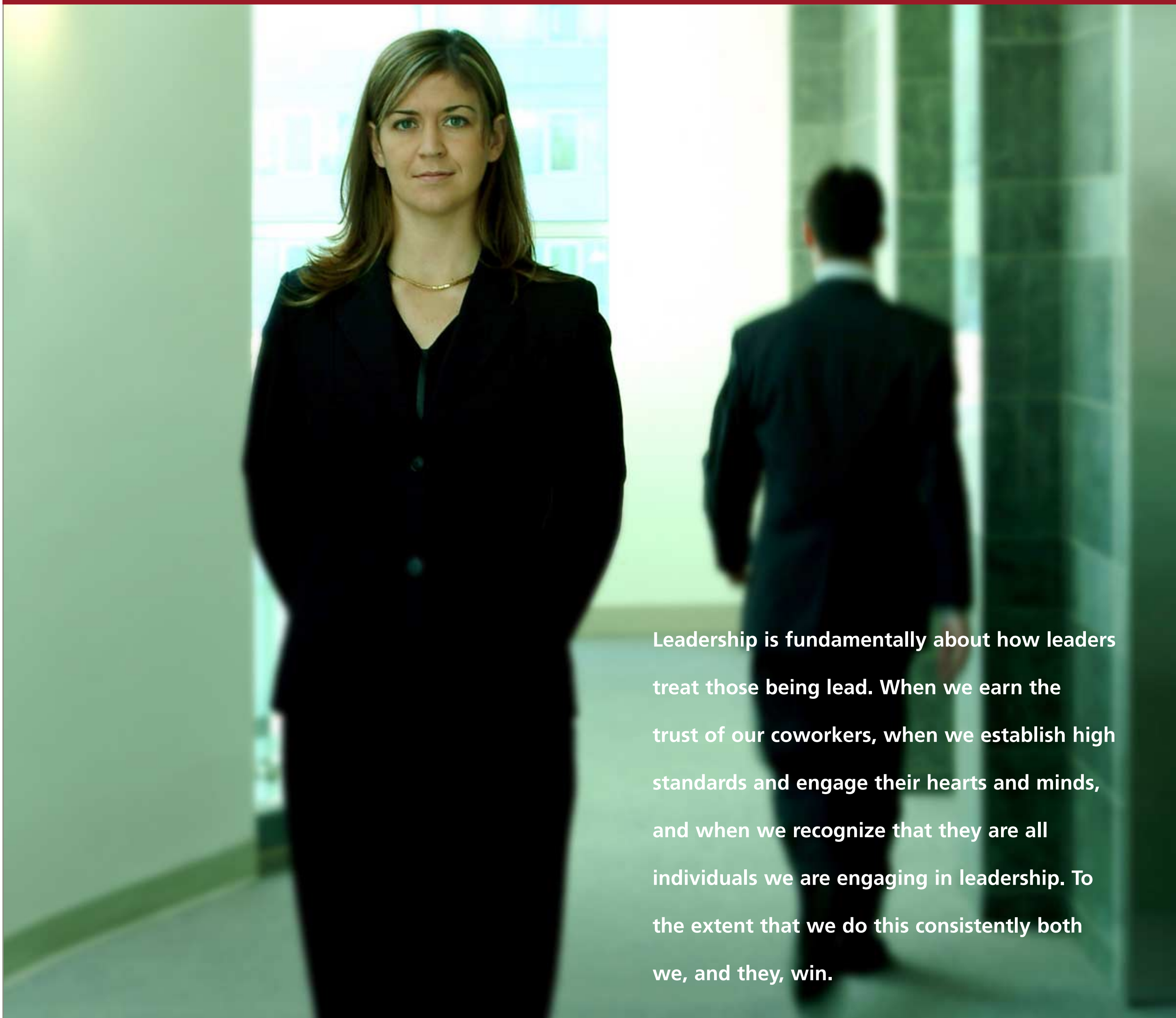


Leadership is fundamentally about how leaders treat those being lead. When we earn the trust of our coworkers, when we establish high standards and engage their hearts and minds, and when we recognize that they are all individuals we are engaging in leadership. To the extent that we do this consistently both we, and they, win.

HTML: The Core Principles of Managing People

BY E. KEVIN KELLOWAY

As every manager knows, the field of human resources is the favorite hunting ground of charlatans and snake oil distributors of all descriptions. Each carries a magic elixir of "colors", "types" and "brain science" touted to make your organization more effective and your employees happier. As most discover to their sorrow, the only ones happier at the end of the day are the hucksters who sold the program. In organization after organization, we hear employees tell us that they are tired of the endless procession of "whiz bang" ideas trotted out as management innovation.

