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Research Dissertation Topic:

"An investigation into the effectiveness of a decentralised Human Resources structure in a South African Financial Institution in comparison with World Class Practices"

by

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Dissertation submitted in partial fulfillment of the requirements for the degree MPhil in Labour Law and Employment Relations at the Rand Afrikaans University

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January 2002
Abstract

The company used in the research is a large financial corporation in South Africa that is performing well in the South African market consisting of 2500 employees and five (5) autonomous strategic business units (SBU’s). The Human Resources (HR) function is completely decentralised and there is a general dissatisfaction amongst line management and staff that the HR function is not adding enough value and that it is ineffective and is not world class.

The research hypothesis is that the decentralised HR function model leads to inefficiencies and unnecessary costs in terms of HR service delivery. The research conducted at The Financial Institution included a strategic and financial analysis, an investigation into customer satisfaction and the effectiveness of the HR processes and systems. It also included an international and local benchmarking study to compare The Financial Institution’s HR Practices with global best and world-class practices.

The results indicated that the implementation of the decentralised HR model is lacking world-class principles and is ineffective and expensive. HR is not strategically aligned to the business, is not strategically focused and lacks a degree of strategic leadership and credibility. The HR service delivery model is ineffective; a fair amount of duplication is taking place and HR policies and procedures are inconsistently applied across the organisation. The HR function is not seen as customer focused, and The Financial Institution not seen as people oriented, creating HR barriers. The decentralised model also failed due to a lack of corporate and management governance, resulting in a high autonomy/low control basis.

There is a lack of a learning, and continuous learning, culture within HR and the organization. As already mentioned, corporate governance management practices are lacking, such as a process-based approach and pay for performance. The organisation is known for its lack of a “valued people” approach and manages in such a way that people do not feel trusted or empowered.

The decentralised structure also proved to be expensive.

Certain characteristics of world-class principles are lacking, such as clear vision and the setting of business objectives, strategic and business focus on customer needs and satisfaction, and low cost
production and process based teams. In most cases HR management uses a “fire-fighting” approach. Consequently, strategic thinking in HR is insufficient.

The results of the HR decentralisation are the opposite to world class, i.e. no joint governance, not flat in structure, inward focussed, not customer, nor people focussed; resulting in a lack of transparency and trust.

Certain recommendations were made, including a total HR function reengineering, as well as the implementation of a proper governance management model.
Dedication

This dissertation is dedicated to my dear husband, Chris, without whose support this achievement would not have been possible, and to my children, Eli, Amory and Armand, who patiently allowed me the time to do this. A special thank you to Armand who attended class with me on many a winter’s night.
Acknowledgements

I would like to thank the following persons for their support and contributions:

- Prof Marius Olivier for sponsoring me on this academic journey and for his outstanding mentorship
- Prof Luther Backer for his contribution towards my development
- Members of the company management for allowing me to use their data
- Lesley Grossett for her support and input
- Chris Spies for sharing his knowledge and expertise
- My staff for their continuous support and commitment
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Chapter One

1. Introduction

The company used in the research is a large financial corporation in South Africa that is performing well in the South African market with 2500 employees. The strategic business units (SBU's) of *The Financial Institution* are all decentralised and product focused. They all function completely autonomous and all development of products and delivery falls within the SBU's. The Human Resources (HR) function is also completely decentralised, with a small specialist group at Head Office level, such as payroll, labour relations and human development. The SBU’s appoint their own support personnel and manage them independently from Head Office.

There is a general dissatisfaction amongst line management and staff that the HR function is not adding enough value and that it is ineffective. The need to investigate the effectiveness of the current HR Model, Functions, Processes and Practices was expressed by the Executive Head: HR, who wishes to realign HR processes and practices with *The Financial Institution’s* strategic objectives and needs according to world class practices. The purpose of this investigation/research is to establish if these perceptions are true and if the HR function is in fact ineffective and expensive, whilst comparing its functionality with that of world-class practices.
Chapter Two

2. Review of Literature

Before any investigation can be undertaken effectively, an in-depth study should be made of the topic under investigation; in this instance, decentralisation of the HR function in comparison to world-class practices. In the review of literature the focus was on Decentralisation/Devolution of the HR function, trends in HR reform, World Class practice regarding decentralised/devolved HR functions and structures. Some case studies were also investigated.

2.1 Trends in HR reform

In organisations of Economic Co-operation and Development (OECD) member countries, human resources management has become one of the key areas for reform over recent years. Decentralisation of Human Resource Management (HRM) is one of these trends, through various decentralisation and devolution policies, particularly in governments’ placing a high priority on determining how to enhance the productivity of the civil service and how to direct the civil service to become more customer-oriented.\(^1\) Research from two OECD Surveys on Recent HRM Developments carried out in 1999 and 2000, previous OECD studies and discussions and papers formed the basis for this report.

2.1.1 Decentralisation and flexibility of HR Management

Decentralisation of HRM responsibility from central management bodies to line departments and agencies, accompanied by further devolution within departments and agencies to line managers, is identified as one of the key reforms of recent years.\(^2\) The primary assumption underlying this development is that empowering and motivating managers is essential to improve performance, by letting managers manage.

Comparing the extent of this decentralisation across the OECD member countries, yielded the following:

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• the most extensive devolution of HRM authority occurred in New Zealand, Australia and Sweden, where the policies were to minimise the involvement of central management bodies in the HRM activities of departments and agencies,
• Denmark, the Netherlands and the United Kingdom experiences significant devolution, although the approach has been more cautious than that in New Zealand, Australia and Sweden,
• In several other countries, including Japan, Greece, Portugal and Turkey, devolution and decentralisation issues do not appear to be a priority.

