with the eventual instruments. Is it possible to specify decision-making skills, results-oriented focus, action-oriented focus, innovation skills and creativity in a conceptually clean and selective manner? Is it possible to develop instruments that make these dimensions truly observable? The tools used in aptitude diagnostics, such as role-plays, are aimed at "provoking" a certain behaviour, that is, defining a certain setting to evoke it. The question has to be whether sufficiently distinctive behaviour will actually be observable for so many dimensions. The answer is plain: of course, different evaluative instruments can be produced to create enough distinctive situations to engage the many various traits of a person (the multi-trait/multi-method approach). This would put up a broader range of behaviours for observation. Nonetheless, this is a call for fewer dimensions of competence – quality always trumps quantity.

A Few Words About "Integrity" as a Dimension of Competence

Integrity as a dimension of competence has become the topic of much debate. One common question is whether the world economy would still be out of joint if certain high-flying executives had shown a better sense of responsibility and integrity. The question is not without its merit: unscrupulous managers have become a fixture of evening news, feeding the debate about how a more precise diagnosis or measurement of integrity could or should be a permanent part of the recruitment process, requirements profile or model of competence. This immediately points to three questions: (1) What does integrity mean? (2) How can integrity be measured? And (3) What would the cultural signals of integrity checks be in the context of aptitude diagnostics?

(1) Defining Integrity

Even a cursory look at the term integrity reveals a multitude of ethical, moral, psychological and socio-philosophical perspectives. This chapter is committed to a practical, hands-on approach to defining the term. Our assumption is therefore: when we speak of a person with integrity, we typically refer to "persons about whom it is said that they are 'incorruptible', that they have 'solid values' which they stand by and would not relinquish" (Pollmann, 2005). Considering some of the types of managers just mentioned, it seems reasonable to assume that their decisions were not the product of good values that are established in society. Rather, selfish motives seem to have come into play. People with true integrity would presumably not have been seduced by such self-centred desires to the detriment of a way of doing business that focuses on the common good.

The key question is whether this is all a matter of opportunity and temptation. Does integrity in business only matter in industries in which a comparatively low effort or risk can produce substantial rewards? In certain jobs or industries, relevant actors may be particularly enticed to forget about integrity. It is true that there are certain sectors and positions in which people without integrity can cause substantially greater damage than in others, be it in terms of their organisation's image or very survival, or in terms of their impact on other organisations or people. This clearly makes measuring integrity more relevant.

However, in general terms, integrity is *independent* of industry or position. Therefore "aptitude diagnostics assume a lack of integrity on the part of an employee if he or she displays deviant behaviour that goes against the climate at the organisation (general deviance, absenteeism, derelictions of duty, such as the misuse of material or equipment)" (Glossar Personalpsychologie). To diagnose a lack of integrity, such deviance must be common across the board, albeit at different degrees of severity. Should integrity thus become a permanent part of models of competence or should it always be measured in aptitude diagnostics? And: How could it be measured?

(2) Measuring Integrity

Integrity refers to a relatively stable personality trait that can be measured with dedicated "integrity tests" (Mussel, 2003). Such integrity tests have been designed to systematically check the integrity of candidates in the context of staff selection processes. Thus, integrity tests are able to predict the likelihood of counterproductive – or even "deviant" – behaviour in the workplace.

Two distinctive approaches can be seen in the measurement of integrity: the *attitude-oriented* and the *trait-oriented* approaches, each using procedures based on distinctive assumptions.

Attitude-oriented tests survey personal values or convictions of applicants. Questions are posed concerning relevant issues to assess the test subject's expected responses to certain situations. For instance, such tests can ask whether the candidate has ever thought about taking cash from work and then decided against it. In view of the plain and typically quite transparent purpose of such questions, these tests are called "overt". This means that candidates often answer according to society's expectations, i.e. give the answers that they are indirectly expected to give. Consequently, the results of such tests are frequently not very meaningful (Marcus, Funke, & Schuler, 1997).

Trait-oriented tests, by contrast, investigate certain personality traits and their presence in the candidates. The candidates will find it less easy to see through the questions. For instance, the test would ask whether the candidate is adventurous or rather sensible, or whether he or she thinks that tax fraud is a common occurrence. Such questions relate to integrity, and trait-oriented tests often offer more meaningful insights than attitude-oriented concepts (for more details, cf. Marcus, 2000).

Integrity tests were first used in recruitment processes in Germany in the late 1990s, although the figures suggest that they are still used in less than one in 100 processes (Frintrup, Schuler, & Mussel, 2004). In the U.S., the home of integrity tests, a multitude of test procedures are available, and tests are common in approximately 50 % of recruitment processes (Tenzer, 2005).

The two leading German-language integrity tests are the "Persönlichkeitsinventar zur Integritätsabschätzung" (PIA) and the "Psychologische Integritätstest" (PIT). Both procedures rely exclusively on trait-oriented questions.

The PIA, developed by researchers at the institute of psychology at the University of Hohenheim, covers nine dimensions of the “integrity” personality trait (Frintrup et al., 2004). A total of 45 items (individual questions/statements) investigate the participant’s integrity e.g. in terms of the dimensions “trust”, “ease of mind”, “risk aversion” and “integration”. The participant is asked to rate the statements in terms of how much they apply for him or her (from “Applies completely” to “Does not apply”).

The second German test, the “Psychologische Integritätstest” (PIT), is the product of collaboration between the researchers in forensic psychology at the TU Darmstadt and the department of forensic psychology and psychotherapy at Regensburg. “What is new: by contrast to most established procedures, the PIT concentrates primarily on the phenomenon of workplace thefts” (Wilmer & Hoffmann, 2005).

Despite a number of studies showing these tests to be scientifically viable (Ones, Viswesvaran, & Schmidt, 1993), many HR experts reject the use of integrity tests in staff selection processes. One German company that has gone public about its use of and successes with the PIA test is VW, specifically for its “5000 × 5000” project (Tenzer, 2005). This project tried to screen 48,000 mostly unemployed applicants to find not only the most suitable candidates, but also the candidates with the highest sense of integrity, who showed no obvious tendency towards deviant behaviour, such as bullying, sabotage, drug abuse or theft. The success of the process (in terms of an effective pre-screening) can be seen in one fact: when VW recruits new employees, they are typically asked to undergo a medical exam, which includes screening for drugs. When this screening done with the candidates selected via the PIA, “the company doctor [. . .] sent in his screening equipment for repair, as ‘it only tested positive for two percent of the recruits, and it always used to be seven percent’” (Reinhold, 2007). Candidates who lacked integrity in hiding their drug problems were clearly removed successfully.

Any integrity test also needs to consider the DIN standard 33430, published in 2002 by the Deutsche Institut für Normung e.V., which regulates the “requirements for proficiency assessment procedures and their implementation in occupational aptitude diagnostics” (Reimann, 2005). The standard demands that, “[. . .] only occupationally relevant psychological traits of the applicant (must) be surveyed” (see above). This clause leaves much room for interpretation and is usually ammended when testing integrity – e.g. since a tendency towards absenteeism is relevant in any occupation. Nonetheless, other dimensions are much more significant for predicting occupational performance in many jobs. This means that there should be definite reasons for why the dimension of “integrity” is considered critical for occupational success in the job in question. The DIN 33430 is not legally binding and any company is free to choose whether or not to apply it. Still, professional aptitude diagnostics should be expected to follow the common industry standards.

Other legal constraints need to be considered in any case when introducing integrity tests. The works council of a private enterprise has relevant representation rights as defined by § 94 (employee questionnaires, evaluation principles) and § 95 (selection guidelines) of the German Employees Representation Act. In public sector bodies, the Employee Representation in Public Service Act and the representation rights of the works council apply likewise (§ 75 Representation in employment decisions for general staff and § 76 Representation in employment decisions for civil service staff) (Reimann, 2005). Experience suggests that staff representatives will typically be a critical factor when introducing integrity tests in aptitude diagnostics. This is due to the fact that the process could be seen as too intrusive and possibly irritating to the workforce. The cultural impact of integrity tests must not be forgotten.

(3) Regarding the Cultural Impact of Integrity Tests

Attention therefore needs to be paid to the subliminal cultural signals that are conveyed when measuring or otherwise including the dimension of "integrity" in corporate models of competence. Even though more and more occasions seem to go in favour of at least including this dimension in the discussion, it might be perceived as an expression of a culture of distrust on the part of the organisation's people and in the wider public. After all, when measuring integrity, one tries to observe types of behaviour that the majority of people would deem a matter of course. Deliberately mentioning in the references for a person working at a store checkout that he or she was an "honest employee" is usually no promising sign. Honesty should really be a basic virtue that should not require specific mention.

Integrity also means trusting others and working for the good of the company and its people. Explicitly including integrity in its model of competence might be read as a sign that this has not always been the case in the past and that people are now mistrusting each other, for whatever reasons. For young and highly qualified applicants in particular, who are reaping the full benefits of demographic trends, this hint of a culture of distrust can have an off-putting effect. Naturally, applicants have many other important criteria for their decisions (remuneration, career prospects), but such perceptions are often made public very quickly and thus play a part in the company's employer image.

An inclusion of integrity can also offset other important dimensions of the model of competence. One example: modern leadership theories based on partnership and the development of dyadic relationships (e.g. Zalesny & Graen, 1995) are becoming more and more common at many companies. Such theories revolve around the investment of trust, including the risk of "letting one's guard down" as an elementary feature. With the introduction and fostering of such partnership-centric leadership concepts across companies, trust becomes a decisive factor in the corporate culture. An explicit mention of both dimensions can mean that measuring one (integrity) removes the entire sense of measuring the other (trust-based leadership).

It should always be checked in detail whether the company's industry, or the position in question, makes assessment of integrity a sensible and necessary choice. This also relates to its inclusion in the model of competence. Assuming that integrity was part of the model of competence and, consequently, of a focused development campaign, one could imagine the following situation: supervisors are asked to rate the integrity of their employees on a scale from 1 (insufficient) to 5 (excellent), with a medium score of 3 representing a "green light". What supervisor can be expected to rate his or her employee with a score lower than 3? Most would presumably award much more positive scores. This is a reasonable reaction if one considers the implications of recording “needs development” in an employee’s integrity score. Would this not call into question the continued employment of that person? Which consequences would then occur? Since integrity is also known to be a personality trait that is rather hard to develop, no real growth can be expected in this area. Pragmatically speaking, certain types of integrity-related behaviour, such as conscientiousness or reliability (which are often critical for success in certain positions) can be represented in other dimensions, such as leadership or a sense of responsibility.

If one intends to raise the mentioned cultural flags on purpose to kickstart a broader debate in the organization about the sometimes lacking sense of integrity among some of its members – knowing fully well that this can cause upset – this dimension can be included. Another reason for its inclusion would be the pre-existence of the term “integrity” in the organization’s habitual language or its presence in past processes.

In the end, there are more arguments against including the dimension of integrity in models of competence than in favour of it. As described above, models of competence are designed to be the basis for all HR-relevant processes at an organisation. Their constituent dimensions would therefore appear in the annual performance reviews, in talent management or in internal development programmes, such as corporate academies. In view of integrity’s low susceptibility in such development efforts, it would not be a sensible part of regular assessments or HR development targets. If integrity is to be measured, this should rely on valid integrity tests and be used exclusively for staff *selection* purposes only. Just like other personality tests, these tests must only be used as an *additional source* of information. The cultural impact of integrity tests and the standards of DIN 33430 limit the application of such tests to very narrowly defined areas, e.g. the recruitment of personnel who come into immediate contact with valuables or who are in charge of the safety of others.

Step 4: Forming Job Families

The first question asked in this chapter was how competence management can influence the behaviour of employees. We have explained that the values and corporate strategy of the company need to be cascaded down into a stringent model of competence. In order for that to happen, the critical incidents of the company’s everyday work need to be investigated. Next, the desirable and undesirable behaviours need to be defined on the basis of specific values and attitudes. This process will be outlined in more detail in step 5.

After the model of competence has been introduced, attention needs to shift to the following considerations: what are the requirements for the employees in the various jobs and functions? The next phase of competence management thus concentrates on forming *job families* as a step towards defining job and requirements profiles. The term job families refers to the various parts of a company’s operations (sales, production, technology etc.), in which key behaviours are at work, optionally with further level-specific distinctions.

When forming job families, a number of questions needs to be answered: What are the key tasks of each job? Which behaviours are critical for success? Which of the competences in the model lie behind those behaviours? This allows us to define a set of required competences for each job. These competences combine with job-specific functional requirements to create the requirements profile for that job. Considering all jobs in an organisation this way will reveal that certain jobs seem to resemble each other in their behaviours and requirements profiles. These jobs can be grouped into job families.

Before producing such requirements profiles, it is essential to define how relevant certain competences are to the various job families. Analytical capacities might be much more relevant for technology jobs than for sales positions. At the same time, a salesman's success will depend more on his powers of persuasion and communication than an engineer's. The organisation's experts should be surveyed to produce a ranking of the relevance of different competences in different jobs. A similar approach is required if the competence models are to be interpreted differently for each specific level within a job family. In this instance, the requirements for leading managers might differ considerably from those for general staff in the same job family.

When it comes to level-specific definitions or the expression of key behaviours by job families, the question of the reference point for competences soon comes into play. Should the key behaviours represent a universally applicable "ideal state" of the job family in question, with the requirements for various positions differing in the expected scale (e.g. does a general staffer need a score of 2 for "conflict management", whereas his superior would be expected to reach a score of 4)? Or would it be better to give each level its own reference point in order to use the full range of the rating scale for each position? Put simply: Should we use an absolute or a relative scale?

To answer this, we need to return to the question of relevance. It is best to list all dimensions of the model of competence, with a short explanation to ensure a shared understanding of what is meant by them. These are then rated in terms of the defined positions. A 5-point scale with the following wording has proven helpful:

Sample Scale for Assessing the Relevance of Competences for Different Positions:

☐	☐	☐	☐	☐
1 Rudimentary Relevance	2 Limited Relevance	3 Relevance	4 High Relevance	5 Absolute Relevance

With these ratings as a starting point, the dimensions can be translated into level-specific expressions. For instance, if we want to rate the degree to which a candidate fulfils the requirements for his or her position, another ranking can be built around the assessed relevance of the competences required. A number of "top spots" (scores of 4 or 5) can be identified in the ranking, which attribute the competences with high or absolute relevance. These competences now act as threshold criteria for the final ranking. A 4-point scale has proven useful for this ranking (cf. the following illustration).

Sample Scale for Assessing the Relevance of Competences for Different Positions:

The requirements are:

☐	☐	☐	☐
1 fulfilled with major reservations	2 fulfilled with reservations	3 fulfilled	4 exceeded

If a candidate does not reach a score of 3 for these "top spot" competences, he or she would be deemed unsuitable for the position in question. Assessment of the requirements is based on a relative scale, as the "degree of fulfilment" depends on level-specific requirements. Thus, a score of 2 in conflict management for a manager is not necessarily worse than a score of 4 reached by a general employee, since different requirements apply in each case. The reference point should therefore be the level or position-specific expression of the dimensions.

Step 5: Translating Competences into Key Behaviours

For competences to become practically usable in a uniform and standardised way, they each need to be translated into a set of key behaviours. These describe the behaviour in which a competence, e.g. conflict management skills, is expressed. It is evident that not every type of behaviour will produce the same results or successes on different levels. This is a natural result of the fact that the complexity of tasks increases the higher up one moves in an organisation's hierarchy or functional ladder – as was already discussed in step 4. Each dimension of competence will thus have different success-critical key behaviours for every hierarchical level. Consider the example of *conflict management skills*. When defining key behaviours for general employees, this can take the form: "Actively asks others about their perspectives in times of conflict." A higher manager is subject to much higher and more complex expectations than simply skimming the top of the basis for a conflict. Leading managers are expected to show the behaviour e.g. "Actively manages the process for a constructive resolution". Step 4 is essential in deciding which target groups the model of competence shall apply to. Only then can the key behaviours be phrased appropriately for the different levels of the organisation.

When phrasing their key behaviours, many companies have come to realise that multiple aspects of a dimension of competence can be integrated in a single key behaviour. They then use behaviours of the type: *Listens actively, involves others and convinces people with rhetorical versatility*. This is clearly a reflection of the need to include as many goals and values of the company as possible in a single phrase. The key behaviour is stated in this way to consider the interests of various stakeholders in the model. The inclusion of multiple aspects of a dimension of competence into one key behaviour aims to cover many different facets of a group of related processes. The drawback is that this often produces imprecise, and thus typically less measurable, key behaviours. When an employee's colleagues, subordinates and superiors are asked to rate the communication skills of that person in a 360° feedback process, they will automatically find themselves faced with a problem: How should a person be rated who shows rhetorical versatility, but does not involve other people? Or one who listens actively, but comes off as insecure and not convincing? If possible, key behaviours should avoid such lists and favour unique observable facets.

Step 6: Involving Stakeholders

All this being said, the involvement of different groups of people and stakeholders can make or break the development of models of competence. It should be considered an indispensable part of the process. When two conflicting outlooks need to be reconciled in a compromise model, this demands certain concessions. However, the benefits far outweigh the drawbacks. Experience proves that document analyses and interviews with experts should be expanded with workshops with managers from different levels and areas of the organisation as a way of involving them actively in the design process. In the end, these are the people who will use the model in their work. They should be involved at different stages in the development: when defining the dimensions of competence, grouping the job families, coordinating the requirements profiles and phrasing the actual key behaviours. The number of aspects to be discussed in such workshops should be balanced against the amount of time, financial and personnel resources that invested in the result. Any delay to the process or loss of direction should be avoided at all costs. Ideally, the people in charge of the project conduct these coordination workshops with a set of structured proposals already prepared for review by the stakeholders. These proposals can then be worked upon in a systematic, defined process in order to reach a constructive and generally approved result at the end of the workshop. Here, the principles of good facilitation and meeting management also come into play.

People's readiness to accept the final model of competence, and actually support it will be greater if they were given an opportunity to voice their ideas and concerns during its development. The aim should be to reach that most elusive of goals, the commitment of the stakeholders. Social psychology tells us that people's commitment depends on the voluntary nature of a decision, as well as social norms and the resulting peer pressure. If a decision is reached in a group, all contributions are heard and considered in some form (be it simply recognition and appreciation), the participants form explicit and implicit norms that form ties with the eventual outcome.

Experience tells us that a project is most likely doomed if important stakeholders are not involved, or are involved too late in the process. In the case of such a culturally significant instrument that impacts all neighbouring HR processes as a model of competence, the instrument development certainly also should include the organisation's executive managers/the board. If the process is not supported from the very top, it will have no real chance of survival. This might be stating the obvious, but it is too often forgotten at many companies. All too often, months of hard work by many highly specialised people come to nothing.

The following agenda can act as a model for a workshop of this nature:

Sample Agenda for an Executive Workshop in the Development of Competence Models

1. Introduction to the workshop
2. Defining areas and dimensions of competence
   - Presenting a draft model of competence
   - Discussing typical potential indicators
     - Discussing company-specific core competences
     - Clearing a first general draft
3. Defining a job family matrix
   - Discussing a job family matrix on the basis of the completed expert interviews
   - Checking the allocation of roles/jobs to the levels
   - Defining a draft job family matrix
4. Prioritising the dimensions of competence by job families
   - Discussing an effective scale for rating the competences
   - Reviewing the completed assessment of the dimensions' relevance by job family and level
   - Defining the threshold criteria for each job family and level
5. Level and job-specific application
   - Presenting the requirements for the key behaviours
   - Discussing company-specific keywords
   - Characterising the jobs and roles
   - Drafting a set of key behaviours (in small groups)

(continued)

6. Next steps
   - Optional: agreeing on possible areas for application of the key behaviours (selection, development, talent management, performance management,. . .)

Item 5 of the agenda includes "Discussing company-specific keywords" for a very important reason: culturally specific keywords should be integrated with the same intention as the involvement of relevant stakeholders/managers. People in the various job groups must be able to identify with the key behaviours and find keywords they are familiar with from their work. This boosts the commitment of the individual employee.

The design process outlined here certainly seems to require a lot of effort. Alternatively, companies can use established models. There are many benchmark studies that discuss the competence management models used in companies of different sizes and sectors of industry. These models can be adjusted to match a specific company's needs and are ready for use with all of their related standard instruments, such as interview guidelines.

Step 7: Quality Assurance

The quality of competence models depends on how meticulously it was derived and developed from the corporate strategy. Simply using any model of competence that happens to be available will lead nowhere if it is not adjusted to match the specific needs of the organisation. Similarly, the conceptually clean condensing of critical behaviours into the dimensions of competence is a decisive mark of quality. Oftentimes, different sets of competences are assumed to be at work behind a certain type of behaviour. It is not enough to use, amateur psychological explanations for behaviour. We need to rethink and subject our assumptions to critical scrutiny again and again in the process. In order to be able to use the model of competence effectively in the end, the key behaviours need to be selective. In other words, the behaviour should be used to measure only the competence allocated to it and none other. Apart from selectivity, the design needs to ensure that the key behaviours represent actual behaviour and not personality traits, such as "The candidate is assertive". The following checklist helps when controlling the quality of the design:

- Derived from the corporate strategy, guided by values and principles
- Applicable to all parts of the organisation
- Uniform design for both executive and non-executive staff; distinctions made only on the level of the job families
- Organised by job families and job levels
- Selective competences

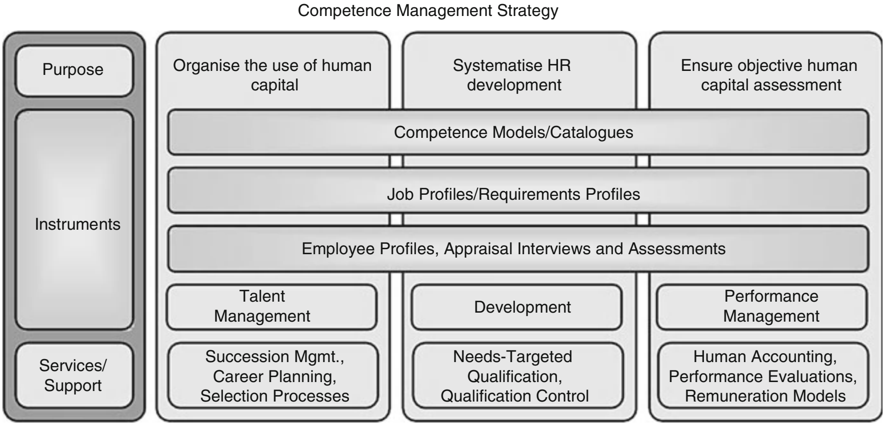

Fig. 6 The competence management strategy

- Behavioural expression of the competences in key behaviours
- No lists of multiple facets in single key behaviours
- Consistent integration in all HR instruments from recruitment to separation
- Rating scale aligned with the strategic objectives (even or odd number of points, performance levels differentiated in the key behaviours or in the scale, relative or fixed levels)

To maintain the necessary quality, the final model should be benchmarked against other competence models in the company's market.

4 Using Strategic Competence Management

Once the model of competence and the job families have been developed from the corporate strategy, they become the guidelines for all other HR processes, including: job descriptions, vacancy postings, recruitment (e.g. with competence-centric interviews), feedback systems, self-assessments, annual appraisals, potential ratings or talent management, HR risk mitigation, promotion, demotion or separation processes. Strategic competence management thus becomes the frame of reference for how the organisation uses its human capital, introduces more systematic HR development and ensures the fully objective evaluation of its employees (cf. Fig. 6).

Organised Allocation of Human Capital

The allocation of human capital includes a number of selection processes, such as succession and career management, all of which relate to the topic of talent management. The essential foundation for all of these instruments is competence-centric HR diagnostics, be it for the recruitment of job applicants or for the assessment of existing employees' potential.

The central ambition of competence-based HR diagnostics is to produce an optimum fit between the available competences of individual people and the company-specific requirements of their jobs. The job families define the relevant requirements for these jobs. Apart from functionally specific qualification and requirements, the job families also specify the required non-job-specific skills. The task of HR diagnostics is to make these competences observable, applying the entire diagnostic arsenal from psychometric tests and interviews (via role-play or presentation exercises), to full-blown assessment centres. In order to make the *right* choice of diagnostic methods, we need to consider which competences are observed most effectively using which procedures. Competences like people's analytical capacities, for instance, are particularly relevant in case studies. By contrast, team mindedness can be observed using group exercises. A person's focus on results is best investigated in an interview.

It is also essential to consider how the competences of the requirements profile are translated into situations that make them concretely observable as specific behaviours. This translation process retraces the steps of the critical incident technique used during the initial design of the competence model. Now, the competence is turned into key behaviours, and the key behaviours are turned into specific situations in which the competence can be observed and evaluated.

The product of competence-centric HR diagnostics is a profile of the individual competence of an applicant or employee. This profile can be held up to the yardstick of the company-specific requirements for the position in question. A gap analysis reveals where the strengths of the applicant or employee are and which areas require more development. A number of insights can be gained from this. The *developability* of the competences in question needs to be considered. Not every gap between the expected competences and a person's current skill set is equally relevant. A shortfall in the person's decision-making skills can be bridged more easily with training than a shortcoming in his or her aptitude for learning and change. Similarly, the *potential* of the applicant or employee comes into play. Talented personnel can already be identified during recruitment, paving the way for focused talent management and effective succession management. The top indicators of potential – as explained above – are often competences that are not readily susceptible to training and provide the seedbed for a person's future growth.

Competence-driven recruitment and monitoring the fit between individual competences and the company's job requirements thus become the first steps of HR development, uncovering needs for development using targeted gap analyses.

Systematic HR Development

If we picture holistic competences management, we imagine an ideal state in which all posts in an organisation are linked with the right competence profiles for these jobs. On top of this, we see the current and potential employees, each with his or her individual competence profile as produced by HR diagnostics. This provides the basis for a general diagnosis of the current human capital's competences, required by the organisation in order to reach its strategic objectives. Analysing the gap between these two sides represents a strategic qualification-needs analysis. Moving from the macro- to the micro-level, the individual competence profile of an employee can be checked against the requirements of his or her job for personal development needs analysis.

Moving on from these analyses, after considering the question of the developability of competences, the organisation can then decide on focused HR development interventions. Sales departments might recognise the major strategic impact of competence in customer awareness, which is as yet underdeveloped in the sales force. As a consequence, customer awareness training can be introduced for the entire department or its parts. Another example would be a lack of strategic competence in management, which could be addressed via the targeted coaching of individual people. The objects, methods, target groups and budgets of HR development are thus a direct outcome of competence management.

Qualification controlling can also be made more systematic and transparent with strategic competence management. Competence assessments reveal concrete qualification needs with a clear strategic reference. When the organisation's qualification and training portfolio is targeted effectively at the development of competences, its progress can be tracked in before-and-after evaluations. This allows the benefits of HR development measures to be discussed and calculated in "hard" terms. As an additional benefit, these evaluations can feed any newly observed trends in the workforce's competences back into the HR system.

Objective Assessments of Human Capital

When strategic competence management has clearly established the requirements for employees, performance evaluation and remuneration systems can be brought in and aligned with it. Annual reviews now combine the evaluation of performance targets with a diagnosis of the employee's competences, allowing supervisors to openly explain how they see their employees and what they expect from them on a professional and a personal level. Models of competence make it easier for supervisors to manage and communicate feedback for their people. "Gut feeling" is removed as a factor in the equation, since the evaluation is based on clear, predefined competences and specified key behaviours. Feedback about specific incidents and concrete, observed behaviour makes the supervisor's evaluation more transparent and, consequently, more acceptable for the employee. As described above, the use of a model of competence also makes it considerably easier to define any development or training needs for the employee in the review.

At the same time as the supervisor's evaluation of his or her employees, the employee's evaluation of his or her supervisor can also become more objective. Competence management can be used as an effective means of introducing new leadership feedback processes, such as 360° feedback concepts.

5 Conclusions

We have seen how strategic competence management can become the engine of change processes in a business. It is an indispensable component of change management, for any change in an organisation can only be sustained with change in the behaviour of its people.

- Strategic competence management defines the direction of change by describing the skills that are required to put the corporate strategy into practise. On the organisational level, this takes the form of the corporate or leadership culture. On the level of individual employees, it is represented in the requirements profiles for the job families.
- Strategic competence management is used to manage the allocation of competences now and in the future by measuring the available skills base of current or prospective employees. Thus, it provides a basis for targeted appointments, talent management and succession planning.
- Strategic competence management ensures that the development of competences and, by extension, of the organisation as a whole is aimed in the direction of the organisation's strategic targets. HR development is, in this sense, not only a means for the personal development of individual employees, but also a tool for organisational growth. Development support of this nature instills and fosters a corporate culture that becomes an essential source of support for the organisation's strategic ambitions.

A model of competence should always be seen and reviewed in relation to the expected future. How fast and how frequently will the requirements for employees change? What will the company look like in 3, 5 or 10 years and how does that impact its core activities? Which skills and abilities should the employees possess in the future? These questions demand visionary thinking on the part of managers – a decisive ability for successful strategic competence management.

The foundations for strategic competence management are provided by the definition of a corporate model of competence. The following checklist gives a short list of the key questions that should be considered when designing a model of competence:

Was the corporate strategy explicitly included in the design of the model of competence? Were the relevant documents considered?

Have executive managers/the board been involved and have their expectations been considered early enough in the design process?

Are competences with particularly strategic significance awarded special weight?

Has the individual competences' basic susceptibility to development been considered?

Have expert interviews been conducted to identify relevant patterns of behaviour that are critical for success in their different function?

Has attention been paid to a streamlined model design, covering only a limited number of salient competences?

Were possible opportunities for bundling certain critical behaviours by job family discussed?

Was pragmatism a feature of the design process? Was a small, core team entrusted with the definitions of key behaviours?

Were "high-profile" representatives from the business included in the design phase to shore up the organisation's commitment?

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Stage 4: Performance Management

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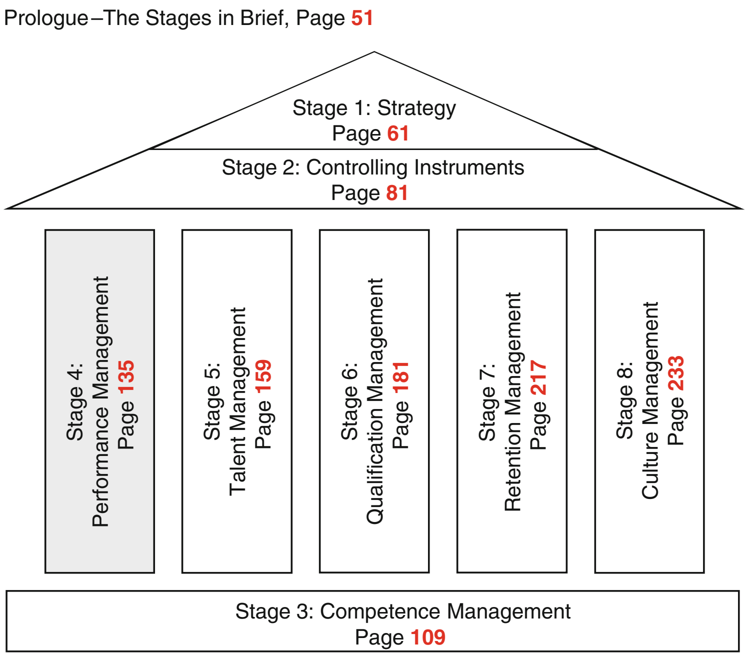

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For most companies, the essential feature of performance management is a strong focus on their corporate goals. This helps to realise the companies' strategies by translating them into corporate and departmental targets for the companies' people. At the same time, it effectively promotes the commercial success of the business.

The effectiveness of performance management and its viability as a tool for leadership and management is determined above all by the presence of working targets, and by the correct linking of these targets with the controlling system in place at the company. In an ideal state, performance targets should be derived from the company's commercial indicators. Once the targets are achieved, they should contribute actual, measurable added value for the company.

Target-setting needs to be a structured process and should be uniform across the entire organisation. Given its role, performance management is also an ideal opportunity for HR development to excel in close collaboration with controlling. It should be plain to see that a well-supported performance management process will boost its standing as an active and commercially viable part of the business.

In this stage, we will see how a sustainable performance focus can grow in an organisation.

1 Strategic Challenges for Performance Management

Most companies will already have taken the first steps towards using performance management or have begun to implement a process of this sort. However, experience tells us that there is still some way to go even at the companies that are already practicing performance management:

- In compliance with the chronology of the process: Frequently, targets are not set "on time" in the given timeframe.
- In the management/monitoring of the target-setting process: Frequently, executive managers do not know where the organisation stands in the target-setting process and in the actual pursuit of the targets.
- Which managers have attended the target-setting meetings?
  - How do the performance targets relate to the higher targets of the organisation?
  - Were the mid-year reviews completed?
  - What is the current anticipated performance?
- In the administrative IT support for the performance management process: This is needed to minimise maintenance efforts and monitor the process to guarantee its effective workings.

Next to this concept of performance management – relying on defined processes and workflows – there is a "counter movement" that believes in deregulating performance management and empowering the managers in the process. Its creed is to avoid the "de-responsibilisation" of managers and to imbue line managers with a sense of responsibility for performance management and, thus, for the performance of their people.

New challenges are visible on the horizons. For some markets, simply achieving the budgeted targets is not enough to keep up with the competition. What a real, lasting competitive edge requires, is constant, sustained out performance of targets.

For publicly listed companies, planned performance is normally already priced into their share price. It is necessary to surprise the markets in order to become a top player. Innovative tools will also boost the performance of a company's people and will set the right incentives. We will look at one of these tricks of the trade, the Top-Performance-Bonus concept, under "Focusing Management with Special STI Components".

Increasingly, the short term is giving way to medium and long-term horizons in performance management. Managing for the business year is the paradigm of short-term incentives. However, direct participation in the medium to long-term success of the company and a new emphasis on entrepreneurship are taking hold.

More and more small or medium-sized businesses are jumping on the bandwagon of using instruments of this nature to promote the retention and lasting motivation of their top performers. Stock options are being replaced with alternative forms of participation in long-term incentive models, and short-term incentives are being linked with long-term incentives in the form of medium-term bonuses. Partnership concepts are also experiencing a revival. They successfully promote long-termism and loyalty to the company.

We can already state that performance management is becoming more and more holistic and systemic in nature. Established, but non-integrated systems are being linked up to form truly integrated performance management. One example of this is job grading based on the concept of value contribution. This is, in turn, combined with strategic competence and succession management. Such job grading again becomes the foundation for the company's remuneration strategy.

Integrated performance management thus represents the holistic management of success-critical instruments and systems. It is also based on a close integration with commercially oriented management. However, the most essential success factor is holistic leadership, meaning a reinforcement of leadership responsibility. This calls on HR developers to become the partners of the line managers under their charge.

2 Performance-Oriented Organisations and Positions

Financial figures alone do not determine the perception and value of a company. The quality of its management and the transparency of its organisation also play a crucial role. We understand that value is created across the company's process chain, with every functional link contributing in a characteristic, but widely different degree. Management quality can be reflected in how those functions are graded in terms of their contribution to commercial success. Quality management can also contribute to consistent, performance-focused management and the effective use of human resources. Organisational structures need to adapt to a culture of constant change and must be able to sustain through all of the changes along the way. At the same time, they should embody the performance culture of the company.

An optimum interplay between business processes and the company's structural and procedural set-up is necessary. However, a critical survey of today's business landscape shows that the grouping of functions often reflects simple hierarchies and reporting structures. On the other hand, other grouping concepts that employ job grading and not the established reporting lines often use mostly input-oriented criteria, such as a member of staff's qualifications or seniority.

Applying this emphasis on a performance focus, rearranging an organisation should concentrate on output-oriented factors by answering the following key questions:

- What are the success-critical business processes and who shapes and manages performance in these processes?
- Which functions contribute substantially to the value creation process?

These are the levers that make the success of the company and ensure the long-term viability of the company. Modern, value-oriented job grading concepts, such as the "Kienbaum Grading", are built around that premise (cf. Figs. 1 and 2).

The total contribution of a position to the success of the business and the creation of value can be measured with these specific questions:

- What does the position contribute to the design and realisation of the corporate/business strategy?
- What does the position contribute to managing and optimising the value drivers?
- What does the position contribute to shaping and managing the business areas and processes?
- What is the leadership and management scope of the position in the organisation?
- Does the position have a particular communicative presence?

The main advantage of applying this performance-oriented approach lies in its support of business value and process management:

- Identifying the functions' influence on the value drivers of the business
- Identifying the roles fulfilled by functions in their procedural context
- Uncovering redundant tasks, potential management gaps, or missing roles in critical processes

The Kienbaum Grading system establishes a foundation and backbone for the final shape of performance management:

- **Grading demarcates the leadership circles:** Grading reveals the innate flexibility of a job and avoids a reliance on traditional hierarchical criteria (the number of subordinate employees, experience, qualifications etc.)
- **The transparency and convenience of this system helps communicate the rationale behind grading decisions**.
- **Grading determines the placement in wage bands:** Commercial criteria reflect the potential value contribution of a job in its market environment and the given state of the business. This helps to benchmark the position against market data. It can also help reflect financial viability in the make-up of wage

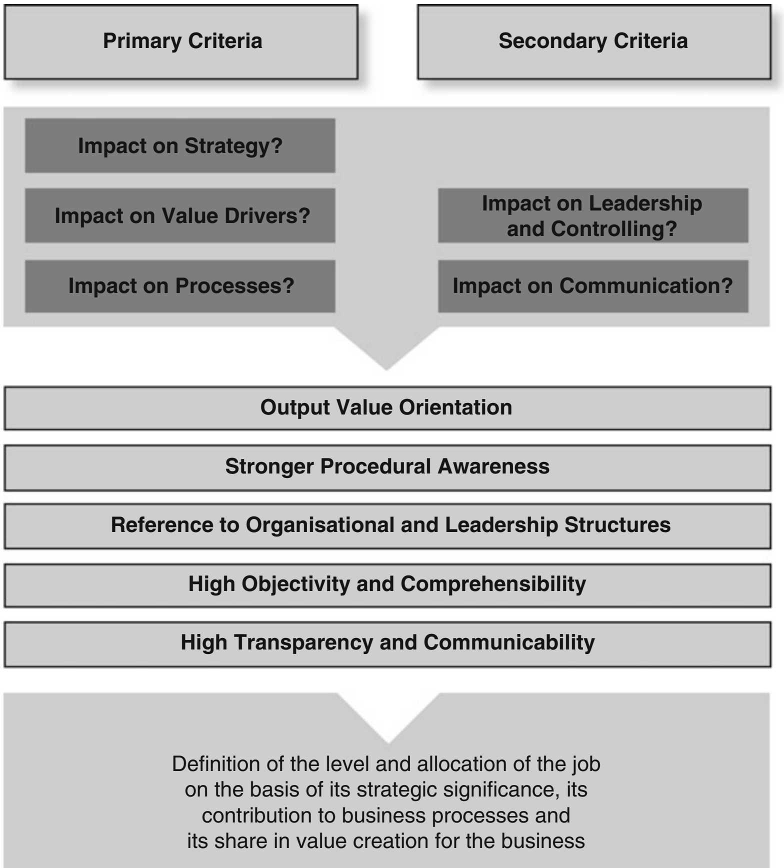

Fig. 1 Job grading with the Kienbaum Grading system

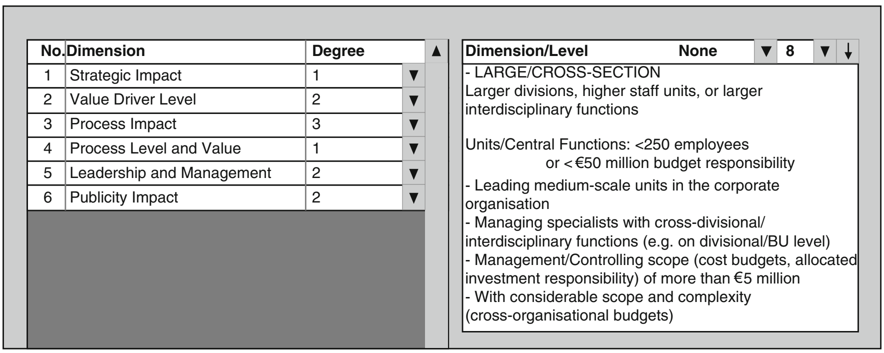

Fig. 2 People Management Centre: IT support for Kienbaum Grading

bands. The transparent and comprehensible approach used in Kienbaum Grading makes it easier to communicate the allocation of jobs to specific wage bands. The allocation depends on relevant commercial indicators in the company. What results is an immediate link between remuneration and the value contribution of the job.

- **Harmonising organisations and processes:** Job grading immediately relates to the role and scope of the job in the value creation process. Thus, it follows the performance of the job closely (e.g. its significance in customer relations, role in business processes, commercial leadership and management function). Since the grading does not follow formal criteria (such as the level in the hierarchy) alone, and does not require a pre-existent organisational placement of the job, the grading results can be used to design the organisational structure from the ground up.

3 Linking Remuneration and Management Systems

Management systems are most effective when they are publicised across organisations and when they are seen and experienced as such by their people. Increasingly, value-based management and remuneration for executives and employees are rightly seen as key building blocks of value-oriented leadership.

Reinforcing the performance focus of a company by coupling it with people's take-home pay acts as an additional lever for putting the company's strategy to work (cf. Fig. 3).

Value-based management means managing the development of value by managing its drivers and the key performance indicators. Integrating remuneration systems in a way that channels incentives to optimise relevant indicators can assist value-based management. The main elements and purposes of the management process are:

- Transferring the value-based management concept into the workplace. The performance management concept trickles down into a transparent cascade of commercial targets.
- Allocating the key indicators to the responsible units, executives, or employees: Who influences which indicator? Who is responsible for which target?
- Coupling the (short and long-term) incentives with relevant management/business indicators. A combination of individual and corporate indicators should always be maintained.
- Establishing a transparent and comprehensible link between target performance and variable, performance-related pay.
- Comprehensive communication and training when performance management is introduced.
- Quality checks and monitoring the adoption of the process within the organisation.

To provide optimum support for performance management, all parts of the remuneration package should be performance-oriented. The total compensation concept has been designed to fulfil just that ambition.

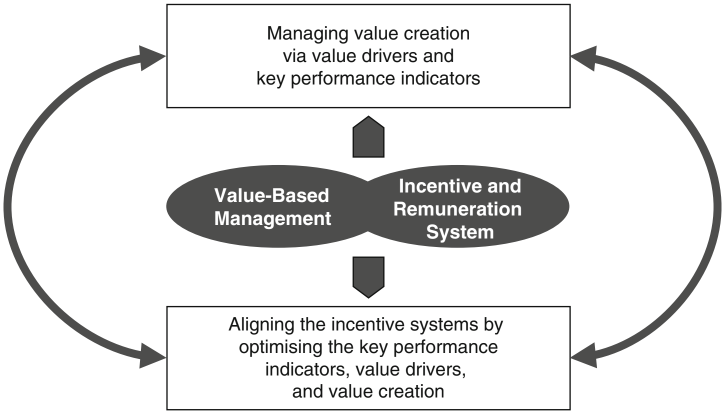

Fig. 3 Performance management as an integrated management process

Performance Orientation in Remuneration: The Total Compensation Concept

Remuneration is increasingly seen as the sum total of a range of monetary and non-monetary components that make up one complete package. This means that companies should not rely on single parts of the package—most typically short-term variable remuneration—as their means for representing and managing the corporate goals. Instead, the entire remuneration package must be performance-oriented.

We understand that clear targets, aligned with the corporate strategy in through a performance management system, lead to higher efficiency and motivation among employees. Similarly, performance-oriented pay can promote the same positive effects. Individual rewards have the distinct advantage of making the whole company appealing to potential recruits and giving new impulses for productivity and value creation.

The total compensation concept covers all aspects of remuneration, from basic pay to variable bonuses or from pension provisions to company cars and other fringe benefits. Its ambition is to emphasise the total value of all benefits. It aims to move away from disjointed management of individual elements (cf. Fig. 4).

The Elements of Remuneration

The baseline salary represents the foundation of any remuneration package, which can be expanded with a selection of additional benefits. Short-term incentives reward performance in single business periods and play a major role in managing and motivating employees. Medium and long-term incentives reward the long-term performance of employees and improve retention levels.

In performance-oriented remuneration, all constituent elements are aligned with performance indicators (cf. Fig. 5).

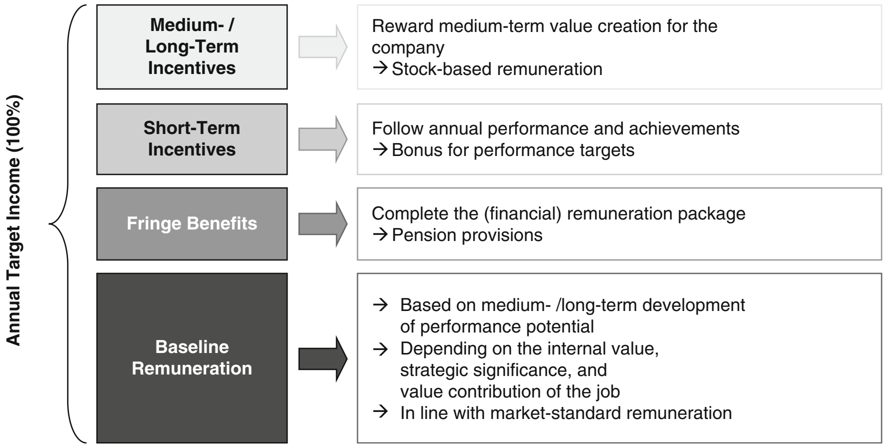

Fig. 4 The total compensation concept

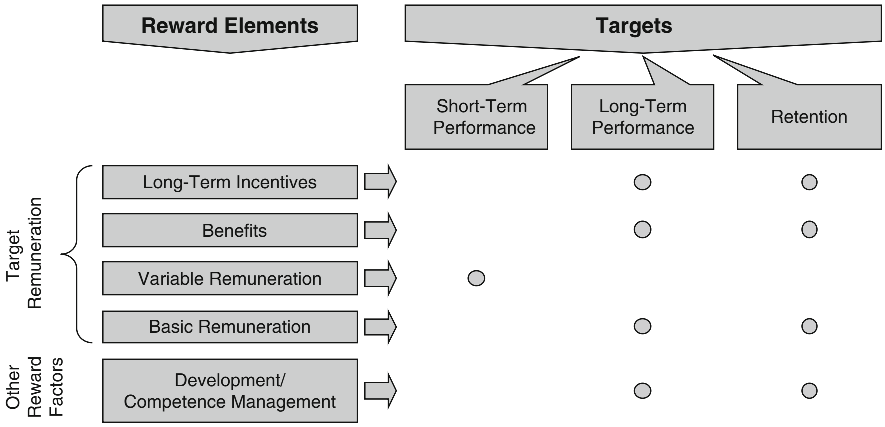

Fig. 5 Remuneration as an integral element of performance management

Baseline Salary

The baseline salary forms the backbone of the remuneration package. It is often perceived as the most essential remuneration element due to its constant and reliable nature. Therefore, it is particularly important to imbue this element with a performance focus.

Other HR instruments, including strategic competence management, can "dock" onto a balanced and logically stringent baseline salary concept. To give it a performance focus, we can use two crucial tools:

1. Grading jobs by wage bands.
2. Performance-oriented pay scales within the wage bands.

1. Grading Jobs by Wage Bands

When defining wage bands, we must employ a number of value and performance-oriented criteria. As already described in detail, Kienbaum Grading offers a solid basis to start from when grading jobs and allocating them to wage bands/levels.

Table 1 outlines a model of how jobs can be allocated to wage bands. It shows how closely the chosen criteria relate to performance expectations and value contributions.

These levels are allocated to specific wage bands that define the baseline salary for the selected jobs. The wage bands reflect the intrinsic comparative value of the jobs. They should conform to standard market practices for similar jobs at similar organisations (cf. Fig. 6).

To reinforce the performance focus in this system, the eventual place of individual jobholders within the wage band of their job also depends on a variety of performance criteria. The final amount of a person's baseline salary in the wage band can thus depend on the actual performance delivered by him, his performance focus, competences, potential, etc.

Performance plays a dual role when determining baseline salaries: on the one hand, the allocation to a wage band is determined by value and performance criteria. On the other hand, the place within these bands is decided by similar performance criteria.

2. Performance-Oriented Salary Development Within the Wage Bands

The second crucial means of instilling a performance focus in a person's baseline pay is offered by the opportunity for annual salary adjustments. When a raise is on the cards, the individual performance of an employee is usually the first criterion that is considered, followed by the financial state of the business.

The main feature of such salary adjustments is that the potential raise depends on the accomplishment of certain target goals. These targets reflect the performance of the employee in question, although they do not necessarily have to be financial in nature. Apart from personal performance or the performance of the company as a whole, the decision can also consider other criteria, such as competence development or the employee's personal growth. Another sensible option is to combine factors of individual performance and competence levels/development in the recent business period with a look at the person's current place in the wage band. This reflects potential in the job in question (cf. Fig. 7).

Short-Term Incentives (STI): Linking Remuneration and the Management System

STI: Aligned with the Periodic Management System

Variable remuneration can be considered the best force in the pursuit and management of periodic business targets. A paycheque that reflects actual performance

Table 1 Allocating jobs via Kienbaum Grading

Level		Typical jobs	Typical traits
L1	**Board/ Executive Management**	CEO, Board Members, Chairman/ Member of Executive Management...	Decisions about corporate strategies; determination and overall management of business models and processes; comprehensive financial responsibility/results management; final responsibility for various external and internal topics
L2	**Senior Management**	VPs, Division Managers, Head of Central Functions, e.g. Head of Finance & Controlling, Head of Production, Head of Sales...	Significant input in strategy development; decisions about general business processes; substantial financial responsibility/management of value drivers on a corporate level; leadership of larger units; top contact for external and internal issues
L3	**Senior Management**	Heads of Operational Units; Heads of Cross-Divisional Functions; Major Project Leaders; Plant Managers, Regional/Country Head of Sales, Head of Procurement...	Input/Contribution to the strategy design process; ownership of important business processes; substantial financial responsibility/ management of value drivers in specific areas; leadership of medium to large-scale units; leading contact for external and internal issues
L4	**Middle Management**	E.g. Head of HR Principles, Head of Controlling, Regional Sales Manager, Plant Manager...	Managing specific or partial processes (operational or leadership processes) and conceptual contributions; limited financial responsibility (medium-scale cost account or project budget); leadership of mid-size units; important contact for external and internal issues
L5	**Lower Management/ Senior Experts**	E.g. HR specialists; Head of Debtor Management, Team Leader in Sales Support; Head of Work preparations; Head of Materials Management, KAM...	Optimisation of operational performance in (sub-) processes/ monitoring functions; responsibility mid-size or small cost accounts/ project budgets and operational KPIs; leadership of smaller units; joint contact for external and internal issues
L6	**Lower Management/ Experts**	E.g. Sales Engineer; Legal Advisor; Finance & Accounting Officer; IT Systems Analyst...	Functions with conceptual and management duties of considerable scope and complexity, some supervising/monitoring duties; some operational or technical leadership; considerable individual influence on process performance and performance indicators (comparable to few other functions)

(continued)

Table 1 (continued)

Level	Typical jobs	Typical traits
L7 Junior Experts	E.g. Junior Controllers, Junior Product Developer, Marketing Case Worker, IT Database Programmer. . .	Functions with administrative duties of considerable scope and complexity, some supervising/ monitoring duties; some operational leadership; considerable individual influence on process performance and performance indicators (above-average contributions)
L8 Case Workers	E.g. HR case worker, accountant. . .	Functions with predominantly administrative duties of some scope and complexity, some influence on process performance and performance indicators (average contributions); vocational or other qualifications required

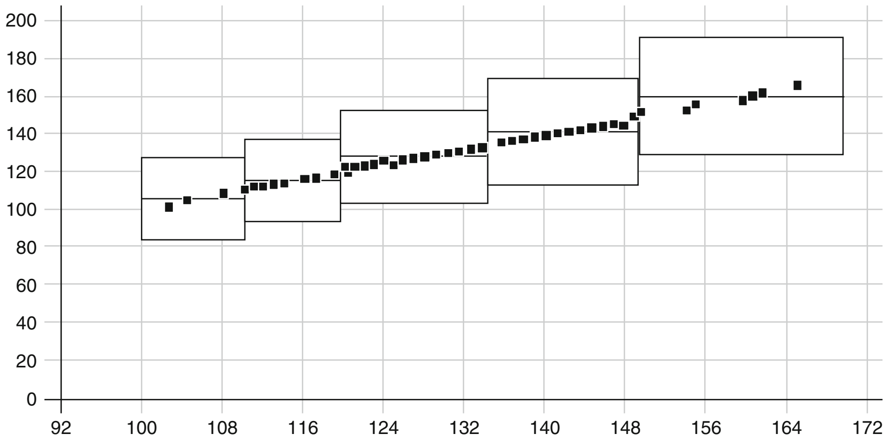

Fig. 6 Baseline salaries

becomes a major incentive and is clearly seen as such – in positive and negative cases – by the executives and employees who earn it.