The marketing of human resource "solutions" stands in stark contrast to the empirical literature on human resource management. An increasingly large body of literature provides evidence that, when managed correctly, human resources are indeed the company's most valuable assets. In his classic study of high commitment work practices in U.S. mini-steel mills, Jefferey Arthur [1] showed that productivity and turnover were linked to management style. Steel mills that adopted a high commitment work system had higher productivity, and lower scrap rates than did mills that operated under the traditional "command and control" system. Although Arthur's results were limited to one industry, Mark Huselid [2] studied HR practices across a broad sample of U.S. based companies. He found that a one standard deviation increase in the use of effective HR practices was associated with an increase in shareholder value of $18,000 U.S. *per employee*. Since these early studies, the impact of HR has been replicated across many industries and nations. Simply put, there are now overwhelming data supporting the suggestion that "getting it right" in the management of human resources is critical to organizational survival and growth.

So what does it mean to "get it right" when it comes to managing human resources? Essentially getting it right means that the job of managers is to create the conditions under which employees can optimally perform. With a colleague at Queen's University [3] I have previously suggested that these conditions can be expressed by the fundamental equation:

(Performance = Ability x Motivation x Opportunity)

We emphasize that the equation is multiplicative and, as a result, non-compensatory. That is – all the motivation in the world does not make up for a lack of ability. Similarly, hiring highly skilled employees and then not affording them the opportunity to contribute is a recipe for failure. Seen in this light, the job of effective people management comes down to three central tasks:

a) ensure that your employees have the ability to do the job

b) ensure that your employees are motivated to use their ability to improve their job performance; and

c) ensure that your employees have the opportunity to contribute to the organization

There are a variety of views on how best to make these three goals happen. The Gallup organization has identified 12 items used on their employee survey (i.e., the "Gallup 12") that are associated with better overall organizational performance using a variety of criteria. Organizational scholars such as Jeffrey Pfeffer [4] have proposed 14 distinct aspects of a high performance work system. Other researchers have focused on deriving bundles of best practices in HR or have focused on the contingencies under which HR practices are more or less effective. While researchers still debate the optimal combination of human resource tactics and continue to focus on the mechanisms through which HR management is translated into corporate profit, my review of the empirical literature suggests that four key practices underlie effective human resource management.

I refer to these practices using the acronym HTML. As the computer literate will recognize, HTML is the acronym for Hyper Text Markup Language. HTML was originally conceived as a programming language that would work with all operating systems and allow universal access to web pages. In a similar manner, the HR practices summarized below have been shown to work in all types and sizes of organizations, in a wide variety of settings. The four elements of effective HR summarized in this view are to Hire the Best, Treat them Well, Manage Performance and to provide Leadership.→

Hire the Best

Perhaps the most fundamental building block of success in HR management is to hire individuals with the right skills, abilities, and competencies for the job. Establishing a rigorous selection procedure has two fundamental benefits. First, rigorous selection means that only individuals with the appropriate skills are hired. Second, as Jeffrey Pfeffer [4] notes, implementing rigorous selection sends a message throughout the organization. From the moment a job candidate makes contact with your organization, he/she gets the message that individuals and their qualifications are critical to organizational success.

How important is hiring the best? In his analysis of good companies that became great (i.e., achieved exceptional financial returns for a 15 year period), Jim Collins [5] puts effective hiring decisions ahead of strategy or any other managerial action. In brief he argues that great companies first answer "who" and then addressed the question of "what". Effective organizational leaders studied by Collins focused first and foremost on hiring outstanding people. Indeed, the companies would hire excellent candidates even if "the right" position was not available. Conversely, they steadfastly refused to hire until the right person was found to fill the vacancy.

"Effective organizational leaders...focused first and foremost on hiring outstanding people. Indeed, the companies would hire excellent candidates even if "the right" position was not available"

Rigorous selection can, of course, mean different things to different organizations and a whole host of consultants will be more than willing to sell you their own selection instruments assessing personality, cognitive ability or other personal characteristics. Indeed, the available data suggest that some of these measures, especially measures of cognitive ability, are good predictors of job performance. However, using such measures is a costly strategy that may not add value to more traditional means of selection. Organizations throughout the world have increasingly focused on three central elements that are critical to hiring the best; job analysis, screening, and behavioral interviewing.