There are three hallmarks for a sustainable short-term incentive system (cf. Fig. 8).

1. Controlling effect: Variable remuneration should be a tool for leadership and management. It should aid the implementation of the corporate strategy.
2. Cost awareness: The variable remuneration system should be flexible in its design to respond appropriately to changing concerns over time. Variable remuneration should only be paid out if value has actually been created, and it should be withheld if targets are missed.

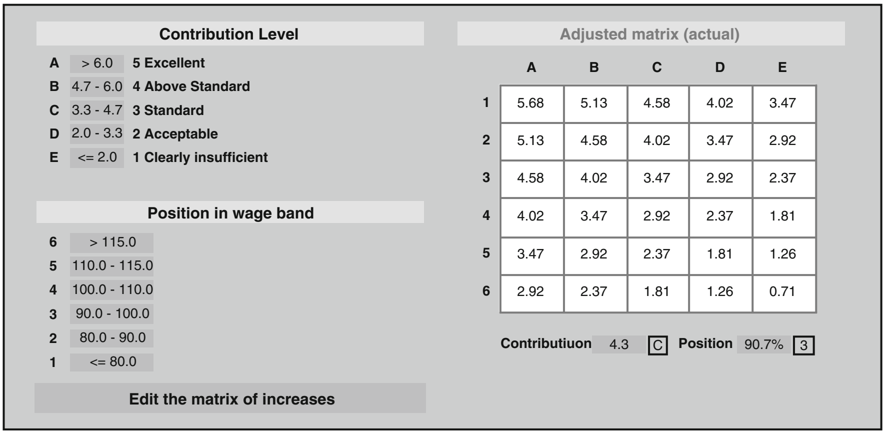

Fig. 7 People management centre: IT support for defining salary adjustments

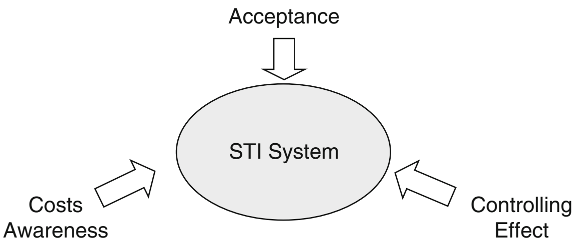

Fig. 8 Requirements for a short-term incentive system

3. Acceptance: For variable remuneration to work as a leadership and management tool, its actors need to understand and accept it. This truism applies to both the managers in charge and the people who are being led. This means that the structure of the variable remuneration concept should be simple and easily communicated. The rationale behind the amount that is eventually paid out should be immediately apparent.

For a company's top management and HR managers, performance targets are a means of creating incentives for executives and employees to comply with the chosen strategy. The guidelines for the business period in question are translated into quantitative and qualitative targets in the annual performance agreements of executives and employees in the form of milestones and final targets. Managing people with such targets can be a very powerful tool for the success of the business when it is handled efficiently and is fully aligned with the general value management system. To ensure consistency and strategic alignment in practice, the targets need to be finely coordinated in terms of their impact. Every detailed target should play a part on the way to the desired overall outcome (cf. Fig. 9).

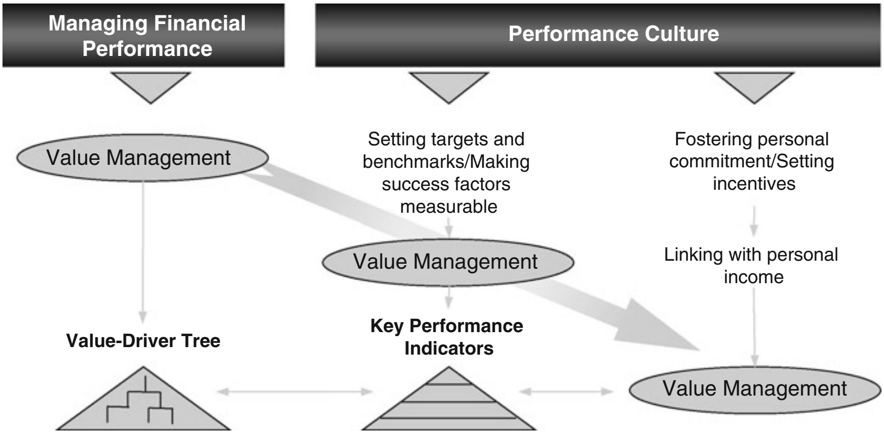

Fig. 9 Performance targets as a frontline tool of performance management

Linking Value Management with Leadership and Incentive Systems to Define the Right Targets

The value-based management concept demands that all value management is aligned with a set of general principles. These principles define the growth and performance targets of the business. They are often expressed in the form of top-line indicators, depending on the chosen controlling policy.

The business units then manage those value drivers that are needed to reach the higher value-creation indicators. Depending on the business unit in question, relevant value drivers can take the form of results, growth, cost or other indicators.

Following these business unit value drivers, indicators are defined for individual departments and the individual people in the organisation. The key performance indicators defined for that purpose provide the basis for the actual target agreements and eventual variable pay (cf. Fig. 10).

When introducing an efficient, performance-oriented variable remuneration system, it is essential to set up rules about the target-definition process and its objects. The larger target flow represents a binding framework for the subsequent target-definition process within various organisational units. All non-financial targets should be measured in terms of their contribution to value drivers or commercial cost/results targets. The target-definition processes across the organisation grow in this clearly defined seedbed, expanding the targets cascade to “fill” the various areas. Down to the level of the individual employee, all targets need to stay within the established framework (cf. Fig. 11).

Focusing Management with Special STI Components

Traditional short-term incentive systems built around performance targets—linked with the promise of a bonus—have proven to be effective tools for fostering a performance mindset and for managing performance.

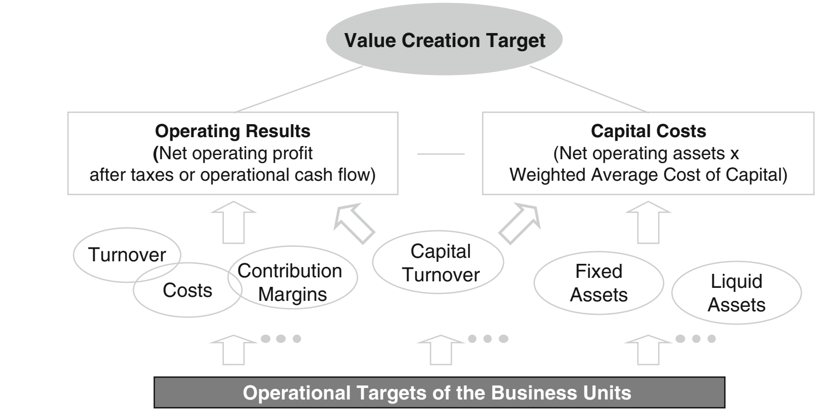

Fig. 10 Arriving at operational controlling indicators

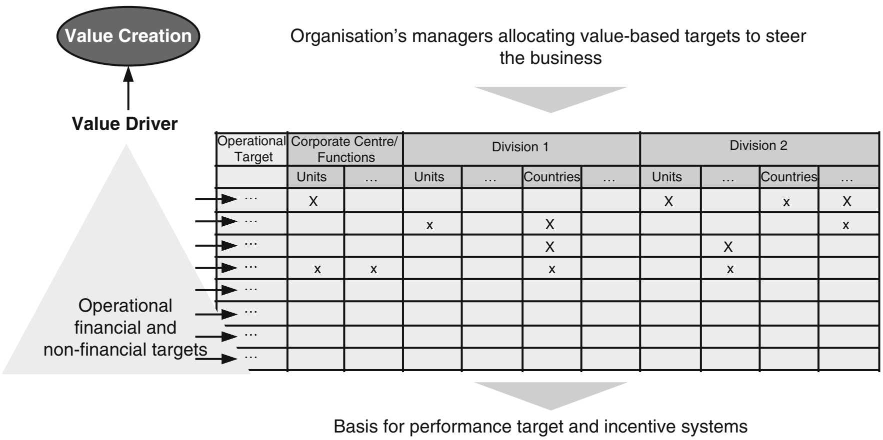

Fig. 11 Building the targets cascade

We will now look at one concept that is aimed at fostering performance focus. In our chosen example, market development work, performance management requires a holistic look at management, leadership, and remuneration for sales people.

Performance Management in Market Development

Constant competition, demanding customers, high service and quality expectations, as well as the constant flux in the markets, means that the strategies used in market development have a very short half-life. At the same time, the processes, tasks, and organisational structures that grow from those strategies are changing at ever-faster rates. This increasingly dynamic trend creates massive challenges for performance management systems in terms of their flexibility and the feasibility of incentives within management, leadership, and remuneration systems.

A look at actual business practice shows that there is often a major gap between the targets set by a company's top management and their actual implementation on the part of the company's people. This rift comes from the general perception of what target performance means and the approach toward achieving it. An integrated performance management system can help bridge that gap.

Four key requirements for such performance management systems can be derived in this respect:

- Process focus: Considering the entire market development process
- Value creation focus: Concentrating on relevant key tasks
- Commitment: Clear allocation of the responsibilities for key tasks
- Holistic focus: An integrated vision of management, leadership, and remuneration

The mentioned gaps can be overcome by allocating key tasks unambiguously. At the same time, there should be unmistakeable assignments of responsibility for market development processes. In performance management, it is essential to understand or develop unique success factors and fitting key performance indicators (KPIs). The management of the key tasks should, at the same time, not be aimed solely at getting as much as possible out of the market for the short term. Instead, it should aim for long-term maintenance and safeguarding the company's success and development.

Such a system also supports the development and alignment of the organisation in the direction of a value-oriented organisation (an ideal that links up with organisational development). The system also promotes transparency about the key functions in the organisation and helps identify high potentials at an early point. These individuals can then be measured with defined performance standards and receive support in the context of succession management (this links up with people management). In all of this, the specific needs that arise from the corporate culture and the medium- to long-term strategy of the company should not be forgotten.

From the company's point of view, it is essential that the requirements of the markets are being considered and that the performance management system is in harmony with the company's culture. At the same time, the company's people should retain enough freedom for their unique ways of doing market development.

Managing the Quality of the Performance Target Process

Successful performance targets must enable people to focus their resources onto strategically aligned, value-creating activities in the interest of the company as a whole (cf. Fig. 12). If improvement and development is to be achieved, resources and energy reserves need to be focused onto select priorities.

The communication that is required in the process automatically leads to better coordination of improvement activities in the organisation. For this to work, employees and executives alike need to be clear about the strategy and the main corporate goals they are working towards. The success and acceptance of a performance target system depends on the quality, professionalism, and procedural skill

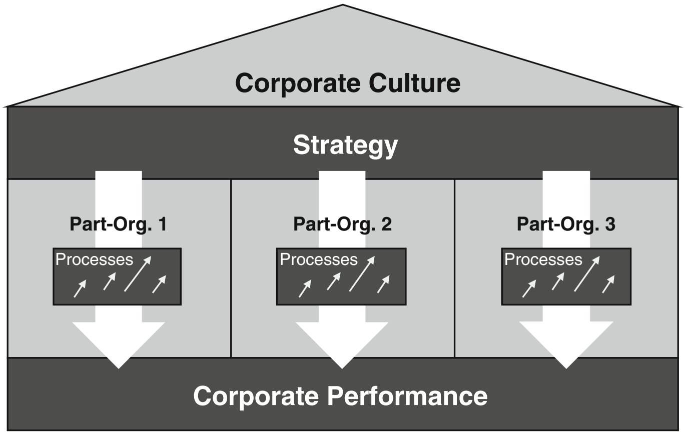

Fig. 12 Safeguarding the strategic alignment of the performance target system

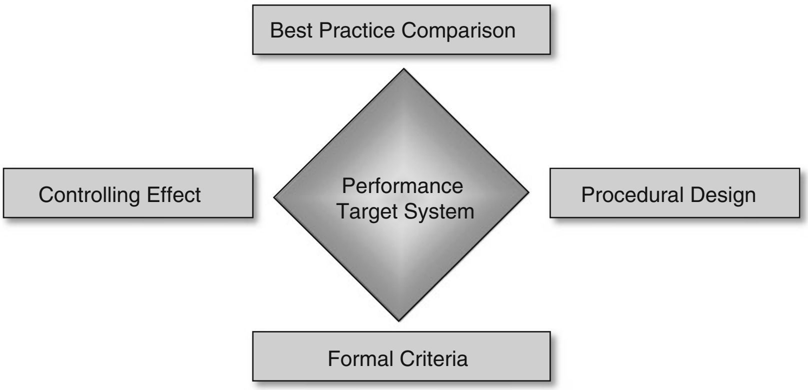

Fig. 13 Forces influencing performance target systems

with which it is managed. HR development should be a neutral force in this. Its role is to act as an advisor and service provider in the process. If a company plans to establish its performance target system as a central management tool, it should review the elementary forces influencing that system (cf. Fig. 13).

Controlling Effect

The flow from central value creation targets to the operational indicators is key to the controlling effect of the system. The derivation process for financial and non-financial indicators for the business year should come first and foremost. These indicators provide the substance for the specific targets for the company's people. In order to anchor the operational indicators effectively in the targets, the people in charge of the process need to make sure they allocate them to the responsible people in the organisation. It is particularly important to maintain measurability and intrinsic stringency, and to avoid any conflicts of interest.

Process Design

The main targets and indicators used in a person's target agreement for a business year should immediately relate to the general business plans for that period. The results and indicators included in those plans provide a basis for the targets of top managers. Those managers are tasked with cascading their targets systematically down to specific areas of responsibility and with deriving additional targets. The people in charge of the process therefore need to support the various levels of hierarchy in the process with suitable tools and sufficient information (guidelines). If the workforce is large, a dedicated IT solution should be used as a source for management and administrative support.

Formal Criteria

There are a number of formal criteria that should be considered and applied to ensure a uniform and transparent process, fully measurable targets, and the fair assessment of target performance.

In addition to fulfilling the basic systemic requirements, such as the total number of targets, their significance, and the definition of performance scales, clarity of the target definition plays a key role. If managers want to help their people progress towards their targets – and not stray from that route – they need to record clear and results-oriented definitions for them. Above all, the meaning of over- or underperformance helps everyone agree on an unambiguous definition of on-target performance. The targets should also stay in line with the greater goals of the business or other cross-organisational targets, such as project targets. Again, suitable IT support can reduce the amount of work that is required toward that purpose.

Best Practices

Checking and revising performance targets is made easier by regularly examining the best practices in the corporate peer group. This is particularly helpful for making sure that the company's system conforms to market standards and enables everyone to respond to changes in terms of e.g. controlling practices or staff retention.

Long Term Incentives (LTI): Rewarding Long-Term Value Creation

Introduction

Short-term incentives are often accused of failing to affect the entrepreneurial work of executives and employees. The crux of this criticism is that the typical one-year horizon of many such systems does not encourage long-term and sustained value creation for the business.

To counter that criticism, the remuneration packages for more and more managers now include medium and long-term incentives (MTIs/LTIs).

The foremost goal of such medium and long-term incentives is to reconcile the interests of individual managers with the corporate interests of the company as a whole. They are designed to promote compliance with the corporate strategy and to tie the remuneration of top executives to the creation of sustainable added value for the company under their charge.

Not unlike entrepreneurs, managers participate in the good and the bad that befalls the company. They are tied to the fortunes of the company for the long term. Managers becoming "entrepreneurs in the enterprise" is the key motif at work.

Such incentives also aim to reinforce the performance and results mindset of managers and boost their motivation and loyalty.

The Parameters in LTI Plans

We will now look at current developments and trends concerning long-term incentive plans, as revealed in a survey of German companies, especially DAX and MDAX companies.[1]

The Recipients

In practice, the beneficiaries of such LTI plans include the board members and top executives of surveyed companies. That is, the members of the top two management levels and the directors of important affiliate businesses were considered. This is, not least, due to sweeping norms that demand a stronger reflection on sustainability and long-term business development in the incentive systems for executive managers and managers with certain levels of authority and responsibility in a number of industries (banks, financial services, insurance). As a result of the standardised nature of remuneration in the various companies, a stronger long-term focus can be expected in the variable pay for executive managers and their immediate subordinates.

This new approach has not yet trickled down to other management levels, or key performers – let alone the wider employee population. However, it is more common at start-ups with smaller workforces. The recent trend to expand the range of recipients to include the top four or five levels of management seems to have come to a halt. Instead, we are witnessing increasing concentration on the top managers named here.

Timeframes

Most LTI plans operate with 3 to 5-year horizons. In rare instances, the timeframe can reach 7–10 years.

Legal requirements stipulate a vesting or holding period of 4 years before incentive options can be exercised.

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[1] Source: Kienbaum Management Consultants (2010). *Mid- und Long-Term-Incentive-Pläne 2009/2010*. Frankfurt am Main.

Performance/Success Targets

Not all performance targets are the same. We can distinguish between absolute and relative targets, and between internal and external targets.

Absolute performance targets include, for instance, the company's EBIT or EBITDA (internal targets) or its share price (an example of an external target).

A prototypical relative performance target is an index to be outperformed. These can include an established stock index (DAX, FTSE, etc.) or a special selection of direct competitors. Relative targets are, incidentally, external targets. Measurement the degree of outperformance can be accomplished in a variety of ways: the relative target can, for instance, stipulate that the reference index has to be outperformed for a specified consecutive number of days. Alternatively, it can demand that the share price must remain within a defined range (e.g. between 5 % and 10 %) over the reference index before the share options are exercised.

The advantages of absolute performance targets are plain: they are transparent and immediately comprehensible. The indicators used for them are already in place at the company (unless bespoke indicators are used). Their drawback, however, is that they might reward underperformance when the company's competitors grow relatively more strongly or profitably in comparison.

What speaks in favour of relative performance targets is that external observers and analysts favour them because they avoid this problem of rewarding underperformance. At the same time, they might reward absolute losses, as long as these are "less negative" than the developments in the reference group. "Less negative" is not positive. Another essential problem is that the comparison with the reference group depends on the quality of the business data that is in the public domain. It can be a very tough challenge to select a fitting reference group to ensure a reasonable comparison.

Most models in use employ one or two parameters in their design and concepts; three parameters are uncommon.

While share prices are considered a good indicator for the development of company value, they cannot be the sole basis for understanding a company's health or the performance of its executives. If absolute share prices alone are used, spontaneous "upticks" in the share price can lead to unjustified windfalls. A general stock market crash can mean that good management performance is not given the recognition it deserves. We also do not consider models that rely on relative performance or relative share price developments as the only suitable parameters. This is due to the fact that they can carry value even in times of losses or sinking share prices. To avoid that paradox, performance-oriented plans typically use two performance parameters in tandem. Internal and external accounting indicators play a major role.

Modern forms of long-term incentives, such as performance shares or performance cash bonus plans, represent a trend towards coupling capital market indicators, such as share prices, with performance indicators from internal accounting. Their ambition is to achieve a more balanced incentive effect by aiming for a balance between internal and external factors.

Such coupling tries to prevent some of the negative effects of the past: in times of sinking share prices, companies often realised that their shares were caught in the downward spiral of general stock market trends, although internal indicators, e.g. the economic value added, showed that new value was being created at the same time. As a result, stock-market-based incentive plans had none of the desired incentivising effects. Adding internal accounting indicators to the share price is seen as a way of achieving more perceived fairness in remuneration, especially when taking the psychological impact of stock market developments into account. The aim is to measure the work and the achievements of managers in a fairer and more objective manner.

When two different targets are coupled, one of them usually acts as an entry threshold. This means that one target has to be achieved for the other target to even be considered. If the threshold target is not reached, no incentives are paid out, irrespective of the manager's performance on the second target. Typically, a relative target is used as the entry threshold for an absolute target.

Such multi-targets can be used in single incentive plans or in multiple, independent partial LTIs.

If we want to keep the incentive system credible and maintain a union of interests between the recipients of the incentives and the shareholders of the company, performance targets should never be changed, e.g. in response to consistently poor share performance.

Designs

Plan designs differ in principle in their use of stock-based or non-stock-based multi-annual calculations.

We should point out that there is an increasing convergence of the various designs. No clear line can be drawn in every case, and not every incentive plan should be pigeon-holed into one of the plan designs discussed here.

Stock-Based Performance Incentives

Most of the common LTI models use the company's share price as a reference. For companies that cannot or do not want to allocate shares to its people, there are a number of virtual systems to fall back on. All of these options help companies simulate the development of their value. This allows SMBs and major listed companies alike to strike a direct line between (purely monetary) pay and the growth of their business. The value of "virtual shares" can follow the standard business indicators that any company tracks. For instance, a company can calculate the incentives "X times EBIT" or "X times pre-tax profits", as long as the chosen formula is not changed over a sufficiently long period.

Stock-based incentives come in one of many different (also virtual) forms of option or share plans:

Stock Options

The recipient is given the right to draw shares in a specified timeframe (exercise period) at a defined price (exercise price). This right is, however, tied to a certain vesting period and the achievement of pre-defined targets (exercise hurdles).

Stock Appreciation Rights

The virtual companion of stock options, SARs track the development of the value of a specified share package over a fixed period of time. This value is eventually paid out not in shares, but in cash.

Performance Shares

The recipient is allocated a share package at a defined point in time. The number of shares is calculated on the basis of pre-defined performance targets, meaning that the incentive of this plan consists in the possible number of shares and the share price achieved at the time of disbursement.

Performance (Stock) Units

The virtual counterpart of performance shares. In this case, no actual shares are awarded. Instead, the recipient is allocated a number of virtual shares that are eventually paid out in cash form.

Restricted Shares

The recipient is awarded a defined number of shares, which are subject to certain restrictions (holding periods) before they are at the free disposal of the recipient.

Restricted Stock Units

A virtual restricted shares plan in which virtual shares are allocated and eventually paid out in a cash settlement.

Matching Shares

The recipient is given a guarantee that their investment in company shares will be matched with a defined number of shares (without need for an additional investment) after a specified holding period.

Non-Stock-Based Performance Incentives

By non-stock-based performance incentives with multi-annual calculation, we mean all forms of cash payment (medium- or long-term performance cash plans) that are calculated on the basis of corporate or executive performance over a period of more than 1 business year, i.e. plans designed to cover 2 years or more.

We can distinguish between two basic concepts in performance cash plans that use multi-annual calculation.

- Partially retrospective models:
  After the targets have been defined, the incentive is paid out on the basis of the performance in the current business period and one or more of the previous periods.

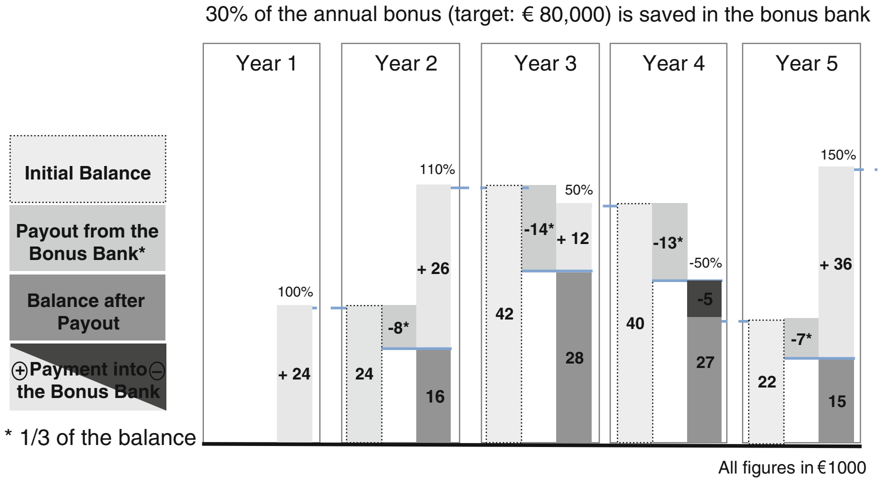

Fig. 14 A sample calculation for the bonus bank

- Purely prospective models:
  After the targets have been defined, the incentive is paid out on the basis of the performance in subsequent business periods.

While the former concept is certainly admissible in principle, we have to ask ourselves whether it actually fulfils the purpose of medium- or long-term incentives. That is to say: does it channel the work of the recipient onto the long-term, sustainable success of the company?

One noticeable trend is the move towards a delayed disbursement of the (annual) performance-oriented pay (**bonus bank**). Such systems often include penalties and/or specific rules and regulations concerning the interest accrued on any bonus accounts.

A number of companies are finding it hard to draw the line between stock-based and non-stock-based plans. The models used resemble performance cash plans in their design, but are often entirely or partially dependent on stock-based criteria. They are calculated on the basis of the stock's fair value at the time of their disbursement.

Trends in Plan Designs/LTI Models

We are witnessing a renaissance of stock-based LTI plans, albeit in a new, performance-oriented form.

Performance cash plans have become the most widespread forms of LTI at DAX and MDAX companies, followed by SARs, performance shares, and stock options. Performance shares are gaining momentum as long-term incentives; while stock options seem to have lost their appeal when new plans are designed.

An increasingly common observation is that companies are using multiple medium and long-term incentive elements in parallel. A number of DAX are already using up to three individual plan designs at the same time.

Next, we will look at innovative models that can act as alternatives to the traditional LTI systems.

The Bonus Bank as an Innovative LTI Concept

In a bonus bank, the annual bonus is not paid immediately to the original recipient, but rather put into a virtual savings account. The savings stack up over the years as bonuses are accrued. For the system to be effective, negative bonuses are treated no differently. This ensures that the "account holder" shares immediately even in any negative performance of the business. At defined intervals, the balance (or parts thereof) is paid out to the account holder, while the remainder rolls over into the next savings period (cf. Fig. 14).

The essential feature of the bonus bank is that it includes the chance of real participation in negative results. While in most other concepts, negative participation means the loss of a possible bonus, it now means an actual negative amount been accounted into the "bank balance". In an extreme case, this can mean a financial loss. Managers are encouraged to make more long-term, value-oriented decisions, since short-termism at the expense of the company's future would have an unmistakeable effect on their take-home pay.

4 Conclusion

We have seen how a sustainable performance focus can be achieved in an organisation, not least through the clever use of the remuneration system as one of the key levers for that purpose. The principles and shape of remuneration might not fall within the remit of HR developers, but they can and should actively support performance management with the right instruments, e.g. effective staff appraisals. HR developers also play an important role in implementing and monitoring relevant concepts in remuneration (e.g. the quality of performance targets).

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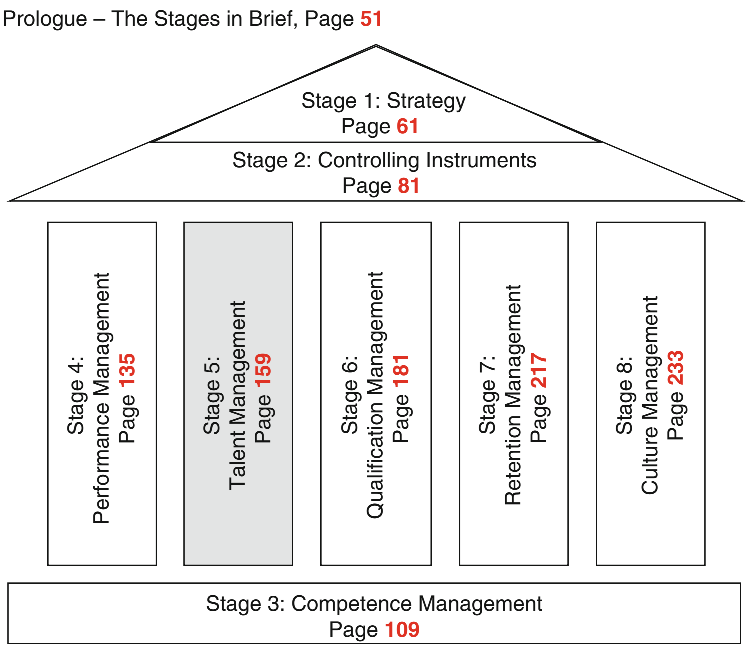
Stage 5: Talent Management

Nico Bödeker and Eberhard Hübbe



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It is a long accepted and well-known truism that talent management done right is a decisive factor for any human resources department. Talent management regularly ranks among the top spots in surveys and studies dealing with the current and future challenges, and topics of interest, in modern HR work.[1] Having gained its rightly deserved place in the minds of HR managers, talent management does not show any signs of losing its topical appeal or significance.[2] The Kienbaum HR Strategy & Organisation Study (Siemen, Werthschütz, & Kötter, 2009), for instance, again underlines the great importance attributed to the various aspects of talent management in companies. These include HR planning, external or in-house recruitment, performance management, HR development, skills and competence management, to name a few. The study also identifies remaining potential for optimisation[3] that the people in charge can still realise. A comparison between perceived importance and quality in the case of HR management administrative processes (such as HR administration or payroll accounting) reveals a considerable divergence.

The causes for this situation are not only found within the organisations themselves, e.g. in the quality of talent management, but also and especially in more external forces, such as:

- Changes in the demographic make-up
- Changing societal values and the expectation of a better work-life balance (Generation Y)
- Diminishing loyalty towards employers and more awareness among employees of the market value of their labour, incl. the outright planning of "portfolio" careers[4]
- Falling quality of young people entering the working population

The war for talent has become a structural leitmotif, apparently unaffected by the ups and downs of the economic cycle. Having access to external sources, as well as developing, placing, and retaining the required human resources, will continue to gain in importance for the competitive viability of businesses.[5] Consequently, successful HR work and talent management is called upon to provide businesses with the right set of skills[6] and competences[7] to match the current and the upcoming

[1] Cf. e. g. BCG-/WFPMA (2008); Towers Perrin (2008).

[2] It should be noted that the perceived importance of these individual perspectives of talent management can change noticeably over time.

[3] The quality of the actual application of individual components is thus often rated much more cautiously.

[4] That is, planning one's professional career in a way comparable to a portfolio manager's approach, e.g. by purposefully moving from employer to employer.

[5] Even if certain challenges, such as the introduction of temporary work or widespread redundancies, can seem to dominate during economic downturns, the war for talents should be considered a long-term tectonic change that will resurface with reinforced vigour as soon as the economy regains its momentum.

[6] For the purposes of this chapter, "skills" shall refer to specific functional expertise and experience, trade know-how, experience with specific tools or methods etc.

[7] In this chapter, "competences" shall refer to non-job-specific abilities and qualities, such as leadership, resilience, analytical capacity etc.

business needs. Without the required (qualitative and quantitative) resources, the danger is that the company's processes, innovative abilities, and commercial success[8] will be subject to critical bottlenecks.

This makes making the right decisions in good time essential for attracting and retaining the required personnel resources. Companies that neglect talent management will find themselves confronted with the problem of keeping the resources they need for their business. Talented employees and top performers are highly prepared to switch companies if their employers do not seem to invest sufficiently in the development and career prospects of their people.[9]

1 A Working Definition of Talent Management

Despite the general consensus about the significance of talent management in modern business, no agreement exists about the definition of the term "talent management". There is also no global concurrence regarding which objects are actually covered by the term. We therefore need to begin by sketching a short working definition – without claiming any universal validity – to outline the objectives of this chapter.

At their core, most attempts at defining talent management describe either a process or its intended results. HR specialists generally agree that talent management refers to a complex umbrella process made up by individual, sometimes quite clearly distinct components. This point of view differs considerably from the primarily qualification-centric approach that sees talent management as nothing other than the sum of training or development programmes.

Cappelli (2008) defines talent management as "trying to forecast what we are going to need, and then planning to meet that need". This concept of conscious planning on the basis of a specific forecast is also taken up in other definitions (Stockley, 2009): "A conscious, deliberate approach undertaken to attract, develop and retain people with the aptitude and abilities to meet current and future organisational needs". Stockley (2009) tries to pinpoint the core purpose of talent management – attracting talent from outside and developing and retaining talent on the inside. He then relates this to the personal and organisational development-based needs of the business. He takes his definition one step further and integrates the resulting requirements as a single frame of reference, paying particular attention to the long-term timeframe: "Talent management involves individual and organisational development in response to a changing and complex operating environment. It includes the creation and

[8] Eichinger and Lombardo (2004) suggests that top performers produce an average of 40–50 % more value than their average peers. Individual functions are particularly susceptible to this effect, such as sales. Here, top performers have been recorded as producing up to 2/3 higher turnover than the average (Bodden, Glucksman, & Lasky, 2000). These findings show that talent management is not just "nice-to-have", but a frontline commercial necessity.

[9] Top talents reveal a particularly poor sense of loyalty to their employers: Finegold and Mohrman (2001) found that top talents were four times more likely to change employers than their peers.

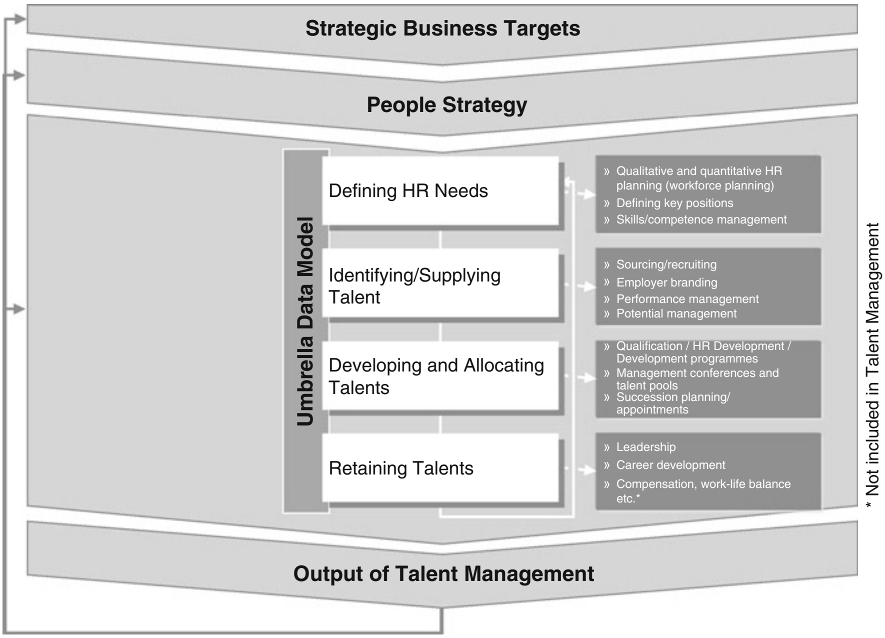

Fig. 1 The core elements of talent management

maintenance of a supportive, people oriented organisation." Stockley's definition already indicates how closely interconnected talent management is with the other strategic core processes of HR management.

Aiming at a working definition, we therefore need to record that talent management

- Provides a holistic process as an umbrella for a set of sub-processes,
- Which are aimed at attracting external talent and developing, placing, and retaining internal talent,
- In line with the HR needs that arise from the various commercial needs of the business,
- Interfacing with all relevant strategic core processes of HR management,
- And demanding a long-term, sustainable outlook.

Figure 1 outlines the constituent elements of talent management.[10]

When it comes to finding a working definition for talent management, it is also essential to specify its target groups[11]:

[10] A detailed discussion of all processes relating to talent management would far exceed what is possible in this chapter. Individual aspects are also covered in other parts of this book. For this reason, this chapter limits itself to a selection of processes.

[11] The terminology used here must not be read as universally applicable, as there is no general consent about the use of these terms among practitioners.

- **Talents** refer to "typical" employees showing a certain potential. These are employees and/or executives who possess marked potential for the next reasonable career move (horizontal or vertical depending on the hierarchical structure) at the company (cf. Part 8). This definition is therefore specific to a given period in time, as the potential rating refers to the person's current place in the organisation. That is, when the employee has taken the next career move or reached the target position, the potential rating ceases to be valid: it has been verified and completed with the successful move. Another potential rating is required for all future development. As a consequence of this, an employee might be considered a "talent" for only the defined "period" of a specific development phase in his or her career.
- **Top talent** (often referred to as "high potentials") are employees who show uncommon potential. A rating as a top talent typically brings with it a specific set of expectations, even if they are not stated explicitly: a pace of development that is above the average–fast trackers–and above-average performance. The top talent rating is not limited to a single development step,[12] but rather makes a general statement about the person in question. At the same time, many companies expect top talents to prove their eligibility for that status at regular intervals.

Talent management is chiefly aimed at these two target groups. However, not all companies distinguish between talents and top talents or award them different treatments, even though this would seem necessary from the viewpoints of both the company and the people in question. Other target groups that can fall under the remit of talent management or gain particular attention include top performers or other "mission-critical" staff. Both of these groups are not in themselves the objects of typical talent management, but are nonetheless invaluable resources[13] for their employers.

- **Top performers** include employees that produce above-average performance in their current functions. They are placed perfectly in their current function and level in the hierarchy. Since no additional career moves seem indicated, particular attention should be paid to retaining these top performers (cf. Stage 7: Retention Management).
- **Mission-critical** staff are particularly important for the company, since they hold vital expertise or experience in a strategic area of the business–typically, these are specific functional disciplines (cf. the definition of key positions in Part 3). Depending on the definition of key positions, employees with such expertise or experience come within the scope of talent management as a form of succession management for the mission-critical positions they occupy.

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[12] A number of companies are using the second career move as a criterion for identifying top talents. There must be valid grounds to assume that the candidate will also be able to complete the subsequent development step in his or her career.

[13] Cf. the findings of Eichinger and Lombardo (2004) and Bodden et al. (2000).

2 The Tasks of Talent Management

As in the case of all HR processes, the first purpose of talent management is to support commercial processes. Talent management is not an end in itself, but processes used to fulfil specific expectations. For this reason, we need to understand which results talent management is expected to produce.

One essential force in this respect is the anticipated development of the business. This concrete forecast determines which developments are to be pursued, in which area of the business, over a specified period of time. The development of the business stands at the foundation of the people strategy – that is, a specific statement dictating that HR-side services shall support business processes in the best way possible.

The people strategy determines the staffing needs resulting from business plans:

- **Quantitative** – defining the required capacities
- **Qualitative** – defining the required qualifications, degrees, or occupational or project-specific experience and resulting skills and competences.

The people strategy should be able to give a concrete answer for the question regarding which skills and competences are needed, how frequently, at which points in time, and to what depth of experience. Comparing this forecast with the current quantitative and qualitative staffing data, we can specify which results are expected from talent management. The following questions need to be answered for this comparison:

- Which internal resources are already available to cover the required profiles?
- Which additional internal resources could cover the required profiles after focused development?
- Which development activities are needed to achieve that? How long will the development process take?
- To what extent do we need external recruitment?

Many companies still seem to have difficulties with defining their qualitative[14] staffing needs – a situation that can be found across all industries and company sizes. The situation seems particularly fraught with difficulty when it comes to the strategic outlook. The strategic outlook is often sidelined when companies get preoccupied with operational or short-term challenges and problems. Often, resource bottlenecks are only noticed when they have already taken effect or are about to hit the business processes and activities. At that point, it can prove very difficult to resolve the sudden surge of problems. Developing internal resources takes time, time that is not available when certain resources need to be present immediately or in the very near future. Recruiting external candidates is also not a truly satisfying ad-hoc solution: headhunters can provide candidates with the required profiles at short notice, but the process is comparatively costly, lengthy and not necessarily successful. Especially when dealing with target profiles that are

[14] Due to its close integration with budgeting, quantitative HR planning has become a standard process for most businesses.

relatively rare or in high demand, external recruiting is not the optimum solution. Recruitment success also depends considerably on the external image of the company as an attractive employer. Establishing or cultivating the desired employer brand and market profile again requires patience.

Apart from understanding the strategic staffing needs – that is, “Which profiles?”, “How many?”, “When?”, and “Where?” – companies also need to establish some transparency about which positions should fall within their attention focus, i.e. what are the key positions. These are the positions that threaten massive commercial risks if they remain unstaffed or are staffed with the wrong candidates.[15] It is not possible to give an exhaustive list of reasons in favour of defining such key positions as they relate intrinsically to specific functions, processes, and activities that differ from company to company.

A number of criteria for key positions can be proposed:

- The position contributes substantial commercial value
- The position has very specific requirements in terms of the level of qualifications or experience (“entry barriers”). These qualifications are hard to find in the labour market or cannot be met by means of internal developments
- The position contributes substantially and critically to (future) core business activities
- Other areas of the business are immediately dependent on the output of the position

As these factors show, all of the named criteria relate immediately to a specific position. If the perceived significance, on the other hand, is the result of its current incumbent having specific qualities (that are not essentially required for completing his or her duties) the position should not necessarily be considered a key position. Similarly, if the incumbent is particularly successful in the position, e.g. with good personal contacts in top management, his or her position should not be automatically assumed to be a key position. In such cases, the criteria relate to the person, not the office.

When drawing up a list of key positions, one should always try to limit their number. Oftentimes, too many positions are identified as key positions, even if they only fulfil parts of the named criteria. Having too many key positions makes them hard to handle and can become a painful burden on the ability of talent management to deliver.

In sum, we can record that managing HR needs with a long-term, strategic perspective is the only way to gain and hold the freedom to manoeuvre and fill the desired internal and external positions. This strategic awareness also allows HR specialists to take the actions needed to safeguard the required resources.

[15] Vacancy risk: key positions cannot be filled. Capability risk: The successors do not possess the required skills and competences. Or successors have not been prepared sufficiently for the target position.

3 The Talent Management Umbrella Process

After putting down the conceptual foundations for talent management, we take the next (and often neglected) step of sketching an umbrella process for it. The point of this is to gain a sense of the overall talent management process and establish a frame of reference for its eventual design. At this point, we will not yet try to flesh out this umbrella concept with any details.

In view of the complexity of talent management, it has proven worthwhile to outline the individual components of talent management[16] and to define[17]:

- Which processes and elements are to be considered part of talent management
- Which processes or elements that are not an immediate part of talent management but are essentially connected to it
- Which processes or elements lack such interfaces.

After the relevant individual process components have been identified, the attention turns to the results that they are expected to produce. These results will be examined in relation to personnel data. With this overview in hand, the framework model can be developed by structuring the set of data produced in the talent management processes. This model helps to understand whether all relevant data for (HR) decisions is available. It also pinpoints those links in the chain where additional data is needed, or where existing data needs to be brought into clearer focus.

Sketching the umbrella process also allows us to address some basic questions and make decisions that are essential for talent management, such as:

- Which conference or pool structures (cf. Part 10) need to be established?
- How do central and peripheral or corporate and divisional conferences/pools relate to each other?
- Should a separate top talent track be implemented?

Understanding the Concrete Objectives

As was previously discussed, talent management has a specific job to do: to support the commercial goals of the business by safeguarding the required resources. This comparatively generic goal now needs to be translated into concrete, defined targets, such as reducing the fluctuation rate of top talents to below 2 %, staffing more than 95 % of key positions with internal successors, reducing recruitment costs by 30 %, etc.

Trying to define specific targets again underlines the fact that that talent management is a planned and purposeful system. It needs to be steered in a defined

[16] The overall process should, if possible, be viewed from several vantage points, e.g. candidates, executives etc., in order to pinpoint any pitfalls, inconsistencies, or gaps in the process chain.

[17] The internal authorities and responsibilities should also coordinate relating closely to this overall perspective, since a large part of the processes cannot fall within the remit of talent management alone.

- » Number of applicants per recruitment channel
- » External recruitment costs per successful recruitment
- » Number of identified talents/top talents per business unit (year over year)
- » Fluctuation rate among talents/top talents
- » Number of positions with defined successors
- » Number of defined successors per position
- » Fluctuation rate for key positions
- » Key positions filled
- » Key positions filled with designated successors

Fig. 2 A selection of KPIs

direction in order to produce reliable results. Without concrete targets and a clear direction, talent management is in danger of degenerating into a hubbub of opportunistic activities. This would make it impossible to prove its effectiveness and the people in charge would be at a loss as to which direction to take.

The following criteria should be kept in mind when defining targets for talent management:

- The defined targets must be concrete and expressed using measurable key performance indicators (cf. Fig. 2). These KPIs need to actually be measurable with the tools and systems that are in place at the company (see below).
- The defined targets should be subject to the influence of talent management efforts. There should be no targets that talent management cannot actually influence or can only influence to a limited extent.
- The timeframe for the targets should be realistic. A medium or long-term perspective should be expected when it comes to producing visible effects.
- The defined targets should be used to measure the effectiveness of talent management.

A fitting controlling system needs to be in place in order to track performance. That means that the right KPIs should be accompanied by the right tools and a dedicated data collecting and processing system.

The complexity of talent management often entices people to introduce, monitor, and report a vast set of KPIs in the process – a decision that is often counterproductive when it comes to measuring the capabilities of talent management or proving its worth to the company. Only truly meaningful performance indicators should be used to avoid accruing “data graveyards” flooded with excess performance data. If additional indicators are measured that are not covered by the established system, there should be valid reason to justify the added effort.

The surveyed indicators should be reported actively and periodically to keep managers informed about the current results of talent management efforts and, not least, to avoid the controlling system from becoming an end in itself. Rather, controlling should be used as a marketing tool for the results and the promises of talent management: it makes achievements visible and memorable to decision-makers.

Guiding Principles as a Mission Statement

Apart from the procedural perspective on talent management as a whole, the concept should be expressed in a memorable and condensed form in the form of a set of guiding principles. These guiding principles are a concise interpretation of the following factors[18]:

- The focus and purpose of talent management
- The place of talent management in the wider HR landscape and in the provision of the required resources
- Core characteristics of talent management
- The target internal perception of talent management
- Privileges and expectations for top talents/talents
- The roles and responsibilities of managers in talent management

The guiding principles are expressed in the form of statements that represent the "attitude" of talent management concerning the above factors. The guiding principles are thus not unlike a mission statement. They play a particularly central role in the marketing of talent management. The guiding principles are often the one document that is used most by the various groups engaged in the process when it comes to presenting or explaining talent management and its purposes. This is why the guiding principles should be expressed in the most straightforward, memorable, and unambiguous way possible.

The Basics of Potential Ratings

The rating and identification of potential is one of the mainstays of talent management. Identified potential represents a type of "passport" to the development pools and programmes, and to the succession lists of the company.

In business practice, potential ratings are often linked closely with the performance rating system, that is, an employee's performance in his or her current job.[19] Unlike a performance rating, a potential rating does not concern the present or the past, but should rather be seen as a statement about possible performance in the future, i.e. the anticipated performance in a new and higher-value function[20] (cf. Fig. 3). This makes performance and potential two distinct and independent constructs. Even with a negative potential rating, an employee might well produce excellent performance in his or her current job. The mirror image of this, so-called "hidden talents" who have great potential, but show only poor performance, are

[18] The following items are meant as food for thought and not an exhaustive list.

[19] This includes target performance, behaviour in everyday incidents, achievements in project teams, results in special assignments, etc.

[20] Typically, this would be the next step in an executive, specialist, or project management career.

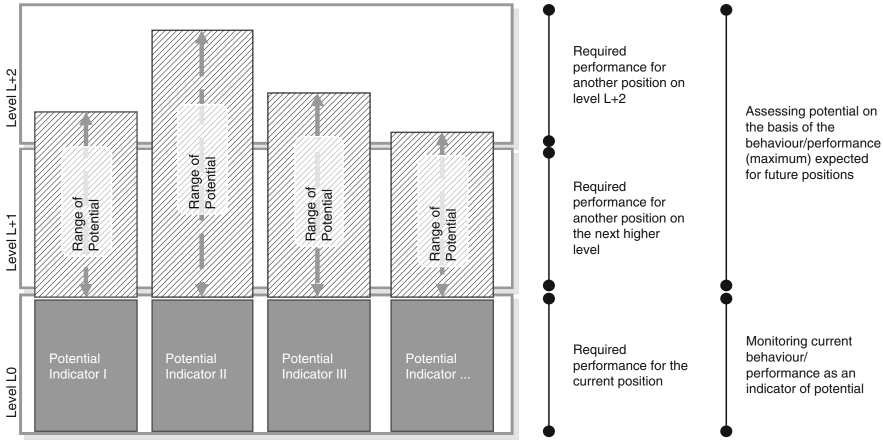

Fig. 3 Distinguishing between performance and potential

very rare in business, since most high potentials show off (or try to) their competence at the earliest point they can.[21]

A Uniform Corporate Concept of Potential

The concept of potential, and the terminology surrounding it, should produce a clear and uniform notion of the meaning and how potential manifests itself in a person's behaviour. Only if this common ground is available can the potential ratings and the title of talent, top talent, or high potential be expected to carry the same weight and value and have the same quality across the organisation.

Looking at common definitions of potential, we can recognise a close match between the various concepts. While the terminology for the potential indicators tends to change with different companies' concepts, there is considerable consensus about the basic requirements as follows:

- Indicators of potential are highly stable over time. They vary little or not at all from a certain point in a person's life onwards.
- Indicators of potential are not immediately susceptible to (HR) development efforts and are thus highly important as selection criteria.
- Indicators of potential are the engines of performance and, in effect, of a person's career progress.
- Indicators of potential are not tied to a specific situation or environmental factors.
- Indicators of potential are manifest in the fundamental attributes and qualities of a person.

[21] A rating as a "hidden talent" is typically the result of diagnostic effects. Alternatively, it can be an indicator of potential fluctuation risks, e.g. if the incumbent of a position does not produce the expected performance because of a lack of challenge in his/her job or commitment to the employer.

Typically, this leads to a selection of cognitive (e.g. intellectual capability), motivational (e.g. ambition, performance motivation), and personality-related factors (e.g. resilience, flexibility, openness to new experiences). More details are added to this rough structure when defining a company's potential concept, before it is translated into practically usable instruments. The detailed concept defines in precise terms which patterns of everyday behaviour are indicators of potential. A number of companies have designed their potential rating system by designating certain indicators for each level of hierarchy.

The distinction between talents and top talents (see Part 2) needs to be reflected in a suitable set of differentiating traits. Companies typically choose one of the following ways of doing this:

- Quantitative: top talents and talents are rated with the same set of potential indicators. A nomination as top talent requires a higher score on the relevant rating scale than a rating as a "regular" talent.
- Qualitative: a nomination as top talent requires other criteria, i.e. the criteria for top talents are more demanding or include additional aspects. Some companies use very vivid criteria for this purpose, such as "Our next CEO", to give managers a frame of reference when they are asked to identify top talents.

In some cases, numerical cut-off thresholds are defined, such as the percentage of top talents in the overall workforce (e.g. 1 %) or a corresponding number of "regular" talents (e.g. 5 %). Based on experience, such values can be used as internal yardsticks or control limits for managing the sizes of the potential pools.

The Potential Nomination and Validation Process

When a uniform concept of potential is in place and its indicators have been detailed, the next step is to translate these into usable instruments and integrate them in a process.

The starting point for any potential rating is the nomination or screening. This refers to a bottom-up identification process of talents and top talents that is usually combined with the regular staff appraisal as part of the performance management process.[22] The employee's immediate superior typically conducts this rating, although self-nomination and nominations by colleagues – treated similarly to nominations by managers – are also used. The potential rating works with the person's current behaviour and current performance, but is, in fact, an extrapolation that forecasts the person's future performance in a different scenario. This makes it essential for the rating method to be as simple as possible and to provide specialist support for it. Managers are typically equipped with checklists or questionnaires that help them observe how the potential indicators manifest themselves, i.e. how often and to what degree a certain type of behaviour was observed, what this means in terms of potential, etc. These checklists are meant to encourage the managers to

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[22] Frequently, companies expect their personnel to have been with the company for a specified period of time before being considered for potential ratings. Candidates that have only recently joined the company are then "waitlisted".

think about the process before they complete their potential rating with the standardised criteria.

In the next step, this provisional potential rating needs to be validated by contrasting it with other ratings. For this purpose, many companies use departmental reviews in which the individual ratings are presented and debated. Normally, these reviews are attended by the superiors of the managers that produced the ratings. In the reviews, the managers present short profiles of their candidates, to which other managers contribute their own experiences.

Even after the initial potential nomination has been confirmed on the departmental level, the final validation requires a standardised corporate instrument[23] or "independent" adjudicator. By using assessors who have had no or only very little contact with the candidates, an objective decision can be reached. Oftentimes, these are managers selected from other areas of the organisation and located one step above the hierarchical level of the target position. Many companies also draw on the support of external diagnostic experts for this purpose to avoid potential personal reservations or politicised influences on the process. The candidate is enrolled in the pool or development programme only after this final validation.

When designing the overall talent management process and developing its instruments, particular attention needs to be paid to the distinct target groups of executives and employees.