JOB ANALYSIS

Perhaps the most fundamental truth in hiring the best is the need to first know yourself and your requirements. An effective tool for accomplishing this is through job analysis. Although numerous methods of job analysis exist, the essence of doing a job analysis is to define, the [a] duties of the job, and the [b] characteristics of job candidates that are necessary for the effective performance of that job. Commonly referred to as the Knowledge, Skills, Abilities and Other characteristics (KSAOs) of the job, the purpose of job analysis is to establish the criteria by which we will select applicants. We can think of these KSAOs as representing either "hard" or "soft" criteria. Hard criteria are things like required education, experience, licenses/certificates and skills. Typically, these can be objectively assessed and easily verified. For example, if a job requires the individual to hold an accounting designation, candidates can be asked to provide proof that they hold the designation. Some jobs require →

specific skills (e.g., keyboarding, welding) and individuals can be asked to provide proof of specific training in these areas and/or establish their competency in these areas by doing a job-related test (e.g., a keyboarding test)[1].

SCREENING

Because they can be objectively assessed and verified, hard criteria like these should be used primarily for screening your applicants. That is, the "hard" criteria should be used up front in the hiring process and only those individuals who can demonstrably meet these requirements should progress any further in the selection procedure. Screening applicants in this way is a low cost strategy that helps to prevent mistakes from occurring later in the selection process. It is entirely possible, of course, that you might screen out somebody who could have done the job perfectly well. However this type of mistake (known as a false negative) has minimal costs for the organization. The costs of the opposite mistake (a false positive – hiring somebody who cannot do the job) can be extremely high. In essence, the goal of screening is to make sure that any individual progressing to the interview stage has the skills and qualifications necessary to do the job.

BEHAVIORAL INTERVIEWING

No aspect of selection has been subject to more research than the employment interview. Although the interview is used in almost every hiring situation, the research data clearly show that employment interviews are subject to a number of biases and errors. Even highly skilled interviewers frequently cannot identify individuals likely to do well on a given job based on the interview and candidates may have the ability to "fake" their way through the typical interview. Indeed there is a whole industry of career counselors and re-employment specialists who focus on coaching job applicants through the most common interview questions (e.g., "Where do you want to be five years from now?" "What is your greatest strength? Your greatest weakness?").

While the research clearly documents the problems with employment interviews, it has also identified some solutions. Structured interviews (in which all applicants are asked the same questions and answers are scored according to pre-determined criteria) have been shown to predict job performance and substantially reduce the influence of rater error. One particular form of structured interview, referred to as "behavioral" or "behavioral descriptive" interviewing has proven to be so successful it is now implemented in over 80% of Canadian organizations.

As originally described by Tom Janz [6], the basis of behavioral interviewing is the notion that the best predictor of future behavior is past behaviour. So if we want to know if an individual has customer service skills we might ask them to "tell me about a time when you had to deal with a difficult customer" or "tell me about a time when you provided exceptional customer service". By asking applicants to give specific examples of the skills we are interested in, we are, in effect, asking them to demonstrate that they do indeed possess these skills. Moreover, behavioral interviews also have proven more difficult to fake – candidates without the required experience or skills are often left tongue tied and stammering trying to respond to more pointed and precise questioning.

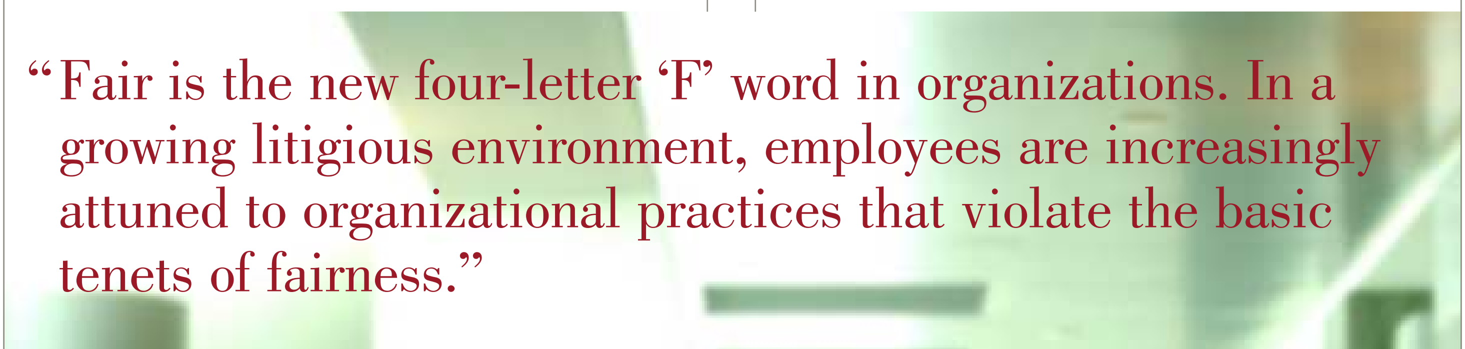
Treat them well

Some studies of employees suggest that only 24% of those in the workplace are really engaged in their job. A cynic might say that this indicates a 76% efficiency rate for many of our organizational practices – too often practices intended to improve organizational functioning in one way, but only serve to alienate employees, to "beat them down" and, ultimately, to destroy motivation and engagement in another. There are many aspects to treating employees well – perhaps too many to be covered within the limits of this article. However, perhaps the most fundamental concern we should have is whether or not we treat our employees fairly.→

[1] Commonly known as a job sample, tests of this nature are generally highly predictive of actual job performance.ws

FAIRNESS

Fair is the new four-letter 'F' word in organizations. In a growing litigious environment, employees are increasingly attuned to organizational practices that violate the basic tenets of fairness. For example, the decision by some local employers to penalize employees for not coming to work during the largest blizzard in recorded history was seen by many employees to be unfair. While this decision may have been clearly justified by employment law and the language of collective agreements, such justifications do not create the perceptions that the decision was fair.



"Fair is the new four-letter 'F' word in organizations. In a growing litigious environment, employees are increasingly attuned to organizational practices that violate the basic tenets of fairness."

What constitutes fair dealing in organizations? There are at least three elements of fairness or justice that have been identified by organizational justice researchers; distributive, procedural and interactional justice. Distributive justice focuses on the fairness of the outcomes we receive. As Adams noted in his formulation of equity theory, employees have a basic expectation that the rewards or consideration they receive will be proportionate to their contribution. When we see others receiving underserved bonuses or promotions, or when employers do not recognize our contributions we feel that we are being treated unfairly.

Beyond the outcomes received by employees, we can also consider the rules and mechanisms through which these outcomes are determined. Aspects of procedural justice include whether or not clear rules were followed, whether individuals had a say in determining the allocation of these rewards and whether they have a mechanism to appeal decisions with which they did not agree.

A final component of organizational justice is the notion of interactional justice. Interactional justice refers to how we deal with employees on a one to one basis. We can make a distributively fair decision following well established procedures and then destroy this work by not communicating the decision to employees in an appropriate way.

A study by Jerald Greenberg [7] vividly illustrates the impact of interactional injustice. Greenberg worked with a company in the United States that was implementing a 15% pay cut in each of two plants. The magnitude of the pay cut (i.e., the distributive outcome) was the same in both plants. Moreover, management was using the same decision policies (i.e., procedural justice) in both plants. The only difference was the way in which employees were told about the layoff. In one of these plants, employees were given an adequate explanation about the need for pay cuts – the reason for the cuts was explained and the manager expressed remorse for the decision. The employees in the other plant were given neither a reason nor an apology – they were simply told that the manager had decided on a 15% pay cut in response to recent business conditions. Strikingly, employee theft or "shrinkage" increased in this plant!

Treating them well – ensuring distributive, procedural and interactional justice is a critical component of people management. Clearly it makes no sense →

whatsoever to hire the best and then treat them poorly. Yet this is precisely what we do in organizations day after day. Whether through neglect or intent, organizations seem to ignore the truism that “the best” must be treated as “the best”.

Manage Performance

Perhaps no element of people management is as contentious as the area of performance management. Following Peter Drucker’s dictum that you “can’t manage what you can’t measure” there has been an incredible amount of research and organizational resources devoted to the question of performance measurement. To a large extent, the end result of this focus has been the annual performance appraisal. As one of the most ubiquitous human resource practices, the practice of performance appraisal is reviled by both managers and employees alike. Indeed, Bowman [8] defined performance appraisal as something “given by someone who does not want to give it to someone who does not want to get it”. Perhaps not surprisingly, Longnecker and Goff [9] reported that over 90% of companies are dissatisfied with their current performance appraisal process. Based on these concerns, Coens and Jenkins [10] have advocated the abolition of performance appraisals.