The potential rating's nomination and validation processes differ considerably from the accustomed appraisal experience of employees in the regular performance management process. Apart from a testing situation that can have considerable repercussions for their later careers, the candidates are being subjected to the rating of "unknown" managers that exceed their own supervisors' hierarchical standing. This also brings with it a higher degree of visibility at the company as a whole. This makes it essential that the danger of candidates perceiving themselves or even being stigmatised as "losers" is avoided as far as possible. Possible frustration and lack of motivation should be caught as soon as possible by offering attractive alternatives to the originally intended development step. After all, most of the people in the system will be employees with above-average performance who should be retained for the good of the company for as long as possible.

Line managers use the rating instruments in the first place. That makes it essential for them to be simple and pragmatic. Highly complex or too intricate tools are often doomed to fail because of a lack of acceptance and take-up on the part of managers who need to complete these leadership duties on top of their everyday business concerns. Another particular challenge is to maintain their commitment to the process and awareness of its significance for the long term.

[23] Usually in the form of management audits or assessment centres.

Management Conferences and Talent Pools

A positive potential rating does not have to lead to an immediate or obligatory appointment, but should grant the candidate inclusion to the right talent pool as a first step. Lists of potential successors are drawn from these pools, and the candidates in them are offered suitable development programmes to prepare for their careers.

Since the shape of these pools depends on the structure of their home organisation, both their number and their size can differ widely from organisation to organisation. Few universal rules apply when it comes to designing them. Oftentimes, we are dealing with structures that have grown naturally over time, covering many different dedicated pools and lists of candidates. This situation has obvious implications in terms of management efforts and administration. In such cases, it can be helpful to take the time to revise the entire set-up and, if need be, realign it to reduce the costs and safeguard the right functionality and effectiveness of the pools. As a rule of thumb, the general structure and the relationships between the individual pools should be as accurate a mirror of the organisation or its hierarchical structure (and its scale) as possible. For instance, most large business units maintain independent pools and separate talent management, which only feeds into corporation-level pools from a defined level of hierarchy upwards, e.g. corporate senior executive pools.

One of the primary advantages of using such pools is that they bring together candidates from across departmental boundaries. This ensures invaluable transparency about existing (management) potential as an essential instrument for corporate management. Possible successors for vacancies are not restricted to the resources available in single departments, as an optimum choice can be made across the wider organisation. This is a prototype win-win situation: from an organisational perspective, the job goes to the truly best candidate, not the best of the immediately available lot. From the candidates' perspective, their career prospects do not end at the borders of their department. Organisational visibility increases considerably – with all the opportunities and risks this brings.

Such pools also represent a comparatively economical means of giving a selected group of candidates focused qualification opportunities to match specific requirements, e.g. to develop their future leadership skills. The development programmes that are used in the pools should therefore be designed to fit the career track model towards giving the candidates the skills and competences that are required on the "target level". At the same time, the structure of these programmes should be flexible enough to give individual candidates access to other measures to match their needs.

Management conferences represent the mirror image of the pools on the side of their managers. The purpose of these conferences is to review the current status of the pools and the developmental progress of their candidates and to make suitable decisions about them. For this purpose, these conferences are entrusted with the following responsibilities:

- Reviewing the overall make-up of the pools as a whole
- Reviewing new inductees
- Tracking the developmental progress of the pool members
- Discussing/deciding about specific development measures, e.g. international placement, special assignments, project work etc.
- Discussing/deciding about concrete appointments
- Discussing/deciding about individual cases, e.g. long-time pool members making no visible progress, people at risk of fluctuation etc.

The job of HR management is to:

- Prepare the conferences – selecting and processing individual data about the candidates and prioritising the agenda for the conferences
- Administer the results of the conferences – updating personnel data with the conference's results, implementing the decisions and communicating the decisions to the candidates
- Update/maintain the data in the system

In view of the complexity of the data, talent management today cannot be imagined without a suitable IT structure to support it. The effort that goes into preparing management conferences also immediately shows why the pools and management conference system should avoid redundant or excess capacities at all costs.

The Underlying Data Model

Considering the management conferences and the decisions they make, we immediately see that a coherent data model is essential for the talent management process. This data model is the answer to the key question as to which data is required at what level of detail in order to make accurate general and person-specific HR decisions. Understanding which personnel data is required becomes particularly important when staffing vacancies. Data about a person and his or her skills and competences is needed to make a statement about whether that person matches the requirements of the job.

Typically, general or individual HR decisions make use of the following types of data:

- Results from the performance management process, e.g. delivery on performance targets etc.
- Information from the potential rating process
- Specific assessments, such as feedback from projects
- Skills and competences
- Formal qualifications and certificates
- The candidate's educational history
- Language skills
- Time spent in the current position
- Retention data
- Mobility
- Career aspirations/requested assignments

When the data model has been established, it needs to be decided how the data will be fed into it, i.e. which sub-processes deliver or should deliver which pieces of information.

Succession Planning and Management

The data model becomes an essential factor for succession management and its attempt to mitigate the risk of not finding any suitable successors for vacancies. The purpose of succession management is to prepare short-lists or general long-term planning lists with potential candidates for defined target positions. It should uncover any potential gaps between the available candidates' current qualifications and the position's requirements. Succession management also introduces the required development intervention as soon as possible. In an ideal case scenario, a fully qualified successor will be there and waiting whenever a vacancy opens up.

What is essentially required is to be able to make a sound decision by comparing the specific needs of the job in question with the skills, competences, and experiences of the potential successors. Candidates who match the required profile are included in the succession lists. Naturally, the data structures in the model must be defined in a way that allows candidate-position matching to take place.

However, there are many aspects that can make this matching process much more complicated than it seems at first sight:

- One basic problem lies in the available data structure. The output of HR work usually consists of information and data about all personnel, leading to quite a substantial data set. In many instances, this is far too extensive, out-dated, or not centrally accessible. Processing this data correctly is essential.
- At many companies, there is still some way to go when it comes to the comprehensive availability of concrete position data. Dedicated information about the specific requirements of each job is comparatively rare, with notable exceptions. International organisations also often have to work hard to master the challenge of standardising job descriptions and their contents. This makes sourcing the required information (and entering it in the right IT system) a considerable effort.
- Oftentimes, individual candidates are included in multiple succession lists: a classic 1 to n- (candidates to lists-) conundrum. It becomes a problem when there are overlaps between the lists. In such cases, a vacancy might be filled with a candidate who is also recorded as a potential successor on other lists. When such candidates are appointed on one side, the bottom drops out of other lists. To account for this risk, many companies use upper limits for the number of lists in which any one candidate can be included (e.g. a maximum of two). There are also minimum thresholds[24] for the number of candidates on these lists (e.g. three or more).

[24] Specifying additional requirements for potential successor lists can also be used as a means of integrating certain corporate goals in the talent management system, e.g. fostering interdepartmental cooperation among the potential succession candidates.

- The intention of long-term succession management is often undermined by sudden short-term changes on the sides of the available positions or personnel. Changing structures or processes can mean new requirements for positions. The existing succession candidates may not have been prepared for these changes. Alternatively, some target positions might be cut entirely – with repercussions for individuals' career plans. Changes on the personnel side, e.g. other internal challenges, candidates leaving the company, long-term illness etc. often mean that entire lists have to be rebuilt from scratch.

Succession management therefore faces the challenge of pursuing long-term plans, while simultaneously having to respond flexibly to short-term changes. All of this is made even more difficult when a third objective is factored in: working on the skills, competences, and experience of people, needing a medium-term perspective at the very least.

Distinguishing Top Talents

Running parallel to the traditional, bottom-up process for "regular" talents, dedicated pools should be in place for top talents. From a certain size onwards, every company can expect to have a number of top talents among its people. Without their early identification and systematic development, it is unlikely that they can be retained for long – especially in times in which the war for talents makes changing to competitors an ever more appealing option. Not focusing specifically on top talents also tales away transparency and loses an important means of managing this essential target group.

The pool structure should not reflect the existing hierarchy.[25] This would represent a significant over-differentiation, due to the small number in the talent group. At the same time, top talents are expected to have a career path that differs essentially from the "typical" step-by-step progress of their peers. Apart from their structures, the purpose and function of top talent pools are what makes them stand apart from the pools for regular talents (which focus primarily on access to well-defined development programmes and succession planning):

- Direct focus and immediate access to individual top talents
- Thorough tracking of the developmental progress of the top talents
- Access to special development opportunities
- "Stretch assignments", e.g. strategically crucial projects, challenging jobs etc.
- Bespoke development plans
- High visibility among senior and top managers

The responsibility for the top talents pool is typically centralised (e.g. at Corporate HR). The pool needs to be managed across all organisational boundaries to be able to offer top talents the best possible development prospects[26] and ensure the

[25] A two-step model could include one pool for frontline and middle management and a second pool for senior and top managers.

[26] Top talents are also integrated as candidates in "traditional" succession management.

optimum use of their capabilities. However, this de facto "handing over" of their top talents to a central authority can create the risk of local managers withholding the nomination of their people.

Another distinction of the top talent pools is the clearly defined set of expectations for the pool members. By contrast to regular talent pools, top talents are expected to constantly deliver proof of their right to be included in terms of their performance and achievements. They e.g. need to produce above-average results in challenging projects or complete development steps faster than their peers. People who do not fulfil these expectations can be excluded from the pool, not least for their own good, since it avoids them being subject to the systematic pressure to excel.

From a business perspective, it is also important to avoid potential risks in appointments or future projects from an early stage. Project assignments etc. that are decided in the course of developing top talents are supposed to produce visible results. These also need to match the potential of candidates. Top talents' project assignments should exceed the normal contributions that can be expected in usual line assignments.

At the same time, the plan for talent management should also remember that the top talent track is a special case that will concern only a minute selection of employees. The regular talent identification, development, and placement process should not be devalued or neglected in the excitement over top talents, since regular talents are where the essential body of goal-oriented performance comes from.

4 Basic Factors for Success

The talent management process, including all of its instruments and new opportunities that these bring for talented employees are, at their core, only an abstract group of possibilities. They are a necessary, but not sufficient conditions for the success of talent management. In the end, talent management's success stands and falls with how it is used in the workplace. This makes managers the frontline actors, and the make-or-break key, to talent management.

Many studies read the significance of talent management in terms of how it is perceived by managers. Such studies often arrive at similar results: managers generally agree that talent management is highly important. It is considered representative of an important competitive edge. Such studies do not, unfortunately, reflect the actual priority awarded to talent management in the workplace. Operational incidents, queries from clients, changes to delivery schedules etc. – a flood of different forces is fighting for the limited attention of managers. At the same time, effective talent management needs to be a functioning and breathing reality at the base of the organisation. Top managers play an important role, as they are the role models for the organisation's executives. This means that top managers are called upon to embody their stated commitment to talent management in the organisation. This can take the form of ad-hoc activities or long-term, sustained work:

- Talent management should be a regular agenda item for the meetings and conferences of top and senior management. Discussions should include e.g. reports on talent management results, important events, pending decisions etc.
- Substantial investment of time into the talent management process as a whole
- Duties as mentor or speaker, e.g. for keynotes in executive development programmes, fireside chats etc.
- Sponsorship for selected talent management initiatives
- Unannounced visits to nominated talents/top talents as a show of appreciation and interest in the company's high potentials
- Public praise for talent management issues or exemplary behaviour and achievements, e.g. in in-house magazines
- Stringent penalties for non-compliance, e.g. unacceptable leadership behaviours, irrespective of a person's achievements

In all of this, it is essential that the organisation's activities seem honest and credible. This sends a clear signal of the importance of talent management at the company and of the value that is put on its people as its primary resource.

In individual cases, companies have integrated certain expectations concerning leadership styles as a regular part of the performance assessment process. Leadership behaviour, a manager's role in talent management, and tangible results in the development of promising junior employees[27] are important indicators for such assessments – with implications in terms of variable pay or promotion prospects. This not only reflects and reiterates the importance of talent management, but also systematically assesses it and rewards or penalises people's engagement in it.

Another basic requirement for talent management relates to its "incubation period": only talent management that is pursued with determination and perseverance can deliver the expected results. Immediate results are usually unrealistic and should not be expected, since talent management usually proceeds via the development of skills and competences along with the slow acquisition of experience. This means that the process as a whole should be planned carefully and sustainably. Expectations of results should be clear. Otherwise, there is a danger of being unable to live up to the expectations without turning the entire process upside-down again. Frequently changing the goals and expected results is especially counterproductive, since this often leads to labour-intensive changes that are, more often than not, consigned to the waste paper bin not long after. Apart from the administrative waste this creates, it also promotes considerable frustration and insecurity among executives and employees who seem to lose all certainty about planning their future careers.

All of this makes sustainability one of the essential premises of good talent management. Naturally, this calls for a careful hand when it comes to looking for potential savings in economically difficult periods: painful cutbacks in training and development budgets for top talents might be necessary in certain circumstances. Unfortunately, they always lead to frustration among this invaluable group of

[27] For instance, the number of junior personnel developed by the manager in question.

employees. Such decisions tend to have a long shelf life in the minds of employees. All proposed savings should therefore be checked and re-checked to understand their long-term implications: savings must not hurt the talent management concept as a whole or potentially even be the cause for dissatisfied talents and top talents leaving the company. As a matter of fact, talents and top talents take what has been invested into their development with them when they leave the company. This means that any savings would be weighed up again by the need for new investments into the next batch of talented executives and employees.

5 Conclusions

This chapter began by sketching a working definition of talent management as a complex HR process whose primary purpose is to attract, develop, place, and retain talent. There can be no doubt that talent management has become a vital and essential element of HR work. Its influence touches on many parameters that make or break commercial success.

Nonetheless, what is needed is a realistic sense of how far talent management can go. Irrespective of the quality of talent management, a number of reasons suggest that the time talented employees spend with any one employer will become shorter and shorter (cf. Part 1). A person's decision to stay or leave a company depends on many different factors and cannot be determined by talent management alone. This makes it essential to consider the following points:

- Specifying the fluctuation rate that is acceptable for the business, especially for its key positions
- Tracking the amount of fluctuation and systematically investigating its causes, e.g. in dedicated exit interviews
- Introducing a structured handing-over process[28] to minimise the loss of essential know-how
- Defining a lower threshold for talent and top talent retention to ensure a proper ROI on investments in this area

One needs to remember that a certain degree of fluctuation can actually be beneficial for the business. Newcomers carry with them new knowledge, introduce new impulses, and can shake up an organisation that is stuck in a rut.

6 The Talent Management Checklist

The following activities should become part of the process when introducing talent management:

[28] For instance, tandem models, the well-timed withdrawal of the people in question from operational responsibilities to gain time for handing-over, etc.

- Defining the qualitative and quantitative HR needs in line with the organisation's strategic goals
- Pinpointing the key positions
- Designing the overall talent management process with all core processes and detailed interfaces with other processes in HR management
- Developing a master data model as a reference guide for the expected results of the individual talent management sub-processes
- Specifying the concrete objectives for talent management with a view to the expected results
- Setting up a controlling concept and systematic reporting of the output of talent management
- Drafting a set of guiding principles as a mission statement and marketing instrument for talent management
- Developing and implementing a uniform corporate concept of potential as the framework for potential appraisals
- Defining a potential nomination and validation process and outfitting it with potential appraisal instruments
- Developing a pool and review conference structure in line with the general organisational layout
- Integrating the pools with the established development landscape
- Establishing a top talent track and specifying the responding requirements/expectations and "privileges"
- Introducing succession management and drafting successor lists
- Actively involving senior and top management

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Stage 6: Qualification Management

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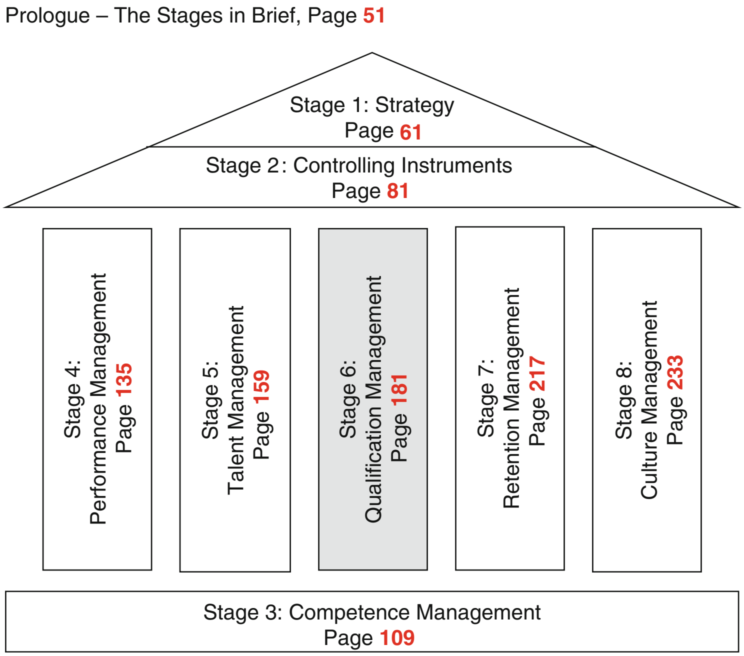

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Managing education in business is essential to developing and aligning human resources with a strategic purpose. In the economically strained times of crisis and recession, companies need to avert the threat of losing their competitive edge by investing as effectively as possible into the knowledge and social capital of their people. As a component of strategically oriented HR development, fully needs oriented, efficient, and effective qualification management is indispensable. Its job is to maintain commercial value creation, to show its own contribution to it, and to communicate it in a credible and sensible format. Modern qualification management is, in a sense, becoming a catalyst of innovation in business and, by extension, a source of commercial success.

This chapter will sketch the many different tasks essential to qualification management and the models that have been proposed to execute these tasks. We will explore the system of qualification management in a series of interconnected topics. First, the conceptual background of qualification management needs to be discussed. The first part will look at the status quo of qualification management in Germany. It will show how far German companies still need to come to arrive at truly professional qualification management. The second part will focus on the goals and system of strategically oriented education in business. Part III will address the link between the requirements analysis and the actual intervention. The fourth part will discuss the importance of the teaching personnel. Part V will explore the methodology and make the case for participant, action, and problem-centred didactics. In Part VI, we will see how education can be evaluated or controlled. The final, seventh part will examine some examples of the tools used in qualification management. For that purpose, that part will look in more detail at the work of the Akademie Deutscher Genossenschaften (ADG, Montabaur), the central training and education academy of German cooperative and Raiffeisen banks (cf. www.adgonline.de, 2012).

1 What Is Qualification Management?

The term "qualification management" arose in the 1990s to refer to a management system dedicated to the planning, organisation, administration, and resource-effective delivery of occupational and private adult education. The debate about sustainable management concepts for training and education goes back to the 1970s (Meisel, 1994, pp. 384–387). It moved away from the original interest in the planning and supervision of courses (Meisel, 1994, pp. 384–387) to cover company, target group, and industry-specific perspectives due to intensifying debate among qualification management professionals. At its heart, qualification management refers holistically to the competences and abilities of personnel: "Qualification management makes sure that employees are given the knowledge and abilities that they need to do their jobs" (Herter, 1998, p. 28).

The pace of technological and societal change has been exerting more and more pressure on companies to adapt and on their employees to get trained and qualified (Arnold & Krämer-Stürzl, 1999, pp. 28–32). The concepts of lifelong learning or the learning organisation – not to mention the new idea of the "learning region" – represent the new prominence of qualification management in modern knowledge economies (Freitag & Schöne, 2004; Matthiesen & Reutter, 2003; Witthaus & Wittwer, 1997).

We can use a systemic understanding of qualification management, which goes beyond categories of organisational departments and bases its tasks and responsibilities on the general goals of the organisation and/or its stakeholders (cf. Part II and Bäumer, 1999, p. 21). Qualification management is situated within the system of the company and draws its essential mission from that system. It analyses the internal and external circumstances and knows the organisational, and individual, education and development needs. It produces education services to match those needs, checks their effectiveness, and makes their benefits and value visible for the company and its people. It applies state-of-the-art, scientific adult education standards when planning, conducting, or controlling these services. Seen in general terms, qualification management has a flexible innovative role to play: "Education needs to look ahead to the future and shift its focus to the key qualifications. . . . Learning must become a situational experience, and qualification management turns into a situational leadership activity" (Decker, 1995, p. 30f).

2 Occupational Education in Europe: The German Experience

The European and the German business education markets are attributing increasing importance to professional and, above all, strategically aligned education in business. The most obvious signs of this are the many new and established actors, providers, and target groups of education services in the European markets (cf. the international examples for occupational education systems in Canada, Denmark, Korea, Morocco, the UK, and the USA in Bosch & Charest, 2010).

According to a study conducted by the Institut der Deutschen Wirtschaft with 1,450 companies, 97 % of all companies have been using regular training or education activities since the mid-1990s (Weiß, 1994, p. 51). The rate of participation in such activities has also increased dramatically from 1973 to 2003 as shown in the ninth "Berichtssystem Weiterbildung" report: "Across Germany, participation in occupational education doubled from 1979 to 2003" (BMBF, 2006, p. 38).[1] We can, however, assume that the theory and debate about qualification management and education controlling is still far ahead of actual practice. This is the finding of the third European Continuing Vocational Training Survey (CVTS 3). The Europe-wide, representative study of continuing occupational education in 25 countries is coordinated and produced by the Statistical Office of the European Union.

[1] The "Berichtssystem Weiterbildung" is a triennial survey of continued education in Germany, conducted by the Federal Ministry of Education and Research. The ninth edition, published in 2006, refers to data for 2003.

According to this study, the 9 h of formal training that are the average for German companies place Germany somewhere in the middle of the ranking; the same is true when calculating the hours of training per participant (Behringer, Moraal, & Schönfeld, 2008, p. 11). We can see some variations between differently sized companies and a slight downturn on the side of SMBs. While the number of hours spent in training has increased considerably in the case of very small businesses with fewer than 19 employees (7 h) and very large organisations with more than 1,000 employees (5 h), the figure is shrinking in companies between those extremes, specifically those with 50–249 employees. In total, the CVTS 3 revealed that 69 % of German companies offered training and education opportunities, which is again a general drop of 6 % when compared to 1999 (cf. BIBB, 2009, p. 247f). This ranks Germany at 12 of the 28 participating countries, below the Scandinavian and most Western European nations (BIBB, 2009, p. 249). According to the study, the number of companies offering training and education services was highest in the UK, Norway, and Denmark (approximately 87–90 %), with Greece, Bulgaria, and Italy trailing behind at approximately 22–32 %. If we consider the Euro debt crisis, we have to be careful and not jump to conclusions. The reduction in occupational education activities in Germany should be seen as a negative development, as there is empirical proof that companies show "substantial productivity effects" when they engage in education and development (Behringer et al., 2008, p. 14). A definite divide is evident in Europe, as the meta-study by the National Institute of Adult Continuing Education (UK) has pointed out in 2005. The study followed the CVTS concept for a Europe-wide study of occupational education services by local providers. In the 4 weeks before the survey, between 2 % and 35 % of the respondents had attended adult education at a local provider. Scores below 10 % were found for Bulgaria, Romania, Turkey, Greece, Hungary, and Portugal. A score of over 30 % was found in the case of Sweden alone. Great Britain, Denmark, and Finland were already clearly below that, between 25 % and 30 % (NIACE, 2006, p. 37).

According to the OECD Education Report for 2011, the indicator "Number of hours in non-formal education to be expected over a working life (that is, from 25 to 64 years of age)" is an indicator of the investment into adult education. Three quarters of these hours went into non-formal occupational education, which points to the great importance of professional qualification management in business. Denmark, Finland, Norway, and Sweden are topping the league table for the lifetime prevalence of education in terms of hours in education, whereas Greece, Italy, Turkey, and Hungary are at the bottom of the list (OECD, 2011, p. 451).

The international empirical data also reveals some social imbalances in the access to education. Men and more educated people, that is, those with higher educational qualifications, benefit more from professional education opportunities than their peers. An upward trend may be visible when the educational background of the participants is concerned, but this only serves to reinforce social differences. The comparative study by Bosch and Charest shows that the young people who are now participating in adult education on average have a higher level of education than their peers in the past (Bosch & Charest, 2010, p. 5f). This means that if they do not already have middle or higher educational qualifications, they will have less access to the opportunities for development offered by occupational education.

Considering spending on occupational qualification alone is not enough to reach a valid assessment of the state of the field. Financial figures are not a suitable indicator for the value of adult learning. In 2005, for instance, the total spending on occupational training in Germany was 1,697 Euros per participant (BIBB, 2009, p. 251). The CVTS 3 data places Denmark, Malta, and the Netherlands at the top of the leader board for this indicator, with Greece and Spain at its bottom (Behringer et al., 2008, p. 12). At the same time, the German example shows that qualification can be cost-intensive without actually achieving the degree of prevalence that gives companies a real competitive advantage. Are German employees already so highly qualified that they need less continued education than their European neighbours?

The current situation calls for strategically oriented, cost- and efficiency-aware qualification management. Other empirical data supports our assumption that such urgently needed strategy-driven education is a rare beast in German companies. Of the four types of qualification management identified in German businesses in the 1990s, only one of 300 medium to large-scale companies can be said to have achieved truly “strategically supportive” education. In this future-oriented company’s case, it is highly regarded at the company and often well established in the form of a central and sustainable qualification management department. The contents and timing of the educational activities are planned to match the company’s goals. The central qualification management team sees itself as a service provider for the company and its units, whom it supports with its specific know-how in the pursuit of the strategic goals (Bäumer, 1999, p. 170f). This ideal scenario is most likely in large companies with workforces between 2,800 and 7,800 people, in banking and insurance, or at companies that rely on constant product development and innovation. These are companies in sectors that are under a lot of pressure to innovate (Bäumer, 1999, pp. 232–242). It is interesting to see that small companies with fewer than 50 people were excluded from the study. Very few of them were “educationally active” in the sense of institutionalised qualification management, and they make up 80 % of the business landscape in Germany (Bäumer, 1999, p. 152).

If we believe that the current dearth of strategically oriented occupational education in Germany could not be made more evident than in this data, we are mistaken: the CVTS 2 study asked companies about the extent to which their educational activities were organised on the basis of dedicated educational plans – which we can assume to have a strategic element. In Germany, only 22 % of companies did so. This places Germany in 14th place out of the 25 surveyed European nations (the UK, Ireland, and France are topping the list). Every second German company considers such plans to be unnecessary (Grünewald, Moraal, & Schönfeld, 2003, p. 62). This is still the case:

According to the German “Berichtssystem Weiterbildung IX” report, only 34 % of companies regularly review their educational activities. “Seen in detail, the main finding is, as expected, that institutionalised and planned education happens mostly at large organisations with 1000 or more employees” (BMBF, 2006, p. 229). Seen the other way around, this means that two thirds of Germany companies do not plan their education and development activities. Unplanned also means not strategically oriented. The report also states the extent to which German companies are losing out on development opportunities as a result. Institutionalised qualification management and regular planning can have a motivating effect on the workforce and become a catalyst for business performance. Established qualification management can double the rate of attendance in training courses and increase motivation for informal occupational training. The employees of companies with established qualification management are more likely to attend formal (56 %) and informal (74 %) education. By contrast, the employees of companies without such institutional qualification management only reach attendance rates of 28 % and 58 % (BMBF, 2006, p. 230).

"Even though this data can only be a first attempt at answering our initial question, it does suggest that the organisational circumstances have a major impact on occupational learning. ... All in all, the institutionalisation and planning of education can have a positive effect on the rate of attendance in professional training" (BMBF, 2006, p. 231ff). Managing such education in a strategically aligned and professional manner should therefore be seen as a basic entrepreneurial mission, even more so in times of recession or economic crisis. There is much to do in this respect for German companies, especially among small and medium-sized businesses.

3 The Objectives and Types of Strategic Qualification Management

What does strategic alignment mean in practice for qualification managers? How should they position their work? The current debate in adult education offers us a range of interesting models to build on.

Since the mid-1990s, the discourse in post-graduate, professional education has been interested more and more in the role played by strategically oriented qualification management. It tries to anticipate the future challenges for the organisation, its operations, and its actors. Then, the aim is to plan, conduct, and evaluate education measures in light of those future challenges. To that end, it is essential to understand the purpose and goals of the organisation itself:

- The environment, markets, and competition that the company is placed in;
- Its resources in terms of capital, HR, location;
- The educational philosophy of the organisation;
- The goals of the participants themselves.

Qualification management always has a pre-emptive turn. It works with the present and the future. Therefore it defines its goals and the implications for its work accordingly. The innovative ambition of strategically oriented qualification management for the business at large is expressed in a number of specific functions. It works with a set of changing circumstances. It identifies new goals for the organisation and introduces means to achieve them. It initiates new investments or organisational goals. It responds to new pressures and the future requirements for employees. And, above all else, it generates new solutions (Decker, 1995, p. 85f).

Herter introduced another people-centric element. In his perspective, qualification management has to respond to the needs for organisational change. He approaches this from a deliberately dual perspective: “In consultation with executive management and with the labour representatives, qualification management needs to help solve the problems of organisational change. Thus, it becomes the advocate of the current and future operations interests and the advocate of the development interests of the individual employee” (Herter, 1998, p. 12). Strategically oriented qualification management also covers elements of internal conflict mediation. It acts as a type of internal consultant and mediator in times of change. This aspect is becoming increasingly relevant, because so-called “non-standard” work situations are becoming more and more common, creating greater demand for a range of mediation services, e.g. individual, group, or organisational advice or coaching (Geißler & Orthey, 1998, p. 81f).

The most expansive interpretation presents occupational qualification management as a key force for change processes in learning organisations. Some concepts have already begun to link up the discipline with the perspectives of HR and organisational development (e.g. Wöltje & Egenberger, 1996, pp. 24–28). However, this can only be strategically relevant if qualification management and HR/organisational development are brought together under the shared aim of reforming the corporate culture. The culture at the organisation needs to be reviewed and revised with the same innovative spirit as the hierarchical structures, established routines, organisational systems, forms of interaction, dominant values, or material conditions in place at the company. On the strategic terrain, qualification management thus covers both soft and hard factors and contributes directly to reshaping the corporate culture (cf. Faulstich, 1998, p. 172f).

Qualification management can be embedded in six structural-systemic forms (cf. Wöltje & Egenberger, 1996, p. 229f). Irrespective of the form, it should always be considered part of the wider organisational system, which also means that it needs to legitimise its presence in the terms of that system. An overview of the organisational and institutional forms of systematic qualification management on the international level can be found in Gasskov (2006, esp. p. 43 ff).

Qualification management itself is comprised from a number of sub-systems, with three specific sub-systems having particular relevance, as they relate closely to the strategy of the company. These include (a) operations, organisational climate, education philosophy, (b) HR management as the basis for all occupational education and development, and (c) needs-oriented education planning (Döring & Ritter-Mamczek, 1999, pp. 103–112). Strategically oriented qualification management can thus contribute structurally to the organisation in the following ways:

1. In the most basic form, line managers cover education as part of their leadership duties, because the organisation has no dedicated agent for that purpose. Line managers can and should recognise and develop the potential of their people. Therefore the effective analysis of actual requirements and the transfer and practical application of the training are key. In this case, strategic qualification management refers only to the departments that the line managers are in charge

of. The advantage of such a minimalistic approach is that it is always a feasible choice, even for small businesses.

2. On a slightly higher level of evolution, qualification management is given more structural presence by allocating the responsibility for it to a key actor at the company. Qualification management could be part of the job description of an HR professional or similar officer. The chosen member of staff coordinates the necessary activities across the various parts of the organisation. However, with qualification management only being part of his or her duties, there are certain limits to the strategic work that can be done. This variant is again a suitable choice for small or medium-sized businesses.
3. By nominating an education and development officer, strategically oriented qualification management is given an explicit systemic presence. Such education officers establish the necessary networks that bring together executive managers, the business departments, and internal or external training providers. They also coordinate occupational education activities and programs. If a qualification officer is given a position in the central staff of the company – e.g. as assistant to the CEO or a director – he or she can transfer the strategic insights gained from that access into the company's educational activities.
4. Strategically oriented qualification management is given much more weight in the form of a dedicated education and development department. This fourth format is particularly effective at medium to large-scale companies. The qualification department has a managing and coordinating function for the entire organisation and closely relates its activities to the wider strategic goals. Its strategic and operational tasks are as above. In addition, the department acts as a commercially and didactically competent agent in the selection and qualification of suitable trainers and educators. A corporate qualification department can and should live up to the innovative ambitions of truly strategic qualification management. This variant can also be established in the form of an in-house academy. They often evolve into dedicated profit centres, as happened in the case of the Audi-Akademie GmbH founded in 1993. Its original mission was to develop people's competences at Audi AG; now, it supplies numerous academic customers from many sectors of industry (cf. www.audi-akademie.de, 2012).
5. On a higher systemic level, the qualification unit, or the entire HR section of a company, becomes a separate profit centre, which is usually the case in corporate organisations. Examples for this can be found in the VW Coaching GmbH founded in 1995 or the DEKRA-Akademie GmbH. Such profit centres face competition as market actors and serve the founding business as one of many possible providers of human resources. Their advantage is their unique knowledge of the sector and the company in question and the many valuable contacts that they have kept from their time before the organisational split. Another marketing advantage lies in the positive association with the name of the parent company forming part of the profit centre's brand. Profit centres can also offer their services in the market at large. The DEKRA-Akademie, for instance, supplies small and medium-sized businesses in trade and industry as well as large-scale clients (e.g. Bosch, Debis, Daimler AG, IBM, Lufthansa, Metro,

Microsoft, Oracle, Siemens) and public authorities like the Federal Employment Agency or the Employment Service of the Bundeswehr (cf. www.dekra-akademie.de, 2012).

6. Finally, there is the option of structures that go across companies' boundaries. National or regional academies for certain sectors of industry can take over the work of in-house qualification managers. In this chapter, we will discuss one such example, the Academy of German Cooperatives in Montabaur (Rhineland-Palatinate) (cf. www.adgonline.de, 2012). The ADG is one of the largest HR service providers in Germany and offers a substantial range of management knowhow for the directors, executives, and specialists of cooperative banks and SMB clients. This German example is representative of a range of similar educational service providers that have been established in the international finance sector, e.g. Central Banking in the UK, the Banker's Academy of the international Edcomm Group in New York, the International Banking and Finance Institute of the Banque de France, or the Amsterdam Institute of Finance in the Netherlands. This can be regarded as good practice for other industries as well, and could be a promising vision for other sectors to follow.

In order to live up to the special challenges that exist in banking, the ADG offers over 800 unique seminars, workshops, conferences, part-time study courses, and in-house activities, all geared to the motto of "competence for tomorrow". All of these educational activities are provided by a pool of 600 top educators from all over Europe, supported by numerous industry partners, such as the Steinbeis Academy Berlin. With the establishment of a study centre and maintenance of a professorship by the foundation, the ADG does not only teach; it also engages in research. In its corporate university, the ADG offers full university degree courses, leading to bachelor, finance MBA or even doctorate degrees. Both cooperative and Raiffeisen banks and other cooperatives rely on the ADG for training and development for their directors, executives, and specialists. Another institution with a similar profile is the Xental® Academy, established in 1990 on the initiative of CCI Consulting AG Switzerland, the Depita Holding AG, and a number of independent dentists and dental technicians for the strategic development of these target groups. The Xental® Academy is open to all dental professionals, offering them not only appealing conditions for training and seminars, but also other attractive opportunities, e.g. for the procurement of high quality goods and equipment that could only be sustained by major corporate organisations. Such an industry-specific educational institute thus offers its clientele additional material benefits (cf. www.xental-akademie.de, 2012).

4 From Needs to Interventions

One of the first tasks of strategically oriented qualification management is the systematic and regular tracking of the educational needs of target groups in order to develop fitting programs, or interventions. Needs-oriented qualification is the precondition for later transfer success and the entire added value of the activities.

If occupational education ignores the needs of its stakeholders when designing its activities, it loses its legitimacy. Phased approaches therefore place the requirements analysis at the first step in the education controlling cycle (Fredersdorf & Lehner, 2004, p. 32).

The qualification function has to survey the medium-term needs for educational opportunities that exist in the organisation. This also gives an opportunity for a critical check of existing programs. The target group for this analysis are the employees and executives of the business departments, the labour representatives, and the organisation's executive managers (Hummel, 1999, p. 59). Educational needs can be surveyed with a variety of perspectives and methods:

1. As an internal assessment of current training opportunities ("essential", "nice to have", "not necessary") (a) for key personnel, (b) for the personnel of an organisational unit or section. This approach puts the established educational landscape to the test (supply-oriented requirements analysis);
2. As an open internal survey about the required or requested forms and contents; this approach explores the hidden internal demand for training and development (demand-oriented analysis);
3. As a personal gap analysis for individual employee profiles in line with the competence requirements; this approach expresses the educational needs and contents in terms of the specifications and requirements of specific professional functions. The sum of such individual needs can then be clustered to identify the topics that are relevant for the company at large (function-specific needs analysis); (for more on this, see stage 3: competence management);
4. As a survey of stakeholders, trend scouting, source, or market analysis concerning relevant developments in the markets, the target groups, or the competitors. This approach covers the expected educational and competence needs and thus adds another forward-looking perspective to the equation (market-driven analysis).

According to a comparative study of approximately 1,000 German businesses conducted in 1997, the following formats are most common in practice: gap analysis concerning employee qualifications, requirements analysis in response to organisational restructuring, weak spot analysis and trend analysis. The first three types are most common, with even greater prevalence at larger companies (Seusing & Bötel, 2000, p. 28f). According to this study "the requirements analysis is, procedurally and methodically, the most institutionalised aspect of education and development …" (Seusing & Bötel, 2000, p. 23). It has a very good strategic grounding in the sense that at least 50 % of all companies with fewer than 500 people and 71 % of larger companies align their education activities with the companies' goals in this manner (Seusing & Bötel, 2000, p. 24).

Once the needs are known, they need to be embedded in the qualification analysis plan. For a strategically sound action plan, the plans should cover at least the next business year. Ideally, the analysis planning period should be even longer. The resulting curriculum should follow the customary innovation cycles of the industry. In a time of the ever shortening "half-life" of information, knowledge and market certainty, it makes no sense to offer the same curricula over multiple years. The education controlling cycle is usually also completed in 1 or 2 years in all non-technical areas. In terms of its operational planning, qualification management is guided by the strategic goals of the company:

- Which activities are most essential in the short-term future (to respond to expected technological changes, to remedy problems, to improve performance or customer satisfaction, etc.)?
- Which activities promise the greatest financial benefits (maintaining a presence in new markets or developing existing markets, etc.)?
- Which activities are aimed at the most important stakeholders at the organisation (to keep key personnel functionally fit and ready for future developments)?
- Which contents are in most demand among internal clients (to cover the essential work areas)?

Strategically oriented qualification is initially designed to respond to existing demand, but that should not be the entirety of its purpose. If we take its innovative impact seriously, strategic qualification management also has an element of stimulating new demand: "In professional education, product managers would look for new and fitting ideas in the same manner as they do in books or films. . . . In this sense, professional qualification management needs to adjust to the needs of the markets. It not only responds to demand, but actually creates demand with its supply" (Merk, 1998, p. 209). Market and trend analyses give qualification managers strategically significant insights that they can pass on to their internal clients and stakeholders. Quality circles can produce other innovative educational offerings, which might not have been perceived in their full relevance by the target groups themselves. Innovative universities are aware of these unique dialectics of education, which is why they always gear part of their curricula to the unknown interests of the future (Fredersdorf & Lehner, 2004, p. 34ff).

As we have seen, the requirements analysis helps define the contents and focus of the curriculum. However, if these are too abstract, the curriculum will be lost to routine topics. This is not strategically sensible, as generic seminar titles do not help to define the models that will be relevant for later use in the workplace. A needs-oriented curriculum therefore defines outline goals that relate to specific target competences or behavioural categories; this should pave the way for defining the details of each module. By outline goals, we mean: "Special learning goals that concern a defined sphere. They define e.g. the goal of a seminar day (or a set of lessons), such as 'The trainee will learn about statistical processes for forecasting sales'" (Arnold & Krämer-Stürzl, 1999, p. 248). The debate among theorists about the classification of such learning goals has told us that learning processes and, in particular, their outcomes are not fully manageable in a technological sense. Education–including in the workplace–always has a self-creating, organic element that arises from the communicative interactions between its actors (Jank & Meyer, 1994, pp. 306–310; Kron, 2004, pp. 105–110).

When the needs and requirements are known and the contents have been defined according to outline goals, the key is to adjust the chosen didactic format of the educational product to match the relevant topic, target group, and purpose. There are many macro-didactic formats for that choice. Modern forms of intervention in occupational training go far beyond the traditional classroom seminar. Learning formats and venues are getting closer to the workplace, as a study by the Instituts der deutschen Wirtschaft revealed already in 1996. In the mid-1990s, approximately 45 % of all occupational training already took place in the work environment, 17 % in external, and approximately 16 % in internal seminar settings. A further 11 % was made up of autodidactic learning and 2 % as formal retraining courses (cf. Klein, 1996, quoted in Faulstich, 1998, p. 177f). This is confirmed by the German survey in the CVTS 3: "The boundary between intentional, conscious qualification activities in the workplace and the use of functional work activities as a means of qualification is shifting from the point of view of the organisations…" (Moraal, Lorig, Schreiber, & Azeez, 2009, p. 5). The number of companies, however, that offered such workplace-centric forms of education did, however, decreased by 6 percentage points down to 65 % in the period from 1999 to 2005 (Behringer et al., 2008, p. 13), although this is still a substantial figure.

In the late 1990s, workplace instructions and induction were the most common and virtually ubiquitous workplace-oriented format (each at 92 %). Autodidactic work was used by almost every second German company (48 %), learning and quality circles (38 %) and job rotation (31 %) were less prominent, with about a third of companies using them (Grünewald et al., 2003, pp. 188–194). Such forms of intervention have become more prevalent as a result of commercial and didactic considerations: they can be aligned with actual needs. The closer they are to the real-life work, the more sense their participants will see in them and the more effective the transfer of the training will be. Workplace-oriented formats of qualification can be a cost-efficient choice when they are combined with individual or group learning as well as coaching processes.

Innovative forms of occupational education and development have been pioneered in the banking industry. At the turn of the millennium, the Stadtsparkasse Hemer redesigned its branches – now called "bank shops" – conceptually and in their layout to a more customer-centric model. During that change, the company asked its employees to take part in a modular sales training course, built to reflect the new strategy of the bank. Internal and external interventions followed in a tight sequence: an internal kick-off workshop, a 1-day practice seminar in a bank shop closed for refurbishment, 1-week on-the-job training, a 1-day external check-up workshop, one day of coaching in and during real-life work (cf. Thomsen, 2001). This example shows how professionalism can be created with regular, supervised, planned training and real-life practice.

The ADG approaches its mission of providing strategically meaningful education in a consistently competence-centric manner. It responds to the expectation of its clients, i.e. making the knowledge and competences that are needed available with ever-greater responsiveness, by producing flexible and innovative "time-to-market" products. The underlying basis for all of this is that qualification is not enough to prove ability and skill; an inherent competence is essential. In this vision, competence might build on qualifications, but it refers to the complete person from

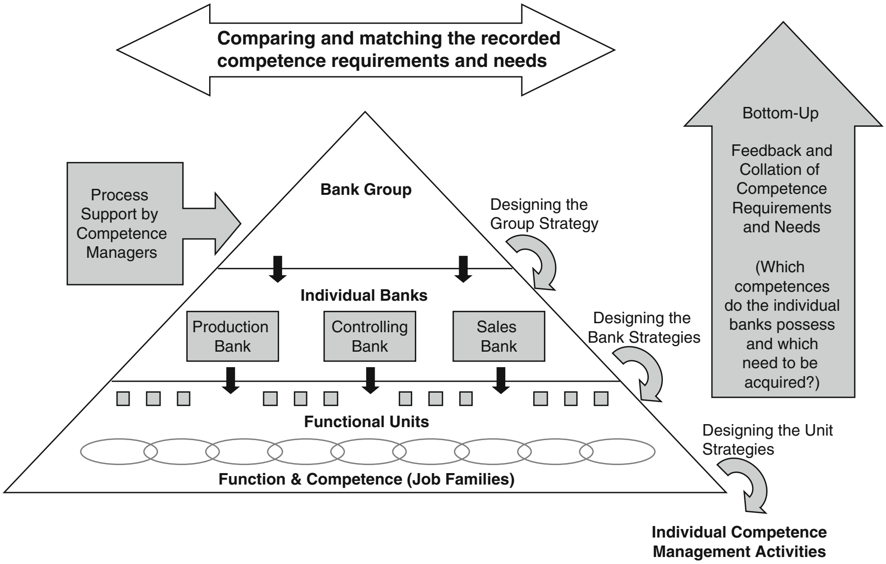

Fig. 1 A strategically oriented concept for developing models of competence in cooperative banking

the viewpoint of his or her professional activities and results (performance management).[2] The ADG has consistently geared its competence-centric services and products to match a problem-solving approach that combines learning and working. In the ADG's courses, the formerly separate sides of qualification are integrated by combining e-learning, action-oriented seminars, and knowledge management on a complete organisational level. This blended learning concept includes holistic arrangements for competence development that rely on all of the opportunities offered by modern technology and state-of-the-art learning formats. Figure 1 explains how the ADG defines the target competences in reference to the strategic needs of the banking house as a whole, the individual banks, and their divisions.

A top-down and bottom-up process is used to identify the competence requirements based on the general strategies of the banks, which are then compared to the competences already available in the personnel of the regional banks. On the basis of the strategic challenges facing cooperative banks, as well as the structural and procedural organisation in place in the primary banks, the ADG matches e.g. its management programme for junior executives and directors (the cooperative banking leadership seminar) with the current requirements in the banking profession. Building on general management know-how, the ADG thus offers needs-targeted, in-depth, and practice-centric competence interventions for its learners. Figure 2

[2] In its notion of competence, the ADG follows John Erpenbeck, the head of fundamental research in competence development of the work group on occupational didactics. Competence is, in this sense, defined as the ability for self-organised action.

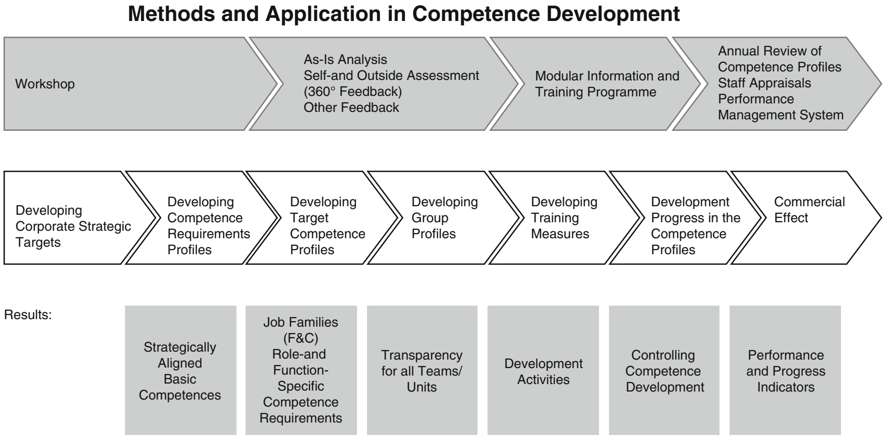

Fig. 2 Developing and introducing strategically aligned models of competence in cooperative banking

presents the development and implementation process for such strategically oriented models of competence. The approach clearly shows how strategic qualification management evolves into organisational development and becomes an integral part of it. Individual training units and educational activities are not seen in isolation from the system that surrounds them. Rather, they are part of the greater process of competence development as conscious, systematic interventions towards reaching the goals of the organisation.

5 Selecting, Preparing, and Integrating Trainers

Just like all effective training and development requires qualified and professional personnel, vocational and professional education also needs adult-education or pedagogically qualified trainers, educators, specialists, and lecturers. A study conducted by the German vocational training institute "Bundesinstituts für Berufsbildung" (BIBB) on the providers of professional education has revealed that experts see the proper qualification of the teaching staff as one of the main indicators for high-quality training delivery (Krekel & Beicht, 1995, p. 137). This also applies to the managers of qualification, as indicated in Bäumer's study, cited above, on the characteristics of qualification management in German businesses: "The competences of educators and HR developers are showing themselves to be a significant component of the workings of education/HR development" (Bäumer, 1999, p. 195). A qualification and competence-oriented approach therefore seems quite appropriate when assessing the quality of the people in charge of professional qualification.

Which skills and abilities the trainers should possess in an ideal world, depends – as in all other areas – on the specific requirements and expectations that apply to their special cases. In the increasingly complex and demanding world of professional education, the required profiles for teaching, facilitation, mediation, consulting, and management is expanding constantly. The story of professionalisation in further education and the constant debate about the professionalism of its protagonists is too long and complex to be debated here (for more on this, cf. Döring & Ritter-Mamczek, 1998, pp. 23–126; Nittel, 2000; Peters, 1998). Rather, we need to focus on the means that qualification managers have when it comes to acquiring, training, and retaining suitable teaching staff for their organisations. These means will be reviewed here for a selection of five relevant trainer target groups.

Line Managers and Specialists

Ever since Peter Senge published his "Fifth Discipline", people have come to understand that knowledge management and organisational development are closely interconnected. Further, they work together to make the competence of managers or specialists accessible to a broader range of personnel. It does not suffice to simply introduce databases or similar storage means. Rather, occupational education always requires the empowerment of knowledge holders as educators, allowing them to share and distribute their know-how in teaching-and-learning processes across the organisation. The advantage is obvious: Who else is as closely tied to the company as the company's own people? In more radical terms, this means that leading always includes a degree of teaching. As Lehner puts it: "It is one of the essential tasks of the leader to support and promote the personal development of his employees. . . . The leader – however the actual relationship might appear in the workplace – always becomes a coach, mentor, or trainer" (Lehner, 2001, p. 149). Occupational qualification management should therefore begin by finding suitable internal specific knowledge-holders. Next, it must motivate and professionalise those knowledge-holders in terms of the necessary pedagogical standards. The latter is done most effectively with in-house train-the-trainer measures. This helps the chosen trainers connect and relate to the philosophy and practice of occupational education. However, even the most competent executive or specialist will only be able to reach a "semi-professional" level without a dedicated background in education. Thus, the remaining gap needs to be bridged with "professional occupational educators" (Geißler, 1998, p. 85): the remaining four trainer target groups.

In-House Trainers

Depending on the size of the company in question and its range of activities, it can make sense to recruit a staff of full-time educators. Their number depends on the extent of their current or planned duties. Their specific profile as full-time trainers or educators is defined by the actual qualification needs at the company. Dedicated profit centres at large-scale corporations usually have dozens of internal trainers and specialist consultants. The Xental® Academy employs 20 trainers, whereas the Audi Academy has 150 trainers and consultants, and the VW Coaching GmbH no less than 800 members of staff. Freelance, external seminar providers usually employ fewer full-time staff: more than 60 % of them have no more than five employees, 10 % have six to ten people, and only approximately 20 % have a permanent workforce of more than ten full-time employees (cf. Merk, 1998, p. 207). We can assume that the occupational qualification departments of most "smaller" enterprises fall within the first two categories.

For the reasons previously stated, it makes sense to recruit in-house trainers primarily from the established pool of specialist employees. Then, all that is needed is to guide them through a dedicated specialisation and career evolution programme. At the same time, external people can also be used. They may be chosen from the pool that we will describe here, from specialist networks, or from the market at large. When using full-time trainers, the company's qualification management can control the functional competences of the training staff effectively using the regular means of strategic selection, qualification, and assessments. If the training staff is defined as belonging organisationally to the company's qualification section, this process can be more easily streamlined.

External Trainers

Qualification organisations or departments often include internal personnel as well as a pool of external teaching staff – freelancers who are already associated with the company via some other project, or who have been recruited directly. This pool can be used to cover the areas not accounted for by the internal team. Using such a pool can pay off in multiple ways: it is a sensible, functional expansion of the in-house personnel. It introduces interesting new ways of thinking from the outside. It acts as a buffer in the case of illness or unavailability of the internal team. It is thus a means of ensuring flexible qualification management. Finally, if the external teachers have a good reputation in their fields, it can be a great boon to the company's public image.

External trainers should be tied to the company and its educational philosophy with specific contractual agreements on specific training modules. Since their services are usually organised on a contractual basis anyway, it makes sense to include the necessary quality assurance tools and integration strategy. This refers to mandatory preparatory or follow-up meetings, seminar concept checks, controlling of teaching materials, or seminar evaluation checks.