The problems of measuring performance through an annual appraisal are well known. Score inflation whereby all individuals receive high performance ratings is endemic. A vast literature documents various forms of rater errors and studies typically suggest that over 50% of the variance in performance scores is attributable to “idiosyncratic rater effects”. Indeed, in his review of 24 studies, Lefkowitz [11] reported that the most consistent effect was that supervisors tended to give higher ratings to subordinates that they liked!

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In reaction to these concerns, organizations have increasingly moved in the direction of performance management over performance appraisal. Das [12] defines performance management as an “ongoing process that articulates organizational vision and objectives, identifies and installs organizational and individual performance standards in light of these objectives, and takes corrective action to ensure accomplishment of these standards using systems and procedures that are well-integrated with organizational culture and practices.” Performance management systems focus on performance improvement through collecting, analyzing, and communicating information in a timely fashion. Performance management systems integrate performance planning, support for high performance, performance development and performance appraisal. Performance management identifies strategic organizational objectives and sets performance standards related to those objectives. Those standards involve both individual and team (or unit) performance. In this way, individual performance is evaluated in an organizational context and not in isolation.

Perhaps one of the most fundamental elements of performance management is the notion of goal setting as articulated by Ed Locke and Gary Latham [13]. Goal setting is one of the most effective performance →

management tools available to managers. In essence goal setting theory suggests that effective goals are challenging and specific. Coupled with timely feedback that focuses on behavior and individual performance approval (as opposed to comparison with others), goal setting continues to be the basis for effective performance management in organizations.

THE ROLE OF REWARDS

The observation that individuals obtain an income from employment has lead many to believe that people work solely (or most importantly) for money. In what is now considered a classic Harvard Business Review article, Jeffrey Pfeffer [14] identifies this as one of the dangerous myths about pay. The myth is dangerous because it seems so self-evident. If we want people to work harder, we should simply reward extra or exceptional effort.

There are at least two problems with this line of logic. First, as noted above, it is not at all clear that we can measure performance accurately in many jobs. As a result, tying compensation directly to performance evaluations makes an already suspect process even worse! Employees who are already cynical about a process that is seen as inaccurate, and perhaps arbitrary – based on whether the supervisor likes them – do not accept the proposition that these ratings should be the basis for compensation decisions.

Second, accepting for the moment that money can motivate, you would need to consider how much money must be devoted to performance improvement. In a world where employers may devote 1-2% of their salary budget for performance based merit awards, employees tell us that they expect a reward for performance to be somewhere in the range of 7% to 15% of salary. What is the motivational result of expecting a 10% raise and getting a 1% raise?

Managing performance does not require elaborate measurement or compensation systems designed by, and for, high priced consultants. Rather, what has proven to be effective in managing performance is the combination of goal setting and feedback.

Leadership

Think of the best leader you ever had, or you have ever met elsewhere. It could be a supervisor, a teacher, a sports coach or anyone that stands out in your mind as a leader. Take a few minutes and note down what is that this individual did that made him/her a truly effective "leader". If you are like the hundreds of individuals that we have had complete this exercise, it is likely that the behaviors that you identify as being characteristic of effective leadership fall into the four dimensions that comprise the theory of transformational leadership.

Transformational leadership is the most widely studied leadership theory in recent years. In the last 10 years, there have been more studies of transformational leadership theory than on all other leadership theories combined. The result of this intensive research effort is twofold. The data suggest that transformational leadership [a] works and [b] can be taught.

The theory works in the sense that transformational leadership has been consistently associated with a broad array of desired outcomes including improved employee attitudes, improved performance, improved safety outcomes, and financial outcomes. Moreover, the research has been based on traditional correlational designs as well as both laboratory and field experiments that identify transformational leadership as the causes of improved performance.

In a study reported in the *Journal of Applied Psychology*, [15] we addressed both questions (e.g. does it work?, and can it be taught?). The design of our initial research was quite simple. Working with a major financial institution in Canada we identified twenty bank (i.e., branch) managers operating within the same geographic region. Managers were randomly assigned to either an experimental group or a control group. Members of the experimental group initially participated in a one-day workshop on transformational leadership, and subsequently attended four →