Academic Teaching Staff

Businesses often cooperate with academic institutions, whose faculties are the perfect source for specific areas of expertise and/or educational competence. This cooperation offers multiple strategic advantages. The internal educational practices of academic institutions are closely connected to current scientific progress. University lecturers often also possess substantial social capital, that is, they have access to wider social networks that may be accessed whenever the need arises. Their consultancy expertise can be used to develop the internal educational concepts and to match them with the corporate strategy. The reputation of the lecturer or professor can boost the reputation of the company – and vice versa. Long-term, mutually beneficial alliances are often in both parties' interest. Last, but not least, the chosen lecturers naturally act as trainers at the company, thus contributing their specialist expertise and competence in adult education.

When integrating academic personnel in occupational training, strategically oriented qualification management needs to remember the question of "practical relevance". The choice of an academic partner should use the same rigorous criteria that are used when recruiting executives: professional biography, budget and project management experience, personal performance, references, management competence, practical research and development competence, educational qualifications – to name but a few relevant criteria.

Junior Qualification Management Graduates

In the 1990s, German universities began to establish a (slim) selection of degree courses in occupational or adult education. These programs were aimed at training the qualification managers, education officers, or qualification specialists of the future. Notable courses include the postgraduate course on further education at the Technical University of Berlin (Döring & Ritter-Mamczek, 1998, p. 321), the adult education distance learning degree of the University of Kaiserslautern (Sievers, 1998, pp. 149–156), the postgraduate course on adult education of the University of Bremen (www.uni-bremen.de/weiterbildung, 2012) and the adult education course of the Educational College Weingarten, offered in cooperation with the Allianz (Reck, 2004, p. 121).

Qualification managers can use the graduates of such courses actively, either as interns or as external trainers and potential recruits. The advantage of this particular target group is that they typically already have a good grounding in professional and functional experience, to which they add the additional competences for occupational education or training practice in their degree courses. They would need no additional train-the-trainers programmes or similar support. Junior personnel from such specialist educator's courses are often a versatile set of resources, even for HR development and business management.

6 Methods of Qualification

As a *theory of teaching and learning*, didactics always includes aspects of methodology on the micro- and the macro-level, each given its unique weight according to the thrust of the didactic theory in question (Meyer, 1987, p. 22f). For the purposes of this chapter, the methodology of education is meant to refer to those processes that

- Constitute the "major methodological formats" of occupational teaching and learning (e.g. seminars, courses, blended learning courses, workshops, on-the-job training, personal induction, quality sessions, project learning, coaching, learning circles and video conferences),
- Are used as the communicative forms of learning and educational patterns on the micro-level of didactics (e.g. lecture, tutoring, partner work, group work, role-play, simulation, presentation; cf. IBIB. p. 236f).

As already explained, the forms of occupational learning are geared towards the real-life work situation to enable the workplace transfer of the contents. Strategically driven qualification management should remember this and select the right formats accordingly. Qualification managers need to apply their specialist, methodological, and management competences to decide which format is best for which target group and coordinate that selection with the intended client. There is no sense in trying to establish macro-didactic precepts, for which no empirical basis exists. Rather, the qualification managers need to be aware of the unique strengths and weaknesses, opportunities and risks, of each major format and adjust their use according to each case ("formative evaluation"). This is the only way to avoid flaws in the process. Let us consider this in the case of e-learning:

The 1990s saw the rise of the "e-learning hype". The galloping advance of computing power inspired hopes for more efficient and cost effective forms of teaching and learning by means of personal computers. These high expectations were dampened after the first wave of such formats. After the turn of the millennium, fresh empirical insights led to changes in the macro-didactic models. "Immediately after e-learning had established itself as a buzzword – with some delay – and as a practice of university education (in some cases), the e-learning hype disappeared again... 'Hold your horses' was the new motto" (Reinmann-Rothmeier, 2003, p. 28). In practice, e-learning differed so dramatically from the settings of other major formats that its users have developed more caution concerning its application since. The lacking theoretical foundation aside, there were some specific weaknesses in computer-aided learning that produced clear inefficiencies in the learning process. The expected cost reduction failed to appear – especially when subjected to a thorough cost/benefit calculation. Today's state-of-the-art theory calls for blended learning or "cooperative learning environments" – that is, hybrid forms between classroom and self-guided learning (cf. Lehner & Fredersdorf, 2004, pp. 17–22). The "mixed experience" with such blended learning concepts are still forcing our practitioners to think critically about what they are doing. Thus, for example, the traditionally face-to-face contact model for adult education at Allianz Insurance was moderately enriched by presenting web-based learning modules on a voluntary basis (cf. Reck, 2004, pp. 122 and 142).

The Academy of German Cooperatives (ADG) has been using some elements of macro-didactic blended learning formats successfully for a number of years already. This is a response to its clients' concerns about working time lost, due to learners being absent from work, and for more autonomy in learning forms. Basic knowledge, e.g. in the train-the-trainer courses, is being taught via self-learning literature or e-learning modules. To help and supervise the learners, tutors and learning tandems are used to accompany the autonomous learning process. The ADG also develops bespoke blended learning arrangements for companies and supports them through to implementation, e.g. the "ProFi" programme for executive managers. It also uses project-specific transfer exercises to help the participants apply what they have learnt along with other learners. In addition to the opportunity for social interaction in the classroom modules, the participants are offered project coaching by their trainer or tutor. For the development of the personal, social-communicational, and activity-oriented skills of the participants, the ADG also applies personalised competence and potential analysis with integrated coaching reviews. These are available both at the academy's "management and leadership" seminars and at the client companies themselves. Generally, there is a clear tendency in the work of the ADG to align its training contents with the professional practice of its clients.

This chapter is too short to allow a detailed discussion of all of the major didactical formats. One conclusion can, nonetheless, be made: there is no such thing as the ideal methodological format![3] Every choice of format for professional qualification purposes needs to be tested individually. If specific learning targets are available, the methods can readily be tested by checking the achievement of these targets or the transfer of the contents. Surveying the acceptance of the format among learners and other stakeholders can also test success. As far as possible, the decision-makers should also consider the question of costs and benefits to see whether the chosen format is commercially viable.

The trainers' guidelines stand at the point where macro- and micro-methods meet. This refers to the detailed plans for all training activities. The ADG's train-the-trainer course guidelines include the training goals, choice of methods and media, agenda for the trainers and participants, and the timetable for each day of the course. For the trainers, guidelines are essential in more than one way: they help the trainer prepare by structuring the training in terms of methods and didactics, reminding the trainer of the intended purpose, helping the trainer choose the right contents to match the learners' needs, and distinguishing between the essential and the irrelevant. In practice, this gives the trainer the confidence that he or she will be able to cover the intended curriculum and to shape communication in each module with pre-defined teaching/learning activities. Also used for reviewing the seminar or training after its conclusion, the guidelines are a great means of optimising the process.

Some caution is needed: however well-designed the trainer guidelines might be, we must not trust them to make the didactic process fully and intentionally manageable. The unique dynamics in the training's participants, a gap between

[3] For an overview of macrodidactic concepts for workplace didactics, see Döring and Ritter-Mamczek (1998, pp. 165–176).

what is needed and what is offered, or other sources of friction can always make the training move away from the “best laid plans”. That is the nature of complex systems and should never be forgotten by qualification managers or educators. The Boston Consulting Group remembered Clausewitz, the historical strategist: “That terrible friction that cannot be focused on a few well-chosen spots as mechanics would have us do, is always in contact with the force of chance and will produce phenomena that cannot be predicted, as they have the element of coincidence in their very nature” (cf. von Oetinger, Ghyzy, & Bassford, 2005, p. 95). Educational science recognises this: “It is impossible, and not desirable, to plan all teacher-student interactions in the classroom. Teachers and students should not be robbed of their subjectivity and their right to spontaneity” (Jank & Meyer, 1994, p. 309).

What does this mean for strategically oriented qualification management? First of all, it means finding teaching staff who have a sufficiently broad functional, methodological, and communicational repertoire to allow them to respond flexibly to whatever happens in their courses. Competent teachers are able to change the focus of their lessons when they realise that the learners are interested in other areas than originally expected. They can use careful communication to respond to tension or disturbances. They can shift and change their chosen methods when the reaction of their audience tells them that the chosen format is not suitable. Secondly, recognising and accepting this force of chance gives us a set of multiple perspectives that we can use in the re-design of the course. On a fundamental level, this concerns a paradigm shift concerning the effectiveness of planned activities. We should avoid 100 % perfectionism, as it demands an unsustainably greater investment of energy than a not-quite-perfect performance. The teaching/learning process always includes a good bit of improvisation – this might indeed be what makes it appealing for both teachers and learners and, in the end, successful for the company.

The level of micro-didactics[4] concerns the specific teaching/learning behaviour of the trainers and participants. Ideally, the trainers should have access to a versatile set of methods to be used according to their teaching plans, but – as we said – flexibly and professionally at all times. There is no such thing as the optimum micro-didactic form for learning or social relations in the group! A comprehensive survey of current empirical teaching/learning research has shown that there is no point in trying to find the “best method”: “There is no one best method if we consider the tested progress of the learners as evidence of effectiveness. The data regularly shows either no difference at all, or it offers no unassailable basis for preferring this or that method. . . . This fact has been known for more than 20 years and is one of the few certainties of didactical methodology” (Terhart, 1997, pp. 79

[4] For an overview of micro-didactic formats (cf. Arnold, Krämer-Stürzl, & Siebert, 1999, pp. 102–108; Pätzold, 1996). The “Adult Education” series of the Beltz publishing house includes many volumes on specific seminar methods, offering far too diverse a selection to recommend one single title here.

and 122ff). This leads us to a key micro-didactic strategy: media and methods need to be used variably to keep the learning experience stimulating and activating. This strategy is already being put to use in the didactic design of courses at universities of applied science (cf. Fredersdorf & Lehner, 2004, p. 137ff).

Another basic micro-didactic strategy for occupational education and development consists in designing and conducting all interventions with a view to the specific activity, problem, or case in hand. Practice-driven teaching/learning formats help maintain the learners' motivation by relating to their actual experiences at work. This also aids the transfer of the training, as it is built around the actual workplace activities of the participants. The educator's toolkit therefore includes case studies, simulated real-life scenarios, business simulations, problem-based training, and feedback about workplace incidents. A study of HR managers at German continuing education providers, conducted by the BIBB, revealed substantial room for upward development. The practice and activity-driven methods "project work" or "role-plays" were indeed used least in the design of courses. They were included in 48 % of change-oriented measures and only 4 % of promotion-oriented measures, whereas traditional classroom formats were used in 74, respectively 78 % of cases (cf. Krekel & Beicht, 1995, p. 145).

We therefore arrive at the following conclusion about the entire methodological debate: strategically oriented qualification management uses the insights of empirical didactics and has integrated four structural traits that have been empirically proven to be successful: ". . . clarity and structure in teaching, . . . effective class management, . . . promotion of task-oriented learning activities, . . . adaptable and versatile teaching formats . . ." (Terhart, 1997, p. 96).

7 Evaluation Qualification: Quality Management–Education Controlling

As already suggested, strategically oriented qualification management can only be successful if it is always exposed to a critical gaze. Managers need to explore and optimise occupational education activities, processes, products, and output. This important task is called evaluation, quality management, or education controlling – terms that rose to the forefront of qualification management discourse in the 1990s. As Beywl and Geiter (1997) showed, these concepts were taken from three distinct neighbouring disciplines – education science, occupational education, and business management. Since they all refer to the same object and the same operational activities, we cannot draw strict dividing lines between them. Depending on the discipline of origin, all three concepts have different objects, models, methods and forms of intervention. Their terminology can be broad or narrow – e.g. when the term "education controlling" itself is concerned. In a narrow sense, it refers exclusively to the "hard" commercial cost–benefit calculations, whereas a "wider" interpretation would also include the "soft" management of education or communication (cf. Gerlich, 1999, pp. 33–72; von Landsberg, 1995, p. 24). Its inherent ambiguity makes "education controlling" a very good generic term for our purposes. It reflects the split between didactic and commercial perspectives and echoes the trans-disciplinary remit of qualification managers. In the following, we will use the term "education controlling" to refer to the scientific-strategic controlling activities in occupational education.

The various means of education controlling will now be analysed with reference to current discourse on the topic. Three key aspects of controlling have already been discussed:

- Analysing the development needs;
- Designing a needs-oriented curriculum;
- Involving and training professional development personnel.

These basic tasks are closely related to didactic evaluation concepts. Evaluation in this sense means a development strategy used to support qualification projects or programmes through scientific optimisation. The most direct means of achieving that target seems to be formative evaluation – an approach that shapes the "form" of occupational education in close cooperation between researchers, practitioners, and other stakeholders in an educational intervention. This development paradigm is based on the unrestrained, epistemological assumptions of action research: evaluation is deliberately regarded as part of the intervention itself; the evaluators are not removed from the practice, but actually part of it (cf. Gerlich, 1999, p. 47f). They are aware of that fact and thus contribute to both the operational and the normative development of the education concept and, by extension, the corporate culture. Communication and interaction competences are therefore particularly relevant for such evaluation tasks in qualification management.

Formative evaluation in qualification management can concern both the input and output of qualification activities and the micro-didactic methods or objectives. Such formative evaluation is interested in such questions as: Are the contents of the curriculum appropriate? Is the material suitable? How can it be used most effectively? Are the development target checks valid and suitable for the target group? Which aspects of the learning setting help or hinder the learning process? Are our trainers using the contents of the curriculum effectively? Do they have the necessary competences? (cf. Wottawa & Thierau, 1998, pp. 32 and 78). The answers to these questions can be gained through a range of qualitative or quantitative social research methods: lecturers' quality circles during curriculum development; expert interviews with stakeholders to assess the curriculum; participant feedback; individual feedback reviews with teaching staff; method checks to assess the learning targets; surveys of participants and their supervisors to check the workplace transfer of the training, etc.

A key evaluative responsibility of education controlling is to involve the managers of companies more in qualification management. A sustainable transfer of the training and teaching contents is best achieved with the cooperation of supervisors. This is the point where qualification management is evolving into strategic organisation development. American performance research has shown the special role of managers for the success or failure of a development activity. They are role-models and coaches, and contribute as such to the development of their people. With preparatory and follow-up meetings, they can support workplace transfer. By creating organisational conditions that allow the employees to use what they have learnt, the managers are helping to remove structural obstacles (cf. Lemke, 1995, pp. 47–53). "Convincing supervisors (managers) of the effectiveness of their support and involving them in the support process can lead to a constructive organisational climate over the medium or long term and thus help optimise the transfer of the training. Combining support and personal involvement should be seen as an effective choice" (Lemke, 1995, p. 52).

The Bertelsmann AG is one company that has geared its education controlling system to a more leadership-oriented perspective. It has introduced questionnaires for employees and their superiors that help them prepare for and follow up on a development activity, asking questions like: "How can I prepare best for the seminar? Who will replace me during my absence? Which support do I need from colleagues/superiors/employees to be able to introduce the changes? Which of the targets that I set for myself have I achieved since taking part in the seminar?" (Gruhl, 2000, p. 177ff). From its sub-system, the continuing education team encourages the rest of the company to introduce purpose-specific reviews, job-specific gap analyses and/or propose methods for transfer evaluation. By introducing these changes among the participants of training activities and their superiors, the qualification department is thus exercising a strategic function for the development of the organisation itself.

Quality assurance concepts in education controlling often focus less on the communicative side of management and more on established concepts of quality management, such as ISO standards, TQM, EFQM, benchmarking (cf. Gritz, 1998) or balanced scorecards (cf. Kirkpatrick, 1998). Quality-oriented education controlling might introduce standardised processes and structures to gain a certain seal of approval (cf. Beywl & Geiter, 1997, p. 58f; Bräuer, Hentschel, & Müller, 1995; Czepluch, 1995). However, zeroing-in all education controlling only on the requirements for ISO certification has risks as well as advantages:

Advantages:

- Internal processes become transparent and allow access for exploring their weak spots.
- Standardised processes reduce the number of errors and speed up the pace. Responsibilities are clear, which minimises frictions (cf. Vogt, 1995, p. 213).

Risks:

- The ISO 9000 f. norms are not a quality standard, but rather leave that job to the provider himself – certified providers could therefore differ greatly in the quality of their qualification services.
- No certification demands more than the minimum standards (cf. Beywl & Geiter, 1997, p. 61; Gritz, 1998, p. 9).

High costs can mean the end for smaller providers of training and development, if customers are interested in certifications alone when choosing the product. The danger of standardising processes down to a detailed level is that it might introduce redundant processes, ignore tried and tested processes, and generally introduce an unjustifiable amount of bureaucracy (cf. Vogt, 1995, p. 213f). An ISO certification of professional education also has little to say about a company's strategy or more performance-oriented criteria.

The concepts of Total Quality Management (TQM) and of the European Foundation for Quality Management (EFQM) are more suitable for this. The EFQM model has the unique advantage of tracking both input and output criteria (cf. Gritz, 1998, p. 11). The model covers both "soft" qualitative factors (such as staff or customer satisfaction, company image) and "hard" quantitative factors (e.g. financial results, assets). Its complexity and multiplicity of data collection processes, however, make it suitable only for larger development departments or organisations.

In education controlling, indicator-driven concepts can be part of complete TQM or EFQM models or be implemented on their own. The latter option makes them useful and interesting for the development teams of medium-sized businesses or smaller providers. Kirkpatrick's four-level concept has had a major impact in this respect: reworking the basic model of Kaplan and Norton, Kirkpatrick transfers the balanced scorecard on the fourth level over to the sphere of qualification. He suggests that this remedies the characteristic shortcomings of purely RoI-focused education controlling. Such RoI measurements fall short of the target, as they are not designed to fully reflect the performance of occupational education or the corporate strategy. "First, they usually do not capture all of a company's strategic objectives. Second, RoI is a snapshot in time that tells you where you've been; it has no ability to predict where you'll go. Finally, since RoI is a lagging indicator, it is not a good diagnostic tool. ... Training is often an investment in the long-term performance of people. So measuring results with financial tools that look backward is misleading at best. We need to use performance indicators that look to the future" (Kirkpatrick, 1998, pp. 888f).

In the prevalent discourse about HR development, *performance* is meant to refer to a complete achievement in terms of the benefits of an activity for the target groups at the company (cf. Lorenz & Oppitz, 2001). *Performance improvement*, that is, fostering a performance-oriented organisation, refers to eight key dimensions. These include, among others, the ability to track operational performance via suitable indicators (cf. Robinson & Robinson, 2001, p. 29). Education controlling with indicators[5] can contribute directly to corporate performance if three basic conditions are met:

- The indicators need to be valid, that is, be an accurate representation of the intended performance effect. In statistical terminology: they must be selective.
- An excess number of indicators should be avoided to keep red tape and redundancies to a minimum in the system. The motto is: "As much as necessary, as little as possible" (cf. von Landsberg, 1995, p. 31).
- Indicators that are already available in the organisation should be preferred for reasons of economy.

[5] For an overview of the data for human resource management, see Fredersdorf (2001).

If indicators are not already available, the choice of indicators should be limited to aspects that can be tracked with little effort. A number of "imprecise" indicators on a relevant aspect that are already available at little extra cost are always to be preferred to a single "salient" indicator if that indicator has to be established at great effort. It goes without saying that the qualification indicators should always be arranged to match the corporate strategy: if they do not contribute to it, they have no point.

How an indicator system is embedded systemically in the principles and strategy of an organisation can be seen in the case of the Vorarlberg University of Applied Sciences (Austria) in the years 2002–2004. As a private university, Vorarlberg was quick to establish its name in the wider European academic market. Its balanced scorecard is a direct reflection of the university's strategic goals. This includes, among other points, producing excellent graduates, being a competent provider in European academia, offering flexible degree courses, being a beacon for research and development in the region, and retaining excellent academic staff (cf. Fredersdorf & Lehner, 2004, pp. 87–91). The management consultant Peter Horváth sees major innovative promise in such balanced scorecards for commercial qualification and HR management: "The balanced scorecard challenges and helps knowledge management in many distinct areas: the process of translating strategic goals into practical activities and finding suitable measuring tools alone demands the distribution of know-how: between departments, between employees, and between levels of hierarchy. ... The BSC promotes the integration and handling of different areas of knowledge. ... The balanced scorecard initiates the management and transfer of knowledge" (Horváth, 2001, p. 179).

The benchmarking approach is located at the point of contact between occupational education and economics. It is not only relevant for the general strategic decisions of the company, but also for the purposes of education controlling. *Benchmarks* are types of indicators about leading competitors in the market. The idea behind them is to compare one's own characteristics with those of the competitor in order to find inroads for quality improvements. In qualification, independent consultancy firms and other external sources supply databases that allow the participating organisations to benchmark themselves against their peers while staying anonymous. After the data provided by the companies has been processed by the consultants, the clients can find out their ranking in terms of the relevant characteristics. The names of the companies in the ranking remain anonymous (cf. Gritz, 1998, p. 13f). Horváth and Partners are one source for such services in the area of controlling, accounting, and finance management (cf. www.horvath-partners.com, 2012). A number of Germany's technical universities have joined forces in the "Benchmarking Club of Technical Universities".[6] Its purpose is to give the deans and rectors information about areas that their universities could improve in. This relates to the allocation of resources, teaching units, strategies, performance

[6] RWTH Aachen, TU Berlin, TU Darmstadt, TU Dresden, TU Hamburg-Harburg, TU Kaiserslautern, University of Dortmund, University of Stuttgart. cf. http://www.che.de, 2009.

comparisons, or other data of relevance for universities. Benchmarking must not be reduced to database analyses alone. It offers more opportunities in its methodology, e.g. opportunities for informally sharing experience in expert circles, comparisons for association data across industry sectors, investigations of greater business-related or social topics across the entire economy, or systematic reviews of empirical studies on such subjects (cf. Weiß, 1995, p. 164f). On the economic end of the controlling spectrum, there are three essential commercial approaches (cf. von Bardeleben & Herget, 2000, p. 81):

- Costs controlling regards qualification as a cost factor whose individual components need to be analysed and optimised (type of training, scope, structure, target group, functional area). The primary purpose of costs controlling is to tack the budget and manage the various aspects of qualification in the form of benchmarks and key indicators.
- Profitability controlling puts the focus on the prices. It compares internal and external providers, or on-site and off-site activities from an economic perspective. Qualification is here seen in terms of the economic minimum–maximum principle.
- Success and benefits controlling sees qualification as an investment into human capital and tries to understand what qualification contributes to the performance of the business as a whole. Its object is the company-specific impact of qualification or its commercial profitability.

Next, we will briefly discuss the importance of economically sound approaches to controlling.

Costs controlling means monitoring the expenditures and the incomes relating to qualification activities. On the outgoing side, this includes direct costs (e.g. for external venues, materials, travel expenses of participants, tuition fees, speaker's fees, etc.) and indirect costs (e.g. lost working time, internal accounting rules for the venue, communication, internal speakers, etc.), which are added to arrive at the total costs (on the cost types, cf. Decker, 1995, pp. 155–169; Ebert, 1995). The key is to include all cost types relating to the activities and to keep these costs down as far as possible. However, managing the costs of qualification on a purely operational level in this manner would fall short of what controlling tries to do, as it ignores the benefits and added value of the activities. In times of crisis or recession, purely economic education controlling would most probably lead to nothing but a set of cutbacks. This could be fatal for business, as it affects an area of development that is a vital source for innovation and future profitability. From a business perspective, it is therefore essential to reveal the commercial contribution of qualification. During times of crisis, spending on research, development, and training should tend to increase, not decrease.

According to a study of 1,700 German companies conducted by the BIBB and the Institut für Entwicklungsplanung und Strukturforschung, the most common controlling activity is the monitoring of the direct costs of qualification activities. In organisations with over 500 employees (92 %) or with 50–499 employees

(82 %), this is more or less par for the course. At companies with fewer than 50 employees, this is not necessarily the case. Only 55 % of these companies actually track their development costs in any regular format (cf. von Bardeleben & Herget, 2000, p. 86). Profitability or cost–benefit controlling, by contrast, seems virtually impossible: “Few respondents confirmed the reporting of additional measures on the transfer of training to the workplace; even less common were attempts to monitor this transfer success in detail, let alone in monetary terms. Very few companies tried to express the benefits and effectiveness of their qualification activities in financial terms or other objective indicators. Cost–benefit analysis for individual activities or the entire qualification programme were not conducted by any of the respondents” (von Bardeleben & Herget, 2000, p. 84f). This cautious attitude has various reasons: HR professionals and qualification managers are sceptical about whether the benefits can actually be quantified or calculated. Some of them lack the required skills; others are held back by the immense efforts and costs of introducing such controlling systems. This situation is further complicated by the typically constrained staffing situation in HR development. Controlling systems are also subject to a dose of scepticism about whether the effectiveness of professional qualification could actually be improved by better performance measurement (cf. von Bardeleben & Herget, 2000, p. 92).

The literature on the subject has drawn attention to many other characteristic weak spots of such cost–benefit calculations. For instance, it lies in a mistaken belief in the exact quantifiability and measurability of the data. Many of the underlying assumptions are based on estimates that might indeed be chosen and weighted at random, because an objective frame of reference is missing (cf. Gerlich, 1999, p. 66f). The cost–benefit relations of occupational learning formats are often even harder to calculate than regular education activities. This is due to the complex commercial setting they are conducted in (cf. von Bardeleben & Herget, 2000, p. 94). Companies lack suitable and effectively processed data – the relatively minor insights gained from the data justify no complex, labour-intensive controlling system. Qualification investments are also essentially investments into the competence development that will only pay off over time. A short-term RoI is hard to reveal, and immediate causal relationships are simply impossible to identify. A scientifically sound cost–benefit calculation would also require the presence of *true* control groups to accompany the experimental group, i.e. the participants of the training activity. Such groups are usually not available in business. Quasi-empirical evaluations do not live up to the strict precepts of methodology. Finally, the commercial effects of qualification are more or less trace elements in the greater commercial equation and will probably be less interesting for top managers (cf. Weiß, 2000, pp. 82–84). According to the BIBB/IES study, all of these reasons mean that many executive managers do not expect their development and qualification managers to produce proof and are usually satisfied with the reporting of regular indicators (cf. von Bardeleben & Herget, 2000, p. 92).

Fewer problems than in the case of the cost–benefit analysis can be expected when it comes to assessing and calculating the benefits of a training activity alone. The dimensions and indicators that reveal the benefits for the company are relatively unambiguous and tracked with some confidence. Education controlling can distinguish between commercial and didactic performance indicators (Seeber, 2000, p. 141f; Weiß, 2000, p. 87f). The material and immaterial benefits of an activity are, for instance, to be found in the form of tuition fees, official subsidies or donations, fewer mistakes or downtimes, faster and more productive work, higher-quality performance (higher motivation and satisfaction levels, greater customer loyalty), reduced absenteeism, faster solutions for problems, retention of crucial specialists or executives, greater staff retention overall, improved company culture and so on (also cf. Gerlich, 1999, p. 69). In the late 1990s, the recycling company ALBA AG expressed the material benefits of a one-year training course for junior executives as the quotient of the capital produced by the training divided by the costs of the activity. ALBA required every participant to introduce an internal recycling project and bring it to full maturity as part of that trainee course, and to produce the highest possible profit from it over the course of the year. The income from those trainee projects was then balanced against the costs of the course.[7] As explained in the case of the balanced scorecard, the design of such value-oriented indicators should always relate immediately to the strategic goals of the company and be coordinated with the other indicators of the company's organisational units (Weiß, 2000, p. 87). At ALBA AG, this was done in an exemplary manner.

The BIBB has distilled the entire debate about education controlling down to a few salient points: according to this, it is reasonable and necessary to link economic and didactic principles in education controlling.[8] Any either-or approach would fall short of the actual purpose. It would be inherently deficient, ignore relevant processes, present a distorted picture of reality, and could never claim to be an accurate representation of the true value of occupational education. The BIBB recommends five promising strategies:

1. Following the controlling cycle from requirements analysis, costs forecast, curriculum development, seminar management transfer control, through to the evaluation of the practical added value;
2. Defining both the material and the intangible added value;
3. Quantifying and evaluating the added value in cash terms;
4. Holding the employees and their superiors accountable for contributing to a successful qualification process;
5. Turning learning progress into practical success (cf. von Bardeleben & Herget, 2000, pp. 96–99).

Another, often unmentioned factor should also be remembered: all of the analyses that form part of education controlling always have specific practical

[7] The author assessed elements of this concept; the findings were used internally.

[8] Gerlich called this perspective the "monoteleologically linked approach" (Gerlich, 1999, p. 71).

consequences for the qualification system itself. Needs and requirements are not surveyed to end up in pointless glossy brochures; seminars are not evaluated for status reports to be consigned to the filing cabinet; indicators are not tracked to soothe our conscience. All of this is done to help strategically oriented qualification managers introduce reasonable and effective improvements. Such improvements may include more needs-oriented training opportunities, optimised seminar settings, or improved transfer support. A total quality management process of this intensity will never be introduced without some friction. Resistance in the organisation, painful separations from old, but inefficient teaching staff, or extra efforts for introducing new practical formats should be expected in any case.

8 A Selection of Tools for Strategic Qualification Management

Strategically oriented qualification management has an operational side in the form of its practical tools and techniques. The tools of operational qualification management are there for a higher purpose: they will have a positive systemic effect when designed properly. With the proper foresight, they will only actually measure what they mean to measure. To explain this for the perennial tool of seminar feedback questionnaires: common literature on the topic includes many examples, but they hardly ever explain how the scientifically required testing conditions were ensured. We can assume that only very few of the questionnaires and forms used in practice were actually tested for the key quality criteria of empirical social research, such as objectivity, reliability, and validity. This is, however, a basic standard that should apply to any form of survey or questionnaire and should be considered essential for all empirical sociology, psychology, or market research (cf. Diekmann, 1998, pp. 216–227). Qualification management needs to abide by these and other fundamental scientific standards if it wants to become established and recognised as a profession.

When strategic qualification management has chosen a specific set of focus topics for its work, it can usually rely on substantial prior operational experience. Such expertise is usually accessible at no great cost in the relevant publications. The published examples can readily be adjusted to match the specific nature of the company or its industry, or these operational activities can simply be outsourced. Common educators' portals on the internet include details on many service providers for specific development or analysis tasks. We can only hope that in-house qualification managers will begin to take over more and more of these operational development competences, as this is an essential means of integrating the relevant expertise with the actual needs of the company in question.

Which tools should be in the qualification manager's everyday toolkit? The portfolio of professional occupational qualification management includes (but is not limited to) the following selection:

- Instructions for quality manuals,
- Process descriptions for introducing quality management,
- Flowcharts for integrated quality checks,
- Checklists for evaluating external service providers,
- Evaluation matrices to rate training curricula,
- Template forms for surveying internal training needs (e.g. in the form of individual gap analyses),
- Interview guidelines to help managers prepare and follow up on training activities,
- Standardised analysis and reporting processes to prepare and process such activities,
- Lists of selection criteria for trainers,
- Standard contracts for external trainers and educators,
- Didactic guidelines for external and internal trainers to maintain a defined didactic standard,
- Didactic templates for planning seminars,
- Checklists for preparing seminars in practice,
- Calculation tools to assess the direct and indirect qualification costs,
- Venue booking statistics,
- Guidelines and learning diaries for participants to help them prepare for and transfer their training,
- Standardised forms for evaluating seminars,
- Standardised analysis and reporting processes for seminar evaluations,
- Standardised forms for evaluating the workplace transfer of the training,
- Standardised analysis and reporting processes for transfer evaluations,
- Indicators from HR and HR development at large to track the benefits for the company.

9 Conclusion

This chapter has tried to sketch the goals, concepts, and contents of strategically oriented qualification management. This term refers to a concept that aligns the intrinsic goals of qualification with the greater strategies and goals of the company or industry in order to maintain or improve competitiveness within the system.

Current empirical findings about the status quo of occupational education in Germany have shown that there is a long way to go for professional qualification managers at German businesses. Presumably, strategically oriented qualification is still limited to large corporations or industries that are subject to particular pressures in terms of innovation or competition. Small and medium-sized businesses, but also many large organisations, are still neglecting systematic and focused qualification management in the absence of a pressure compelling them to innovate. This means that they are also missing the opportunity to develop their people strategically or to promote the innovative capabilities of their businesses.

Strategically oriented qualification keeps one eye on the future. It develops the professional and personal competences, abilities, and capacities of employees to live up to the current and future requirements of their work. Qualification management has a place in professional quality management, as it acts as an advisor, personality developer, facilitator, and mediator in the process. In the widest sense of the term, professional qualification management is one of the key engines of change processes in learning organisations.

What it needs is a systematic insight into actual qualification needs. The necessary requirements analyses can refer to the supply and demand of educational services, the professional requirements of the business functions, or the needs of the industry at large. These are translated into needs-oriented curricula and training activities that should be kept to a medium level of abstraction. The closer the available qualification opportunities match the actual or expected business activities, the more they will support the corporate strategy – and be appreciated by the relevant stakeholders.

Trainers and teachers are the key conduit for the relevant know-how. Strategically oriented qualification management needs to find the right people for that position and commit them to the educational philosophy of the organisation. These can be internal executives, specialists or dedicated in-house or external trainers, academic teachers, or young educators with a background in the new adult education courses. One of the main tasks of qualification managers is to design the macro- and micro-didactic process in such a way as to allow a positive learning and transfer effect. This includes making the right choice on general teaching/learning concepts, such as blended learning or problem-based training. It also means managing the concrete teaching/learning activities of the educators and their clientele on a micro-didactic level.

Education controlling needs to account for both the commercial and didactic perspectives to present a reasonable measurement of occupational education's value to the business. The concepts of quality management, evaluation, and controlling are closely interlinked and reveal the holistic nature of education controlling. Many intrinsic problems with gathering and interpreting the necessary data stand in the way of elaborate cost–benefit calculations. Rather, the costs and benefits should be explored and recorded separately, then brought into a sensible arrangement via suitable indicator-based systems. For occupational education purposes, a balanced scorecard has proven helpful, as it can be strategically aligned and cover both quantitative and qualitative financial aspects.

On the side of operational activities, strategically oriented qualification management can draw on a vast array of tried and tested tools and techniques. They deserve to be used skilfully and to be aligned with the specific strategy of the business in question. This is essential to match the teaching with the needs of the company.

10 Checklist

Strategic qualification management:

- Derives its purpose from the strategy and the goals of the company,
- Applies a comprehensive qualification controlling cycle to match leading scientific standards (analysing requirements, developing a curriculum, involving trainers, forecasting costs, producing seminars, tracking progress, controlling transfer, defining the benefits),
- Links the commercial and didactic perspectives,
- Always optimises processes, standards, and quality,
- Involves the executives of the organisation,
- Adjusts tools and techniques to match the organisation's needs, and
- Regularly communicates with internal customers about its strategic contribution to the business.

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Stage 7: Retention Management

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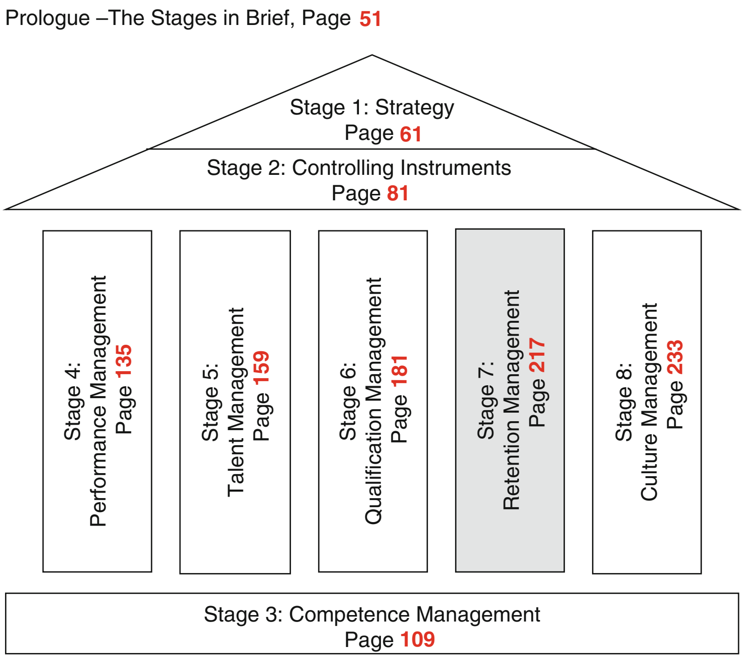

In the late 1990s, a new term was introduced that reflected the debate about the labour markets at the time: the "war for talent". Three simple words that pointed to a harsh truth: the pool of qualified human resources was drying up, people's

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willingness to stay with a company was shrinking, and companies were engaging in a veritable war for that scarce resource, talent. A decade later, the labour markets are showing a fundamentally different picture. The tough economic climate, rising unemployment and mass redundancies across Europe mean that we have to wonder whether this topic still deserves a place in this book. Should we not rather talk about the mobility of labour markets and headcount adjustments when we want to speak about the current situation? Why is retention management, or staff retention in general, still a concern for strategic HR development?

There are two weighty arguments in favour of including the topic here. First, empirical studies show that people are switching jobs even in economically critical times. Thus, employees are still confronting their employers with the consequences of unplanned fluctuation. In Europe, fluctuation has indeed increased during the recent economic troubles. Cranet studies have shown an increase from 5.3 % to 6 % over the period from 2009 to 2011 (Kabst, Meifert, Wehner, & Kötter, 2009; Kötter & Kurz, 2011), with fluctuation in Britain rising from 11.7 % to 13 % in the same period. The situation is particularly grave in the sales and catering sectors, with fluctuation rates averaging about 21 % (Kötter & Kurz, 2011). Demography is also painting a clear picture: while Europe is aging and losing about 900,000 people every year, populations continue to increase in the developing world (DSW, 2006). The lacking qualifications and poor geographic mobility of these vast masses presumably mean that they cannot be regarded as viable reserves for the time being. This means that it will still be more and more difficult to find and keep qualified employees (cf. Wunderer & Dick, 2006, p. 118). The demographic effect discussed here could potentially lead to a massive shortfall in the medium-term future. Even in strained times, companies must not be tempted to lose their employer brand and the people that they need for the upcoming challenges (Kötter, Werthschütz, & Siemen, 2009).

This chapter takes a look at staff retention from the angle of it being a function in strategic HR development. Specifically, we try to understand what HR development can do to keep important people with the company. Meyer and Allen, the two pioneers in retention research, have shown that this is far from an easy task (cf. in more detail in Part 2). They state that retention is a complex beast and not immediately susceptible to an individual action and intervention (Meyer & Allen, 1997, p. 25). But even if all we can hope to achieve is an indirect influence, it is worthwhile to ask ourselves how this can be done. We will approach the topic in four steps: first, we analyse the impact of unwanted fluctuation on businesses. If we can show that people's decision to switch employers indeed has a negative effect on the workings of a business, we will have proven the strategic relevance of the topic. We will then look at the modern theories put forward for explaining the concept of staff retention. Third, we will investigate the typical factors at work in staff retention, which will lead us into our final part: a set of practical and concrete recommendations for implementing retention management in the workplace.

1 The Impact of Unintentional Fluctuation

Before we try to understand the nature of staff retention, we should take a look at the consequences of *unwanted* fluctuation. Put differently: What is negative about an occasional shake-up of one's team? Is it not actually a way of bringing in some new brooms to sweep away the old ways and make room for innovation? Fluctuation certainly has a quality of creative destruction about it – which is not, in itself, problematic. What makes it strategically problematic is that it can lead to substantial transaction and opportunity costs and cause a loss of (specialist) knowledge and skills.

Any form of fluctuation means certain consequences for the organisation. Already in the 1970s, analysts asserted that fluctuation represents the most expensive personnel issue (e.g. Pigors & Meyers, 1973, p. 216). "It is the most costly and least understood of all phenomena working against productivity, efficiency, and ultimately profits" (Peskin, 1973, p. 68). There have been many attempts to cover the phenomenon in its entirety in commercial terms. Following Kaufhold's system (1985, p. 29 ff), we can categorise these attempted explanations by the scope of their calculations and their frame of references in terms of cost-driven phased models, consideration for lost profits, or engagement with the models of human resource accounting. Internal accounting helps us distinguish three categories in the consequences of unwanted fluctuation:

1. The direct costs[1] of fluctuation,
2. The indirect (overhead[2]) costs of fluctuation, and
3. The opportunity costs[3] of fluctuation.

The Direct Costs of Fluctuation

When an employee leaves a company, the action initially does not produce any direct costs. The necessary administrative processes, e.g. writing a letter of reference, returning and controlling equipment, etc., are indeed activities that produce costs, but these are usually accounted for as common overhead. In a strict sense, these are artificial overhead costs, as they could be attributed directly, but this is not done to keep the process simple (cf. Plinke & Rese, 2006, p. 36). When we consider the resignation of an employee and the steps that come into action as a result in procedural terms, this simplistic outlook needs to change. A new vacancy that must be filled actually causes a broad range of direct costs. Their amount and occurrence depends on whether the vacancy is filled from within (internal labour market) or

[1] Direct costs refer to costs that have been produced by a specific operating entity or can be attributed immediately and reliably to that entity.

[2] For the purposes of this chapter, overhead costs shall be defined as the costs that cannot be attributed to a specific operating entity.

[3] Opportunity costs are a common occurrence in internal accounting. They try to determine the worth of possible benefits lost by not choosing a certain alternative.

Table 1 The direct costs of fluctuation (following Ahlrichs, 2000, p. 12; Branham, 2000, p. 7; Ott, 1975, p. 25 ff)

Recruitment from internal reserves	Recruitment from the external labour market
Optional: relocation expenses Costs for training and induction	Costs for job adverts Opt.: executive search fees Applicants' expenses Opt.: consultancy fees for selection or test processes, interview support etc. Opt.: expenses for references Opt.: relocation expenses Costs for medical check-ups Costs for training and induction Possible need for higher salary

from outside the company (external labour market). Table 1 outlines the possible range of direct costs.

Management literature usually assumes that the direct costs of fluctuation are about 50 % of the annual salary of the position's new occupant in the case of outside recruitment (Jochmann, 2006; Meifert, 2002). When executive search consultants are commissioned to find a suitable candidate, their fees typically account for approximately 30 % of the gross annual salary, plus advertising and incidental costs. Depending on the function in question, this can mean a substantial financial hit for the business.

The Indirect Costs of Fluctuation

When we consider the indirect costs, the question of internal or external recruitment becomes less relevant. In this respect, there is little difference between a new recruit and an existing employee being reappointed somewhere else when HR administration processes are concerned. The only actual extra activities are the negotiation of a new employment contract and any required medical checks. Usually, these are cost types that can be allocated to their place of origin, although this is not fully accurate according to the causation principle. In our experience, the attribution usually relies on the number of FTE positions in the target unit. If any single unit causes unduly high costs for fluctuation by comparison to its counterparts, the attribution system can be adjusted, but current practice usually operates with fixed attribution formulas. Typically, the indirect costs of fluctuation occur at the following points:

Exit. The costs of terminating the employment (e.g. exit interviews, administrative matters, etc.)

Search and Selection. Administrative costs in HR

Recruitment and Induction. Training in the new job (e.g. salary costs for trainers/mentors; material and equipment for training, etc.)

The Opportunity Costs of Fluctuation

By comparison to the relatively negligible indirect costs, the opportunity costs of fluctuation are as relevant as the direct costs. We need to consider the benefits lost to the company as a whole and the *professional development* sub-system, in particular, resulting from resignations and new recruitment. For market-facing jobs in particular, recent research has shown that the replacement of a customer service agent can lead to an erosion, if not outright break in the business relationship with a client (cf. Süchting & Paul, 1998, p. 628 ff). Such lasting implications cannot be directly attributed to the *professional development* sub-system, as this can only be considered to have direct market relevance if the company is in the business of selling training and development services. Nevertheless, the effect must not be ignored. The loss of a specialist, e.g. for leadership coaching, can mean that such internal services cannot be offered anymore or need to be acquired from outside at considerable cost. It should also be remembered that both the outgoing and the incoming employees would presumably produce lower performance. Following Herbert (1991), we can visualise this effect in the form of learning curves (cf. Fig. 1).

Employees about to leave the company can be expected to show decreasing performance. Even though the curve in the left diagram seems to imply a steady rate of decline, our experience tells us to expect a sequence of sudden drops. After all, the decreasing commitment of the employee will first lead to deteriorating performance and, later, the employee will disappear completely from the workplace, as he takes his remaining leave days. There is a point (x) from which the outgoing employee will cause more costs than create new value for the company. The right diagram indicates the threshold from which the new employee starts to add value, i.e. when his performance begins to exceed the costs. This threshold can be quantified easily in theoretical terms, but the practical difficulties with quantifying training effects will make this harder in real life. The curve is, in the end, dependent on the learning progress of the new recruit (i.e., the angle of the curve) and his prior knowledge (the absolute level).

Any attempt at approximating the opportunity costs of fluctuation warrants remembering that not all effects of fluctuation can be expressed with a simple price tag. As long ago as 1959, the British Institute of Management stated this essential insight: “Labour turnover has certain long-term effects which are not measurable in financial terms” (British Institute of Management (BIM), 1959, p. 10). The British researchers at the time were particularly interested in the effect of fluctuation on the climate at the company, the strains on its management, and the negative effect on goodwill.[4] Since employees tend to have expansive networks across their companies, fluctuation risks have a natural tendency to spread. More recent research goes beyond these “soft” factors to draw attention to one massively

[4] Lost goodwill in this instance means delivery delays caused by people leaving the company. It can also signify damage to the company’s image as a result of negative “word of mouth” communication (cf. Ott, 1975, p. 29).

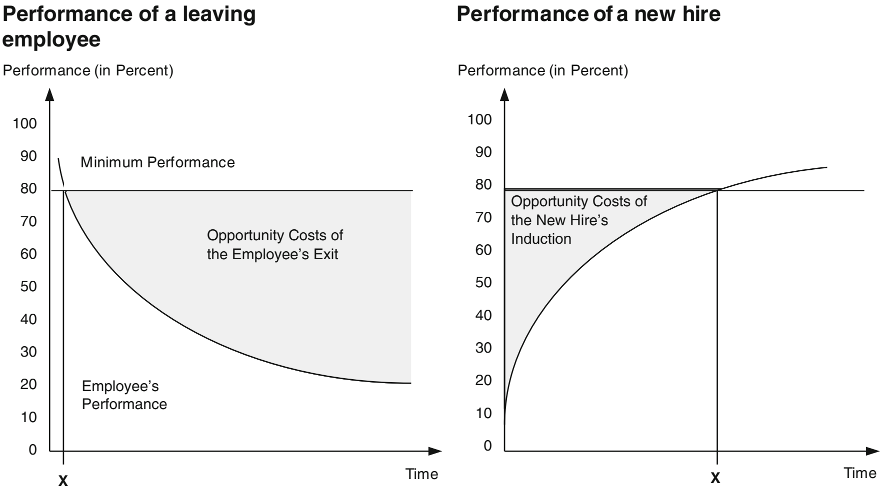

Fig. 1 Individual performance and the opportunity costs of resignation and new recruitment (cf. Herbert, 1991; Meifert, 2002)

important factor: the loss of knowledge. In times in which mental work has become the basis for most of our economy, knowledge is the currency and fuel of any lasting commercial success (cf. Heidenreich, 2002, p. 12; Schanz, 2000, p. 139). Explicit knowledge can of course be consigned to intranet archives, seminar documents, or manuals, but implicit knowledge is not as easily stored and transferred. It is essentially personality-bound in nature and often not consciously known even by the people who possess it. Polanyi believes "that we know much more than we can tell" and "that we know things, important things, that we cannot put into words" (Polanyi, 1985, pp. 14 and 19). This simple fact becomes very obvious whenever one asks a top performer about the recipe for his or her success: very few will be able to give a meaningful answer. The special problem of such implicit knowledge is that it is essentially dependent on the people who hold it and that it is hard to transmit or share by its very nature. There are attempts at doing so, such as story telling or mentorship, but their efficiency as means of sharing and conserving knowledge is far from proven (Bäumer & Meifert, 2000, p. 259 f).

Implicit knowledge is particularly essential when trying to understand the implications of fluctuation risks. Schanz reminds us that implicit knowledge is a crucial pillar of team cooperation. "The value of access to implicit knowledge in teams often doesn't become apparent until one of the members drops out for whatever reason." He concludes: "Managing absenteeism and fluctuation [. . .] therefore also touches upon knowledge management or on the question of how companies can protect their invaluable know-how" (Schanz, 2000, p. 142).

By way of a summary, we can say that fluctuation will cause considerable costs for companies in times of steady or increasing personnel demand. Depending on the type of position and form of recruitment, companies should expect direct costs of up to half the position holder's annual salary, plus a less serious amount of indirect costs, such as relocation expenses for the new recruit. More relevant, however, are the costs that are less easily quantifiable: the loss of critical knowledge in particular can affect or even undermine the capacities of entire sub-systems of the business.

2 Explaining Staff Retention

The phenomenon of staff retention deserves to be approached from various perspectives. The most immediate distinction concerns the legal perspective: we need to distinguish between the legal ties rooted in the employment contract and the personal feeling of loyalty and willingness to stay with an employer. The former ties are unambiguous because individual and collective labour laws are quite precise when it comes to the employee's rights and duties. The latter case is more complicated. These ties relate to a "psychological state" and have "motivational components" (Moser, 1996, p. VII). Another perspective we need to consider is that of HR management (cf. e.g. Schanz, 2000, p. 334 ff). Here, staff retention is the product of certain fluctuation management activities. These activities refer to all activities aimed at steering and influencing the number of fluctuation incidents in any given period (cf. Kaufhold, 1985, p. 242). HR management literature describes the phenomenon of fluctuation with many different terms. Depending on the type of fluctuation in question, people speak of mobility, fluctuation, workforce adjustments, re-employment, or personnel rotation (cf. Frey, 1970, p. 12 f). For the purposes of this chapter, we will use the term (staff) fluctuation in its strict sense (cf. Adebahr, 1971, p. 15; Dincher, 1992, p. 875; Kaufhold, 1985, p. 13 ff. Ott, 1975, p. 17 f). Fluctuation is meant to refer to an employee's change of jobs and employers not motivated by natural causes (i.e. reaching the retirement age, health reasons, incapacity for work, or death) and not caused by redundancy for commercial reasons or reasons that lie in the behaviour of the employee. In its essence, it means moving between employers (leaving the company to take up work somewhere else) (cf. Ott, 1975, p. 17).

Any attempt to influence fluctuation is faced with the inherent problem of not being able to tackle the actual fluctuation incident itself. After all, the incident is already under way when a person's hands in his resignation or asks to be appointed somewhere else. In most cases, the process has long passed the point of no return. Rather, trying to influence fluctuation requires starting much earlier. If we regard fluctuation as the end product of a preceding process of calculation by the individual in question (Jochmann, 1989, p. 5 and 44 ff), the aim should be to influence that mental process. We can distinguish between two phases in the process:

(a) The invisible mental comparison of the decision to join an organisation with the alternatives: staying or leaving, and
(b) The outwardly visible, actual behaviour in the sense of a final action: staying or resigning.

This model sees retention as the simple fact of a person's remaining with a company. The weakness of this narrow terminology is that it only produces a very final outcome: there is a binary rationale at work between the fluctuation event occurring (non-retention) or not occurring (retention). This does not tell us anything about the intensity of the intention to leave. Ideally, we should rather ask ourselves:

- Does the employee stay with the company or is he/she terminating the employment contract?
- Does the employee not only stay with the company, but also attend to his or her work?
- Does the employee stay, is he/she present, and does he/she actually contribute to the organisation?

Even if there is a risk that these questions might seem to muddle the distinctive, separate constructs of fluctuation, absenteeism, and motivation, we believe that a broader terminological approach – understanding retention also in terms of an employee's attitudes about his or her employer – is necessary (cf. Barth, 1998, p. 39). This terminology follows the traditions of retention research in organisational psychology. There are signs of a new paradigm taking hold in fluctuation research. Anglo-American research in particular is turning towards the concept of "organisational commitment" (Allen & Meyer, 1990; Porter, Steers, Mowday, & Boulian, 1974) when looking at people's sense of identification with organisations. This heeds the recognition of staff retention as a matter of attitudes, as it sees commitment as "a psychological state or mind-set that increases the likelihood that an employee will maintain membership in an organisation" (Herscovitch & Meyer, 2002, p. 475). The assumption is that this construct is indeed the key determinant and mediating factor to explain people's willingness to remain in an organisation (cf. Haase, 1997, p. 145; Moser, 1996, p. 34). It also helps our understanding of how people cope with their environments and identify with the objects that they encounter around them (Moser, 1996, referencing Mowday, Steers, & Porter, 1982).

The debate has since moved to an integrated model that distinguishes between three individual components of commitment: affective, normative, and calculative commitment. The assumption is that all three forms can be at work at different levels of intensity in a single person (cf. Schmidt, Hollmann, & Sodenkamp, 1998, p. 95). This is the original insight of Meyer and Allen (1991), but the number of publications working with their model has been growing ever since (Felfe, 2003; Felfe, Six, Schmook, & Knorz, 2002, p. 2; Herscovitch & Meyer, 2002, p. 475). The assumed three-dimensional model has been proven to be at work in a number of empirical studies (Coleman, Irving, & Cooper, 1997; Hackett, Bycio, & Hausdorf, 1994). When trying to survey the state of commitment research in the late 1980s, Meyer and Allen noticed that the common literature at that point tended to address the three types of commitment in isolation. In response, they stipulated that any member of an organisation can show all three forms of commitment at characteristically different levels. For the authors, this means, "that it was more appropriate to consider affective, continuance, and normative components, rather than types of commitment, because an employee's relationship with an organisation might reflect varying degrees of all three" (Meyer & Allen, 1997, p. 13). Considering all three components in unison could thus help researchers understand a person's relationship with the organisation that he or she is a member of.

Meyer and Allen define affective commitment as “the employee’s emotional attachment to, identification with, and involvement in the organisation” (Meyer & Allen, 1991, p. 67). People stay in an organisation because they wish to do so and thus imbue the organisation with positive traits. Calculative commitment can be seen as a rational choice, inspired by the side-bet concept discussed above: “Continuance commitment refers to an awareness of the costs associated with leaving the organisation” (Meyer & Allen, 1991). The individual weighs up the costs and benefits of staying. In the case of normative commitment, the individual is affected by a feeling of obligation, as a result of the force of values or norms. There is a virtual duty to stay in the organisation because this is the morally right thing to do. The authors of this three-dimensional concept of commitment sum up their vision: “Employees with a strong affective commitment remain within the organisation because they want to, those with a strong continuance commitment remain because they need to, and those with a strong normative commitment remain a member of organisation, because they feel they ought to do so” (Meyer, Allen, & Smith, 1993, p. 539).

The model put forward by Meyer and Allen is often used as the standard frame of reference in current literature on the topic (cf. e.g. Felfe, 2003; Felfe et al., 2002; Herscovitch & Meyer, 2002) and is seen as a keystone concept of commitment research (cf. Felfe, 2003; Felfe et al., 2002; Herscovitch & Meyer, 2002; Jaros, 1997, p. 320).

3 The Basic Principles of Retention Management

How can such commitment be created? Empirical research has identified around 60 individual forces influencing an employee’s attitude towards his or her employer. Figure 2 represents the results of one such study, which uses a construct related to our term of organisational commitment: “engagement”.[5]

This study points towards the perception of respect, career prospects, the behaviour of middle managers, and the corporate strategy as the strongest positive influences on engagement. Strong negative forces are identified in people’s satisfaction with the objects of their work and in limited opportunities for self-expression, followed by the behaviour of direct superiors and colleagues. Seeing all of these many and manifold factors, we have to recognise that central retention management by HR developers will have a hard time steering or influencing all of them directly. In fact, many such factors are only susceptible to more or less indirect interventions. Leadership plays a major part as a mediating force in this respect.

[5] The concept employed in this study was introduced by Hewitt Associates (accessed on 10.11.2009: http://www.hewittassociates.com/Intl/NA/en-US/Consulting/Engagement.aspx). In this context, “engagement” refers to a person’s willingness to stay with a company (STAY), speak positively about that company (SAY), and to contribute to its success (STRIVE).

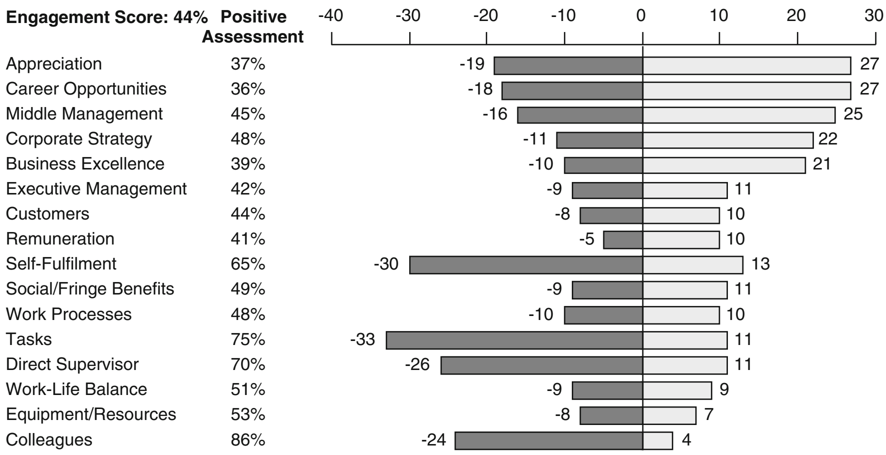

Fig. 2 A sample selection of factors influencing engagement

With these reservations in mind, which general principles of staff retention can we agree on?

First Principle: Personalise

Many empirical studies have shown that staff retention is an individual phenomenon. As we have seen, a wide range of variables can influence the likelihood that somebody will stay in any given job. This means that any attempt at influencing that likelihood will require a highly personalised approach. Specifically, this means that the chosen measures need to reach the people they are meant to reach.

This places HR management in an apparent dilemma. On the one side, it needs to consider the individual needs of individual people to have the intended impact on their loyalty. On the other side, it needs to consider the common goals of an equal and generally applicable HR policy. In the past, the latter perspective used to take the lead. There was a definite dominance of collective rules concerning working hours, compensation, or development opportunities. Since the 1980s, we have been witnessing a trend towards more personalisation (cf. Drumm, 2008, p. 24 ff). According to Marr, the purpose of differential HR management[6] is to find the common ground between individual employees' conditions of work and the commercial circumstances of the business as a whole in order to achieve positive commercial effects, such as reducing unwanted fluctuation levels (cf. Marr, 1989; Morick, 2002). This means that we are not facing a dilemma, but actually a need for a more integral vision.

[6] The term "differential HR management" employed by Marr draws on psychological concepts, specifically differential psychology (cf. Marr, 1989).

Second Principle: Prevent

Relating closely to the first principle, people's responsiveness to retention measures is also individually specific. Any measures aimed at improving retention are faced with the essential problem of not working immediately on their target – the fluctuation event. After all, the actual fluctuation process begins with the resignation or request for reappointment and is, usually, irreversible after that point. Retention management therefore needs to work on the individual and his or her attitudes before it comes to that point of no return. Retention management must be preventative.

This challenge is not limited to the phenomenon of retention management alone: all of HR management needs a pre-emptive turn. This characteristic "time lag" is the result of the unique legal nature of HR management, determined by statutory notice periods and labour representation processes, not to mention the long-term nature of the processes themselves. Filling a typical vacancy can take 12 weeks or more. In view of this characteristic delayed effect and the massive changes in the way German companies and their HR departments are operating, the call for conceptually and strategically aligned HR management working on more medium-term timescales has become ubiquitous (Döring & Ritter-Mamczek, 1999; Wunderer & Dick, 2006). For the purposes of retention management, this basic sea change means a turn towards preventative retention management.

Third Principle: Be Effective

Every HR management activity consumes resources. This simple truism also applies to retention management efforts. Therefore, the expected outcome should also be known. Only if the costs for the activities are lower than the eventual returns over a medium-term timeframe can we consider such activities to be economically justifiable. However, this means that the measures actually have to achieve their intended effect, which in turn requires them to fulfil the first two principles (personalisation and prevention). At the same time, it is essential to evaluate the outcome in some meaningful manner in order to understand whether the intended targets have been achieved. Economy also demands that retention management is not a scattergun feature for all employees, but carefully targeted at those categories of people who are particularly relevant for the business and also subject to high fluctuation risks.

Lasting staff retention can only be achieved if all three basic principles are considered. Each principle is a necessary, but not in itself sufficient condition. By itself, no single principle would suffice. For example, massive investments might indeed produce high retention levels, but we would have to wonder whether such an approach is economically sensible (effective). Untargeted activities might have some preventative effect, but their lack of personalisation will mean that lots of their potential goes to waste. Sustainable retention management means personalised, preventative, and effective retention management.

We will now turn from the fundamentals of retention management to concrete ways to keep employees on board.

4 Introducing Retention Management in Practice

How can these general principles be translated for use in everyday practice? Specifically: How can companies determine the relevant fluctuation risk and how can they respond effectively? The consultancy experience of Kienbaum Management Consultants has developed a multi-step approach to produce the best results. The steps in sequence are:

1. Evaluating the business functions,
2. Assessing performance and potential,
3. Measuring risk, and
4. Shaping commitment.

Let us consider the steps in detail:

1. Evaluating the Functions

In order to determine relevant fluctuation risks, it is necessary to understand which functions are particularly critical for the business. This should be irrespective of the actual occupants of the functions and consider only their contribution to the success of the business. The crucial questions are: Which functions contribute significantly to the core value creating processes of the business? Which functions have a significant impact on determining the success of the business? Which functions are particularly relevant for the future market performance of the business? Which functions would be kept even if the workforce was cut back substantially?

The trick is to approach these questions on a purely analytical level, without fear or favour when it comes to individual people's concerns. This can be an uphill challenge in the reality of business. After all, the evaluation (and grading) of these functions also determines the worth of the function they are performing. That is why an analysis of this nature should be handled by both HR developers and line managers, under the supervision of a high-ranking management committee. This will create more transparency about the value of the various functions and uncover the Achilles heel of the business. At the end of this first step, a defined organisational chart should be created with meaningful information about the value of each function.

2. Assessing Performance and Potential

Step 1 did not consider personalities. Now, the analysis turns to individual people. Whichever method[7] is chosen, the question it tries to answer is: How successful is the occupant of a position in his job? This has to be known before assessing that

[7] There is a broad range of suitable methods and procedures: from simple supervisor's statements produced in staff appraisals, via dedicated management audits, to holistic procedures that rely on comprehensive empirical data.

Sample Project: Calculating the Fluctuation Risk of an Individual Employee

Criterion	Scope		Score
Individual Factors	Low mobility, strong commitment, non-critical age	10 points	
	Mobile, personal career ambitions known, flexibility expressed in the CV	20 points	
	Critical age (> 60 or high potential < 40 years of age), very mobile and flexible	30 points	
Last Move	… within the last two years	10 points	
	… between two and five years ago	20 points	
	… more than five years ago	30 points	
Unique Properties	Few unique qualities; competence profile also available in other people or easily recruited from the external labour market	10 points	
	Some unique, difficult to replace competences and experience	20 points	
	Many unique competences/experience that are in great demand in the labour market	30 points	
		Total Score:	

	Low	Average	High	Very High
Result:	< 41 points	41 to 55 points	56 to 75 points	76 to 90 points

Fig. 3 Calculating individual fluctuation risks

person's actual fluctuation risk, not least since the resignation of a person with poor performance could be a relief for the organisation.

3. Measuring Risk

HR professionals and line managers cannot read people's minds. Therefore, forecasting fluctuation risks is an imprecise science. Nonetheless, there are two viable methods. First, the employees who have been flagged as notably essential personnel can be surveyed regularly to detect any negative change in their commitment in good time and have the opportunity to address the causes of their dissatisfaction. This typically relies on a combination of a short, automated survey and a personal talk with their supervisors. Second, fluctuation risk can be approximated with analytical means. This relies on the historical data from earlier empirical studies. The method outlined in Fig. 3 has proven effective in many consultancy projects.

4. Shaping Commitment

In view of Meyer and Allen's pessimism concerning our ability to influence organisational commitment directly, there might not be much to say in this section. However, we have argued that commitment is susceptible to indirect influences. Which options do companies have to shape their people's commitment and thus their willingness to stay?

We have already addressed a number of factors that can be assumed to relate to these variables. Considering how many different forces are at work, it would seem impossible to consider, let alone work with, all of them in normal business life.

The common advice literature therefore tends to limit itself to a selection of relevant factors (cf. e.g. Kötter, Hunziger, & Dasch, 2002).

- An image and a culture that makes people proud of their employer (e.g. excellent products, unique sales propositions, a genuine esprit du corps, etc.).
- Prospects for promotion and career opportunities determined by transparent criteria.
- Active and available HR development activities to enhance people's employability.
- An adequate and supportive personal work experience (e.g. workplace equipment, leadership experiences, attitudes between colleagues, etc.).

This list is only a rough sketch to help us navigate the territory of commitment management. Our earlier insight remains: commitment is an individual phenomenon that needs an individual response.

5 Conclusion

Managing employee retention has revealed itself to be a terrain full of unique uncertainties. Loyalty to one's employer is a very personal quality that is hard to predict. We only have second-hand access to it by managing people's commitment, which is not easily done. Despite these reservations, we have seen that it can be done. There is a set of basic principles that need to be considered if we want to achieve lasting retention. These are: personalised retention support, preventative work in the sense of a careful and anticipatory approach, and a sense for the effectiveness of the chosen measures.

We have to ask ourselves: Who are the actual actors in staff retention? In view of the many different access points and forces influencing it, it would be hard to pinpoint a single agent. Rather, it makes sense to consider retention management as a lateral function, with HR development as the process owner covering it. Even then, responsibility is still split. The company's top management should require HR to produce suitable instruments, but also do its own part by displaying behaviour that fosters people's commitment to the company. This means, above all, culturally symbolic actions, how redundancies are handled, how much attention is paid to development and training, etc. Line managers need to be aware of their role and aim their leadership styles at promoting their people's satisfaction and commitment. Last, but most certainly not least, it is up to the employees themselves to create and maintain a *retention-positive* culture with their behaviour towards each other.

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Stage 8: Culture Management

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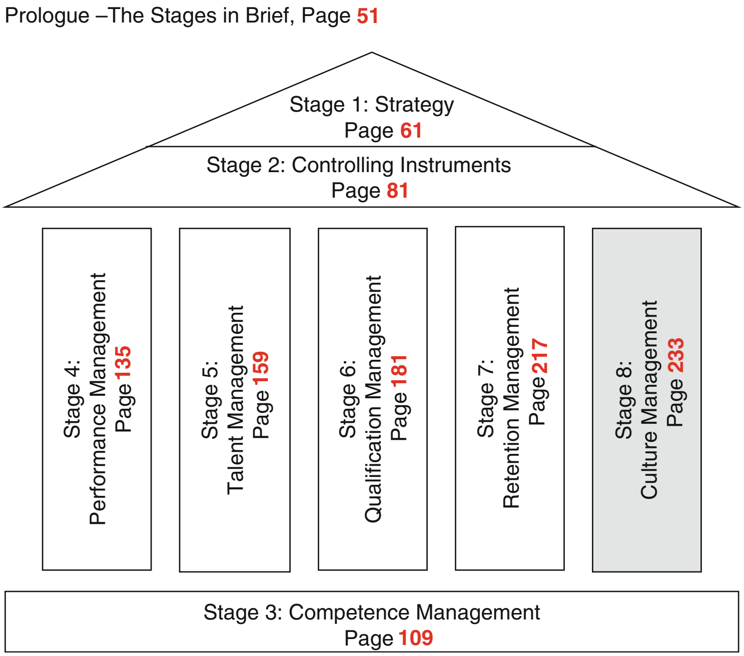

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Those who have chosen different paths
cannot make plans together
Confucius, Analects 15

Does engagement with a company's own culture make it more successful as a business? The past few years have seen a slew of empirical studies that tried to answer this essential question (a summary of the state of research can be found in Sackmann, 2010). With each study having its own unique thrust and applying distinct constructs, they are hard to compare. One thing they have in common: the recognition that there is a correlation between a company's culture and its ability to compete. A number of these studies have, for instance, revealed the link between various aspects of corporate culture (e.g. labour representation, change readiness, diversity) and a set of performance indicators, such as innovativeness, turnover, or market share.

A company's culture also has an undeniable impact on the company's image. Its many different facets are the answers to questions asked by (potential) employees: "Why should I choose this specific company from the many thousands out there?" or "Why do I want to stay here?" The culture determines important factors like the employees' engagement, sense of accountability, or entrepreneurship. It must not be confused with the company's self-proclaimed and -publicised values. The definition of desired corporate values publicised in brochures is of little help if the corresponding promises are not lived up to in the company. Such living and breathing values and basic assumptions (Schein, 2010) are the seedbed for all of the effects that we will observe in this chapter.

Trying to tell the "right" from the "wrong" culture leads the discourse down the wrong track. Rather, any company's culture must be seen in terms of its fit with the external challenges in the given environment (e.g. competitive forces) and the internal challenges of cohesion (cooperation, identity, engagement) (Schein, 2010). More recent meta-research shows that we cannot simply generalise the cultural traits or success factors of different organisations (Hartnell, Yi Ou, & Kinicki, 2011). This means that every company has to develop a culture to fit its unique challenges. In every case, leadership plays a major part. For example, it promotes a sense of belonging in the workforce, which in turn leads to greater commercial performance (Sackmann, 2006). Managers and how they lead people actively contributes to the shape of the company's culture (Ogbonna & Harris, 2000). They are one of the most important catalysts for cultural change, but they also reflect the corporate culture that is currently in place.

The accelerating pace of globalisation calls on international businesses to harmonise and align their cultures across national borders. Still, it is important to consider the residual national and cultural differences that remain. Employees bring much of their national and social culture with them into work when they come through the doors of the company, even if it is an international company (Rioux, Bernthal, & Wellins, 2000). Research tells us that there are specific national differences in employee's preferences in terms of labour representation, targets, or individual development.

In the US, Australia, Canada, New Zealand, or Britain, employees tend to prefer corporate cultures with a bias towards self-expression and autonomy, meaning less specific instructions about how to do a job (Szumal, 2001). In non-Anglo-American cultures (e.g. Latin America, Europe, East Asia), by contrast, people are more receptive to being regulated in their work (Cooke & Szumal, 2000).

Many companies want to tap into the potential that lies in their corporate culture. Oftentimes, digging into their culture in this manner produces unforeseen difficulties that can make change processes even more complex or even doom them to fail. The more ingrained the old patterns of behaviour are, the more difficult introducing new ways will be. Once a way of doing things has settled, it develops its own energy over time and defends itself against outside interference. This chapter tries to understand how a company's culture can be put to use as the engine of commercial success. This applies not least to the decisions made by top managers (Dievernich, 2007).

1 What Is a Corporate Culture?

Corporate culture has recently evolved into a concept that is deemed to be highly meaningful and closely related to aspects of performance quality or the satisfaction of employees. But what does it mean? Current research follows a broad range of approaches, although most are based on the conceptual work of Edgar Schein, the trailblazer of corporate culture research. Following his concept (as outlined e.g. in Schein, 2010), corporate culture is defined as:

– The shared norms and values of the organisation's people that…
– Are not only expressed in the convictions and behaviour of executives and employees…
– But also reflected in the organisation's strategy, procedural and structural setup, and management systems.

Corporate culture is made up of the collective, fundamental beliefs that have a major impact on the thoughts, actions, and feelings of the executives and employees, and that can generally be considered typical for the company or a group within it. They form the background to all verbal/nonverbal behaviour expressed in everyday cooperation and communication. They also represent the yardstick for "correct" behaviour within the organisation. In this sense, they are the "implicit" rules for how to respond to a given situation. The organisation's people are often not actually aware of these convictions, which people take as a given and act accordingly (Schein, 2010).

Every member of the organisation can feel the culture at work. New members are acclimatised and formed by it. At the same time, every person at the organisation shapes and influences the culture by internalising it, sustaining it, and replicating it – or by rejecting it, standing up, and changing it.

Schein's definition is one of a whole slew of mostly normative concepts about culture. We can distinguish between two basic points of view: profile concepts and type concepts (Ashkanasy, Wilderom, & Peterson, 2000). Profile concepts try to identify the factors that make a culture successful, which we can then use to place the organisation in a profile, not unlike competence models are used on the level of individuals. These factors can include dimensions like teamwork, customer awareness, readiness for change, focus on targets or performance focus (for a summary, see e.g. Sackmann, 2006). Type concepts, on the other hand, try to cluster companies with similar cultural traits into "types", as we do with individuals when we allocate them to certain personality types. The most prominent concepts in this sense are the organisational culture inventory (Cooke & Szumal, 2000) or the competing values framework of Quinn and Rohrbaugh (1983). We shall look at the latter concept in more detail.

The popular model proposed by Quinn and Rohrbaugh distinguishes between two fundamental dimensions: the organisational focus (looking inward vs. looking outward) and the preferred structure (flexible vs. stable). This produces a matrix of four types that cover the values and, by extension, the culture of the company: clan, adhocracy, market, and hierarchy.

Clan culture (flexible structures, inward focus):

– The dominant values are cohesion, belonging, cooperation, trust, and mutual support as a means of improving performance. Behaviours are characterised by teamwork and involvement, which leads to positive work ethics and job satisfaction.

Adhocracy culture (flexible structures, outward focus):

– Growth, stimulation, versatility, and independence are the mainstays of this culture. This is reflected in the creative, adaptive, and risk-taking behaviour of employees and executives in the pursuit of innovation and a place at the forefront of progress.

Market culture (controlled/stable organisational structure, outward focus):

– This type promotes high-quality and profitable products, focusing on clear targets and fair pay-by-performance. Values like competition, competence, and hard work underscore its focus on targets, action, and competition.

Hierarchy culture (controlled/stable organisational structure, inward focus):

– This type of organisation values unambiguous roles and processes. In this culture, managers' first job is coordinating the pursuit of smooth and efficient work.

In our experience, such models are particularly helpful when we try to give top managers a vivid and memorable illustration of corporate cultures. Communication with managers is often an essential first step for systematic culture management. As in the case of the personality models used in individual diagnostics, this should not descend into an exercise of blanket pigeonholing (in the sense of "that's how the organisation is, and that is that"). Rather, we need to learn to identify the specific traits and basic assumptions of each individual company. The aim is threefold: to explain the behaviour of its people, recognise and use driving forces and identify obstacles in change processes.

Apart from the "general culture" of a company, it is becoming more important to recognise the many subcultures that also contribute and might sometimes have conflicting values and norms. These need to be considered in proposed change

Table 1 Intercultural differences (author's own work, following 2007)

Dimension	Preferences	Nations
Structure	Egalitarian	Canada
	Hierarchical	India, Japan, China, Germany, Mexico
Society	Individualist	Canada
	Collectivist	China, Brazil, Mexico, Japan
Focus	Facts	Canada
	Relationships	China, Italy, Spain
Communication	Direct	Israel, Denmark, Germany, Sweden
	Indirect	China, UAE, Japan
Compliance with deadlines	Strict	USA, Germany, Denmark, Switzerland
	Loose	Saudi-Arabia, Spain, Thailand, UAE
Readiness for change	High	Australia, Canada
	Low	Saudi-Arabia, Indonesia, Mexico, Russia
Emphasis	Work	Canada, China, Japan, USA
	Family	Norway, Saudi-Arabia, UAE, India, Mexico

processes (Meifert, Sackmann, Leitl, Kohrs, & Lassalle, 2011). Such subcultures can include:

Different levels of hierarchy

– Perspectives on the corporate culture vary depending on where people stand in the organisation's hierarchy. This also brings about different sets of values, which leads to a dangerously growing gap between top managers and the general workforce.

Professions/Disciplines

– People are brought up in their unique occupational worlds, which again influence their values and views of the world (think: controlling vs. HR).

Locations

– This can reflect regional differences (e.g. scarce resources) or different leadership personalities.

(National) Cultural differences

– Nowadays, not only major corporations, but also many small and medium-sized businesses have crossed countries and continents. This brings about the challenge of having to integrate and reconcile many different local cultures.

National differences have been the subject of much scientific attention, especially after the groundbreaking work of Hofstede (1980). In this sense, nations differ in terms of their perceptions and preferences concerning hierarchies, individuality or collectivism, relationships, styles of communication, time, flexibility, and motivation/work-life balance (cf. Table 1; Schachter, 2007).

In spite of – or actually because of – these differences and the different subcultures at work, it is often rewarding to take a look at corporate cultures. We must consider corporate culture as an important force in change processes. Of course, this also means understanding the extent to which culture can be shaped by us.

2 Can It Be Changed?

Whenever we speak about corporate culture, we need to speak about the question of whether or not, and to what extent, such corporate cultures can be managed and changed deliberately, e.g. by the company's managers. Systems theory has drawn particular attention to the major role of self-organisation in systems that are not very receptive to outside interference. Hierarchically organised management with simple instructions being passed down also make cultural management challenging. Although culture might not be immediately controllable, we believe that it can indeed be "managed" actively. For this purpose, we need a holistic perspective and the recognition of the *organisation as culture*. This means moving beyond the belief that *an organisation has a culture* as one of the variables, which managers can steer and define in a one-way process (Smircich, 1983). Culture must never be seen as an isolated monolithic structure, but as a complementary, intricate system. As mentioned, values and norms and the specific behaviour of an organisation's people are also reflected in that organisation's structural and procedural shape and in its strategic decisions. A cultural change thus has to take place on a holistic level. We generally need to consider that cultures – outside of catastrophic crisis and upheavals – evolve slowly in baby steps. Holistic, therefore, does not mean a sweeping, blanket move, as this would also affect the many other success factors of the organisation that the culture is intrinsically connected to. Culture development should therefore work on individual facets, but always in line with one overriding and fixed target.

Culture is also of significance when it comes to peoples' identification with and commitment to the organisation (Cable & Edwards, 2004; O'Reilly, Chatman, & Caldwell, 1991). When the values of the individual employee and the values of the organisation at large match, the employee will normally be more satisfied and more willing to commit to the company beyond the normal call of duty. A problem might arise when the company (and its established norms and values) change in the course of a merger or a similarly deep-cutting transformation. This has been observed when formerly state-owned organisations were privatised. Apart from the basic question of whether a culture can actually be changed intentionally, there is the added challenge of not damaging, but actually improving people's sense of identity and commitment when change is introduced.

A lasting and effective cultural change (improving the capabilities of the organisation while maintaining, or even boosting, the sense of cohesion and commitment of its people) therefore needs two essential steps that we want to illustrate (cf. Fig. 1):

1. Initiating the culture transformation by mobilising executives and employees on the route to the target culture
2. Anchoring the new culture in the organisation and strengthening the sense of identification and commitment

Different mechanisms ("levers") are at work when we try to introduce the initial transformation, as compared to when we attempt to anchor the new culture or strengthen people's commitment. "Change levers" help us move the behaviour

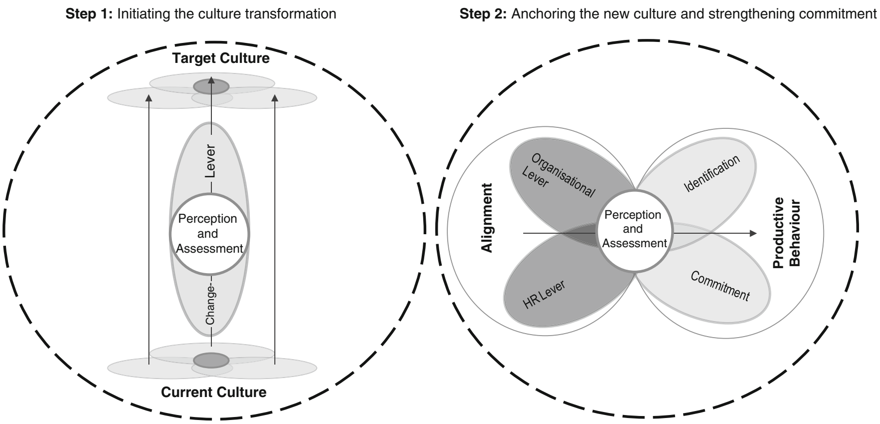

Fig. 1 The steps in cultural transformation (author's own model)

of the organisation's people from how it is now to where we want it to be. Further, we need to find the right "organisational and HR levers" to align the organisation at large with the desired target culture, promote the commitment of its executives and employees, and thus pave the way for the lasting success of the target culture.

These levers include:

Change Levers:

– Motivate people for the change – people must know what they will lose as a result, but also what they stand to gain.
– Develop new competences – people need to be supported in acquiring the new behaviours. Competence gives them the confidence to be able to master the change that is required from them.
– Communicate and sell the culture – changes must be made highly visible in so-called lighthouse projects to spread more motivation for the change.

HR Levers:

– Select the right people – values and norms should be reflected in the processes and tools that the company uses to find the "right" people.
– Shape careers and succession management – apart from data about existing potential, the cultural fit of a candidate can be a required criterion for enrolment in a succession pool.
– Improve leadership quality – leaders are the multipliers at the heart of the cultural changes and should be supported in this important role.

Organisational Levers:

– Give guidance – defined targets give people a shared sense of direction and can give their work purpose.
– Define and coordinate structures and processes – the structural and procedural organisation, with the support of suitable management systems, reflects certain values and thus has a major impact in the formation of culture.

– Establish attractive working conditions – Oftentimes, the conditions that people have to work in determine their satisfaction and commitment to their employer.

This set of levers reveals our holistic notion of culture. Cultural change is never simply a question for HR development, but above all else a matter of organisational development and management. Managers play a key role at the vanguard of the changes, which makes them a decisive factor for the success of cultural change initiatives.

3 When and Why Do Companies Care About Culture?

What makes companies begin to confront themselves with their cultures? A number of reasons immediately come to mind. One common occasion is the merger of two different companies. This is a clash of two cultures and two ways of thinking and behaving. Irreconcilable cultural differences are often to blame when such mergers fail. Reconciling the two cultures is therefore essentially important to give people a sense of purpose and reduce the frictions created by the merger. Major restructuring or reorganisation projects also offer an opportunity for looking at one's corporate culture, especially when it comes to deciding about how to handle the change processes. It must be decided whether the changes will be channelled through the existing culture or break with the existing culture. For instance, if the company's people are used to not being consulted and involved in the business, this should also be reflected in the design of the changes, e.g. in the form of giving them more time and opportunity to learn and adjust.

An all too common observation, however, is that such "culture work" is only another term for trying to improve staff satisfaction. We advise against abusing the term culture in this way, since it goes against our holistic concept. Culture should always be approached in the sense of a variety of concrete topics and problems, which can naturally include aspects of staff satisfaction and commitment. Other topics and occasions can relate to becoming more innovative, improving safety or quality, or becoming more efficient as a business. In practice, the cultural dimension of these goals is often ignored.

This all tells us that culture is not an end in itself. It always relates to the external and internal challenges we have mentioned. Confronting ourselves with our culture can help us adjust some of its aspects or provide a new focus and thrust. This is not a simple process, it is a complex and lengthy one. It is important to introduce the changes on the broadest front possible to have any chance of activating a real change in behaviour patterns and mindsets for the long-term viability of the business.

4 Values and Mission Statements

Many large organisations set down their vision of their corporate culture in the form of a set of written principles or values (Lassalle & Faghfouri, 2009). Principles of this nature have come under increasing fire in the recent past, mostly as a result of the perceived gap between the claimed values and norms and the reality that exists in the organisations. The danger is that they encourage cynicism or evoke unwanted associations when speaking about corporate culture. When done right, they can fulfil an important function as a normative frame of reference for managing and developing the organisation. They are a source of guidance, which people can use to think about and speak about the culture as they experience it in their everyday life in the organisation.

The term "principle" covers many different meanings that are open for interpretation (Lassalle & Faghfouri, 2009):

Vision/Guiding Star

– The fundamental reason for why the company exists and will continue to exist; the core of its identity

Business Mission

– The purpose of the company in terms of strategic success factors; the unique competence proposition

Corporate Values

– Identifying, fundamental traits that are relevant for the success of the organisation; definitions of "desirable" behaviours; sometimes conscious, sometimes subconscious

Guiding Principles

– The basic stance of the company on selected internal and external topics (e.g. leadership, cooperation, clients, society, environment)

All of these should be rooted in the organisation's history and look to the future. They should reflect both the current culture and the future aspirations of the organisations. Bridging that gap is the unique challenge when such principles are developed. A set of well-designed principles, effectively introduced, can fulfil a number of key functions and contribute unique value:

– Giving a frame of reference for the future development of the business, improving the sense of cohesion, and helping people identify with the company,
– Shaping the public image of the company (employer brand),
– Providing criteria for decisions and helping resolve ambiguous or uncertain situations. Making executives and employees understand what is basically expected from them.

Such principles are typically produced in the course of mergers, reorganisations or similar major shake-ups, e.g. when companies and units from a financial holding are brought under the tighter control of a strategic holding. Oftentimes, selecting specific elements to focus on and not engaging in wholesale revisions can be helpful, depending on the occasion, as long as all elements remain properly balanced and coordinated.

An essential precondition for work on corporate principles is the full commitment of top management. This requires a twofold readiness to change oneself ("What do I need to change about how I lead people?") and one's organisational unit ("How do I need to change the structural and procedural organisation around me?"). These processes properly belong in the sphere of organisational development: they are never pure HR development. This also means that the process should be in the hands of the line organisations and not potentially detached central functions like strategic HR development.

From the vantage point of culture management, the company's values represent one of the mainstays of these principles. They should be the guiding light when setting up new principles. In the following, we will take a closer look at the steps that are required for the successful development (steps 1–3) and introduction (steps 4–6) of company values.

Step 1: Commissioning and Launching the Project

As in any project, the first thing to do is to understand the occasion and purpose of the project. As described, company values have a strategic purpose and are meant – among other goals – to improve the medium to long-term satisfaction of the organisation's people. Specifying the real purpose of the project relates closely to the important question of how its success will be measured later on. Defining the purpose of the project is essential for ensuring lasting and sustainable values, as we shall see in step 6.

Apart from understanding the targets, finding the right people is key. In view of the universal reach of the topic, the project should not be left in the hands of HR professionals alone, but should ideally be managed by a line manager. This is not a question of competence, but of acceptance: the people who will have to live with the values should be the ones who developed them. Regular reports to the top echelons of the organisation's hierarchy help guarantee top managers' early involvement in the eventual implementation. One common point of debate is the extent to which employees should be involved/consulted in the development of the values. To answer that question, we need to consider four factors:

Purpose

– The approach should always relate to the actual targets of the project. A project aimed at marketing or the employer brand should take a different shape than one responding to the challenges of a merger.

Time and resources

– The more time and resources are available, the more feasible it becomes to use work-intensive formats, such as large-scale participation events.

Current culture

– If the organisation's people are used to being involved and consulted, this should be continued in the development of the values as well. In turn, employees who are not accustomed to such participation will find it harder to contribute meaningful feedback or creative ideas.

Target culture

– We also need to remember that the development and implementation process reaches out to the later target culture. A hierarchy-fixated approach, behind-closed-doors, cannot hope to produce values of transparency or participation.

A basic rule is that the chosen project approach needs to fit the given circumstances. In international organisations, the country organisations should be involved as a matter of course to account for any nationally relevant considerations that can have a major impact when the values are rolled out.

Step 2: Analysing the Given Culture

Corporate culture development work needs to start with understanding the existing culture. This means an intensive confrontation with the given culture in place at the organisation and with the target culture. The larger and more complex the organisation is, the more likely it is that we will encounter subcultures that need to be considered in terms of the aspects they share and the differences between them.

To understand the given culture, we can ask the following questions in a series of individual or group interviews (depending on the level of hierarchy):

– Which traits are particularly characteristic of the company?
– Which types of behaviour are being rewarded? What makes a person successful at the company?
– How do units of the organisation cooperate?
– Which leadership style is being used and what means of authority do managers have at their disposal?
– Which hero stories are being told at the company?
– What would you recommend to somebody who joins the company–how should he/she behave to have a successful career at the company?
– Which competences are essential for success at the company?

Interviews with top managers should also look ahead at the future direction of the company. The later conceptual work can also be prepared for by reviewing the company's strategic papers and target systems. These insights can be expanded with expert interviews to check the back-story of the company and identify typical cultural patterns from the past that still influence the fate of the company today.

Step 3: Formulating the Company Values

Company values are often accused of being "cookie cutter" products that can easily be transplanted to any other organisation. While that might be true for any single value one looks at, the key is to see the overall composition that fits the company in question. Companies also have a variety of formats to choose from, from individual terms (e.g. "inspire") to neologisms ("co-solution", instead of "solving things together"). The right balance needs to be found between marketable originality and general comprehensibility. We must not forget that company values need to be readily understandable to every member of the organisation, however unsophisticated his or her background might be.

A good figure to aim at is a selection of approximately three to five values. Experience suggests that there is often some conceptual overlap between higher numbers of values and, above all, the number becomes unwieldy and hard to remember. Holding companies with very diverse operations can think about defining three or four shared values with additional one or two segment-specific values for each unit. This can help celebrate both what the organisation has in common and what makes its constituent parts special. Who decides the final values should be defined at an early point in the process. In any case, this decision should reflect the basic outlines for the project agreed beforehand. This means that the decision on which values to adopt can be taken behind closed doors by the board or in a grassroots format, using online surveys or similar means.

Company values by themselves are naturally too abstract and theoretical to have any practical use. There is a danger of them seeming devoid of any real-life purpose. We can respond to this problem by specifying and putting the values to work in two distinct ways:

1. Defining or explaining the value in the form of a short statement: the statement should be focused and succinct – less is more. Effective statements make the values tangible and can use the format of do's and don'ts.
2. Developing guidelines (e.g. for leadership, cooperation, service): this makes the values immediately tangible and relevant for a specific purpose. At the same time, this can make the values very complex and restrictive.

When applying the values in this way, representatives from across the company's functions, regions, and levels of hierarchy should be considered. The end product should be reviewed and cleared by the company's top managers.

Follow these rules for effective conceptual work:

How to define values effectively:

Values should:

- . . . be motivating and appealing while staying fully comprehensible for every member of the organisation.
- . . . promote the performance of the company as a whole and the sense of engagement of all of its people.
- . . . be sufficient (minimum of three values) to cover the cultural framework.
- . . . not be too complex (maximum of five values) to stay memorable and focused.
- . . . be translated and operationalised to be as relevant (for people's behaviour) and usable (for concrete practical guidance) as possible.

In practice, the values should not be considered as the final normative be-all end-all. Rather, they serve as a point of discussion and a frame of reference to make a culture visible and available for our attempts at shaping it.

The following list sums up the main steps that need to be taken when developing company values:

Developing Corporate Values (Steps 1–3)

Step 1: Commissioning and Launching the Project

- Defining the purpose and selecting KPIs for the project
- Defining the key pillars of the process, e.g. degree of employee participation
- Recruiting a project team with due consideration for the relevant stakeholders and, especially, cultures

Step 2: Understanding the Culture

- Conducting individual and group interviews with representatives from different cultural subgroups
- Collating and, optionally, verifying the results using staff surveys
- Reporting the results of the analysis within the key lines of the future strategic direction

Step 3: Formulating the Company Values

- Choosing and, optionally, coordinating the values with the organisation's people
- Specifying and putting the values to use in a marketable format

Step 4: Communicating the Values

Introducing the values starts by communicating the values. This should combine high-profile kick-off events using new forms of communication, such as discussion forums, blogs, wikis, or more playful elements like mobile apps. The following is just a selection of possible forms:

– **Kick-off**: depending on the layout of the organisation, this event can take place centrally or locally and can be used to teach and mobilise people, e.g. by collecting their input on how the values should be rolled out.
– **Campaigns**: special activities, such as nominating value ambassadors, or symbolic activities (e.g. collecting puzzle pieces with the signatures from all across the company that are then combined to form a complete picture) capture people's attention and motivate the workforce.
– **Symbols**: it can help to use symbols (e.g. screensavers, posters, articles in the staff magazine or on the intranet) to keep people's attention up for the value process in their everyday routines.

The top managers must take the lead and show that they are ready to change. This is essential for the actual rollout (step 5), but can also be used in the communication activities. For example, letting top managers act as sponsors for the individual values that they represent and spread through the organisation. As a rule, we should remember that any communication is already a form of intervention that will stimulate expectations on the part of the employees. This is why the following activities should start simultaneously with the communication efforts to avoid cynicism or disillusionment and to point to credible progress.

Step 5: Introducing and Anchoring the Values

The success of corporate values is determined by how they are introduced (Wunderer & Klimecki, 1995). In this sense, there is no point to defining shared values if they are not anchored in the systems of the organisation. Values need to become part of everyday discourse. They must be supported by specific, targeted activities integrated into the company's routines that help guide people's behaviour and shape their culture. Values are therefore introduced on two fronts to ensure their lasting impact: the organisational and the behavioural front.

By **organisational front**, we mean the structural and procedural organisation and the management systems that are in place. The lever model proposed in Part II could help us understand these, as the organisational and HR levers are crucially important. For instance, if one of the values is called "Openness/Transparency", the organisation needs to be scrutinised with that in mind, from its communication systems (forums, wikis etc.) to highly complex compliance questions. Such compliance questions are becoming more and more relevant in larger organisations and determine not only their ethical, but also their commercial performance. In addition to that, HR systems and instruments should be reviewed according to the company values. A value like "teamwork" should also find its place in the company's remuneration system or the staff selection and development practices (e.g. fast-track careers etc.). Values can be most effectively built into performance target and appraisal systems when they are first introduced. For this purpose, the right key performance indicators, monitoring criteria, and monitoring instruments need to be found to track such "soft factors" in the system. This is particularly essential when leadership is concerned. When the target culture is reflected in the tangible reality of a performance rating, every manager will understand the implications of unacceptable behaviour and be encouraged to display the right behaviour.

These links with the other management instruments of the company are meant to ensure the lasting impact of the corporate cultural development. It can be necessary to build the defined values right into the entire HR development toolbox. When culture is present in the requirements profiles for individual jobs, the system will automatically favour or select the people who match the desired values. This also helps publicise the stated values via the company's employer brand to source the right people for the business.

Figure 2 sums up the many possible links with management instruments.

It is important to check all established instruments and processes to see whether they help or hinder the newly defined values. The more the values are represented on the organisational front, the stronger their impact will be on people's behaviour.

On the **behavioural front**, the values provide a language for speaking about the organisation. For this purpose, the values need to be discussed when speaking about general concepts like cooperation, but also when looking at specific operational problems. All levels of the organisation should be involved in the form of short workshops as a means of developing specific, behaviourally relevant actions that can help translate the values into reality. In the past, companies relied on top-down,

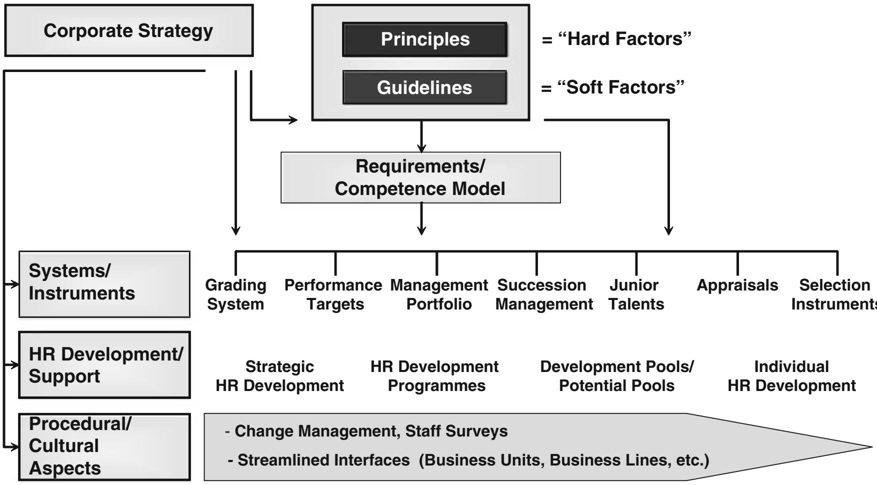

Fig. 2 Linking the corporate culture with HR development instruments (Kienbaum, 2009)

often centrally managed cascading processes – sometimes with external support – which today's time and money constraints have made impossible. Such an approach is also often seen as unduly restrictive, as it limits the line managers' ability to manage.

One good response is to empower line managers via so-called self-conviction tools, such as "dialogue maps", to conduct these workshops independently in their teams. Some companies rely on the use of short training and briefing sessions for so-called "multipliers" placed strategically throughout the organisation. These enable the line organisation to cover the following points in the rollout workshops.

Explaining the Purpose and Presenting the Values

At the start of the workshop, the line managers should initially explain the background to the value-creation process, how it went, and which goals it pursued. This is intended to give the attendees a basic notion of the purpose and objectives of the company values. It can help to explain the values by way of critical incidents and do's and don'ts for the employees ("Which behaviour is acceptable and what is unacceptable in such an incident?"). This makes the values tangible and real for the employees. The presentation should not forget the cultural context, as different values can be interpreted very differently depending on the culture in which they are presented. Open feedback can mean that all employees are allowed to give their supervisors even negative feedback for a European audience, whereas this would be unthinkable in an Asian setting.

Analysing the Status Quo

The workshop should then look at how far the company has come with the new values. For this purpose, the entire group reviews each individual value with these questions in mind:

– What aspects are already part of our behaviour? (strengths)
– Which aspects still need to be integrated? (targets)

At this point, the frame of reference should be the actual area of responsibility or functional scope of the manager who is conducting the workshop. The workshops can naturally also produce insights about more general concerns (e.g. for the company as a whole) that can be bounced back up the chain after it has concluded. Generally speaking, the workshop should underline the autonomy of the team and discuss its own issues and problems without getting lost in organisational rules and processes beyond its reach.

Defining Concrete Measures

Based on the defined targets for further intervention, the workshop then moves on to finding the right ways of responding to these. This is the key step in the process. The measures should be defined in the most concrete way possible and with specific responsibilities and deadlines ("Who does what by when?"). It can also help to place the proposed measures in an effort-outcome matrix, which can immediately show the activities that will be particularly efficient for breathing life into the values. All of the measures should relate to the specific area of responsibility that is being discussed. They should not consider too many points that fall outside of the team's or its leader's reach.

Such measures are also discussed and introduced on a higher (corporate) level, as we have already discussed in the case of the organisational activities, such as changes to the remuneration system or the structural and procedural setup. The workshops will create certain expectations throughout the organisation. This makes it important to accompany the activities with effective communication about what is happening and what has been achieved. The momentum for the change must be kept up and the organisation needs to stay mobilised.

Publicising Activities and Achievements

Communication can, for instance, take the form of a dedicated micro site on the intranet or a dedicated newsletter. So-called quick wins act as lighthouses for the change and help spread enthusiasm for the new behaviours.

Step 6: Ensuring Sustainability

Many value projects stop too early. They do not consider the final step, that is, the question of how the values can be anchored for good in the organisation's everyday reality after the initial enthusiasm has subsided. Sustainability calls for three distinct steps: (1) defining a regular, organisational development process, (2) allocating clear roles and responsibilities for managing the values, and (3) introducing key performance indicators to track the progress of the values.

(1) Organisational Development Process

This step needs to define how often, with which instruments, and in which target groups the values are tracked and interventions are developed. One typical method is to use staff surveys that ask specific questions to check for the presence of target values. The process then allows the organisation to intervene where need be and maintain the effectiveness of the process. Apart from such quantitative data, the process can also include qualitative information, e.g. by conducting regular review or sounding board meetings. In these meetings, a cross-section of people from the company can bounce their impressions back to one or more representatives from top management.

(2) Roles and Responsibilities

Who is responsible for managing the culture of the company? Frequently, this is reserved for HR managers, but we believe that this is not enough. We need to distinguish between the overall conceptual responsibility and the responsibility for the process. While the latter can rest in the hands of HR managers (who are normally also in charge of conducting staff surveys), the conceptual responsibility for culture as a whole definitely belongs to the entire organisation. The topic of culture should be a regular part of the agenda for executive conferences and similar processes. Each section can also nominate specific representatives ("culture champions"), who actively watch over the values, are available as a contact person for employee's questions, and are sent to the review or sounding board meetings.

(3) Key Performance Indicators

As in financial controlling, culture management can also be monitored by using the right set of indicators. Many of these indicators are already available – adding to the data gained from staff surveys. In turn, they can be reassembled for the purposes of cultural reporting. Values like "teamwork" or "curiosity", for instance, can be tracked via the regular staff appraisals, if the company values and the model of competence have been synchronised effectively. As a rule, culture controlling should be in line with the company values. If such specialised culture controlling cannot be introduced because of inadequate resources, the general HR and finance indicators (engagement, fluctuation, contribution margins, market share) can offer some insights about whether the external and internal challenges have been answered effectively or whether more cultural change is necessary.

5 Conclusion

Culture can be considered an obvious source for the success of any organisation. This has become even more relevant in today's business world with its permanent flux and ever more unpredictable markets. The traditional adaptation response, e.g. with business process reengineering, is certainly not sufficient anymore. Apart from asking about culture as a target for change ("Is our current culture still effective enough to match the challenges we are facing?"), we should also ask about the role of culture as an engine for change ("How can we use our culture to make this change successful?"). There are fewer and fewer companies with fully coherent value systems that we would recognise as "strong cultures". Apart from the impact of globalisation, this is the result of the clash of different disciplines and different generations. The end product is a fragmented culture. It is important to have a clear sense about (1) where uniform values are required and (2) where we can tolerate or even promote diversity (Rathje, 2009). The same especially applies to intercultural differences, in how values are embodied in the organisation's practices.

Apart from looking at the role of culture in the context of change, it can also be worthwhile to look at corporate culture in its own right, e.g. when developing official company values. It is essential to know what exactly it is that we are investigating. "Culture work" must not be a stand-in for e.g. responding to poor staff satisfaction data, which would give the term culture a negative association. The occasions for projects in this area should be mergers or similarly sweeping reorganisations that offer a moment to talk about the identity and the self-perception of the organisation. Culture should never be seen as a one-off, ad-hoc project, but as a lasting element of organisational development, supported by specific roles and responsibilities, and regular controlling systems.

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Part III

The Challenges of HR Development

Persuading How? How to Handle the Sponsors of PD Projects

Torsten Bittlingmaier

There are no existing statistics, which record how many sound and sophisticated PD concepts were never realised because they lacked support from influential patrons and sponsors. Conversely, one might assume that a host of existing PD projects of doubtful quality enjoyed backing from powerful benefactors. It seems that handling a project's patrons and sponsors effectively is not merely a factor for the success of PD projects, but a basic precondition for their very existence – sufficient reason to dedicate the following pages to the figure of the project sponsor. At a very basic level, two scenarios are relevant for practical project work:

1. A finished concept is looking for a patron, or
2. The patron and his ideas are there and the staff developer has to respond effectively.

1 The Factors That Make Successful PD Projects

Cultivate or innovate? The answer to this conundrum will not come easily to most personnel development professionals. Any professional will naturally prefer conceptual and strategic work – but there will always come a point at which the concept is in place but it is relegated to the sphere of good intentions without the support of a high-profile patron. Looking for patrons, sponsors, and process agents, while working to overcome the hurdles that should be expected along the way, might seem difficult at first but the effort will pay off in the course of any PD project.

The term "Sponsor" refers to the person with whom the PD professional will discuss the concrete purpose and objective of the project. Sponsors are therefore the people who are ready to actively support the project in material or ideal terms.

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This distinguishes them from process agents. That is, the people who are actively engaged in promoting the operational progress of the project.

A Landscape of Interests

Imagine a draft concept for a PD project has already been developed. What impact can be expected from its introduction with respect to the organisation, including the groups and individuals that make it up, each with their particular interests? How will the organisation or these groups and people respond to the proposal? Analysing the active parties and their reactions to the project – i.e. charting the "landscape of interest" – is an essential step before the project is commissioned. This is a well-known fact, but such analysis is only conducted in a minute fraction of all projects. PD projects are, by their very nature, change projects. They influence existing structures and hierarchies, formal and informal ones alike. People will see them alternatively as opportunities or threats. A thorough analysis is a sine-qua-non for any professional assessment of a project's results and their potential side- and after-effects. Any serious sponsor should demand it.

An analysis of this nature allows people to draw conclusions about the resistance to be expected. It can also characterise potential sponsors, process agents or patrons who might be interested in the project. For the analysis, the importance and the influence of the people/organisations need to be understood and brought into a comprehensible ranking. Figure 1 shows in a matrix a rough representation of such a ranking. The matrix groups the various people/organisations by two factors: the project leader's assessment of their readiness to support the project and their influence in the project environment or the company at large.

The Strategic Anchor

In an ideal scenario – this should, in fact, be the norm – the objectives for any PD project are defined by the corporate business or HR strategy. This means that the resulting projects gain their legitimacy from the strategy and, by extension, that they feed directly and visibly into the general success of the organisation. Sometimes, there is no need to search for a project patron, since top management has already nominated one of its number to look after such strategic considerations. More often than not, however, this ideal process is not the reality. Nevertheless, it should be easy to allocate the project vision to a known strategic motif of the organisation. With this in mind, the project can be brought to the right people in charge of the strategic "turf" the project will play on. Any patron will immediately recognise the value of a strategically aligned project portfolio – and the project leader will soon see how his or her project is being received in terms of its contribution to the corporate strategy.