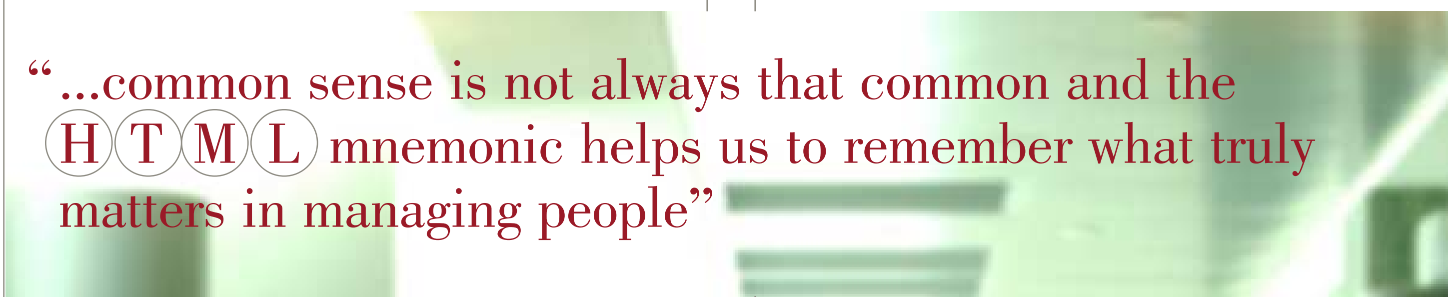
individual counseling sessions in which subordinate ratings of transformational leadership were presented for each leader, and specific goals were developed and monitored. Members of the control group received neither the training nor the counseling sessions.

Consistent with our goals, the effectiveness of the training intervention was assessed with two types of measures. First, we thought that the intervention could only be judged a success if the subordinates saw an increase in the transformational leadership behaviors displayed by their leaders. In fact, the data showed that subordinates of trained leaders reported significantly more positive perceptions of their behaviors than did subordinates of the untrained managers.

Second, while these data speak to the ability of training to increase leadership behavior, we were also interested in whether increasing leadership behaviors resulted in increases in outcomes of interest to the organization, that is better performance!. Our results showed that subordinates of trained leaders became more committed (i.e., loyal) to the organization than were subordinates of untrained leaders.

Perhaps more importantly, branch-level credit card sales and personal loan sales (adjusted for branch size) increased in branches where the manager was leadership trained. These results are particularly important because [a] they show the impact of leadership training on bottom line outcomes and [b] the individuals that were trained (i.e., the leaders) were not personally engaged in credit card and personal loan sales. This latter observation shows that an increase in transformational leadership "trickles down" throughout the organization raising performance at all levels.

So what is transformational leadership? One of the main proponents of the theory, Bernie Bass [16], suggests that there are four central components that define transformational leadership, namely idealized influence, inspirational motivation, intellectual stimulation and individualized consideration.



"...common sense is not always that common and the HTML mnemonic helps us to remember what truly matters in managing people"

Idealized influence occurs when leaders engender the trust and respect of their followers. Leaders who engage in *inspirational motivation* "raise the bar" for their employees, encouraging them to achieve levels of performance beyond their own expectations. *Intellectual stimulation* involves engaging the rationality of subordinates, getting them to challenge their assumptions and to think about old problems in new ways. Lastly, *individualized consideration* deals with treating employees as individuals and helping them to meet their needs.

Leadership is fundamentally about how leaders treat those being lead. When we earn the trust of our coworkers, when we establish high standards and engage their hearts and minds, and when we recognize that they are all individuals we are engaging in leadership. To the extent that we do this consistently both we, and they, win.→

Summary: Core Principles for Managing People

The principles presented here – Hire the Best, Treat Them Well, Manage Performance, and Leadership – are not rocket science. Nor do they require personality assessments or the obligatory two-day workshop to master and implement them effectively. Many of you may dismiss these principles as being just common sense. However, common sense is not always that common and the HTML mnemonic helps us to remember what truly matters in managing people. Hiring the best, treating them well, managing performance and leadership are the principles that work in organizations of all shapes and sizes, in all industries and at all levels. Truly, these principles are the best practices of managing people.

Profile: E. Kevin Kelloway is a member of the faculty of the Sobey School of Business, where he holds an appointment as Professor of Management and Psychology. He also serves as the Chair of the Department of Management. Dr. Kelloway was the founding Ph.D. Program Director for the Sobey School of Business (2000 - 2003) and is the founding Director of the CN Centre for Occupational Health and Safety and a founding principal of the Centre for Leadership Excellence. Dr. Kelloway is a prolific researcher having published over 90 articles, book chapters, and technical reports. His research interests include occupational health psychology, leadership, the development and measurement of work attitudes/values, unionization, and the management of knowledge workers. As a consultant, Dr. Kelloway maintains an active practice consulting to private and public sector organizations on issues related to leadership, performance management and measurement of employee attitudes/performance.

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