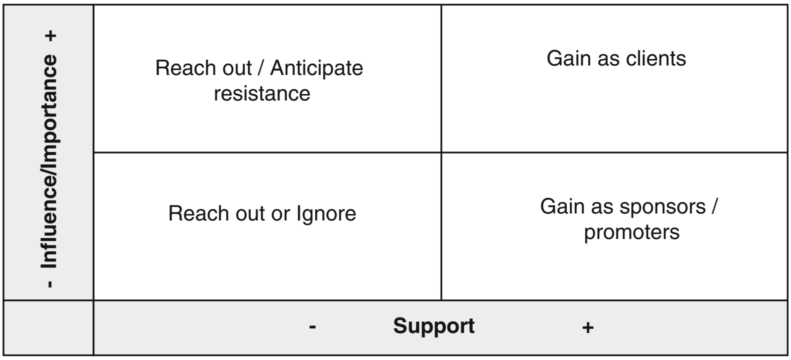

Fig. 1 Clustering people/organisations of relevance for PD projects

Making the Benefits Visible

Any thorough analysis of a project's anticipated impact will uncover who will benefit from it. These potential beneficiaries must be recruited as active sponsors for the project: they can contribute by freeing up resources for the project or by promoting the success of the venture as opinion leaders among their peers. Their mirror image deserves the same level of attention: the people who will not immediately benefit from the project or who might even feel that they are getting the raw deal.

The Appeal of Exclusivity

A certain measure of exclusivity can be a valuable means of increasing the appeal of PD projects. The training curricula of many DAX-listed companies include modules that are only available to the selected few. Naturally, the more rare these courses are, the more sought-after the places on them will become. Exclusivity also increases people's readiness to take part in an assessment centre an audit or a form of potential assessment. This is especially true if it promises successful participants the opportunity to enjoy certain advantages, preferential treatment or status symbols – think promotion or an invitation to join particularly exclusive seminars.

Timing Is Essential

For many projects, there is a natural period of time in which they have a real chance of success. The trick is to see and seize this window before it closes again for good. An example: in 2004, MAN Nutzfahrzeuge AG was only able to conduct a structured and empirically sound survey of around 7,500 of its industrial and administrative employees at the company's Munich home, because its chairman had recently voiced his support for measuring the commitment of MAN's people "as closely as the quality of our vehicles". With this powerful patron behind the project, a short window of time opened up for a survey on this scale of magnitude. The quick and pragmatic actions of all participants, including HR, the works council and the scientific support team, allowed the project to be done and dusted immediately, with great results. Only a few months later this would have been impossible, as the attention of the board had moved on to other urgent matters. The professional handling at exactly the right moment in time, followed by a visible and active commitment to improving the status quo, meant that the staff survey became an established tool in MAN's leadership toolkit and component in the company's continuous improvement process.

2 Handling Project Patrons and Their Expectations

Not every PD project needs to go looking for the right patron. Sometimes, representatives of top management will arrive with more or less concrete visions that they want to see realised. The key is to get a quick sense for that vision's actual feasibility; or else, disappointment will be the natural outcome. Frequently, even the best-reasoned "no" can be the hardest thing to get across. The danger of gaining a reputation as a "belly-acher" or an obstacle to progress and being left out of other rewarding ideas and initiatives is a very real fear. Nonetheless, it is sensible to remind the enterprising patron of the risks and potential side-effects with the necessary candor, to record these officially if need be and to request certain conditions before committing to such a venture.

Defining the Target

Any PD project should begin with all participating parties agreeing on its targets and coordinating certain milestones. Experience shows that even apparently "soft" factors can be expressed in measurable targets. It is easy to fall into the trap of setting too ambitious targets, as PD projects typically concern cultural aspects and will often only bear fruit in the medium or long term. This demands an active and systematic analysis of the patron's expectations and the definition of suitable milestones to guide the project along its course. For longer projects, asking oneself "Where do we want to be in one year?" is helpful to get some clarity and agreement about achievable and desirable progress.

The objectives of projects should be structured with the "form follows function" principle. Oftentimes, it is rather the case that PD instruments, such as staff surveys or 360° feedback processes, are introduced without any sense for the purpose they are actually pursuing – following an assumption that having too many good tools never hurts. But it does! If tools and processes are designed and introduced without knowing their purpose beforehand, most of their effect will go to waste. Remember the Pareto principle: if a minimal part of the effort can produce a major part of the effect, the outcome can be called positive. From a certain point along the curve, the marginal benefits will decrease despite ever-greater efforts being invested. A good example of this is the introduction of staff surveys and, in particular, how their results are used. If anybody assumes that all members of the staff will immediately participate, that all managers will communicate the results and introduce changes perfectly, or that the results will automatically lead to improvements – wrong. Rather, it is essential to take the first step in the right direction. Making the project's patron appreciate this fact: that is the hard part.

Quick Wins, Not Quick and Dirty

The last paragraph discussed the objectives and milestones of projects. PD projects, however, require a particular sense of their potential implications and, possibly, a particularly careful step-by-step introduction of their various parts. So-called quick wins promise immediately visible outcomes that are achieved with relatively minor efforts. If such quick wins can be anticipated in a project and if the project team is sure to not lose sight of the wider purpose, such quick wins can be an excellent means of giving the patron a "good vibe" about the project as a whole. Understanding the side-effects is again vital: do the short-term results lead into the next steps, or are they the result of heedless activity that might produce facts on the ground that endanger the success of the whole ("quick and dirty")? Good quick wins always find a balance between enjoying the immediate benefits and safeguarding the lasting success of the project.

At MAN, assessment centres (ACs) were introduced to promote decision-making and to improve leadership quality across the organisation. Introducing such ACs "out of the blue" would have incited substantial resistance from managers; the established culture would never have accepted candidates for certain positions to be selected by an AC alone. The proposed concept therefore articulated the introduction of assessment centres as a mid-term goal in a sequential process. As a type of quick win, the company introduced an orientation procedure in the form of development centres (DCs) for junior managers. This smoothed the path for the AC method and allowed the managers who had been trained as observers for the DCs to gain some positive experience with the new instrument, along with the junior manager trainees themselves. Only one year later, the originally intended assessment centres were ready to be introduced. The relevant decision-makers and opinion-leaders had already become acquainted with the methodology itself and the institute conducting the processes.

Making the Patron Successful

In all activities during a PD project, the interests of the project's patron have to remain at the forefront. Personnel development must not become only a justification for the continued existence of the PD team. Its first and primary purpose is commercial and social success. Any successes should therefore be seen and presented above all as the successes of the project's patron. Forgetting this can lead to dangerous tensions between the patron and the project team. It is essential for the project leader to develop a clear sense of what the patron values and to align the project activities accordingly with these priorities.

An essential precondition for the success of any PD project is focused marketing, coordinated fully with the project's patron. To paraphrase Plato: "Men are not moved by deeds, but by words about deeds." A good communication strategy will use the organisation's established internal media, such as intranet, in-house magazines, business TV or similar. Depending on the scope of the project, a regular newsletter can be a helpful tool. Again, the right balance is key: benefiting from the generosity and influence of the project's patron while benefiting the patron in return. This is often achieved with well-written letters, opinion pieces or interviews with the patron. In brief: the readiness of the patron to get personally involved in the project correlates highly with his or her eventual satisfaction with the project's course. At the same time, the personal commitment of a high-profile manager will raise the profile of the project and its chance of success.

MAN Nutzfahrzeuge AG uses a form of communication that takes these insights very seriously. So-called "info bazaars" are hosted three or four times every year, in which members of the board come to talk about the state of the company and important strategic projects. The board members are followed by project leaders, who discuss their work, explain its purpose, and update people about the progress of their projects. These info bazaars give project patrons and leaders an excellent opportunity to show themselves and listen to the unfiltered feedback of employees and executives at the company.

Using Transparency to Create a Market

PD projects typically affect a large number of people. Think of the introduction of staff appraisals, potential reviews or new training measures for substantial parts of the workforce. It is worth understanding these target groups and convincing the project's patron that more transparency about the planned activities and anticipated developments will create a stronger and broader foundation for the project. A number of positive effects can be expected in this respect:

1. The people who can expect to benefit from the initiative will create a surge of demand for it.
2. This will create "positive pressure from below".
3. Managers will behave more professionally.
4. Top employees will not be hidden or held back anymore.

The decisive factor for working effectively with the project's patron is to anticipate potential "side-effects". When MAN Nutzfahrzeuge AG introduced a new potential analysis process, the first move was to make formerly confidential lists public by writing directly to high potential employees and their superiors. In these letters, the employees were informed that they had a claim to a personalised development plan as well as access to tailor-made development measures. The project patrons were warned about potentially drastic reactions, which did not fail to materialise, e.g.:

Manager: "You cannot be serious about keeping Mr. XY on that list!"
PD Officer: "Why not? You nominated him yourself."
Manager: "That was not meant to be taken seriously."
PD Officer: "What did you mean by it then?"
Manager: "Nothing, we just had to name somebody."

The moral of that story is that there needs to be clarity and honesty in communication. While some managers withdrew some names from the list because they could not see any further potential in the stated candidate, others came forward and nominated more people because they realised that something had to be done for their rising stars. At the same time, a certain amount of pressure was put on the managers: the selected employees had to live up to their nomination for the personal development plans. Some of the employees who were not rated as having high potential demanded an explanation for their managers' decisions. Both cases meant that the managers had to confront the people they were working with more intensely than ever before. When a new system for structured potential analysis was designed in a second step, the benefits for the managers were immediately recognisable: there was no notable resistance against the new process. The project's patron still considers the project and its results to be a great success.

Regular Reporting

Any professional project would install regular reporting processes to match the agreed milestones and project objectives, including an appropriately timed frequency of reporting, from the very beginning. The experience has been positive with so-called project reviews, in which the patrons are given a structured tour of the current progress achieved on the project and the next steps are coordinated. These talks also offer a regular forum for discussing which occasions require updates about the project's status. In this sense, board-level meetings, department conferences or special occasions like the aforementioned info bazaars have proven useful for influencing public opinion about the project and maintaining public attention. However structured this process might be, reaching formalised milestones will never replace informal talks, the cultivation of a relationship nor the establishment of trust with the project's patron.

Defining a Fixed End Point

Many PD projects have a characteristic afterlife: they transform to become line management duties. This hand-over should be defined in detail and coordinated with the receiving line managers to avoid any "returns" or eternal reworking. The future responsibilities should be unambiguous. If – as recommended – the project has been given specific milestones and targets, it should be easy enough to ascertain whether these have been reached. That is the point at which the patron should officially relieve the project leader. Oftentimes, project patrons underestimate the value of a project review. It is much easier than commonly thought to analyse and document the course of a project for posterity. Experience tells us that well-archived project documentation will have a long and fruitful afterlife: as proof of successful projects for winning new commissions, or simply as a store for future presentations and talks on PD subjects. Last, but not least, there is something uniquely satisfying about handing over one's efforts to the patron in the tangible form of an elegantly bound book.

3 Winning New Patrons

In the course of many medium- to long-term projects, there is a reasonable chance to win new patrons for later follow-up projects. The options are simple: let chance do its work, or actively create the right opportunities. One insightful example of this can be seen in the introduction of development centres and assessment centres at MAN Nutzfahrzeuge AG, designed for the selection of internal successors to leading positions. The development of the DC was the product of an initiative of the company's PD team. The DC was based on the traditional AC methodology. Its purpose was not, however, the typical selection decision, but rather to act as a source of feedback for planning project participants' future development. When it was first introduced, the corporate culture would have made the introduction of a typical selection-centric AC impossible. Patrons and sponsors for the DC were, nonetheless, found across the company's top management, even among board members, and the procedure included leading managers as observers. Despite their initial reluctance, the corporate patrons and sponsors soon came to appreciate the substantial value of the DC. Not long after, managers asked to conduct DC's for their own people – they had become patrons in turn. Due to positive feedback from the DC's participants and the enthusiasm of the managers who had acted as observers, the board requested a similar method to be applied for staffing leadership positions within the year. What seemed unthinkable only 12 months before had become reality: the development and implementation of selection ACs, commissioned by the board and substantially supported by the company's managers.

4 Conclusions

The following list covers a selection of the most crucial questions that should be asked when working with the sponsors of PD projects.

1. Who will be the beneficiaries/losers of the project?
2. Which impact will the project have in the short, medium or long term?
3. Who could act as project sponsor?

4. Who could actively support the project?
5. Which types of resistance should be expected?
6. Is there enough clarity and an agreement with the sponsor about the project's purpose? Have milestones and unique, measurable indicators/targets been defined for the project?
7. Has a communication strategy been set up?
8. Which media can be used to communicate about the project?
9. Who could be the sponsor for future projects?
10. Will the project team be relieved at the end?
11. Will the sponsor review the project?
12. Will the project be documented, including the lessons learned from it?

Responding How? Coping with Slimmer Budgets

Thomas Hartmann

The appreciation of HR development and training activities is always brought into question in the name of cost optimisation. Business consultants, who parachute into a company with their arsenal of benchmarking programmes and process analyses, often have the HR area immediately within their sights. They often encounter all too common prejudices against HR development among their top executive clients. If they can show that years of investing in HR development and the performance of employees have produced little hard evidence of real progress, a painful cut-back of HR development and training is immanent. The much-hyped investments into *our most important asset*, *our people*, are then soon relegated to a little pot of cash for vocational training.

This picture, however drastic it may seem, is no unusual phenomenon but a veritable trend that will always come to the fore whenever the business climate takes a turn for the worse. We need to understand why this is the case. If we know the reasons and rationale for why HR development budgets are such an easy victim, we can find suitable ways to counter the attack. The energy, which should be our escape from the slump of shriveling budgets, must be handled with intelligence and focus.

1 Budgets Under Fire: Four Common Explanations

The budgets for HR development are a frequent topic of controversy. The following occurrences frequently cause HR developers and trainers to have their raison d'être pulled out from under their feet:

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No Strategic Partnership

A real strategic partnership between HR developers and executive management is a rare gem. Many people have advocated the need to establish such partnerships, and there is little doubt about the added value promised by linking up the various sides of the organisation's management (cf. Ulrich, 1997). The reality is, however, that even the most committed HR professionals and development specialists are relegated to a type of third division team, not a part of the *premier league* of *strategic business partners* (cf. Sattelberger, 1999, p. 16). Too often, positions of power lie outside the reach of HR. Dedicated professionals are relegated to only putting out the fires created by flawed change projects. Respect and recognition typically come from the general workforce, not top managers, if they come at all. Even the internal relationships, established in more successful coaching partnerships, very rarely mean a lasting influence on the company's bigger policy decisions.

The myth of internal HR development services being inimitable and irreplaceable (e.g. cf. Wagner, Dominik, & Seisreiner, 1995) has also given way to the recognition that external consultants are often more popular because of their more professional aura, tendency to not contradict their clients, and the option of replacing them if the company's managers are not happy with the "product". Internal HR developers can, naturally, establish a symbiotic partnership with such external advisors, but the greater power profile will usually be reserved to the incomers (not unintentionally so). The loss of strategic partnerships is often the product of a poor reputation and standing at the company made worse by ceding ground to external providers. Internal developers are often also caught in the quandary between their much-ridiculed claim of organisational omnipotence and excessive subservience to their management clients. If companies then try their luck with outsourcing, they will improve the situation only if the HR development and training products on offer are truly marketable and if new markets can be opened up beyond the confines of their own organisation (cf. Hodel, Berger, & Risi, 2004; Schumacher & Stockhinger, 1997).

Grown-Up Market and Service Units

We do not intend to downplay the achievements of decades of HR development and training work. In fact, the opposite is true: many HR professionals have been so successful that their former wards have grown up well and do not need them much anymore. The many communication and facilitation trainings have paid off. Performance management has produced real independence. Coaching and mentoring have created a generation of mature managers.

The greatest and most fatal achievement of HR developers is that they have made themselves obsolete with their work. Their clients, (that is, the business units they have worked with) have become discerning buyers of HR services. If market access is not limited with company directives, they will readily go and shop elsewhere. HR developers are then often turned into simple purchasers and archivists of development services. Professional procurement teams have begun to reinforce this trend more and more at modern organisations.

Toothless HR Development/Qualification Controlling

Qualification controlling appeared as a term in the early 1990s. Originally intended as a pure qualification check, it developed more and more into *transfer controlling*. People became increasingly attuned to commercially relevant indicators concerning HR development. New controlling systems were developed, although they did not aim to be sophisticated, stand-alone systems. Rather, they were temporary improvisations: the plausible management of HR interventions (cf. e.g. Peschke, 1997). The constant call for cost-benefit analyses was too often turned into "data graveyards" of little practical value. The practical difficulty of producing working reports in a world of SAP or similar software solutions often meant the development of a controlling system that does not legitimise investments into HR development. Quality assurance might be a good response in this respect, but a stable process by itself does not mean real commercial benefit (cf. Grilz, 1998).

Only recently have the proponents of human capital management begun to respond to the lack of proven legitimacy (cf. Fitzenz, 2003; Scholz, Stein, & Bechtel, 2004). The obsession with theory harboured by so many developers, trainers, coaches, and change agents, however, still stands in the way of real progress on the commercial side of their work. It is certainly true that designing systemic structures can be more inspiring than the complexities of controlling. However, HR developers are now paying a heavy price for their failure to produce hard evidence for their own effectiveness, despite the fact that authors like Schübbe (2011) have shown that systematic management of HR indicators is not 'magic'.

Qualification Delegated

Two decades ago, the concepts of autonomous learning or cooperative self-qualification (cf. Heidack, 1989) were the target in the search for effective forms of learning. Nowadays, the autonomy of the learner has become even more of a central paradigm.

The call for employability (cf. e.g. Fischer & Steffens-Duch, 2000) means maintaining one's viability in the labour market with permanent training and education. This responsibility is increasingly delegated to the employees themselves. When employees invest their own time and money into self-development, companies' development budgets can be reduced accordingly. HR developers are becoming development advisors, telling people about the *how* and *where*. The link between such development activities and the company's greater development concepts remains in place, but HR developers are not expected to produce their own development programs anymore.

2 Budget Cutbacks: Now What?

The reduction of HR development or training budgets can be the result of many different possible causes. Apart from drastic reductions in times of economic crisis, the systemic fault lines named above are often contributing factors. When the budget cuts are severe enough (more than 50 %), it is time for a radical rethinking of the HR developer's portfolio.

Wailing and gnashing of teeth might appear as an emotionally understandable response in such situations, but it is never a productive reaction (Sattelberger, 1996, p. 236). The key is to react professionally, to concentrate on what one does best – key skills and strengths – and to play the trump cards of the internal service provider (without claiming to sell a panacea for all of the organisation's woes or frantically trying to curry favour.)

Response 1: Emphasise the true need for development and training
Response 2: Market the benefits and plan the costs exactly
Response 3: Become more skilled at internal marketing
Response 4: Develop efficient learning systems with internal clients and external partners

The precondition for such a process-, not method-oriented response is a high degree of professionalism, coupled with focused *political and practical work in the organisational arena* (Sattelberger, 1996, p. 247). In real life, this can mean:

- Engage the remaining internal partners of HR development (networking about mutual added value),
- Establish a presence in change projects with an overt service mindset (*do*, don't *talk*),
- Find hard facts as evidence (report proven weak spots in the organisation's human resources).

This can help win back some lost ground and new commissions. The key is to achieve tangible successes with fewer resources.

Response 1: Underline the True Need for HR Development and Training

Demand for HR development and training should be established as the result of a structured information gathering process. If there are no systematic methods for defining the demand, or if such methods are seen as unproductive, unnecessary extra efforts (e.g. in the case of untargeted, sweeping surveys), the only option remaining is to approach the key stakeholders directly.

With known demand and a promise of an immediate service response, an HR development portfolio can be put forward that proves the competence of the organisation's HR development agents. The key is to have the right access to respond to urgent needs, that is:

- To be receptive to complaints about any shortcomings,
- To have access to *failure records* (complaints, reports),
- To check customer surveys, and
- To identify and interview the key personnel.

This reactive approach (Einsiedler, Hollstegge, Janusch, & Breuer, 1999, p. 72) is invaluable for regaining some *quick wins*, but can hardly be considered sufficient for the long run. Strategically aligned routines for tracking needs and demand must also look to the future. They must be attuned to upcoming trends and anticipate deficiencies before they become public. Naturally, this does create a greater risk of biased perceptions influenced by people's different interests and ambitions. Thus, it is even more essential to show the benefits of HR development activities for the organisation at large.

Oftentimes, our attempts at understanding current development needs fall prey to a set of unyielding prejudices, such as:

- Managers are not leaders or are afraid of conflict,
- Salespeople need more 'grit',
- Salespeople do not understand the point of cross-selling, or
- Caseworkers are disorganised.

Such blanket judgements mean that there are a number of common 'dead spots' in the HR development portfolio that only work to reinforce the existing mistrust of HR developers and trainers. The planned-economy approach to designing larger development programmes (*module by module*) also falls short of the actual needs. The modules degenerate to meaningless mandatory proceedings with an automatic undercurrent of resistance against them. When such activities are finally excised from the curriculum, it is a liberating experience and leaves discredited HR developers.

Such flaws in the system tend to hide the true needs for development that HR developers should respond to. Audits and assessments have proven to be more effective when it comes to understanding and analysing the real needs in detail. They produce valid and sustainable data that can pinpoint real and exact demand. Their essential problem is the amount of effort that goes into them. Nonetheless, recent insights from management diagnostics tell us that

- Assessments and audits do not have to be major showstopper events that take multiple days to produce valid results;
- Online assessments and self-assessments can save substantial resources (time and money) (cf. Etzel, Meifert, & Etzel, 2005).

Again, the key is: *an extra ounce of diagnostics beforehand is better than a pound of scattergun HR development in the long run*. The costs for a careful diagnosis can easily be recouped with the savings in the training's scope. It also helps uncover specific footholds (behavioural training or coaching) that can make for better and more effective development interventions.

Another means of accurately defining requirements to use action-theory heuristics for the systematic definition of HR development and training activities.

Figure 1 presents a viable model for this purpose. A desired action is split into its constituent elements: **perception**, **decision** and **action**. The model also covers relevant **knowledge** for the process and **behavioural dispositions** in the sense of attitudes and motivation (implicit processes). The HR development and training needs (established in direct contacts or diagnosed in ACs) are then translated into specific training activities (e.g. discrimination training, group dynamics exercises, or role-plays).

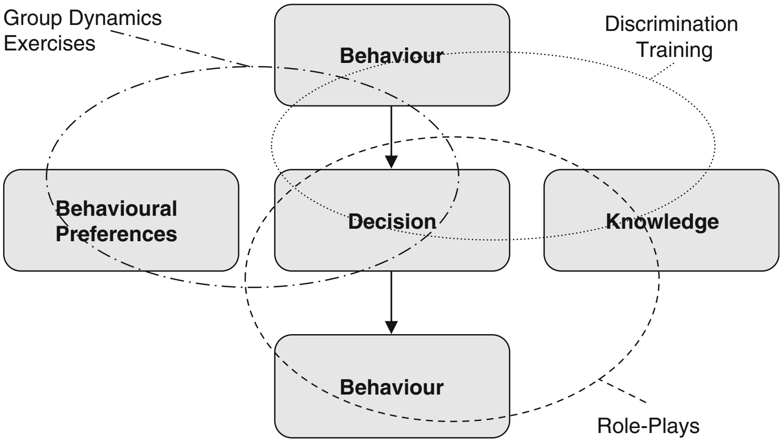

Fig. 1 A heuristic means for defining HR development and training activities (author's own model)

The following questions help to pinpoint the targets for intervention.

Investigating **perceptions**:

- Which perceptions do the participants discount?
- Are there any areas in which the participants' perceptions seem baseless (lacking accuracy)?
- Are there any distortions in perception (that might lead to flawed decisions)?

Investigating **decisions**:

- Can the participants develop all of the relevant information for the decision by themselves?
- Do they proceed systemically in the search for a decision?
- Do they apply the right parameters in the process (for specific actions)?

Investigating **action**:

- Do the participants have the required skills for successful action?
- Are they flexible and adaptive enough in their skills?
- Can they develop new actions by themselves (to respond to unfamiliar circumstances)?

Beyond this level, it is essential to provide the required knowledge and to understand the attitudes and motivations as determinants of people's behaviour. When somebody lacks a sense of salesmanship, any amount of sales training will be a waste of time and money.

The broad sweep of this heuristic approach avoids blind spots (e.g. in terms of the motivation of the participants) and defines the focus for the interventions. For instance, poor leadership performance is often not due to lacking knowledge or a lack of access to the right behaviours, but to untrained perceptions or blunt decision-making processes. This model, developed from the concepts of multimodal therapy (Lazarus, Kreitzberg, & Sasserath, 1983), demands a certain amount of experience, but does not require many resources to run effectively.

Recruiting	Maintaining
• Costs per new hire • Time for recruitment • Number of new hires • Number of positions filled • Quality of new hires	• Total labour costs as a percentage of operating costs • Average remuneration per employee • Ancillary costs as a percentage of labour costs • Average spending compared to turnover per Full-time equivalent
Retaining	**Training**
• Rate of resignations • Percentage of employee resignations: salaried staff • Resignations by seniority • Percentage of resignations of top performers • Costs of fluctuation	• Training costs as a percentage of salary costs • Total training costs • Average number of training hours per employee • Training hours by functional unit • Training hours by job groups • Return on training
Employee satisfaction	Workforce morale

Fig. 2 Human capital scorecard (Fitzenz, 2003, p. 128)

The multidimensional approach can help produce targeted learning concepts and add legitimacy to any proposed blended learning system.

Response 2: Market the Benefits and Plan the Costs Exactly

Companies are quick to repeat the common mantra of people as a prime commercial asset. Even though it has often become a slogan bereft of real meaning, it is actually a simple truth. However, companies are just as quick to stop investing in their people's development when times are getting tough. Many executive managers believe that 2 or 3 lean years for HR developers are fully acceptable management decisions.

It seems virtually impossible to calculate the value lost in *human capital* when investments into HR development are cut back. However, more recent studies have begun to produce proof over the anecdotal evidence (cf. Scholz et al., 2004). The human capital scorecard proposed by Fitzenz (2003) goes beyond the typical indicator systems by connecting various areas of relevance in an intricate conceptual mapping (cf. Fig. 2).

We can expect more and more dedicated rating agencies to look into the proper valuation of human capital. The IC rating of Intellectual Capital Sweden AB, for instance, already covers the intellectual capital of a business. The format used by the IC ratings resembles the well-known formats of leading rating agencies,

Table 1 Initial performance shaping (Kellner & Bosch, 2004, p. 101)

	Sponsorship	Programme overview	Strategic links
Action	• Gain top managers' approval • Ensure the active participation of managers	• Presenting the results of the requirements analysis • Explaining the learning and programme structure	• Linking individual competences with corporate goals • Linking individual competence with important success factors
Questions	• Who will have to live with the outcome? • Who can ensure the transfer of the new behaviour into the company's practises?	• How can the programme improve performance? • What makes the programme important for its participants?	• Could we be successful without these competences? • Are the competences decisive for our future success?
Success factors	• Gaining the support of top managers for the entire training and development process	• Explaining why competence-based training produced better results	• Showing why the company needs the key competences to reach its goals

awarding scores from AAA (e.g. extremely efficient) to D (inefficient). The rating is focused on three areas:

1. Efficiency: What is the value of/How efficient is the current intellectual capital?
2. Development and innovation: Does the company have the will and ability to maintain and develop this capital further?
3. Risk: How high is the risk of losing intellectual capital? (Scholz et al., 2004, p. 121 f)

Even though these processes rely heavily on indicators and are not specifically aimed at showing the success of an HR development intervention, they represent the return on investment in a company's people. This can spur companies on to avoid being rated as low performers in their HR development activities.

Explaining the benefits before or proving the success after an intervention becomes critical for the value of HR development. Old budgets can only ever be recouped again if HR developers learn to act professionally and responsibly.

For Kellner and Bosch (2004), legitimising development spending begins with systematic preparation. They emphasise the items listed in Table 1 for the purposes of competence-centric performance development.

When calculating the return on investment, the authors compare the input and output in detail with each other. Even though there are still open questions and a pinch of imagination is needed to establish the results, they offer an answer to the regular demand for proof of value (cf. Tables 2 and 3).

Such models are only the beginning and might seem simplistic to professional controllers, but even commercial controlling developed slowly over the course of history. The models might have become more sophisticated, but that is not a guarantee of their greater validity. Using one's critical ratio and healthy common sense is always an acceptable path out of overwhelming complexity. What is fatal is to avoid the work that is needed (often seen as belonging to a different profession): avoid that work now, and you will be out of work in the long run.

Table 2 Calculating the return-on-investment 1 (Kellner & Bosch, 2004, p. 121)

1	Requirements analysis	• External assessment instruments • Internal analytical means	Costs:
2	Programme development	• Designing the modules • Producing and revising • Testing and validating	Costs:
3	Execution	• Materials (software, videos, manuals etc.) • Venue (rooms, projectors, A/V equipment etc.) • Travel expenses (accommodation, catering, air travel etc.)	Costs:
4	Salaries/fees	• Participants – Administrative support • Trainer – Typists • Consultants – IT specialists	Costs:
5	Time lost	• Covering the total performance lost	Costs:
		Total costs:	

Table 3 Calculating the return-on-investment 2 (Kellner & Bosch, 2004, p. 121)

1	Improved quality	• More satisfied customers • Fewer complaints • Better service mindset	Output:
2	Improved quantity	• Measurable turnover increase • More customer contact • More commissions per contact	Output:
3	Time saved	• Fewer sick days • Faster project completion • Better time management	Output:
4	Improved motivation	• Improved teamwork • Fewer conflicts • Better sense of identification	Output:
5	Corporate situation	• More competitiveness • Greater market share • Reduced fluctuation	Output:
		Total output:	

Response 3: Become More Skilled at Internal Marketing

If we can predict or even prove the return on investment, we can sell our services. However, as Sattelberger (1999, p. 244) points out, many HR developers have a rather ambiguous attitude when it comes to marketing. Many of them live in the vain hope that

- Demand will be created simply by offering a programme,
- A good product (i.e. successful work with people) will convince people by itself,
- Marketing is a rather uncomfortable, and unnecessarily costly, activity.

In times of tighter budgets, *advertising* should be used very carefully indeed. Glossy brochures or excessive self-selling can have a counterproductive effect and

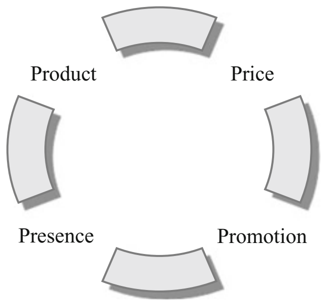

Fig. 3 The areas of marketing

will certainly fail to produce the intended change. If we want to market our services (e.g. a development product) successfully, we need to take a careful and systematic look at all areas of marketing (cf. Fig. 3).

Working with the Product

- Defining and publicising its characteristics (contents and intended output),
- Defining a sensible sequence (the building blocks of the programme), ideally in a blended learning format,
- Making people feel the benefits by including an element of workplace transfer and making an output promise.

Working with the Price

- Defining the customer segments (e.g. executive management, department, line managers, employees) and understanding their spending thresholds,
- Ensuring competitive prices in a comparison to external providers,
- Fine-tuning the scope of services,
- Publicising the added value.

Working with Market Presence

- Ensuring the availability of the product (offer and response),
- Offering advice in the sales process; developing after sales activities (e.g. support services for implementing programmes in the departments, individual transfer support for seminar attendees, additional benefits and follow-ups),
- Getting close to the customer (hotline for problems, on-site coaching, tracking customer satisfaction).

Working with Promotion Activities

- Defining a communication strategy (e.g. regular visits, intranet presence),
- Publishing high-quality product information (no high-gloss excess, but professional appearance),
- Using memorable advertising (corporate design).

The key is to meet the customer in his specific needs, reach out to opinion-formers, and win over the people in charge of the budgets.

Professional internal marketing also means effective branding. This includes image analysis and systematically polishing the brand with good relationship management. A presence in the internal markets (corporate publications, intranet) and innovative offerings are also recommended (cf. Goerke & Wickel-Kirsch, 2002). Appreciation in social interaction is also a part of this and is too often an underestimated precondition (cf. e.g. Thatchenkery, 2004).

In times of enforced reductions in particular, these activities can gain existential importance. Most of them do not require much spending, but they do demand creativity and practical competence. They should not be missing in any employer-branding concept (cf. e.g. Sponheuer, 2010)

Response 4: Develop Efficient Learning Systems with Internal Clients and External Partners

Responses 1–3 are meant to help convince the clients of HR development of the value of internal HR development and training. Although the goal of revitalising strategic partnerships cannot usually be reached, the ascription of professionalism in the creation of development service is an essential step. Convincing arguments and more sustainable evidence about the success of the activities is a selling point for more commissions.

When it comes to developing efficient learning systems on a leaner budget and with scarce resources, mature clients (from entire departments to individual learners) become new opportunities. More autonomy, initiative, and personal involvement in the learning effort can take some pressure off the budget and, at the same time, guarantee greater progress.

Focusing learning on practise means focusing on on-the-job training arrangements. Autonomy implies self-guided learning. Since practise on-the-job normally happens in groups, the natural answer is a form of cooperative self-qualification. If we get past the deceptive conflict of the learner's autonomy being misrepresented as a means to enforce cost reductions, we can see the many opportunities it offers for HR developers.

The first calls for action learning as a new outlook in education went up in the early 1990s (Betz, 1993). The project-centric approach demands more responsibility and practical competence from the learner. The HR developer's job is changing: learning arrangements follow existing needs and respond *just in time*.

However, the new concepts of self-guided learning, cooperative self-qualification, or blended learning also mean that all actors need to rethink their place and purpose (cf. Schwarz, 2003):

The Employee as Learner

- Seeing the opportunities of active self-determination,
- Developing skills and capabilities for setting the right targets, shaping the process, and tracking progress,
- Gaining competences for interactive, social learning.

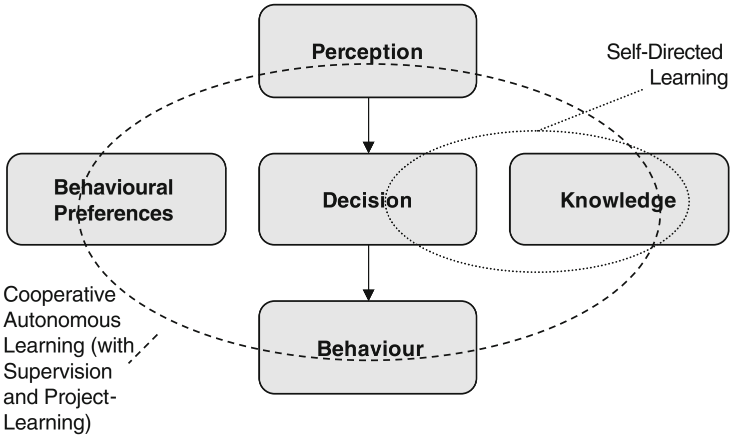

Fig. 4 A heuristic approach for developing HR development and training measures from the point of view of self-qualification (author's own model)

Departments as Sources of Learning Support

- Providing the right organisational conditions (equipment, time),
- Providing an appropriate environment (venue), delegating responsibility, becoming more tolerant of mistakes (e.g. when learning on-the-project).

HR Developers as Teachers

- Stepping away from the limelight,
- Establishing a broad educational toolkit (teaching and structuring elements, learning platforms, etc.),
- Developing, arranging, supporting, and supervising learning scenarios.

This demands the presence of "support structures" (Amberger, 2003, p. 200) in the form of internal and external advisors, coaches, and trainers in organisational and HR development. It also requires a systemic system. Rearranging the learning scenario gives the learner a new skill set that changes the learning arrangement from Fig. 1 as presented in Fig. 4.

The high quality of learning experiences in a social setting is an everyday experience in business. For Schleiken (2001, p. 301 ff), the evolution from pure *single-loop learning* (assimilatory learning) via *double-loop learning* (change learning) to *deutero-learning* (meta-learning) is an essential effect of cooperative self-learning. Management development and vocational training practises have shown that these concepts work (cf. e.g. Kreß & Oesterle, 2001; Schneider, 2001).

The initial vogue of e-learning products (CBT, WBT) in the context of self-managed learning has given way to more pragmatic concepts of blended learning (cf. e.g. Repnik, 2004). This not only paves the way for the peaceful coexistence of different pedagogic beliefs, it also helps keep the costs down.

In the end, the successful design of HR development products also depends on an appropriate process (cf. e.g. Ulrich & Brockbank, 2005). This is an area in which many HR development teams are remarkably resistant to standardization, holding back their efficiency when it comes to generating more complex learning arrangement.

3 Conclusions

'Making a virtue of a necessity' could be the informal subtitle of this chapter. Reduced budgets do not mean that all bets are off – as long as the enforced savings leave some pot to work with. Happily, people have come to understand that no budget is not an option. Even though claiming people as one's most important asset quickly becomes empty rhetoric, there is now general agreement on the need to invest into education and development.

HR developers can turn their crisis into an opportunity. Instead of bemoaning the loss of status, they can legitimise their work by concentrating on tracking actual demand, marketing their services, and controlling their performance. Learners who accept responsibility for their own development will help achieve low-cost, high-impact development. They embody the ideal of learners as self-reflexive subjects who know how to shape their own realities.

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Shaping What? Systematic HR Development in the Functional Cycle

Manfred Becker

Refining the methodological toolkit of HR development has been a familiar item on the to-do lists of many HR developers for a long time. The harsh reality is that all attempts at securing a systematically sound footing for HR development have produced little success. HR development still remains dominated by the supply side. Development activities are still filling the ubiquitous training brochures and seminar calendars without anybody understanding the actual problems, without investigating their root causes, and without knowing the target audience. When HR development does not understand actual demand, its success remains a matter of chance at best.

This is why this chapter tries to address the *methodical grounding of HR development in the functional cycle*. We will see how HR development can be planned systematically, delivered efficiently, and be monitored transparently by means of ***requirements analyses***, ***target-setting***, ***creative design and delivery***, and ***progress monitoring and transfer support***.

1 The Functional Cycle of Systematic HR Development

For the purposes of this chapter, we shall define HR development as "all education, development, and organisational development activities that are planned, delivered, and evaluated purposefully, systematically, and methodically by a person or organisation in the pursuit of specified objectives" (Becker, 2005a, p. 3). According to this definition, the mission of HR development is to take the element of chance out of these activities and tie them to the systematic scaffold of the functional cycle.

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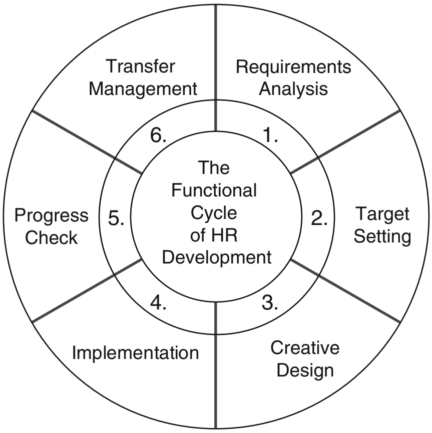

Fig. 1 The six phases of the functional cycle of systematic HR development

Systematic HR development is a sequence of activities concerning the procurement, analysis, processing, utilisation, filtering, and application of information about the shape of HR development.

A sound methodical footing for HR development is essential for it to become (and be perceived as) effective and efficient. It improves the acceptance of HR development and can secure the resources it needs. ***Requirements analysis***, ***target-setting***, ***creative design***, ***delivery***, ***progress monitoring***, and ***transfer support*** are the six phases of the functional cycle of systematic HR development (cf. Becker, 2005b), a finely tuned cycle that is designed to plan, deliver, manage, and control specific development activities (cf. Fig. 1).

Requirements Analysis

A *requirement* refers, in a qualitative sense, to the gap between the current situation (as-is) and the desired state (target). An *analysis* means the systematic dissection and exploration of an object in its many constituent parts.

The HR development requirements of a company are determined by the operational and societal development and the individual development required from its people.

The purpose of a requirements analysis, in this sense, is to uncover gaps in education, progress, and organisational development on the strategic, operational and individual levels. It aims to understand the types, frequency, relevant group, and significance of any shortcomings. These are seen in terms of what people can do, want to do, and are allowed to do. A systematic requirements analysis always begins by understanding the jobs, occupational requirements, level of qualification, and potential of the employees (cf. Fig. 2).

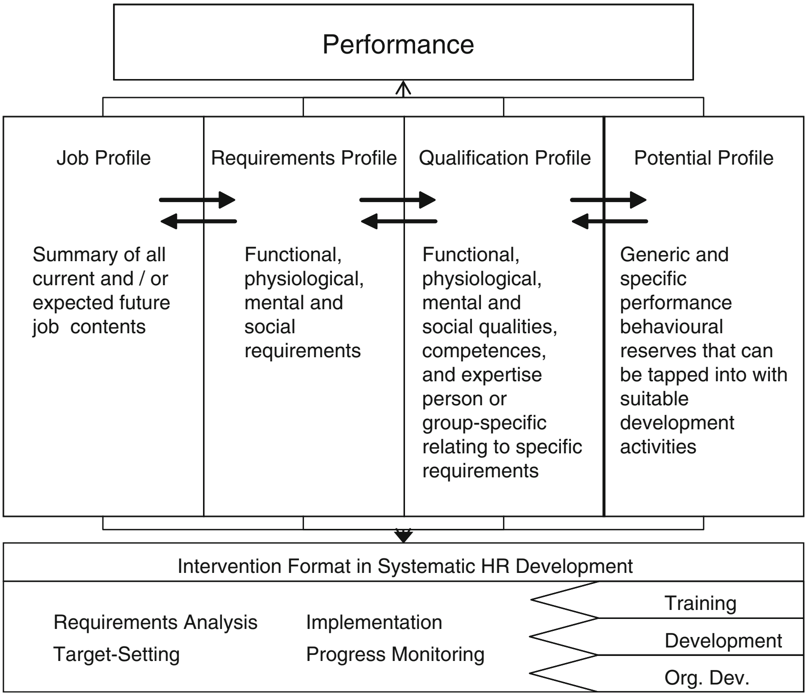

Fig. 2 A goal-oriented development toolkit

Job Analysis

The first step of any systematic requirements analysis is to investigate the jobs in question. This ***job analysis*** records which functions are completed by a position or a group of positions. The critical activity for the HR developer could thus be defined as "ensuring the delivery of requirements- and success-oriented HR development". A function can be termed critical if its non-delivery or insufficient delivery would mean a substantial drop in the amount and/or quality of the company's output. The end product of the job analysis is the **job profile**.

Requirements Analysis

The ***requirements analysis*** clarifies that the technical, leadership, methodological, or social requirement is that a person is able to complete his or her job professionally.

The **requirements profile** of a position typically describes the functional and personal qualities that its occupant needs. *Functional requirements* refer to formal qualifications (e.g. vocational training, seminar attendance etc.), whereas *personal (or behavioural) requirements* address criteria like leadership skills, resilience, performance motivation, or autonomy.

The ***qualification analysis*** looks at the functional, leadership, methodological, or social skills that exist in the workforce (current competence). These can be compared to the requirements profile to establish whether an employee or a group of employees is sufficiently qualified or even overqualified.

The ***potential analysis*** tries to reveal people's dormant potential that could be activated to tackle future challenges. It predicts the extent to which an employee is ready – with or without additional development support – to take up a different or, possibly more complex set of duties.

Causal Analysis: Understanding the Gaps in People's Motivation, Ability, and Authority

The ***root cause analysis*** seeks reasons behind any gaps between the required target state and the current abilities. As a gap analysis, it can identify shortcomings in terms of a "lack of permission" (authority), a "lack of will" (motivation), or a "lack of skill" (qualification). These gaps are where HR development comes into play.

Gaps in Motivation

Gaps in motivation can describe insufficient drive resulting from insufficient comprehension (need for development/support). A motivating and explanatory intervention that makes the employee understand the implications of his or her lack of motivation should help in many cases. Since motivation is what determines people's intrinsic wish to take part in a development measure and see it through to the end, no motivation often means no participation. Unfortunately, motivation is a personal quality that is not directly observable. Only actions can suggest the presence or lack of motivation.

Gaps in Qualification

Gaps in qualification reveal the functional and/or methodological inability to complete a job to the required standard. Companies can respond to lacking know-how or lacking capabilities by offering educational support for their people. However, when planning such educational interventions, they should verify whether the gap is one of

- Potential,
- Practice, or
- Awareness.

If one of these factors is at play, then it is not education, but a development intervention that is called for.

In the case of ***lacking potential***, the employee does not have the required mental or physical capacities and should be reassigned to a different job.

Lacking practice means that the employee had been able to match the requirements at some point in the past, but a job change, illness, international assignment, or time spent on a project led him to be out of practice for the job in hand. In the "clocked" work of manual manufacturing labour, practice is key when it comes to meeting time or quality expectations. Oftentimes, supporting the employee with checklists or specific instructions will suffice for him or her to regain practice.

If ***lacking awareness*** is the culprit, the employee normally only has to be made aware of the problem for him or her to overcome it. A typist will, for instance, probably not keep making the same punctuation mistakes after they have been pointed out to him or her.

Gaps in Authority

Gaps in authority point to flaws in the operational set-up. Managers might not be giving their people sufficient functions, responsibilities, or authority to do their job properly. Their employees are prevented from putting all of their abilities to full use. What this situation requires is more and better communication, improved leadership, and better working conditions in the sense of reorganisation and change management (organisational development). We should not expect the situation to improve by simply ordering people to attend seminars. They are not the cause of the problem – it is the situation they have to work with.

The ***strategic requirements analysis*** is derived from the corporate strategy. The strategy – expanding, consolidating, globalising, entering new markets, launching new products, etc. – defines the basic frame of reference for the jobs and requirements of the future. It operates on a medium to long-term timeline.

The strategic requirements analysis envisions the human resources of the company in terms of the right quantity being available at the right time to enable the company to reach its goals. The work must also stand up to the right quality standards for positions at that company.

Strategic requirements analyses are among the most important tasks of a company's top managers. Larger companies involve dedicated strategy departments, research & development, or market researchers when forecasting HR development needs on that level. A strategic point of view gives HR developers a head start and a sound basis and generally raises their profile in the company's functioning body.

Figure 3 shows the processes that take place in operational and strategic requirements analyses.

Setting Targets

Targets are used to plan the responsibility of the HR development in an educationally and commercially effective manner. Time scales help to point out when progress is in danger of falling short of the intended targets. Strategic targets can support analysis of the causes behind such problems as tardiness. They might also reveal the right footholds for revising other targets or for adjusting the ways in which we pursue them. The targets of HR development define future performance and behaviour standards for individuals and groups of employees that are to be reached by means of development activities. We can distinguish between education, development, and organisational development targets.

Depending on the behavioural change they are designed to encourage, HR development targets differ in the levels and the spheres of development they try to address. Levels of development include frontline, general, and detailed targets,

Processes in Strategic Requirements Analyses:

External Changes

- Trend analyses
- Scenarios
- Expert interviews (e.g. Delphi method)
- Educational research

Internal Changes

- External service analyses
- Project reviews
- Expert interviews, trend analyses with internal data sources

Processes in Operational Requirements Analyses:

Internal Changes

- Project output
- Project experience
- Seminar feedback
- External service analyses

External Changes

- Benchmarking
- Competitor monitoring
- Client monitoring

Fig. 3 Strategic and operational requirements analysis

depending on the degree of their specificity and remit. These levels build on each other as a system of modular building blocks. Mirroring the different spheres of human abilities, we distinguish between cognitive targets (changes to intellectual capacities), affective targets (changes to attitudes and convictions concerning work), and psychomotor targets (changes to manual and motor skills).

All targets should be defined with the cooperation of the employees, their line managers, and the HR development specialists. A target will be accepted more readily if it is SMART for all of these parties (specific, measurable, attainable, relevant, and time-bound). Targets designed in line with the SMART criteria will be a source of motivation and guidance. For a selection of possible HR development targets, see Fig. 4.

Targets are typically formed in a deductive process (targets cascade, cf. Fig. 5), beginning with the *principal targets* for HR development as a reflection of general HR policy. These principal targets are then translated into *frontline targets* that define the general focus of education, support, and organisational development activities. The next level, the *general targets,* specify the desired level for more specific activity bundles, e.g. the goals of vocational training, on-the-job training, career and succession management, or the objectives of organisational development projects. These general spheres for action are finally distilled down into the *detailed targets* for individual activities that form the causal substructure for the actual *action plans*.

In practice, people often tend to think in terms of actions, not targets. If we think and work only in this sense of practical action, we remain unassailable, are always seen to be active, and can change our goals or justify the outcome at any time with the 20/20 clarity of hindsight. But when the normative force of “facts on the ground” alone legitimises HR development activities, and not sound and dedicated planning, HR developers will remain blind to where they are going and never understand the implications of their activities for the people they are working with. Consequently, their development activities will likely come to an early end or outright failure.

HR Development Targets – A Selection

- All employees are qualified and motivated to the required level.
- The client's expectations of HR development are integrated as completely as possible with due consideration for commercial and educational constraints.
- HR development is an attractive and accepted function for HR developers.
- All involved parties participate optimally in the cooperative task of HR development.
- The processes and tools of HR development are designed and used in line with the responsibility of the organisation to ensure effective and efficient development work.
- The HR development concept is known and is being used by line managers in their everyday routines.

Fig. 4 HR development targets

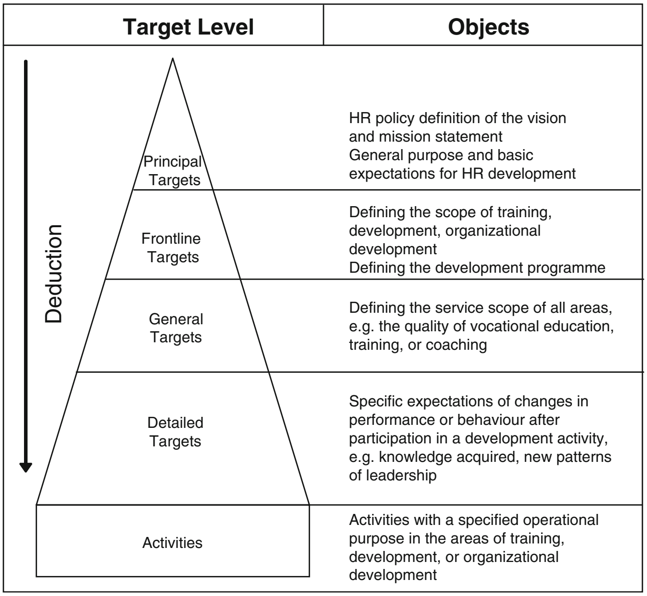

Fig. 5 The cascade of HR development targets

Creative Design

Creative design means building the infrastructure of a development activity: its concept, method, timeframe, equipment, and personnel.

- *Concept:* Selecting suitable learning objectives on the road to the desired education and development goals.
- *Method:* Selecting suitable teaching and learning formats, settings, and social structures to match the level of development of the learners and the special nature of the lessons.

Costing a Development Activity		
1. <u>Costs for preparing the development activity</u>		
All participants		**8,612.38 EUR**
Personnel costs		
Briefing the trainers (producing trainer guidelines etc.)		
Applicable fees/hour:		77.22 EUR (band[1] 7)
		82.73 EUR (band 8)
approx. 12 days	band 7	6,875.57 EUR
approx. 2 days	band 8	1,227.71 EUR
Travel and catering expenses for the given period		
approx. 700 km	5 days at 29 EUR	509.00 EUR
2. <u>Costs for actual delivery</u>		**68,899.43 EUR**
3 trainers	at 6 hours each (8 classroom hours),	
	two band 7 (55.51 EUR/h) and one band 8 (60.37 EUR/h)	
	8 sessions	8,226.72 EUR
2.2 Calculated rent	(170.00 EUR/days)	1,360.00 EUR
Travel and catering expenses for the trainers		
(approx. 1,120 km and 8 days at 20 EUR)		814.40 EUR

Fig. 6 (continued)

2.3 Hand-out production	(4 EUR per participant)	452.00 EUR
2.5 Loss of production		
for 113 participating employees		46,542.91 EUR
Travel and catering expenses		
(approx. 15,820 km and 113 days at 20 EUR)		11,503.40 EUR
3. Costs for actual delivery		
On site		**115,349.78 EUR**
Preparing the multiplier	(band 7)	
(approx. 2 hours x 113 participants)		12,545.26 EUR
Loss of production for the multipliers		
For two presentation sessions, duration:		
approx. 2 hours x 113 participants		25,090.52 EUR
Loss of production		
for approx. 700 employees (band 7)		
approx. 2 hours		77,714.00 EUR

Fig. 6 Costing a development activity

- *Timeframe:* Defining the date, duration, and sequence of learning and practice to match the needs of the business and the availability of teachers and learners.
- *Equipment:* Organising the required financial, organisational, and personnel resources with due consideration for the principles of effectiveness and efficiency.
- *Personnel:* Briefing and selecting the teachers and learners, allocating responsibility and ensuring the involvement of line managers, employees, works councils, disability representatives, or equal opportunities officers.

All creative design work builds on the requirements analysis and the set targets. Its purpose is to designate who will benefit from the activities, and to plan and arrange the actual activities. In addition, the education, support, or organisational development work should be designed as effectively and cost-efficiently as possible. Figure 6 outlines a sample calculation for an HR development activity.

Delivery

Delivery is where the HR development activity is "produced". This is where knowledge and ability are created in a planned and appropriate manner. It is important to keep in mind that learning can't be imposed on people. HR development education programs' delivery concerns the provision of circumstances that favour and promote learning and development. Changing types of activities, breaks, attention to potential "roadblocks" and the recognition of different personal goals, preferences, and conditions improve the productivity of HR development.

HR development activities are ***conducted*** internally or externally, on-the-job or off-the-job, or with a mixture thereof. The people in charge check whether the activity is running to plan or whether any corrections are required (targets, contents or didactics). Team-based projects and mutual support in the learning and work process are changing the nature of HR development in practice. In team and group-based concepts, line managers provide support in their functions as trainers, advisors, coaches, or mentors. Full-time development specialists take part as facilitators to support the learning and working processes with the right media, facilitation support, and train-the-trainer activities.

The added value for the company needs to be balanced between increased knowledge on the one hand and the costs that go into it on the other. The costs for acquiring an ability might exceed the return that is promised in the sense of improved performance. It could be that the entire activity becomes commercially unsustainable.

The delivery of HR development is intended to systematically add to the organisation's expertise, behaviour, and attitudes. Systematically entails attempts to remove the element of chance as much as possible, e.g. by planning alternative scenarios. For instance, learner-centric and active individual work should be planned for in case there are not enough learners to allow effective group work. HR development should always try to sustainably contribute to the company's performance, uniqueness and protection from imitation. This is how HR development adds significantly to the lasting success of the business.

Progress Monitoring

An old truism is becoming more and more important for HR developers: What can be measured must be measured. And: If you cannot measure it, you cannot manage it.

The success of HR development consists in the changes to the knowledge, ability and behaviour of the people who take part in its activities. We can distinguish between input success, output-1 success, and output-2 success.

Input success is defined as the shared and assessed performance of e.g. the trainer staying within his timeframe and completing the planned lessons in their full range of detail. Input success is a necessary, but not the only condition of learning progress.

Output-1 success is visible in changes to people's knowledge and abilities, behaviour and attitudes at the end of an activity. Learning progress in this case is the independent achievement of the learner with the teacher's support.

Successfully using what has been learnt in the workplace is measured as *output-2 success*. It shows whether and to what extent development activity has enabled the learner to complete his or her tasks independently and to the required standard.

The practice of controlling success in this manner still suffers from considerable methodological flaws. Perhaps the timing is off, the measurement does not actually measure what it aims to measure, or there is no direct access to the object of the measurement (i.e. people's abilities, behaviour, and attitudes). Despite these flaws, progress monitoring can still produce relatively reliable results. The right operational standards must be in place to allow people to track the course of development using a gap assessment.

Progress monitoring can be *process-oriented* (e.g. taking place during a seminar) or *results-oriented* (e.g. taking place after a finished development activity). Progress is checked by means of predefined criteria (success indicators), for instance at the end of an *off-the-job* development activity like a training course of seminar. Learning progress always translates to successful workplace application. The most important subject in this respect is the individual participant, although other parties in the development activity (trainer, tutor, line manager) can also be included. The individual attitudes of the participants and the setting in which they learn determine whether the intended outcome is achieved. These, in turn, depend on the behaviour of the teacher, on the didactic concept, on the intended goals, and on external conditions, such as the venue and length of the seminar. Tracking interim targets during the course of a development activity can help to monitor progress. However, we ought to avoid putting too much trust in our ability to influence activities in progress, as the original design of the activity should have already established clarity about decisive criteria, such as the programme and the chosen teaching methods. Interim progress controlling should therefore never straightjacket the teacher's work. Tracking progress in this manner is, above all else, a source for information about how we should plan future development activities. Figure 7 gives an overview of the aspects of educational and commercial progress controls.

Transfer Support

Development activities only finish once the participants have transferred what they have learnt into their permanent work practices, that is, once employees have begun to use the lessons consistently in their jobs at the workplace. Therefore, transfer control takes place in the workplace and establishes whether the problems that the development intervention was designed to overcome have disappeared for good. ***Transfer support*** requires the close involvement of line managers and employees alike. Line managers can contribute by encouraging their people to use their new insights in their work. Whenever HR development takes place on-the-job, with a

Educational progress monitoring concerns developmental and learning progress, assesses whether the intended changes in a person's qualifications have been achieved, records how intensively the new qualifications are used in the workplace.

Purpose: Assessing the commercial feasibility of an activity

Problem: Benefits are hard to pinpoint; relies mostly on external indicators with little access to underlying causalities.

Methods:

- Cost-benefit analyses
- Control group comparisons
- Before-after tests
- Participant/Teacher assessments
- Participant – line manager reviews
- HR balance

Commercial progress monitoring

Cost controlling

- Concerns the commercial viability of an activity
- Records the type and amount of the costs incurred and the cost accounts that have incurred them
- Aids comparative calculations when deciding between alternative activities

Profitability controlling

- Identifies the cost-benefit relations
- Aims to assess the "return on investment" into HR development

Fig. 7 Educational and commercial controlling

concrete objective, the question of transfer is overcome, since the spheres of learning and working coincide.

Transfer support rounds off the functional cycle of systematic HR development. However, we would be mistaken to see it as something that only happens at the end. Transfer elements operate in all phases of the functional cycle to ensure that the level of qualification achieved by HR development is consolidated in the workplace and continues to improve with the on-going efforts of the employee as learner. An overview of the different types of transfer is displayed in Fig. 8.

We also need to understand whether transfer is only the mechanical application of what was learnt in the training or a gradual, comprehensive, or inclusive transformation. Depending on the maturity of a company's HR development work, the step from qualification to performance always includes a transformation of a theoretical insight into a practical competence. This means that the HR development process observes a twofold transformation: learning turns a talent into a qualification (first transformation); practice extends this into a job-related expansion of a person's applied toolkit (second transformation: "positive transfer"). However, there is a danger of the present qualifications not changing at all or even degrading when the new insights make later work harder ("zero transfer" or "negative transfer"). The "double" transformation also bleeds into all later learning

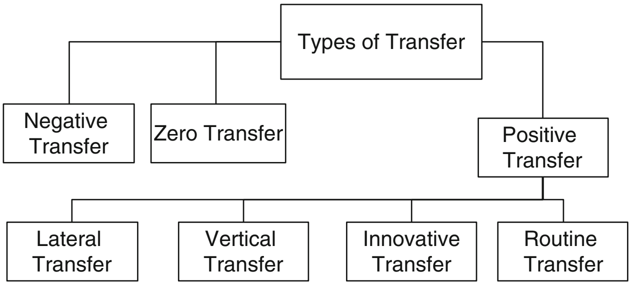

Fig. 8 Types of transfer

and, by chain reaction, the transfer processes. Lifelong learning across an employee's entire career helps prevent a loss of learning skills and helps transfer success.

Managing the transfer support process is one of the key functions of line managers in their role as frontline HR developers. In order for them to give their employees effective transfer support, line managers need to play a responsible part in planning and designing the development process at all stages of the cycle. The demand for more learning and transfer-sensitive conditions for senior employees attests to the importance of the actual work environment as a factor for effective knowledge transfer.

Employees are also expected to become better as a result of the transfer. The aim of developing specific job-related qualifications of employees also extends to certain general qualities, such as social skills and the personality development of the employees. Personality development includes a sense of initiative and focus as well as the ability to cast a critical eye on one's way of working and to begin certain learning processes independently. In principle, transfer support aims to develop this set of skills.

Employees can be expected to excel at transferring their new expertise and abilities when the procedural and structural organisation they are working in is also adjusted to reflect their greater qualifications. Line managers should recognise and encourage it when employees try to find their own solutions to problems. A supportive environment gives the employee the autonomy he or she needs to try out the new insights.

2 Conclusion and a Look Ahead

The functional cycle does not work by itself. It requires people to keep the wheel turning. For every phase of the cycle, the *main ownership* and *co-ownership* need to be clear. Ownership for requirements analyses, for instance, lies mainly with line managers, as they are responsible for the right allocation of human resources to meet existing needs. In turn, ownership for the design work lies mostly with the dedicated specialists in HR development.

The following general statements can be made about the functional cycle of systematic HR development:

- The functional cycle is an instrument for the systematic design of HR development.
- All elements of the functional cycle are closely interconnected with each other via their mutual influence.
- The goals and objects of the business, its HR policy, and the priority targets of its education, development, and organisational development efforts determine the shape of the functional cycle.
- The functional cycle is a means to an end for reaching HR development targets – it is not an end in itself.
- How effective the chosen shape of the HR development processes will be depends on the maturity of the organisation (the "three generations" of executive management and HR development).[1]

The final checklist covers the most important questions for systematic HR development in its functional cycle:

- Have the targets been established with a job, requirements, and root cause analysis? What are the causes for the identified gaps?
- Which principal, frontline, general, and detailed targets define the thrust of HR development and how can these be translated into concrete, practical targets in the sense of actual activities?
- Are the chosen targets accepted by HR development partners?
- Has the creative design considered the optimum cost-benefits ratio?
- Have the preconditions, circumstances, and financial/manpower capacities been considered to ensure the effective design of the development activities?
- Is the delivery of the activities going to plan? Are interim corrections required?
- Have criteria been defined for monitoring progress?
- Are the main- and co-ownership clear for every phase of the cycle?
- Is there dedicated transfer support? Have problems that existed before the development activity was introduced been corrected?

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Controlling How? Measure, So You Can Manage

Julia Lemmer and Matthias T. Meifert

We shall begin this chapter with a little numbers game: recent studies have shown that Central European companies are investing €1,000 on average into the development of each and every employee per year (IW, 2009). In terms of the overall payroll, this accounts for 3.6 % of the salaries and wages paid out to employees (Kabst, Meifert, Wehner, & Kötter, 2009). Companies with more than 500 employees are, on average, investing €600,000 into qualification in any given year (Dent and Wiseman, 2005). In Germany alone, we assume qualification spending to be at around €27 billion (IW, 2009). Recognising the fact that human capital is the greatest asset for an economy without ready access to major natural riches, this seems money well spent. However, we must then consider that only every second company tracks the success of its qualification efforts in any systematic sense – most often, in a very rough-and-ready manner – (Kabst et al., 2009; Kötter & Kurz, 2011). Thus, every second company cannot say whether the €1,000 spent on every single employee was indeed a worthwhile investment. This is an astonishing fact, given that more critical researchers have suggested that only 15 % of what people learn in training is ever actually used in their work (e.g. Robinson & Robinson, 2008). In other words: piles of cash are spent on qualification without anybody checking their success and without the buyer of the training knowing whether he is getting what he wanted for his money.

We can therefore record that half of the €27 billion spent per year in Germany on training and development, that is, around €13.5 billion, is spent on projects about which nobody can say whether they are working. Even in the most benevolent reading of the situation, only around €4 billion are known to contribute verifiably to an improvement in the quality of work. In times of economic trouble, when HR departments are faced with the pressure of having to legitimise their spending on HR development, it should be obvious that training and qualification efforts need to

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be evaluated systematically. The evaluation can verify their value for the company and show that these efforts need to be designed to be sustainable and productive for the company that is paying for them.

A look at the HR development cycle (cf. Becker's "Shaping what? Systematic HR Development in the Functional Cycle") shows that tracking the success of a qualification and development effort is not a voluntary added flourish, but an indispensable part of any serious HR work. How else can we ascertain whether the gap between the status quo and the targets that we identified last year has indeed been overcome? How else can we be sure that the company's people are able to keep up with the changing challenges of their work as a result of the development support they are given?

At the same time, we have to accept the fact that no reliable causal link between qualification success and commercial success has yet been identified. One reason lies in the difficulties with quantifying the targets and progress criteria in HR development. As long as there are no clear yardsticks for choosing the right development strategy and tracking the effect of development activities, we can only assume and approximate the link between training and qualification and the company's commercial success. The logical link might be evident, but measuring it accurately in real life is another matter altogether (Meifert, 2004).

Another reason for the poor take-up of qualification controlling can be found in the fact that internal politics often advise against publicising the success of projects that have been long in the making. The fear is that the figures will show that the spending was wasted and that the activities will be cut from next year's budget. The two pioneers of qualification controlling, Landsberg and Weiß, also agree: "If we boil everything down to costs, we are in danger of dropping the 'added value' and 'strategic thrust' of qualification from the equation" (von Landsberg & Weiß, 1995).

The aim should be to strike a balance between "putting a price tag on everything" and "scattergun spending" in training and development. This chapter will try to approach this complex problem in a pragmatic and practical manner. We will first introduce one concept for a pragmatic, but meaningful evaluation of qualification success. Then, we will look at readily usable means that allow us to shape development efforts to be more transfer-driven, sustainable, and economically viable.

1 The Kirkpatrick Model for Evaluation

Practice has shown the evaluation model developed by Kirkpatrick in the 1960s to be highly effective (cf. Fig. 1). Kirkpatrick (1998) distinguishes between four levels when assessing the success of a qualification measure:

- Reaction/satisfaction (How happy are the participants with the qualification measure?)
- Learning (What have the participants learned?)
- Transfer (To what extent are they using what they have learnt in the workplace?)
- Result (To what extent has the measure contributed to an improvement in the commercial results?)

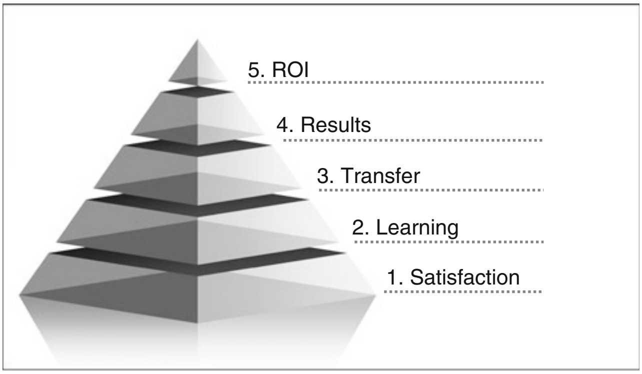

Fig. 1 The levels of qualification evaluation, following Kirkpatrick & Philipps

Phillips (1994) later added a final, fifth level to this model representing the return on investment in such qualification measures (To what extent does the investment into qualification pay off for the company?).

While the first level – admittedly the easiest hurdle – is covered at most organisations, levels three to five are rarely included in the evaluations. This is surprising, as only an evaluation on these higher levels can actually tell us whether the participants of a qualification activity are indeed using what they have learnt and whether the investment has paid off in that sense. After all, participants' satisfaction, which is usually tracked with so-called "happy sheets" handed out at the end of a course or other training activity, is easily influenced by other contextual factors, such as a trainer with a sense of humour or the quality of the catering during the course. However, the level of satisfaction does not tell us anything about the actual transfer of the training to the workplace. This means that it is essential to evaluate this transfer success separately. In business practice, the top level of the model is used most rarely. The reason for this is evidently to be found in the challenge of finding clear and meaningful criteria for the evaluation. Estimating the impact of the training on more general commercial indicators also proves to be a challenge.

The chart in Fig. 2 presents the current status quo in terms of the take-up of different evaluation methods in business.

Even though the highest levels of such evaluations can seem complicated for the people expected to rate them, the following insights and ideas from the practice of qualification evaluation show how practitioners track the success of qualification measures on the various levels:

Satisfaction

The satisfaction of the participants in a training session is most effectively measured immediately after the end of the session. In most cases, this is done with a short questionnaire that asks for a rating of meaningful statements, such as:

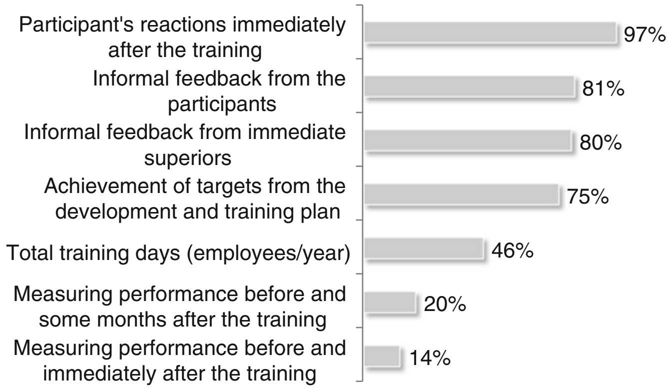

Fig. 2 Methods for qualification evaluation measures (Kabst et al., 2009)

- I was generally happy with the training.
- I believe that attending this training was worthwhile.
- The training was structured well.
- . . .

Measuring people's satisfaction with short interviews after the session is also a possible means of getting a first sense for whether the training was received well by its target audience or whether there are any aspects that need a revision.

Learning

To check a learner's progress in the sense of the new know-how gained as a result of training, it is necessary to establish his or her knowledge before and after the intervention. This means that the participants should rate their knowledge of the topics intended for the training before they join the course and repeat this self-assessment after its conclusion. In practice, it helps to prepare a questionnaire on the practical knowledge to be covered by the training and to compare the data from the responses of the participants before and after the training. The difference can then be defined as successful learning. Since these questionnaires need to be aligned carefully with a clear expression of target contents of the training, this approach has the added benefit of forcing the training's developers to revisit and rethink their intentions for the training. When measuring the results of an executive development course, the knowledge change in the participants could be tracked by rating the following statements:

- I know various techniques for delegating tasks to my people
- I know exactly which tasks I have to cover myself and which I can delegate to my people
- I am aware which tasks cost me most time and produce the least results
- . . .

The acquisition of new knowledge can, of course, also be evaluated with full-blown exams, although this will often come up against serious acceptance issues in practice. Focus groups or short interviews with the participants can also be used to monitor learners' success.

Transfer

Training can only be considered effective if people are actually using what they have learnt in their work: that is the long and the short of it. Without this successful transfer, the investment into the training has not paid off because the behaviour of the participants has not changed in any verifiably sustainable sense. This simple fact makes it ever more surprising to see that the workplace transfer aspect is often neglected both in the design and implementation of qualification measures and in their evaluation. This might be due to the fact that this aspect is certainly more difficult to assess and evaluate. Additionally, a successful transfer is not only dependent on the structure of the training itself, but also on other environmental factors that can encourage or stand in the way of its application in the workplace.

If we include the training's transfer in the evaluation, we consider not only the practical application of new skills, but also the internalisation of new concepts and approaches in people's behaviour, attitudes, and abilities. This effect can obviously not be measured immediately after the end of the training measure. The participants first need time to try out and practise what they have learnt. A waiting period of about 2 months is recommended before using one of the following evaluation methods:

Participant Surveys

The measurement of the successful transfer of the training should be aligned with the original targets of the qualification programme just as the evaluation of the participant's learning success was. For executive development programmes, the transfer success could be assessed using a survey of the participants' response to the following statements:

- I motivate my people individually to implement changes depending on how I assess their personality.
- I can respond very well to my people's concerns about change processes that I introduce.
- I discuss complicated leadership incidents with my colleagues.
- I organise my day with effective time management methods.
- . . .

360° Feedback

360° feedback can be used to include additional perspectives in the assessment of the participants' behavioural changes. Typical 360° feedback would include statements from the participants themselves and data from their superiors, co-workers, employees, and clients. These perspectives can be limited to specific groups, depending on who is able to rate and assess the behaviour of the focus persons. As in the self-assessment described above, the 360° feedback can only produce a reliable assessment of behavioural change if it is conducted both before and after the intervention. However, even using such a pre- and post-survey does not remove the problem that behavioural change cannot be related to somebody's training attendance as a verifiable cause-and-effect scenario. It does, however, clearly reveal certain tendencies in this regard.

A training programme's transfer success can be ascertained more reliably if the survey of the participants is crosschecked against a control group. This helps us understand whether the improvement in the values is indeed a result of the training measure or whether other factors in the organisation have meant that the training's intended contents are being used – so to speak by natural evolution – in the organisation's routines.

Results

This section aims to establish which commercial results were achieved by the activity. Few companies include this stage in their qualification controlling systems. This might be due to the fact that qualification needs are often hard to derive from, and align with, the commercial strategy. The requirements analysis should aim to define which commercial targets should be pursued and where more development is needed. This is essential to pick the right indicators for this level of evaluation.

Suitable indicators for "Results" can include the following:

- Higher sales
- Increased productivity
- Lower fluctuation
- Higher quality
- Increased turnover
- Lower costs
- Time saved
- Improved staff satisfaction

It is again evident that the indicators should be recorded at two points in time at the least: before and after the activity. Ideally, the results should be crosschecked against a control group. Again, there should be enough time between the actual activity and the subsequent evaluation (approx. 6–12 months). Since this data is quite difficult to collect and as there is no direct causal link between a successful training measure and commercial success, all of the data should be critically revaluated. It will probably not be worth the effort to interpret a link between the success of a training course and the many different indicators of commercial performance in the case of individual two-day training courses. Calculating success on this level makes sense when, for instance, the company has launched a broad-based leadership quality campaign. It can be worthwhile to check the data on fluctuation levels, productivity, or staff satisfaction before and after such interventions. However, even in such relatively straightforward cases, the quantitative data should be supported by qualitative insights from interviews or surveys to recognise the relevant effects.

Return on Investment

The highest and also the most complex level of evaluation is calculating the return on investment into qualification. The results level had not yet touched on "hard cash" in the indicators it tracked. Now, the ambition is to find a monetary value to put on the success of a qualification measure. In practical terms, this means converting the data collected on the fourth level into monetary units to compare against the money that was spent on the training:

$$\text{RoI}\,(\%) = (\text{Benefits} - \text{Costs})^{*}100/\text{Costs}$$

Example

A training programme for sales reps is introduced to improve cross-selling performance. As a result, the company's sales people are now also offering installation services whenever they sell their products. The number of customers who are buying that service rises from 4 in 20 to 8 in 20. Each sales rep who had taken part in the training is therefore generating an additional €50,000 in turnover, after an initial investment of €20,000 (training costs, including opportunity costs, such as the productive time lost during the training sessions). Consequently, the training has a RoI factor of 1.5, that is, for every Euro spent on the training, the company gains €1.50 back (calculated as: €50,000/ €20,000 − €1 = €1.50).

Calculating the RoI in monetary terms can be relatively straightforward when dealing with technical skills training. However, it becomes much more difficult to put an immediate figure on the effect of soft skills training. In such cases, the actual RoI has to be estimated as accurately as possible with the management and expert knowledge that is available.

2 Anchoring the Evaluation in the Development Cycle

As mentioned at the outset of this chapter, the need for a proper evaluation arises immediately from the HR development cycle itself. More specifically, it immediately comes from the requirements analysis. This also means that the evaluation should be planned in the context of the requirements analysis. This makes it easier to choose the right indicators and to match the purpose of the activities with people's actual requirements. The chart in Fig. 3 shows this link.

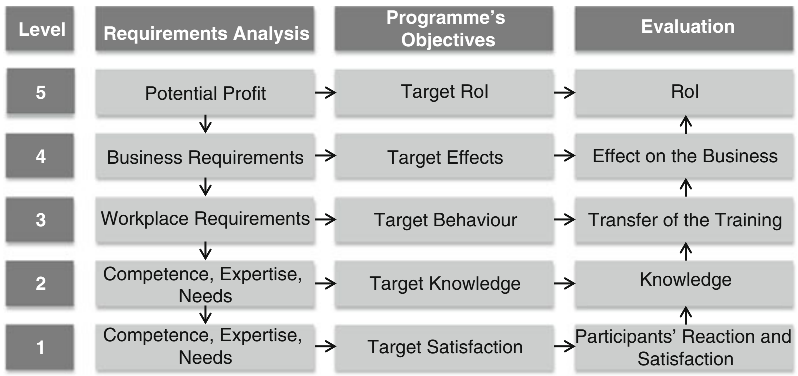

Fig. 3 Requirements analysis, targets, and evaluation (cf. Phillips & Schirmer, 2005)

3 Checklist: The Minimum Standards for the Evaluation of Qualification Activities

- Defining the targets of the activity early during requirements analysis to provide the right indicators for the eventual evaluation
- Allowing anonymous feedback on the lower levels to gain the broadest possible data basis
- Encouraging qualitative feedback from participants to add to the quantitative data
- From Level 2: Using pre- and post-tests of learning and, whenever possible, control groups
- Giving the participants enough time to try out and practise the training before checking quality of the transfer
- Putting in place multiple methods for tracking the workplace transfer of the training
- Defining the financial indicators to ascertain the RoI

Table 1 outlines the methods that can be used for tracking the success of qualification measures on the various levels.

4 Stressing Transfer

For personnel development to become truly sustainable, it is not enough to simply evaluate it systematically. It is equally worthwhile to consider how development activities should be designed to enable people to transfer what they have learnt to their workplace and to change their behaviour for good. Looking at the data shows how urgent a rethink in this area has become. According to Robinson and Robinson (2008), only 15 % of the contents of development activities are actually transferred to the workplace. At the same time, we need to consider where learning actually

Table 1 Methods for tracking the success of qualification measures

	Satisfaction	Learning	Behaviour	Results	RoI
Question	How happy are the participants with the training?	What have the participants learnt?	Are the participants using what they have learnt in their work?	What effect does the training have on commercial performance?	Has the investment into the training paid off?
Methods	Questionnaire or interview after the conclusion of the training	Pre/post questionnaires, examination, interview, observation	Pre/post questionnaires, interview, 360° feedback, observation, focus groups	Indicator analysis, questionnaires, focus groups	Indicator analysis
Time	Immediately after the conclusion of the training	Before and either immediately or shortly after the training	Approx. 2–4 months after the training	Approx. 6–12 months after the training	Approx. 6–12 months after the training

happens. It is not only – indeed least of all – in the actual formal development procedure. It is also the learner's preparation for the development procedure, and later use of the developed skills on the job. Comparing this structure with the typical structure of learning investments, the need for intervention becomes even clearer: around 85 % of spending on development currently goes directly into the development activities, whereas a mere 5 % is left over for supporting their transfer to the workplace (Peterson, 2004).

The effective transfer often faces many different barriers and impediments:

- Individual differences between the learners are ignored
- Lacking support from managers
- Little or no incentive for learning in performance management
- No tracking of the actual application of the contents in the learner's working lives
- No regular refresher courses
- Few suitable didactic methods

These barriers against effective transfer show how important it is to tailor all development activities to the individual needs of the learners. It is also essential that people do not see development activities as isolated events. Rather, a new vision of development is needed. Companies need to see development in holistic terms and establish a culture of learning. The natural habitat of HR development is not the classroom, but everything that lies beyond its doors.

The following list represents a selection of pragmatic measures that can help improve the transfer focus and bridge the gap between the development measure and the participant's working life:

Learning tandems: This method relies on forming groups of two or four learners. The tandems meet outside of the actual development measures and discuss what they have learnt, advise each other, and work on their transfer exercises. Learning tandems have a great motivational impact and can support self-discipline. They represent a source for positive pressure that forces people to use what they have learnt not only in the course, but also in their normal work routines.

Transfer diaries: A good means of supporting people's individual self-reflection and development efforts is to give them a so-called transfer diary to take back home. Such diaries include sufficient space for the participants to record their thoughts, ideas, and comments. The diaries become the central tool for tracking their individual development efforts. It supports self-management, uses dedicated checklists, and gives people an opportunity to keep track of their individual targets and activities in dedicated action plans.

Supervisor's involvement: Involving the participants' supervisors in the follow-up activities after a development measure has been proven to be essential for the success of its workplace transfer. The supervisors should be contacted before the actual activity in order to define the right learning targets for the chosen employee. This should then be picked up again in regular progress reviews and a final evaluation of the learner's progress.

Social media (blogs, wikis, forums): New media are an excellent tool for transfer support. The participants in development activities are given a password to access a dedicated intranet platform. Here, they can discuss problems from their work (anonymously) with their peers and benefit from the pooled knowledge of the people who have taken part in the development activity. This is particularly helpful for large-group programmes, which are attended by large numbers of employees, as it can encourage the individual classes to interact and share their insights.

Podcasts on workshop topics: People with an auditory bias in their learning styles will find podcasts to be excellent tools for revisiting and expanding on what they have learnt. Theoretical input from the workshop (and recordings from exercises, with the participant's consent), can be recorded on DVDs and distributed to the participants at the end of the workshop. Experience tells us that more than half of the participants will listen to the recordings again at a later date, e.g. in their cars or on their days off.

Social gatherings: These evening events offer a great opportunity for people to meet their superiors or the authors of leadership literature in an informal setting. Having an opportunity to see other points of view and to engage with one's role models is a great means of encouraging people to produce even better leadership performance.

Network events: Regular meetings of all participant of a development programme can be forums in which people share their know-how and can help integrate the lessons into the participants' working lives. For a networking event to be really effective, it should be organised by the participants themselves.

5 Conclusion

It is a reassuring fact that Europeans are remarkably willing to invest in their own development. At the same time, we have to recognise that most investments into professional development are not really targeted at the actual strategic needs of companies. Many companies reduce the evaluation of their development efforts to the level of mere satisfaction and learning progress checks. If we want to be able to legitimise the investment into employees, even when working with a limited budget, professional, indicator-driven controlling becomes vitally important. This chapter has shown that this can be done in a pragmatic manner that still produces meaningful results. It is essential that companies learn that development is not an island, but part of the continent of their organisational life. Learning takes place at any time and everywhere. And learning can only be successful if it is sustainable and embedded correctly in the organisational structures.

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Comparing What? The Sense and Nonsense of Development Benchmarks

Robert Girbig and Matthias T. Meifert

Every day, HR professionals at many companies are facing painful questions: Why is HR development so expensive for each member of staff? Wouldn't we do just as well with fewer developers? Or: Why can our competitors organise their development events with 30 % less money?

What these questions really ask is how much value does HR development actually contribute to the business? We are tempted to answer this challenge with HR management indicators that can make HR development measurable and comparable. It is no surprise that benchmarking has never been more relevant for HR professionals than it is today. The method itself, which some people define as a systematic best-in-class comparison, is old. Already in the 1970s, the direct comparison between companies was an everyday occurrence, especially for core business processes like production or logistics. Prominent examples of this are Rank Xerox and Motorola; both companies looked to their peers to understand where the future was heading for them.

The rationale of benchmarking in HR management is simple: we compare our data with that of other companies. If it is better than our competitors, our HR managers are doing their job right. If not, we need to intervene. Is it that simple? Drumm, an HR economist, is more cautious in his assessment: "Comparing other people's HR management methods or services with your own does not tell you anything about the effect they would have on your own company's goals" (Drumm, 2000, p. 676). One thing is evident: such comparisons are controversial. In this chapter, we try to see how benchmarking can make sense for HR developers and what they need to remember for it.

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Workforce (Headcount)	HR Staff (FTE)	Support Ratio in HR	HR Development Staff (FTE)	Support Ratio in HR Development
70.000	750,0	93	180,0	389
25.000	500,0	50	26,0	962
21.000	70,0	300	27,0	777
5.500	60,0	92	19,0	289
4.500	70,0	64	16,0	281
3.000	10,0	300	8,0	375
2.800	50,5	55	13,0	215
2.225	12,0	185	6,0	371
1.500	9,0	167	4,0	375
1.200	19,5	62	2,0	600
850	6,0	142	3,0	283
720	6,5	111	1,0	720
600	2,5	240	1,0	600
250	1,5	167	1,0	250
		Median: 98		**Median: 250**

Fig. 1 The results of ad-hoc benchmarking

1 Pushing the Limits of Value

Looking under the surface of these issues will soon uncover the limits of what benchmarking can tell us. In our seminars on HR development indicators, we regularly conduct ad-hoc, on-the-spot benchmarking. We ask our audiences to complete a short questionnaire about the shape and nature of their HR management and HR development areas. The results always come as a surprise. Even in the most common indicator, the support ratio,[1] the figures will vary widely. The spread is even more pronounced when we look at the support ratio in HR development. Figure 1 presents the results from a random seminar.

Even if the median support ratio reported by our seminar attendees usually falls somewhere near the range of our regular studies (median: 1:98), the detailed results will reveal a noticeable divergence in the values. A spread from 1:50 to 1:300 is not uncommon. The same picture is true when it comes to the support ratio in HR development. In this seminar, the figures range from 1:215 to 1:962, even though the median value (1:250) again matches the common benchmarks. Many factors are causing this picture, which relate either to the unique features of the different organisations or to the organisational shape of their HR departments.

[1] The support ratio in HR is the ratio of HR professionals to the overall workforce. Differences can already come into effect in defining this indicator. In this case, it is defined as 1 HR professional (in terms of absolute jobs) to x members of staff (headcount). Other definitions compare full-time equivalents (FTE) for the same purpose.

Every Organisation Is Unique

One immediately obvious factor in all of this is the size of the business. A common assumption is that the effectiveness of HR development will increase with growing workforces. The support ratio does not always confirm that assumption. More people often also mean more HR services that need to be offered. One typical example of this is the much more extensive portfolio of in-house seminars at larger companies. A factor with a more visible impact is the economic health of the company in question. These circumstances need to be considered whenever we try to interpret the indicator data. It is obvious that HR development and its capacities at growing companies differ noticeably from the situation at companies experiencing stagnation, if not crisis. The sector of industry in which the company operates can also be a strong influence on its HR development coverage. For instance, power plants are required by law to conduct a certain set of trainings on a regular basis.

The Organisation of HR Development

When benchmarking the HR function, differences in the data can also be a product of the organisational structure itself. This may be due to the frequently imprecise (and sometimes virtually impossible to define) line of demarcation when comparing centralised or de-centralised HR areas, where parts of HR development might have devolved into the business departments. For example, seminar selection or practical coordination of personnel training may have been allocated to individual departmental units. At the same time, the current wave of restructuring in many HR departments towards a business partner arrangement is having an effect. The "one face to the customer" principle intensifies and improves executives' support services by providing them with dedicated business partners. At the same time, self-service offerings and lean processes are tapping into the potential for optimisation on the general workforce side.

Two other crucial roles are played by the extent of IT support available and the degree to which outsourcing potential is being used. Both can lead to more positive support ratios, but they will also add to the material costs of HR development. In this case, merely comparing staffing capacities does not lead anywhere, as the total costs of HR development are what matters. These, in turn, are equally hard to benchmark due to the many different cost types (labour and material costs, as well as system operations or licensing costs) and the right proportioning of the costs. A final complication arises with the simple question: Where will the development costs be budgeted: with HR development or with the native cost centres of the participants?

The advance of globalisation in the area of HR development adds another relevant force in this equation. Again, this complicates the direct comparison of benchmarks. The issue at stake here is one of attribution: which services are produced for which target groups at which locations?

The evident differences in the portfolios of HR developers are more easily reconciled. For instance, does the training draw on in-house training staff or other resources? This decision can create substantial differences in the support ratio of HR developers. A professionally produced benchmark should, however, point out these differences. All of the relating factors should not be underestimated when attempting to read benchmark data. The same difficulties also arise when working with other typical benchmarks, e.g. the costs of HR development per participant day. Whenever we try to interpret or apply benchmark data to our own organisation, such matters need to be considered.

The providers of benchmark data are faced with the dilemma of defining the most homogeneous group possible to ensure the comparability of the data, while still having a sufficiently broad sample to be statistically valid. Even with a large base of benchmark organisations, the target sample will be narrowed down substantially after even a minute number of filters are applied, e.g. organisations from a similar sector of industry with similar sizes that are based in one specific region. Other filters, such as the number of serviced locations or the IT systems in use, add only an illusory degree of precision. Benchmark comparisons produced on such a basis might reveal where a company stands in comparison to its peers, but they offer no insight into why the values are what they are. This is the original purpose of benchmarking: to find concepts used in best-practice organisations that can help improve the shape of one's own HR development efforts. We have had to realise that, too often, benchmark data is used carelessly. Many flawed decisions are the outcome of relying on indicators that should not have been compared. In consultancy projects, we use only such data in close consultation with the client and after a thorough analysis of its validity.

2 Recommendations for Meaningful Benchmarking

All of these reservations are not meant to call the general value of benchmarking into doubt. In fact, the opposite is true. In order to become an accepted business partner, HR professionals need to learn the language of executive managers and controllers. Using and comparing indicators is part of this. Our purpose is therefore to make people aware of how to use the capabilities of benchmarking sensibly and how to conduct it in a technically sound manner. Our experience from many consulting projects has taught us the following tricks for successful benchmarking:

1. *Look for a solution, instead of simply crunching numbers*: too often, benchmarking is taken to mean nothing but the comparison of HR indicator data. It can be much more than that. Its purpose is the focused search for potential improvements. The indicators are surely a first step in the right direction, but it needs to go deeper and uncover the reasons for the better scores at other HR departments. It often helps to limit the investigation to a manageable group of 8–12 companies that are also checked to reveal their alternative approaches, instead of concentrating only on tables of benchmarks.
2. *Find the right comparisons*: a crucial factor for the success of any benchmarking project is the selection of suitable comparison organisations. This means finding a good match for comparability purposes, but it also means including companies

seen as best-practice models. When comparability is concerned, internal benchmarking can be a helpful approach. Internally, there will already be standardised indicators that ensure that we compare apples with apples across locations or regions. However, the risk is that it would be comparing "rotten apples". Another option is to limit the comparison to organisations from the same sector or industry association. Again, this will produce highly comparable data, even though companies in some sectors are traditionally not inclined to disclose the data of their HR departments to direct competitors. Finally, looking abroad to other sectors of industry can offer invaluable insights: the benchmarking partners will be more willing to disclose their information, and the different vantage points often breed innovative thinking. In this respect, it has proven helpful to establish dedicated data-sharing circles and networks.

3. *Define the indicators carefully*: the essential condition of any serious benchmarking project is the agreement on a common definition of the chosen indicators. As we have seen, the use of in-house trainers can lead to major differences in the HR development support ratio. Another example is the wide range of definitions for absenteeism. Such fine-tuning and coordinating of the definitions is usually a very time-intensive process and often means that a great deal of data has to be recalculated according to the new definition. However, only uniform indicators can produce meaningful results.
4. *Stay critical about differences in the data*: even when using a standardised definition for the indicators, the results of benchmarking should always be heavily scrutinised. Usually, only the input elements are truly standardised. The reason for the divergent values can then be found in differences in the service quality or in other process flows. The latter factor is a particularly interesting area for potential improvements.
5. *Analyse activities in detail*: even when the indicators use a standardised, uniform definition and have been delineated carefully, 100 % comparability in the data should not be assumed. Although this is not comparing apples and oranges anymore, it is still only comparing "well-calibrated" apples and oranges. Our experience with process optimisation at large HR departments has told us that breaking down the overall HR function into individual standardised activities offers a number of helpful advantages. For one, it makes the resulting data more immediately comparable. It also creates more transparency about how resources are being used, e.g. when distinguishing strategic from administrative HR work. As a by-product, such a differentiating analysis also reveals the resource drains in the system.
6. *Use more qualitative benchmarking*: the original purpose of benchmarking – identifying what gives other organisations and their HR departments their competitive advantage – calls for more attention to qualitative benchmarking. That means investigating the development processes and tools used by best-practice companies. What needs to be remembered is that HR departments themselves will not really be the benchmark in all of their processes. Different partners for comparison should therefore be found for different processes. The applicability of these processes to the specific situation at one's home company needs to be scrutinised carefully. Within corporate organisations, it can help to establish a best-practice platform as a forum for sharing experience between the HR departments of the individual group entities.

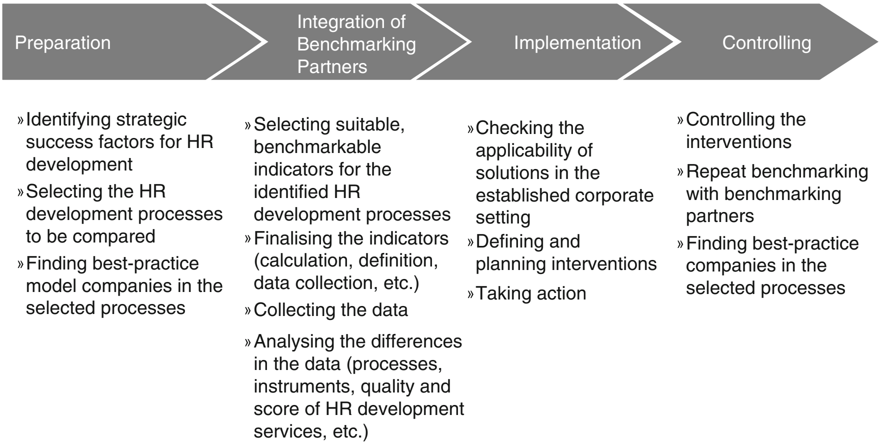

Fig. 2 Benchmarking project plan

7. *Plan benchmarking projects carefully*: successful benchmarking is more than simply comparing sets of data. It demands professional planning and execution like any other project. Figure 2 reveals a sample project plan for a benchmarking initiative.

3 Conclusion

However difficult interpretation of the data might be, benchmarking development indicators can be a very rewarding effort. What distinguishes this kind of benchmarking from a simple comparison of indicators is its qualitative aspect. Learning from others is what matters here. By comparing ourselves with more effective organisations, we sow the seeds of change, and we learn about tried and tested alternatives. By involving other employees in trying to understand why we might be lagging behind these competitors, we encourage them to change. Last, but not least: engaging proactively is better than finding ourselves confronted by our superiors with the results of benchmarking studies, some of which might not actually apply to our unique situation. Benchmarking can become a pre-emptive defence for HR developers against the constant call for justification.

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Globalising How? The Route Towards International HR Development

Henriette-Muriel Müller, Alexander Thomas, and Jan-Peter Müller

After decades of accelerating globalisation, mobilisation, and the advent of modern technology, HR professionals should have stopped debating why globalisation supposed to be part of modern HR development. Instead, the question should be why so many HR professionals have managed to miss the question of international HR development in a globalised world like our own, and how to respond to that situation.

Businesses can only grow if they manage to seize the opportunities that lie beyond their old national borders. International competition can only ever be understood in a holistic sense if we have a sufficiently complete picture of the markets abroad. Clients are becoming ever more aware of this area. They naturally expect a certain measure of intercultural awareness and readiness to move beyond the particular rules, norms, habits, and customs of the company's native culture. Demographic upheavals are leading to a scarcity of qualified recruits in Germany and elsewhere. Reducing the red tape that has tied down people who wanted to switch jobs within Europe has meant the rise of an internationally active workforce. It has become a truism: globalisation is everywhere. Getting executives and employees up to speed is essential for any chance of success in international competition, unless we are

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willing to risk our market share. A company that has real intercultural competence throughout its hierarchy will have an automatic head start.

At its most basic, the question therefore has to be how globalised HR development can be effectively installed in an organisation. This chapter does not seek to present a one-size-fits-all solution with the necessary project phases, milestones, and measurable indicators. Instead, we will outline the first steps towards making HR professionals and decision-makers aware of the issue of globalisation. Further, we will present the opportunities promised by successful international HR policy in the sense of strategically aligned intercultural competence management.

To begin with, we need to define the terms "intercultural competence" and "international efficacy" as the basis and object of intercultural competence management. We will then look at the importance of anchoring the value potential of such intercultural competence in the corporate strategy. Next, we will describe the possible ways of implementing this in international HR development. A series of concrete examples will be reviewed to see how and where HR developers are already pursuing successful HR development. Finally, we will consider a number of key questions that companies can use for a check-up on the status quo of their own HR development.

1 What Is Intercultural Competence?

Acquiring intercultural competence represents both the starting point and the end of systematic international and intercultural development. Since the term "intercultural" covers a broad spectrum of concepts – think of the cultures of different disciplines, organisations, or regions – the term "international" uses the nation state as the means of distinction. This chapter uses both terms interchangeably, using wider or narrower meanings to match the topics in question.

The intercultural scientific community often uses the term "intercultural competence" as synonymous with many terms, such as "cross-cultural effectiveness" (Kealy, 1989), "intercultural communication effectiveness" (Dean & Popp, 1990), "intercultural effectiveness" (Cui & Van Den Berg, 1991), "intercultural sensitivity" (Bhawuk & Brislin, 1992) and many more. This flood of terms for a single concept is the product of many unique vantage points and underlying theories applied by various researchers.

What they all have in common is the recognition that intercultural competence is an umbrella term for the entirety of a person's knowledge, skills, and abilities, which determine that person's effectiveness in intercultural settings (Stahl, 1998). It is thus a multidimensional construct (Cui & Van Den Berg, 1991) that covers cognitive, affective, and behavioural elements.

When people try to define which construct actually lies beneath the term intercultural competence, they usually follow one of three distinct lines of approach. They may investigate individuals and their personalities as the origin of all actions. They may also focus on the specific characteristics of circumstances that people operate in. Thirdly, they may look into the interactions between people and these circumstances

(Detweiler, Brislin, & McCormack, 1983). Since the 1980s, the interactionist approach has become predominant. That is, there is general agreement that effective adaptations in cross-cultural contacts depend on the right fit between personality traits and the given circumstances (Thomas, 2006).

Thomas (2003) thus defines intercultural competence as the ability to

- Recognise, appreciate, respect, and productively use cultural forces
- In perceptions, thoughts, judgements, feelings and behaviours in oneself and in other people from different cultural backgrounds

Intercultural competence is also not an isolated trait that people have to develop from scratch. The close relationship between general social competence and intercultural competence is immediately obvious when we consider that any social interaction can appear as an intercultural interaction if we apply a sufficiently narrow definition of culture (Utler & Thomas, 2010). Intercultural competence is also the product of a learning process and is thus not a finished product, but an evolving quality that can be improved and developed further over a person's entire lifetime (Thomas, 2003).

Following Brislin (1994), we can define international effectiveness as:

- Personal satisfaction in the sense of the absence of stress symptoms from the individual's point of view.
- Satisfying social relationships from the points of view of the parties interacting with each other.
- Effective task fulfilment from the point of view of the individual and his or her organisation.

International effectiveness is what we intend to achieve when we build up our intercultural competence. A value-adding intercultural awareness and alignment in HR development can be seen when the development of intercultural competence is aimed at building up and training those skills that have a significant impact on critical interactions. This applies in not only inter-cultural, but also in intra-cultural settings. Intercultural competence can, for instance, include skills like openness, flexibility, acceptance of ambiguities, or self-belief (cf. Müller, 2004). HR development can also be considered value-adding when the costs for intercultural development are far below the costs for international projects and assignments that would have failed in its absence. For instance, a flawed recruitment decision for an executive position abroad can cost the company three or four annual salaries' worth in immediate expenses – not to mention the financial impact of the lost reputation or damaged relationships with local or international employees and clients (cf. Stahl, 1998).

2 Designing Intercultural Competence Management

What does the notion of intercultural competence and international effectiveness mean for the practical shape of intercultural competence management in organisations?

The organisation's executives play a particularly important part. They are the engines behind the development of the corporate culture and they help their people live by defined values. The internalisation of "cultural diversity" and of the need to use it in value creation thus needs to start with them. Only when the organisation's top executives and line managers have developed this awareness, can the fitting structures, processes, and systems be established on an organisational level. Their people must also have been equipped with effective strategies for handling cultural differences on all relevant levels and in all different environments. Making managers and employees understand that cultural diversity enriches them, but also demands special practical knowledge to be used productively is the foundation for a change process that constructs a new identity in the sense of systematic intercultural competence management. Systems can only ever be changed successfully if the people in them are motivated, willing, and able to cooperate.

HR professionals are, as this book has shown repeatedly, subject to many, often contradictory role expectations: "strategic business partners" versus "operational executors" for the organisation's various units, line managers, or executive management. Both roles and the responsibilities they bring with them need to be reflected and used in any functioning intercultural competence management system.

The Strategic Alignment of Intercultural Competence Management

The targets of effective HR development projects are determined by the organisation's corporate and people strategy. The chosen projects derive their legitimacy from the strategy, and their contribution to the success of the business is evident. This general principle also applies in the case of intercultural competence management. The first step is for the organisation's managers to define a vision or target state. This can be the vision of a multicultural workforce that cooperates effectively in productive processes. These processes can be expected to transcend national boundaries and use international synergies for the good of the business. Intercultural competence management also requires a strategic legitimisation from top management in the sense that key values like "cultural diversity" or "internationality" are recognised publicly as important building blocks of commercial success. These values should become the guiding paradigms in the organisation's leadership principles.

Whenever a company introduces a globalisation strategy, intercultural HR development needs to respond immediately (or even pre-emptively) with a people strategy that suits the greater strategy of the organisation. HR must also select the right instruments for assessing and developing intercultural competence, and ensure its quality via systematic monitoring.

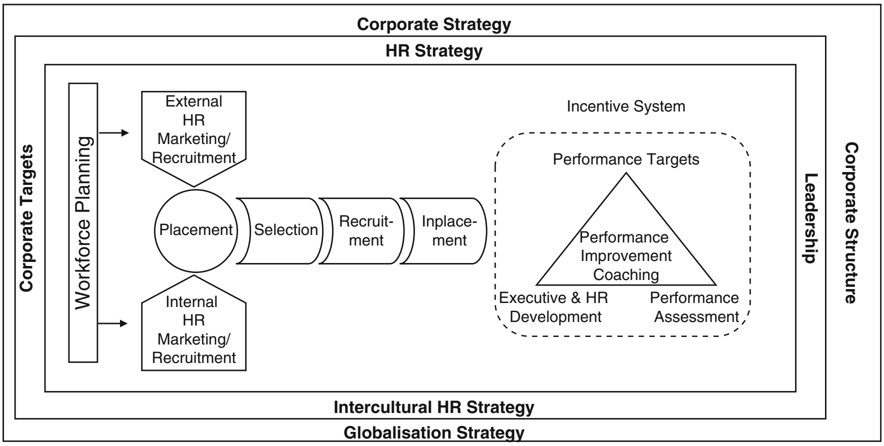

Fig. 1 The human resource cycle (Kinast & Thomas, 2010)

The Operational Implementation of Intercultural Competence Management

The HR cycle of Kinast and Thomas (2010) helps us to understand the first steps on the way towards the operational implementation of systematic intercultural competence management (cf. Fig. 1).

The concept reveals the many different places that the topic of internationalisation in HR development will appear in across the many areas of HR function. This means that implementing a consistent international HR policy demands a complete revision of all established HR processes. The question is, where does this start in practice?

In the area of **recruitment and personnel marketing**, the company's marketing and recruitment practices can reach out to specialists and executives who are interested in an international career. This can, for instance, be executed by introducing international trainee programmes or multilingual career pages on the company's web presence. The actual recruitment and selection process should then reflect this new focus by assessing the intercultural competence of the candidates on top of the regular battery of functional, social, personal, or strategic competence checks. Making use of intercultural assessment centres is a method of choice for this purpose. It is important to use the interview to check the candidate's general interest in international project work as compared to longer-term or regular international assignments. A look at the candidate's biography during the interview, e.g. considering his or her schooling or any semesters spent abroad, can also offer invaluable insights in the candidate's intercultural development. It is important to not let the interview descend into a simple re-narration of the written CV, but to use it as a means of understanding the candidate's level of intercultural awareness as a first step for further development.

The focus for any intercultural development commitment is clearly to be found in the area of **qualification** (Brislin, 2009; Utler & Thomas, 2010). Intercultural training and coaching are typical means aimed at supporting and developing people's intercultural competences. Every specialist or executive who can expect to work internationally at some point in his or her career should participate in one universal and one culture-specific training program, at the very least. The same goes for executives who will have to deal with business partners from different cultural origins. The design of such training can rely on the results of potential analyses or dedicated intercultural assessment centres to match the real demand in the workplace.

Established and widespread intercultural training formats have proven to have a substantial impact on intercultural development: evaluative studies have confirmed the effectiveness of such training. Kinast's research (1998) has been able to show that participants in universal culture training sessions develop a sense for other cultural standards and use these insights effectively in their work. Successful participants are able to ensure the cultural conformity of their behaviour in contacts across borders. Competences for managing and leading multicultural teams are developed systematically in these training sessions. Specific focus skill sets include intercultural conflict mediation, communication, facilitation, negotiation, or delegation. At the same time, participants acquire practice-oriented procedural knowledge. That is, they learn to understand the rules by which a certain culture operates and then integrate these rules into their own mental map, ready for spur of the moment adjustments. This flexibility represents the optimum intercultural competence an individual can achieve.

Intercultural coaching has the great additional benefit of being able to respond specifically to the individual needs of project leaders or managers. The process focuses on the current concerns of the person being coached about his or her professional work. Intercultural coaching can help prepare for international assignments and support the employee during periods spent abroad or in regular activities that cross cultural borders. Such intercultural coaching is particularly suitable for people who have already spent time abroad and now have to master specific job or task-related challenges in their work.

Whenever a company's top management demands intercultural competence to become a key element of the organisation's skill set, **target-setting processes** should be put into place. The targets need to be tracked without fail. Progress towards them can be measured by way of intercultural assessment centres, for example.

Once the people that occupy the organisation's key functions have become aware of the importance of intercultural competence, the intercultural competence development process can be brought forward to the original recruitment of the organisation's people. For instance, **inplacement** can use international welcome days that bring together the organisation's new specialists or executives from across the globe. Dedicated international on-boarding programmes are another option. These cover project work using intercultural teams and qualification programmes with specific intercultural training and coaching elements. Specifically, the focus lies on spreading awareness of the forces that make or break the success of multicultural project teams. Such teams require a certain element of intercultural competence to be able to deliver optimum performance and seize the synergies within them (cf. Stumpf & Thomas, 2003).

New recruits can also be required to take part in standardised **intercultural potential appraisals** after no more than 6 months in their new jobs. These can be executed via the annual appraisal with their supervisors or tailor-made assessment centres conducted by HR specialists. For the purposes of intercultural competence development, both instruments need to consider and rate the criteria of intercultural competence.

The organisation should define career-specific **development paths** and make every employee understand what an international specialist or executive is expected to have achieved to be suitable for a particular position in the organisation. These development paths should include professional experience and challenges in international environments. These are excellent means for learning intercultural skills, especially when career paths and qualification activities link up effectively.

However, the recipe for successful and sustainable intercultural HR development does not stop with the right selection of measures and programmes for the right target groups. It is equally important to establish the systematic **sharing of experience and networking** across the organisation. People need to be given a forum for communicating and networking as a seedbed for the organisation's intercultural knowledge. This can take the form of a pool of former expatriates who can act as specialist speakers in workshops, or an online forum ("News Net") with cultural and practical information for various destination countries. The general point is that it is long overdue for companies to take the diverse cultural experiences of their people seriously as a resource and to use them in training.

People also need to remember that intercultural development is a lifelong process that always needs an appropriate measure of independent **self-management**.

Intercultural competence cannot be the product of practical experience alone.

Experiences need to be reviewed and made "comprehensible" as cultural standards or country-specific knowledge by applying the right concepts and tools. This means that people's individual experiences need to be turned into new behaviour on a higher level of competence through suitable training or supervision support. An independent initiative is needed, a virtual bookshelf of instructive readings, and the availability of interculturally qualified HR developers and experts to expand on people's individual experience. These initiatives will help evolve experiences into true intercultural competence. The development process needs to be shaped and managed with effective self-management techniques. The training books on intercultural competence published by Vandenhoeck and Ruprecht are a good tool for autodidactic study or an additional resource for general intercultural awareness training. These publications, written by specialists and managers from over 30 nations, offer an introduction to working in the authors' specific cultural environments. The entire programme has been scrutinised and evaluated in detail. It was produced to be of value to the real-life practitioner.

3 Real HR Developers' Reponses to Globalisation

The following three real-life examples illustrate how intercultural HR development can become successful in business.

An Integrated Concept for Intercultural Competence Development in Practice

The Robert Bosch Group is an interesting example of a case of integrated intercultural competence development that bridges the boundaries of hierarchy. The Bosch Group is based in Germany's Stuttgart, with approx. 271,000 employees across more than 50 countries, 41 % of which are working in Germany. 70 % of the group's turnover is produced abroad. In recognition of its German heritage and international future, Bosch includes cultural diversity as one of its seven Bosch values: "We are aware of our company's regional and cultural origins and at the same time regard diversity as an asset, as well as a precondition of our global success."

To improve the quality of cooperation between its many subsidiaries, joint ventures, and external partners, the international HR policy of Bosch addresses intercultural competence in two distinct ways. First, there are comprehensive, target-group-specific training opportunities. Second, the people of Bosch are offered venues for connecting and networking in the course of systematic intercultural knowledge management. The development portfolio includes training measures aimed at developing general intercultural skills such as cultural awareness, language skills, and ambiguity tolerance. The portfolio also includes practical training for working in (virtual) multicultural teams. In addition, training for expatriates and their families is provided, in which they meet former expatriates as expert speakers or engage in reintegration workshops after returning from abroad. Knowledge management takes the form of dedicated knowledge exchanges, in which the returnees from individual countries give country briefings or culture profiles in multiple languages with cultural and practically relevant information about their destinations. Returnees can also provide systematic feedback to the mentors and HR managers that supported them during their local integration.

The innovative feature at Bosch is its unique emphasis on its double identity – for Bosch, it is not contradiction to be global and German at the same time. While Bosch's product and service culture is more or less German in nature, its culture of cooperation is global. Reconciling these two cultural elements is an ambition of its HR development efforts. Indeed, cultural integration is a part of the general networking and knowledge management plan in which the Bosch people from across the globe are prepared for working internationally.

Early Intercultural Sensitisation as Part of Inplacement

When a new recruit joins Allianz AG, he or she will encounter an interesting example of the early sensitisation to questions of internationality. The purpose of Allianz is to make its trainees aware of the nature of working in an international corporation at an early point in their careers. Allianz AG is a German business based in Munich that employs approx. 182,000 employees across 70 countries. Diversity has become an integral part of its HR principles: "we appreciate the diversity of our talent base as an asset to be fostered continuously, supporting our diverse customer needs worldwide."

The Allianz training concept "Going global" has been built around the concept of contextual learning (cf. Kammhuber, 2000). It includes a number of distinct phases: first, the trainees take part in a 2.5-day seminar on general cultural awareness. The seminar is aimed at giving them a sense for the cultural grounding of their behaviour and their own responses to diversity and how both affect the cognitive, emotional, and behavioural side. This promotes a diversity-positive attitude and counters the development of stereotypes and prejudices. It tries to do so by, for instance, cultural simulations, in which a part of a group has to confront itself with an imaginary culture whose values, norms, and rules are not known to their counterparts. Critical incidents from different cultural spheres are also simulated to make people aware of the cultural background of their behaviour, e.g. how German cultural standards are working in the background. When the trainees have learnt that, they will become aware of how the cultural dimension determines how they perceive and interpret reality. At the same time, the diversity in the trainee team itself is addressed in the exercises.

To ensure the workplace transfer of these new insights, the programme is followed by a learning project, in which the trainees are asked to develop another module for an intercultural training for next year's trainees, which they are then asked to conduct. Learners become teachers and are again confronted with the key concepts of their training. This can also have an additional positive impact on the social structures in the trainee group. For example, a German trainee of Turkish origin who was known as a rather shy and demure participant was named as the expert for the Arabic culture. She took over this important role in the subsequent year's training and taught culture-specific knowledge to the next generation of trainees. At the same time, she gave them invaluable insights into cooperating immediately with their fellow trainees from the German-Turkish community.

The Systematic Establishment of Intercultural Experience Management in Practice

One practical example of how intercultural experience can be developed systematically is the global learning programme (GLP) of the internationally active high-tech business Giesecke and Devrient (Stengel & Debo, 2006). Giesecke and Devrient is a German organisation based in Munich that employs around 9,000 employees in approx. 30 countries. 60 % of these people work outside of Germany.

The purpose of the GLP is to take the culture and location-specific knowledge and experience that executives gain over their time abroad (e.g. while working on a technology project in Egypt or spending time as an expatriate in Indonesia) and make it available to the company at large. The project tries to avoid such valuable functional or intercultural insights being relegated to "travellers' tales" that are often strongly subjective and simplistic. Intercultural competence researchers know that such stories can often reinforce prejudices, rather than overcome them. In the GLP, a qualified intercultural trainer or an external expert helps the participating groups recapitulate the experiences with intercultural cooperation. They review the culturally critical incidents from a variety of perspectives in the sense of shared learning and then edit and publish the insights in the systematic format of an internet platform. The intercultural lessons thus come into the public domain and are available for others as preparation for their own international assignments.

The programme includes the following steps:

1. Kick-off workshop to get to know the basic concepts of intercultural cooperation
2. Intercultural case studies in four sessions
3. Cultural bloc briefings, developed by dedicated teams over the entire course of the GLP
4. Final workshop, in which the culture briefings are presented to the participant's superiors

The GLP represents a format that is not built around the individual participant or specific groups, but one that tries to engage the entire organisation in the acquisition of intercultural competence. This is the learning organisation in practice.

4 Key Questions When Developing Intercultural Competence Management

We will end this chapter with a look at the most important questions to consider when taking the first steps towards strategically sound intercultural competence management:

1. How is the international perspective represented in the corporate strategy or vision?
2. How does the HR strategy relate to the internationalisation strategy of the organisation?
3. Is a sophisticated and stringent notion of intercultural competence being cascaded down through the organisation?
4. Who stands behind the development of intercultural competence? The board? Line manager? Intercultural specialists among the HR developers? A dedicated project group?
5. In what sense does the integration of systematic intercultural competence development influence the shape of the key aspects of HR development?

6. How could the relevant systems on the organisational level be adapted going forward? Will there be, for instance, uniform global talent management? A central corporate skills database? Uniform job descriptions? A central mobility office? A globally usable IT infrastructure?

The purpose of this chapter was to cast a light on the first steps on the road towards intercultural competence management. It revealed that the qualification ambitions of strategically aligned international HR development can only become a reality if the people in charge of HR and the people at the helm of the organisation are working hand in hand, conducting a thorough check-up on the organisation and introducing an HR strategy that answers current challenges. This gives the organisation's people a secure basis for putting their intercultural skills to effective use. HR professionals thus become the initiators and starter engines of individual and organisational learning. They must also point out an important lesson: intercultural competence is a job for the entire business.

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Part IV

Prospects for Strategic HR Development

Organisational Energy as the Engine of Success: Managing Energy Effectively with Strategic HR Development

Heike Bruch and Justus Julius Kunz

The authors of the preceding chapters have outlined the major factors for success in strategic HR development. We will conclude with a new and innovative look at HR development. This final chapter will look at how cutting-edge HR development can benefit substantially from considering the phenomenon of *organisational energy*.

By organisational energy, we mean the force with which companies work and get things moving. The amount of organisational energy present reveals the extent to which an organisation has tapped into its emotional, cognitive, and behavioural potential in the pursuit of its principal ambitions. Our extensive research at the *Institut für Führung und Personalmanagement* (I.FPM) of the University of St. Gall shows the crucial role that the strength and quality of organisational energy plays in determining whether a company will be able to hold its ground in its markets. This may also predict whether the organisation will respond quickly and efficiently to change or, by contrast, react sluggishly, resist change, and eventually flounder.

Organisational energy becomes particularly interesting when speaking about HR development. Most executives are excellently equipped when it comes to analysing the financial state of a business in detail or optimising it with the skilful use of their resources. At the same time, they tend to neglect the development of their people in the sense of systematic energy management. This means that HR management leaves invaluable potential lying dormant.

The following chapter will focus on the space where organisational energy and human resource management meet. We will show how the amount of productive organisational energy determines the effectiveness and efficiency of a company's people and their contribution to the company's success. We will also see how the focused inclusion of organisational energy in strategic HR development can make a substantial contribution to successful corporate management and to the lasting success of the business.

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Seizing dormant potential can translate into a decisive competitive edge for any company, especially in economically tougher climates. This is not to say that promoting effective energy management only becomes relevant in times of crisis. Optimising the amount of productive organisational energy with targeted energy management efforts can have an enormous impact on business in any economic climate or phase of the business cycle. This is particularly true in phases that require more energy, such as turnarounds, periods of strong growth, lengthy change processes, or the market launch of innovative products.

If we want to understand the implications of organisational energy that are discussed in this chapter, we need to begin by trying to define the term organisational energy and outline its four key states. After this has been established, we will discuss the strategies for effective energy management that companies can pursue.

This chapter will end with a look-ahead at what it would mean for strategic HR management if the concept of organisational energy was actively integrated in it.

1 The Phenomenon of Organisational Energy: A Definition

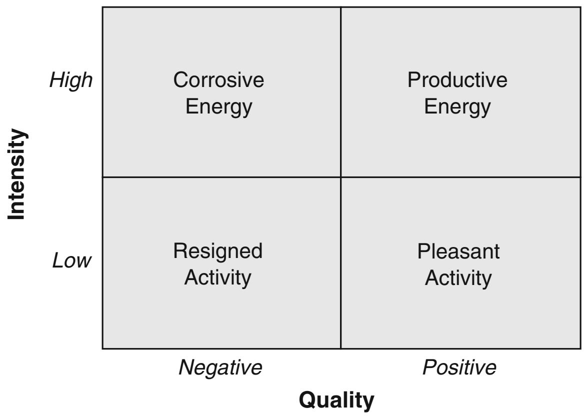
The insights gained since 2001 from the *Organisational Energy Programs* (OEP), conducted at the I.FPM of the University of St. Gallen, leave no room for doubt regarding the importance of organisational energy for businesses:

- There is clear evidence that a high level of productive organisational energy is a sine qua non for the productivity, innovation, and readiness for change of commercial organisations (cf. Bruch & Ghoshal, 2003b, 2004; Bruch & Vogel, 2005).
- There is further evidence that successful companies differ from their less successful competitors in that they are able to mobilise and harness organisational energy effectively for innovation and change.
- These mechanisms apply across sectors of industry or cultural spheres.

These findings are based on substantial empirical data, collected from the statements of over 220,000 people from 55 countries, speaking 24 different languages. This data formed the material for a repeat process that produced a fully validated survey tool for the standardised measurement of organisational energy. The positive impact of organisational energy on the success of companies was identified not only at large corporations (such as ABB, ALSTOM Power Service, Hilti, Lufthansa, Unaxis, or Tata Steel), but also at a multitude of small and medium-sized businesses (employing 20–5,000 people).

On the basis of this exhaustive research, organisational energy is defined as the force with which companies operate and get things moving. The amount of organisational energy determines the extent to which companies have tapped into their emotional, cognitive, and behavioural potential in the pursuit of their primary goals (cf. Bruch & Ghoshal, 2004).

Fig. 1 Dimensions and states of organisational energy



This definition of organisational energy underlines three essential aspects:

1. Organisational energy refers to harnessed and actively used energy. It can be compared to the physical concept of kinetic energy.
2. Organisational energy is a collective force. Organisational energy can be measured/harnessed on both the uppermost corporate level and the levels of individual divisions, teams, or sections. However, it should be noted that organisational energy is not simply a sum of the energy exerted by a company's or division's individual people. Rather, it grows from the synergetic relationship between these individual people's potentials. Interactive and collective processes between the individual members of staff and emotionally "infective" or spiralling effects are crucial in this respect. One of the key messages of this definition of organisational energy is that mobilising organisational energy alone will not automatically lead to the positive results named above. To achieve these, it is essential to focus the mobilised energy effectively on shared, commercially relevant targets.

The significance of this last statement can be seen in the four typical energy states in Fig. 1. The illustration also clarifies the negative consequences of a lack of focus when using organisational energy. These were identified in the course of the OEP and are explained in more detail in the following paragraphs.

2 Organisational Energy: Dimensions and States

Figure 1 demonstrates how we can distinguish between the four typical energy states by looking at the interaction between the dimensions of *intensity* and *quality*. These four energy states are usually all present simultaneously, albeit at different degrees.

The dimension of *intensity* allows us to sort companies that have mobilised substantial amounts of organisational energy from companies that have not used much or any of their potential energy. It separates the companies whose people are emotionally involved and commit all of their thoughts and actions to the business from companies whose people are affected by inertia. However, we would be mistaken to assume that all there is to do is to maximise the intensity of organisational energy. The dimension of *quality* needs to be considered as well for a fully rounded picture.

By distinguishing between positive and negative energy, the dimension of quality shows that merely mobilising energy reserves will never be a sufficient condition for the success of a company. A high-energy company that fails to focus its energy effectively on its corporate goals will have people who are highly emotionally involved and contribute all of their mental and physical reserves – but they contribute these in processes that actively stand in the way of the company's goals, hold back change or innovation, and basically damage the company. People in such environments try to optimise the benefits for themselves, at the expense of their peers and/or other parts of the business. For this reason, effective energy management needs to take care to channel the harnessed energy constructively toward the pursuit of the organisation's shared goals.

As revealed in Fig. 1, this distinction between the intensity and quality of organisational energy produces a matrix with four typical energy states: *comfortable inertia, resigned inertia, corrosive energy,* and *productive energy*. These states can be described as follows:

Comfortable Inertia

This state of low positive energy is characterised by people being highly satisfied with the status quo. It is common at companies that can rest on the laurels of a long phase of success. This success is typically attributed to established structures and behaviours, which are therefore deemed worthy of protection. A typical symptom of comfortable inertia is a low intensity of activity; if people take action at all, it is, at best, intended to optimise existing structures. This leads to fewer innovations and a reduced ability to change. Changes in the environment (in terms of both opportunities and threats) are easily missed. Our research suggests that comfortable inertia has a significant negative impact on key performance indicators (such as turnover, operating capital, general or administrative expenses).

Resigned Inertia

Similar to companies characterised by comfortable inertia, companies that are subject to resigned inertia show strongly limited capabilities for change and innovation. However, the reasons lie elsewhere. Lengthy – possibly unsuccessful – change processes and/or long phases of middling, unsatisfactory performance have created a sense of disappointment, frustration, and indifference among the employees. Their level of activity has slumped not much interaction or communication is taking place at the company, and people have lost interest in the goals of the business. Our research suggests that resigned inertia contributes to a loss of job satisfaction and greater readiness for changing employers.

Corrosive Energy

Contrasting sharply with the low-energy states, companies or parts of companies that are subject to corrosive energy reveal in a high level of activity, alertness, and emotional involvement. However, the activated potential of people is not being used for the good of the company, but rather exerts itself in inward-looking, oftentimes destructive activities (internal squabbles, speculation, micropolitical games) that damage the company. The reasons for corrosive energy can be found in perceived injustice, competition for resources, or a feeling of threat from other elements in the organisation. Our research clearly shows that companies have to expect a vast array of negative consequences if they do not reduce their corrosive energy to a minimum. These negative effects can include: loss of customer focus; lack of attention to the customer, innovation, product, or service-related issues, and the waste of resources on bureaucracy and administration or on internal fights, conflicts, or bartering.

Productive Energy

By contrast to corrosive energy, high levels of productive energy allow companies to focus the emotions, attention, and practical efforts of their people on the pursuit of a common goal. Activities that are critical for the success of the business are pursued with redoubled energy; people always keep an ear open for relevant information coming from outside the company; important information is passed on in full and on time. This is underlined by our research, which shows that companies with high productive energy will be more profitable, enjoy greater staff satisfaction, and generally produce better performance.

3 Energy Management: Mobilisation Strategies

Our research and our practical experience in the workplace shows that the mobilisation of productive organisational energy depends essentially on the leadership that is at work at the company. In the following paragraphs, we will look at two specific leadership strategies and suitable leadership styles. These two strategies have proven particularly effective when it comes to guiding companies from a state of low energy into the realm of high productive organisational energy. The potential energy of companies can be harnessed either in the light of impending threats ("Killing-the-Dragon" strategy) or of fascinating prospects ("Winning-the-Princess" strategy) (cf. Bruch & Ghoshal, 2004).

Killing-the-Dragon

"Killing-the-Dragon" means mobilising the energy of the organisation by getting its people to help it overcome an external threat. In terms of this strategy, threats refer to external incidents, such as collapsing markets, the rise of major competitors, or the loss of key clients. Such outside threats do not automatically lead to an increase in productive energy. The wrong response can actually produce debilitating fear and resignation. The following aspects are decisive when mobilising energy to combat an outside threat:

- The company's management needs to identify the specific external threat and interpret it as a potential danger for the company.
- The company's leaders also have the important task of guiding people's attention through comprehensive, focused communication media to make them perceive the threat and instil a sense of cohesion in the workforce.
- It is essential to boost people's trust in their own capabilities. If this is done right, people start to believe in their self-efficacy: the threat does not appear overwhelming anymore, but rather as a manageable challenge. This confidence is the source of productive energy.

Winning-the-Princess

"Winning-the-Princess" is the first choice strategy when we want to mobilise energy in a state of resigned inertia. It is the positive mirror image of the "Killing-the-Dragon" strategy (cf. Bruch & Ghoshal, 2004). Instead of a threat or prospective loss, people are inspired by an opportunity or mission that they can contribute to and that produces a sense of dynamic tension (cf. Senge, 1990). Such perspectives can include innovation, growth, or the entry into new markets.

Although this strategy basically follows a pattern that resembles the "Killing-the-Dragon" approach in many ways (identification, communication, increased belief in self-efficacy), it is usually much harder to implement. The reason for this is the fact that a threat usually is a relatively objective, measurable truth, whose urgency can be communicated quite easily. An opportunity in the sense of the second strategy is much more problematic, since it is less objectively tangible. In order to put the positive mobilisation strategy to use, we need to communicate the mission or opportunity in the most memorable, tangible, and desirable manner possible. This is the make-or-break factor for the "Winning-the-Princess" strategy. Our analyses have shown that many companies publish too generic, complex, or intricate missions, which are useless when it comes to unleashing the productive energy of their people.

The two mobilisation strategies proposed here, "Killing-the-Dragon" and "Winning-the-Princess", correspond closely with two specific leadership styles, namely problem-oriented and inspirational leadership (cf. Bruch, Shamir, & Cole, 2005).

Our research tells us that the "Winning-the-Princess" strategy, i.e. the companywide mobilisation of energy by means of a mission, will only produce reliable success if the mission is not relegated to top executives alone. Rather, it is essential that as many managers of the company as possible align their leadership styles with the proposed mission. The use of inspirational leadership is particularly important in this respect. The basic idea of inspirational leadership is not to rely on extrinsic motivators alone (e.g. monetary incentives) to get people to act in a certain way. Rather, the model aims to cultivate the values and ambitions of the employees to instil an intrinsic sense of motivation for the desired goals. Inspirational leaders do this by means of engaging with their employees' emotions by spreading enthusiasm, creating a vision, and being role-models for their people.

The problem-oriented leadership style that comes with the "Killing-the-Dragon" strategy is based on current research findings that expand on the traditional, positive approach to managing via missions. Problem-oriented leadership means that leaders consciously adopt the loss-centric perspective and manage meaning by outlining the threat and offering a negative vision of the future. This insight has developed from the advances made by psychological research into how emotions are regulated. Research shows that people's behaviour is aligned with two different goals: first, success-oriented goals, that is, the attempt to achieve desirable outcomes and gains, and second, prevention- or problem-oriented goals, that is, the wish to avoid undesirable outcomes or losses. We should therefore assume that the promise to avoid the worst is just as suitable and relevant a mission in a crisis as a positive mission is in other circumstances.

Inspirational and problem-oriented leadership do not have to be mutually exclusive: the decision as to which leadership style fits which situation depends on the task at hand and the context in which it is done. In times of expansion, performance-oriented leadership can be a major source of motivation, whereas problem-oriented leadership is particularly helpful in unexpected crises. The simultaneous use of both leadership styles (called bifocal leadership) can also be indicated, e.g. in order to maintain people's awareness of subliminal signals in the company's environment even in the self-confident times of success.

4 Organisational Energy and Strategic HR Development

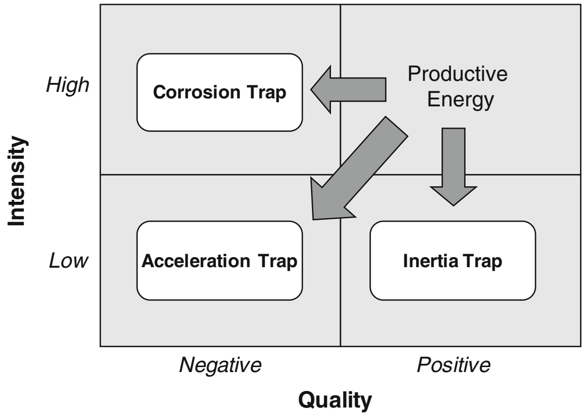
The leadership styles described here as means of mobilising organisational energy show the role of strategic HR development in effective energy management.

To understand this aspect fully, it is essential for us to understand that the exclusive use of the "Killing-the-Dragon" and "Winning-the-Princess" mobilisation strategies will not be enough to maintain a company's organisational energy for the long term.

When companies have reached a state of high productive energy, the focus should move away from the mobilisation of organisational energy as described above. Instead, the energy management process now needs to focus on how to maintain the state of productive energy.

Companies that have mobilised all of their energy reserves are at risk of getting caught in an *energy trap* in the medium or long run. We need to consider three

Fig. 2 Energy traps



specific energy traps in this respect: the *inertia trap*, the *corrosion trap*, and the *acceleration trap* (cf. Fig. 2).

The Inertia Trap

Organisations can fall into this trap in two distinct ways. Companies that have been enjoying a long period of constant success on the back of their productive energy tend to pay less attention to changes in their environments. Such companies will find it hard to let go of their tried and tested patterns of success, even if these have stopped delivering the expected/desired results in an environment that has changed (cf. Sull, 2005). Companies that have manoeuvred themselves into such an inertia trap after a long phase of success also neglect the proactive development of new strategies.

The second mechanism that often leads companies into the inertia trap grows from a long history of not working to the resources' full potential, or of producing only average performance while being under the impression of doing one's best. Both processes can mean that people lose faith in their own abilities. The inertia trap is fed by people's perceived lack of achievement, which can lead to resignation and frustration.

The Corrosion Trap

This trap refers to processes by which the energy of a company deteriorates from a high amount of productive energy into massively negative energy. The reasons for this switch are manifold: the corrosion trap is most common in situations where employees are stopped from putting their high sense of commitment to practical use, because they are held back by a lack of opportunities or autonomy. When employees experience such circumstances, they will lose their esprit de corps, sense of identification, and commitment (cf. Bruch & Ghoshal, 2003a, 2003b). The potential they have harnessed is not used for the good of the company's goals, but actually disintegrates into a form of corrosive energy.

Negative behaviour on the part of top managers can also lead an organisation directly into the corrosion trap. A perceived lack of support and backup from management; executives who are perceived as lazy, unfair, or selfish; or doubts about the integrity of management are some of the causes for negative collective emotions, such as anger or resentment, among a company's people.

The corrosion trap often has a unique way of negatively reinforcing itself and can lead to a lasting loss of trust at the company. Therefore, this state should be considered particularly dangerous for the continued wellbeing of the company.

The Acceleration Trap

Many companies are caught in this trap after they had initially displayed the desirable state of high productive energy at work. Organisations that jump headlong in far too many activities during times of positive energy end up taking their members close to breaking point and finally slump into the lows of resigned inertia.

This is the effect of the following pathological mechanism: the overexertion of the organisation's people, caused by permanent excessive work in combination with the ever increasing speed and intensity of the activities, leads to exhaustion, which in turn leads to decreasing performance. The organisation tries to counter this downward trend by exerting even more pressure on its people. The inevitable result is a slump of energy that expresses itself in the common symptoms of change fatigue or organisational burnout.

In order to safeguard their energy balance for the long term and stop these energy traps from taking hold, companies need to establish management systems that promote independent initiative in their people. Managers must encourage as many people as possible to look for potential threats and opportunities at their companies.

Such a management system would seem to be a combination of three factors: *handling of strategies, handling of leadership,* and *handling of culture*. An optimum interplay of these three factors would create a management system that protects organisations from becoming inert and sluggish, and thus from collapsing from the peaks of energy intensity into low-energy valleys.

Strategic HR development can do its part in establishing such a management system. This is particularly true when it comes to leadership. If we want to maintain strong leadership with inspiring and problem-aware leaders, introducing systematic leadership development programmes is a particularly good choice. At the same time, it is essential to integrate other aspects of organisational energy into systematic competence management. For instance, HR should try to instil a sense of awareness in managers of their organisation's energy state, and how their behaviour affects the energy of their subordinates. Other competences, such as the ability for effective prioritisation and delegation, are similarly important for effective energy management if we want to avoid falling into the energy traps. Systematic culture and retention management – as part of strategic HR development – can also benefit from the regular monitoring of the company's internal energy state. Monitoring delivers invaluable information about when and how to intervene in the organisation.

5 Conclusions

Companies who have committed themselves to pushing through major strategic campaigns, far-reaching changes, or innovations should consider organisational energy as a prime factor in their success. But beyond such specific pursuits, the energy reserves of companies play a major role in determining the success of any business. The extent of organisational energy at work influences such factors as customer service awareness or efficiency. Targeted energy management should therefore be considered a key duty of top managers and their subordinates. Strategic HR development can and should aid executives to seize and develop the potential of their companies by building up the competences they need.

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Matthias T. Meifert, PhD in Philosophy, born 1968. Meifert is Managing Partner of HRpepper GmbH & Co. KGaA, an innovative HR consultancy. A trained banking manager and business education and psychology graduate, he has completed his doctorate on "Retentionmanagement" at the Technical University of Berlin in 2004. His consultancy interests lie in the areas of people leadership, strategic HR development, diagnostics, high-impact HR management and the management of complex change projects. Meifert has advised and coached numerous individual managers and businesses on the practice and tools for leadership and HR Management. In his work, he applies a consultancy concept that is highly practice-centric and holistic. His experience arises from his academic background in business education and from 12 years of management practice at a German corporate bank. Before Matthias Meifert founded HRpepper together with Philipp Hölzle, he was several years a member of the executive board and partner at Kienbaum Management Consultants GmbH.

Henriette-Muriel Müller, Graduate Psychologist, born 1977, studied psychology at the University of Regensburg with a focus on industrial and organisational psychology and intercultural psychology. Henriette-Muriel Müller has been spearheading the HR Development department at Minimax GmbH & Co. KG since 1 February 2012, and brings over a decade ef experience in the area to the role. She is responsible for employee and leadership development, management diagnostics and the implementation of several leadership instruments. For the past 6 years, Müller held a role as a Senior Consultant at Kienbaum Management Consultants GmbH in Berlin and Düsseldorf, where she was an active contributor to interdisciplinary projects in the Human Resource Management unit. She advised HR managers in the introduction of strategic HR development processes and the establishment of shared services. In addition to her expertise in the fields of HR diagnostics and development, and executive coaching, she has substantial experience in strategic international competence management and the development of cross-cultural competence in multinational organisations. She teaches regularly on HR-related topics, such as key qualifications for the international labour market, or change and project management, at the Koblenz University of Applied Sciences and the Hochschule Weserbergland.

Jan-Peter Müller, Master of Science, born 1984, has studied international business and politics (BA) at the University of Maastricht and the University of California Berkeley and completed his Master of Science in public management and governance at the London School of Economics and Political Science. He is working as a Project Manager at the Competence Centre for Renewable Energies at one of Germany's largest banks. Before taking up this position, he worked as a management consultant at Kienbaum, where he contributed to interdisciplinary projects in the Human Resource Management unit. He is a specialist for strategy and organisation, controlling, risk management, transformation and shared services. In addition to these focus interests, he has acquired substantial skills and expertise in the areas of employer branding, strategic corporate social responsibility (CSR), and is recognised as an industry expert on renewable energies.

Wibke Schmidt, born 1976. After completing her law degree at the University of Regensburg and the Universitá "La Sapienza" in Rome, Wibke Schmidt worked as an attorney in industrial-, commerce-, and business law for an international law firm. In 2007, she joined Kienbaum Management Consultants GmbH in Munich as a Senior Consultant, working in compensation consulting with a focus on legal advice for the design and introduction of short- and medium-term incentive systems. She is also an editor of Kienbaum's supervisory and executive board studies.

Alexander Thomas, PhD, university professor, born 1939, was a professor of social and organisational psychology at the University of Regensburg from 1979 to 2005. His research concentrated on cultural-comparative psychology and intercultural psychology. In these fields, he launched and supervised numerous research projects, and is the co-founder of the postgraduate course on "cross-cultural competence" and the Institut für Kooperationsmanagements" (IKO). The IKO acts as an international organisational consultancy service, supporting companies in the areas of cross-cultural competence, communication, team development, leadership, HR diagnostics and learning in organisations. Alexander Thomas is also a member of the Council for Migrants e.V. of the Federal Republic of Germany, board member of the Forost Eastern and South-Eastern Europe research association, scientific advisor at "interculture journal", and a member of other international bodies working on inter-cultural topics. He has published numerous studies in social psychology and intercultural psychology, contributing to pure research and practice. In 2003, he was awarded the special prize of the Ministry of Science, Research, and the Arts of the Free State of Bavaria for his foundation of the "Cross-Cultural Competence" course at IKO. In 2004, he received the German Psychology Award for his scientific contributions in the field of intercultural psychology.

Dave Ulrich, PhD, born 1953, is a university professor and the chair of Business Administration at the University of Michigan. He is recognised as the world's leading expert on strategic HR management. He is in great demand as a keynote speaker at international conferences, a regular contributor at the Michigan Executive Programme, and co-director of Michigan's Human Resource Executive

Programme and Advanced Human Resource Executive Programme. In his research work, he concentrates on how organisations need to be shaped to produce added value for their people, clients, and investors. Business Week has named him as one of their "top ten educators" in management and "the top educator" in the field of human resource management. He has published over 90 articles and papers, including Organisational Capability: Competing from the Inside/Out; The Boundaryless Organization: Breaking the Chains of Organization Structure; Human Resource Champions: The Next Agenda for Adding Value and Delivering Results; Tomorrow's (HR) Management; Learning Capability: Generating; Results Based Leadership: How Leaders Build the Business and Improve the Bottom Line; HR Scorecard: Linking People, Strategy, and Performance. Ulrich advises companies on his field of expertise and has worked with half of all Fortune 200 companies. He has received multiple awards for his work and lifetime achievements from the Society for Human Resource Management, the International Association of Corporate and Professional Recruitment, the International Personnel Management Association and the Employment Management Association.

Alexander von Preen, PhD, born 1965, is a Managing Director and Partner of Kienbaum Management Consultants GmbH. After completing his officer training, v. Preen studied at the LMU Munich and completed a doctorate on "Socio-Economic Model Development". In 1997, he joined Kienbaum Management Consultants GmbH as Executive Management Assistant and was promoted to the position of the Managing Director of Kienbaum AG Zürich in 1999. Two years later, he was nominated as a Partner of Kienbaum Management Consultants GmbH. Since 2001, he has been responsible for the international business of Kienbaum Human Resource Management in Western and Eastern Europe. In 2003, v. Preen became a Managing Director of Kienbaum Management Consultants GmbH before becoming an Associate of Kienbaum & Partner GmbH in 2007. He is Kienbaum's representative for strategic management and controlling systems as well as top executive compensation and corporate governance.

Saskia-Maria Weh, Doctor of Science, born 1974. Dr Saskia-Maria Weh is a Project Manager at Kienbaum Management Consultants GmbH in Düsseldorf. After completing her psychology studies at Marburg, she concentrated her doctorate research on the design and evaluation of stress management and recuperation training. In her current work, she acts as a management consultant, trainer, and coach in human resource management, with particular interest in culture and performance management, diagnostics, training and coaching across different sectors of industry. She has conducted numerous cultural development and transformation workshops and advised many clients on the implementation of corporate values. In her diagnostics work, she possesses particular experience with the development and implementation of management audits, potential analyses, and assessments centres. The focus of her training work lies on questions of leadership and stress management. Additionally, she has designed, conducted, and processed numerous staff surveys and HR studies.

Marius C. Wehner, PhD, born 1980, is a research assistant for the chair of Business Management Science and HR Management, Professor Dr Rüdiger Kabst, at the Justus-Liebig University of Gießen. His research interests include international comparative HR management, management practices in the course of outsourcing or downsizing and at high-tech start-ups.

Glossary

Action learning A method of experience-based learning or "learning by doing". It relies on the assumption that people learn best by being confronted with a concrete challenge.

Balanced scorecard (BSC) An indicator system that adds the underlying forces determining future performance to the financial data for past performance. All indicators are linked up with the commercial targets of the organisation by means of cause-and-effect links. Corporate performance is seen from four perspectives: finance, customers, internal business processes, and innovation.

Benchmarking A method for assessing performance by means of a defined yardstick, usually based on market competitors. This can refer to the assessment of a company's competitiveness, the definition and implementation of action plans to improve performance, or the identification of the characteristic strengths and weaknesses of the company.

Blended learning A combination of systematic on-site learning with phases of autodidactic exploration by means of e-learning.

Business partner Business partners are companies that enter into a form of cooperation with each other. However, a business partnership can also make sense between different cost units in a single organisation, aimed at maximising the effectiveness of cooperation for the best possible results.

Business plan The written record of the company's plans for its management of commercial opportunities and risks in the case of a new foundation or major expansion. Apart from market research, the business plan mainly includes information on the company's USP, marketing concept, and detailed targets concerning the use of the individual factors of production. It records explicit statements about the strategy of the company in all areas, esp. HR development, product development, patents, investments into assets, facilities, and sales.

Business process reengineering (BPR) An organisational intervention aimed at the complete re-envisioning of the organisational structure of a company by means of a thorough analysis of its existing processes. BPR relies on four basic principles: (1) focusing on the critical business processes; (2) focusing the processes on the customer; (3) focusing the business on its core competences; (4) intensive use of the opportunities offered by current information technology for procedural support purposes.

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Buy structures External arrangements, i.e. outsourcing HR development units, e.g. in the form of external management, or organisational development consultancies. Buy structures mean the professional handling of HR development functions and the establishment of a dedicated infrastructure for future strategic HR development.

Centre of competence Organisational unit dedicated to tracking and making the competences in the workforce transparent. It is also responsible for ensuring the development and utilisation of staff competences with an eye on the strategic goals of the organisation.

Change agent A specialist in constructive mediation in decision-making or conflict resolution. Also a promoter of personal, organisational, business-technological, and politico-social innovation or change.

Change management All responsibilities, interventions, and activities aimed at producing comprehensive, interdisciplinary, and broad conceptual changes in an organisation. These changes are made in the pursuit of new strategies, structures, systems, processes, and patterns of behaviour.

CIP (continuous improvement process) A concept developed from the Japanese management school of Kaizen, attempting to introduce positive changes not with great leaps forward, but with many baby steps. The key is the improvement of product and process quality, especially by encouraging employees to propose improvements. This is not, however, focused on individual employees' contributions, but on the growth of group or team proposals.

Coaching Temporary support for executives, provided by a specialist in their professional environment, as a means of improving workplace performance.

Commitment A person's sense of identification with his or her organisation.

Cranet (Cranfield network on international strategic human resource management) Global research network of over 40 universities and business schools (each representing one nation) producing an international comparative study of HR management practices over time. Since early 2009, all 40 Cranet nations have been collecting data for regular publication from 2010 onwards. The German survey was produced in cooperation with Kienbaum Management Consultants GmbH.

CVTS III (Continuing Vocational Training Survey) The third cycle of a vocational education survey conducted with 76,000 companies in 25 European nations in 2006. The project coordinated by the German Institute for Vocational Education and Training was designed to produce a set of benchmarkable data on the quantitative and qualitative structures of occupational training and education in all EU member states (including the nine accession states and Norway).

Deutero-learning Process and meta-learning through a confrontation with past learning processes and the development of new forms of learning.

Development audit An HR instrument used to survey and rate a person's developmental potential.

DIN EN ISO 9000 ff. An organisation's quality management system in the form of a series of related ISO norms.

Double-loop learning Change learning: learning by actively working on one's own mental models to develop new alternative behaviours and a more versatile behavioural repertoire.

E-Learning Learning by means of electronic media, computer or network-based environments. The purpose of e-learning is to teach knowledge and behaviour and to strengthen people's sense of responsibility for their own progress as learners. Its characteristic traits are its combination of media; multimodality; holistic, sophisticated mental models; interactivity and communicability; global approach; reusability and flexibility (modular concepts).

Education controlling Controlling educational activities, particularly in the form of organisational qualification. It is aimed at supporting, administering, and advising the planning, implementation, and controlling of qualification activities with a steady flow of relevant information. Educational controlling supports both HR development and HR management at large.

Education evaluation Evaluating the available offerings in the educational sector: formal education and vocational training, university courses or vocational colleges, and media products.

Education passport The education passport is a portfolio concept designed to produce a comprehensive picture of an employee's functional and personal competences by recording and describing his or her development. It records formal education and vocational qualifications as well as matters of experience and practice. The education passport helps define status quo and track progress in terms of new knowledge or abilities and to act as a tool for pre-emptive HR development.

Educational requirements analysis Systematic monitoring of individual, departmental, or organisational educational and development needs. The requirements analysis defines the targets and contents of HR development activities. The current and future requirements profiles are used to manage all development activities effectively and to avoid planning flaws.

Employability Defines a person's capabilities for participating actively in the labour market, ideally also in terms of actively maintaining this capability by means of further training and development.

Employee self-service (ESS) HR services for employees allowing independent access to their master data and reference information.

ERP system (enterprise resource planning) A complex software solution to support resource planning for entire operations.

European foundation for quality management (EFQM) A contractual network of European quality management entities aimed at promoting national awareness for the EFQM excellence ideal. The EFQM model for excellence is a total quality management model that covers all areas of management and is designed to guide its adherents to excellent management practices and outstanding commercial results.

Executrack ETWeb A web-based HR development system that covers all aspects of human capital management.

Feedback-based coaching An instrument for strategic and needs-targeted executive development, conducted in five phases that determine the structure and activities in a development process: (1) preparation; (2) feedback; (3) coaching; (4) conclusion; (5) review.

Full-time equivalent (FTE) Defines the amount of time that a full-time member of staff covers over a defined period of time.

Gamma Software tool used to support holistic thinking by quick and simple visualisation and subsequent analysis.

Governance/guidelines The management and controlling of an organisation's operations by means of a code of conduct. This particularly refers to responsibilities, active capacities, and (optionally) internal accounting guidelines. This framework is determined by a wide range of stakeholders, from the wider legislative framework to the organisation's proprietor, workforce, supervisory and executive boards, management, or business partners.

GrapeVINE IT system for the automated coordination and distribution of information in an organisation by means of a keyword database. Its purpose is to give access to information stored in Lotus Notes databases or the LAN in accordance with the specific search profile of the user.

High potential Also called "top talents", high potentials are members of staff displaying above-average potential. This often brings with it specific expectations, such as above-average developmental progress or performance.

HR controlling An integrated management method used for optimising workforce costs and structures by analysing, planning, managing, and monitoring workforce data.

HR development scorecard An indicator system used to measure the efficiency and efficacy of HR development on four sides: the financial perspective, the customer's perspective, the procedural perspective, and the innovation perspective.

HR development strategy The HR development strategy is used to define the organisation's specific development goals and their contribution to commercial success. It defines the rules (guidelines and governance) for conducting HR development work at the organisation.

HR development system A software system used for HR development purposes that gives employees access to development opportunities tailored to their needs and interests. Current web-based solutions for HR management development include ETWeb, persisSQL, and perbit.views.

Human capital The human capital of an organisation refers to the knowledge and capabilities of its people, i.e. the person-specific knowledge available to the organisation. The term is related to other terms, such as human resources or intellectual capital.

Human resource management system A system for collecting, storing, processing, interpreting, and sharing personnel and job-specific information. The system uses technical, methodological, and organisational means to supply line managers, HR professionals, and labour representatives with relevant information for their personnel leadership and administrative duties: e.g. SAP HR as an administration and payroll accounting system.

Industrial relations The term harkens back to the times of the industrial revolution and refers to the relationships between the managers at a company and their employees. It also refers to the relations between employers' associations and unionised labour.

International management pool (IMP) A pool including the top performers of an organisation's middle management who display an international mindset and potential for taking over an international executive position at a higher level of responsibility. The members of this pool should already have a track record of success in their first project management or leadership positions.

Junior executive pool (JEP) Executive development programme designed for young, highly motivated and top-performing managers with at least 2–3 years of professional experience. Candidates should show potential for taking over greater responsibility in their leadership, project management, or specialist career tracks. The target group includes people in the top two pay bands, members of middle management or people in similar functions.

Kaizen A method for the constant improvement of the competitiveness of employees and executives. According to the Kaizen School, the road to success does not rely on sudden leaps, but on the slow and gradual perfection of a tried and tested product. The key is not financial gain, but the constant commitment to improving the quality of products and processes.

Key performance indicator (KPI) Indicators used to track and/or establish progress towards the relevant targets or critical success factors of an organisation.

Kirkpatrick model A model used to rate the success of HR development activities on different levels and to identify the maturity of the education controlling system. It distinguishes between satisfaction, learning, transfer, business, and investment success. From levels 1 to 5, the number of companies conducting effective controlling steadily decreases. Although the data becomes substantially more meaningful from level to level.

Knowledge management The systematic acquisition, production, processing, administration, publication, and utilisation of knowledge in companies. The knowledge base of a company covers all data and information that the organisation needs to complete its many jobs and functions. Individual knowledge and abilities (human capital) are anchored systematically in the organisation.

Learning contracts Formal agreements between a teacher and a learner, defining the learning objectives and giving the learner an active role in, and responsibility for, the learning process.

Learning histories A method for documenting facts and incidents over a defined period (e.g. a project's duration). This is used to allow systematic access to experience from past change processes.

Learning laboratories/microworlds Computer-based simulations and case studies as a practical arena for testing activities, leading to subsequent discussion and reflection.

Long-term incentives (LTI) Incentive systems in which compensation is determined by the long-term growth of a company's value.

Make structures Internal HR development units, such as vocational training supervisor, internal HR, executive management, HR development advisors, competence or expert centres; also used in project formats.

Management appraisal A common umbrella term for a variety of aptitude and potential diagnostic methods (mostly for upper management participants). These can include individual assessment centres and management audits.

Management audit In business administration - particularly in HR management - a management audit refers to an evaluation procedure for managers and other executive personnel, usually conducted by an external consultancy partner. These audits are a mixture of analysis and consulting methods, frequently built from scratch or selected from a dedicated toolkit specifically for the individual case in hand. The management audit uses a selection of the methods from aptitude diagnostics and organisational development, cultural due diligence, and traditional business consulting.

Model of competence (Strategic) A model of competence covers both functional and social/methodological competences. The key is to define the non-functional competences that the organisation will need today and in the future. The model shows which competences to foster and utilise in its employees and executives. A model of competence can be regarded as "strategic" if it reflects the future requirements arising from the corporate strategy.

MRP II Acronym for Manufacturing Resource Planning: a concept for planning and managing manufacturing operations that relies on successive planning in a hierarchical process. MRP II includes commercial and strategic perspectives in manufacturing planning.

Occupational education science The science of occupational learning, development, and change processes. Occupational education concerns HR development, vocational qualifications and training, the corporate culture, leadership concepts, and coaching services among many other aspects.

On-the-job training A form of occupational education and training that takes place in the workplace, either during induction or in normal routine work, used to introduce new or additional aspects and thus avoid "tunnel vision" or regression.

Open space technology A means of coordinating large-scale conferences and using sophisticated facilitation techniques to develop new ideas.

Organisational development The systemic design or revision of the structural and procedural set-up of an organisation. Organisational development covers change management on a holistic level and is regarded as an independent management process. It relates closely to HR development and quality management.

Outsourcing The handover of an organisation's activities and structures to a third party. Outsourcing is a specific form of the outside procurement of formerly internal services, with the duration and scope of the outsourced services being contractually defined.

Pareto principle Also known as the 80:20 rule – a minor part of the overall effort (20 %) produces a major part of the effect (80 %). The remaining 20 % require the most effort, i.e. the marginal utility decreases constantly.

People strategy A holistic strategy covering the development of an organisation's human capital in line with its strategic requirements.

perbit.views A software-based HR development system.

Performance management A management approach strongly oriented to the organisation's goals. The purpose is to support the execution of the organisation's strategy toward the achievement of intended results by trickling down the corporate targets.

persisSQ A software system for HR administration and development.

Profit centre Expression of the competitive design of organisational systems. This is the organisational unit of a company to which a specific profit can be attributed.

Profitability controlling Controlling with a focus on the productivity of HR work, covering the analysis and commercial evaluation of the activities of HR.

Qualification management The management of continued or re-initiated organised learning after completing a first phase of comprehensive education (at different levels of intensity or duration). Management activities used to initiate, plan, conduct, and process teaching and learning processes in organisations.

Quality assurance Internal process used to ensure that a product matches a defined level of quality. According to DIN EN ISO 9000, the purpose is not to optimise quality, but to maintain the set standard. Quality assurance can refer to a material product, a service, or an applied process.

Quality management Part of functional management aimed at optimising work and production processes in terms of their material, speed, maintenance and the quality optimisation of goods and services. This refers to the improvement of communication structures, professional solutions, the management or improvement of customer satisfaction and employee engagement, the standardisation of operating and work processes, the standards for goods and services and their documentation.

Quick-market intelligence A means of organisational learning, referring to the structured meetings of different actors involved in the business process to collate and process information from various perspectives and positions and turn it into practical solutions. The aim is to speed up the process of collecting and interpreting information, and taking and executing decisions.

Reporting The processes and activities of an organisation used to produce, share, analyse, and store information about its operations and environment. This information takes the form of reports with consolidated information on a chosen topic.

Requirements management A systematic HR development process that uses purposeful internal education and development activities. It uses techniques including skills analyses for function-specific activities, surveys of employees or specialists, process analyses with on-site observations, company-specific product reviews (sales figures, returns, failure analyses, etc.), management interviews, trend tracking or forecasts, external contacts in the educational sector, or internal expectations in terms of systematic/strategically aligned innovations.

Retention management The purpose of retention management is to retain people at an organisation by engendering personal commitment in them. It does so by creating an environment that promotes performance, loyalty, and a sense of identification with the organisation.

Return on investment (RoI) The RoI uses a system of indicators to establish the returns on invested capital and the length of time the return takes to materialise. In the DuPont indicator system, it represents a top-level indicator, defined by multiplying the yield of turnover with the capital turnover.

Review phase Part of a feedback-driven coaching process, in which the results of the coaching are evaluated.

Semi-autonomous workgroup A team of up to ten people managing its leave and work plans, tasks, process improvements, and team conflicts autonomously.

Shadowing A form of learning in which the learner observes a colleague at work - used to pass the implicit knowledge of an experienced person on to a younger member of staff.

Short-term incentives (STI) Incentives relating to the current financial year alone.

Single-loop learning Adaptive learning: simple adaptation of a person's behaviour to real-world requirements without a fundamental challenge or change in that person's behavioural principles.

Skills management system A system for selecting employees with specific qualifications, supporting the identification and systematic utilisation of current or dormant skills and knowledge in the organisation.

SMB Small and medium-sized businesses with workforces between 10 and 250 people and annual turnover from 2 to 50 million Euros, irrespective of their legal form.

Stakeholder Any person or group with a legitimate set of interests relating to the issue in question.

Strategic HR development The purpose of strategic HR development lies in the coherent alignment of all HR development activities with the corporate strategy of the organisation at large. This means that all HR development tools and activities are built to match that strategy, and thus brings HR development closer to the other organisational units. The perception of HR developers as business partners for the organisation helps this process. In its mature form, strategic HR development becomes an independent business area with a unique service portfolio, instead of a simple source of costs.

Strategically oriented qualification management Basic organisational task aimed at aligning and developing human resources with the strategic purpose of the organisation. Strategically oriented qualification management also pursues activities like internal conflict mediation, advice, and change management facilitation.

SWOT analysis A strategic management tool addressing the Strengths, Weaknesses, Opportunities, and Threats of the organisation. In its basic form, the SWOT analysis considers the internal strengths and weaknesses and the external opportunities and threats. A combination of the strength-weaknesses and opportunities-threats perspectives allows a holistic strategy for the future direction of the organisation at large, or its individual functions, such as HR development.

Total compensation concept Concept that includes all components of compensation: basic and variable salaries, pension provisions, and other benefits, such as company car allowances. The aim is to emphasise the total value of the offered compensation and to move away from an isolated vision of the individual components.

Total quality management (TQM) A concept for the constant improvement of performance in all areas of the business, the optimum satisfaction of internal and external customers' expectations, and the optimisation of quality indicators and reduction of the cost of quality.

Transfer controlling A means of quality assurance and educational controlling used to plan, manage, and control the transfer of a training course's contents from the place of learning to the functional sphere.

Transfer management Innovative management techniques that work on the assumption that the transfer of a training course's contents from the learning to the working environment can be managed consciously. Transfer management is synonymous with the active management of qualification activities in the pursuit of higher effectiveness.

USP: unique selling proposition A unique trait or actual advantage for the customer that marks the organisation out from its competitors.

Value-based job grading Value-oriented methods of classifying jobs aimed at contributing to the success and long-term competitiveness of the organisation.

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