Areas of HR, which are within the scope for decentralisation, are many, varying from recruitment, pay and grading to workplace relations and pay negotiations. Actual areas for decentralisation differ from country to country.

Sweden has a long history of decentralisation and has been one of the forerunners with the highest degree of HRM decentralisation among OECD member countries. There are virtually no differences between the employment legislation governing the public and private sectors in that country.

Even collective bargaining, which has been an outstanding exception of decentralisation, in general, was totally devolved to the agencies in 1994 and is now the responsibility of the director-general of each agency. In Sweden directors-general of agencies are responsible for the recruitment, grading and dismissal of their staff. Vacancies are generally advertised in the press with all qualified applicants being treated equally.

New Zealand and Australia have undergone similar reforms in decentralising HRM authorities.

Regarding the role of the central HRM agency, the issue of decentralisation and devolution is very closely connected with this role. The role of the agency will be diminished as the degree of decentralisation of HRM authorities becomes higher.

In a decentralised and/or devolved environment, central agencies retain influence over policy setting; the emphasis in implementation is shifting toward looser policy frameworks, guidelines and definitions of basic standards. Within such frameworks, line departments and agencies have their own HRM authorities and have greater freedom to tailor HRM practices to their own staffing needs.3

Areas to which a unitary system applies, across the whole civil service are those affecting personnel costs (such as pay determination and staff numbers), senior public servants (including basic terms and conditions of employment), conduct and discipline, health and safety and equal employment opportunities.

Even in areas such as these, there is the practice towards greater flexibility for line departments and agencies. This includes the replacement of detailed staffing controls with some form of running-cost system where salary costs and administrative expenditures are consolidated, eliminating detailed controls by the central agencies over staff numbers, classification and, in some cases, pay.

Most OECD counties have devolved much authority to line departments and agencies in areas of selection, placement, career planning, and mobility and deployment of staff. For example, over the last decade several personnel authorities have been devolved to line ministries and line managers, which had a significant effect on the role of the government as employer. The detailed day-to-day personnel matters are delegated at the decentralised level and HRM elements such as the grading system, pensions and social security and conditions of employment are kept at the central level and supervised by the central HRM agency.

Regarding the flexibility of the HRM system, this is achieved by the balance between the type of public service that the government seeks to build or maintain, versus devolved decision-making and management powers and budget performance targets.

It has been found that although decentralisation allows the introduction of flexible HR systems and practices, a high degree of flexibility in HR management is not always guaranteed by this.4

2.1.2 Impact of HRM reforms

Although currently it is difficult to assess HRM reform initiatives5, there has not been a comprehensive evaluation across the OECD countries. However countries, which have undertaken significant HRM reforms, have reported that these were instrumental in the shift from a rule-bound management culture to a performance-based management culture.

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Decentralisation and devolution policies have contributed to:

- The promotion of more efficient and effective management and organisations,
- Improvement in the overall quality of services provided to the public,
- Improvement in the motivation and performance (especially that of management) and engendering a greater performance orientation in the public sector workforce.

It was found that the more significant impact of the HRM reforms would be supporting broader organisational reforms by:

- Promoting greater diversity of HRM practices between different departments and agencies, and providing the capability to better tailor those practices to specific programmatic needs,
- Enabling departments and agencies to recruit and retain needed staff more easily and manage their people more efficiently in order to meet organisational goals,
- Increasing the responsibility and accountability of managers and enabling them to operate in a more pro-active manner, and
- Contributing to a sharper focus on efficiency and effectiveness, with positive effects on service delivery and responsiveness.6

Some side-effects of these reform trends have been experienced, but there is no indication of OECD member countries wish to withdraw from efforts towards decentralisation and devolution, they are rather addressing needs to implement mechanisms for co-ordination and accountability and frameworks to promote desired service-wide practices and values.

2.2 Business Process Re-engineering Initiatives

In a study of effective process re-engineering7 the importance of the integration of HR systems before, or at least after re-engineering is cited as one of the most fundamental issues to be addressed by HR practitioners.

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It is seen as necessary that all human resource-related systems should change in some way so that individual systems are mutually supportive of each other. For example, in terms of the management of HR functions, systems changes, indicative reasons why changes to systems are needed are moves towards more devolved HRM processes and the provision of functional support over functional delivery.

In an intervention at NatWest UK, the goal was to develop 'a different approach to people management'. This was to be one which was more flexible and broader than the existing approach, one which was more locally driven and which reflected individual as well as business needs. The long-term strategy was to lay a foundation of supporting frameworks, feedback processes, tools, techniques and guidelines that would ultimately be used by line managers to enable them to tailor packages with their staff.

Fairness, choice and flexibility were key elements in constructing policies and practices, which led to personalised and meaningful contracts for staff. The ideal scenario was proposed by the consultants as being one, which incorporated devolved (versus centralised) control and management of HR policies and a high degree of skill, capability and willingness by line management to directly manage staff for whom they are responsible.

This ideal contracting scenario comprised:

- An HRM model based on facilitation and partnership with line management,
- Empowered line managers using high levels of local discretion effectively,
- Tailored packages/solutions based on two-way dialogue, and
- Flexibility, choice and fairness.

A critical observation arising out of this intervention was that in an organisational model where the ideal contracting scenario is reached, where each employee can identify with a personalised contracting scenario - ‘My deal’, there are a number of tensions that need to be understood and managed. “The most critical is to manage successfully the balance between the rate of devolution of HR policies and practices and the rate of upskilling of line management.”

Experiences of organisations, which undergo restructuring, incorporate Benchmarking as part of the exercise. Case studies of organisations which undergo restructuring which incorporate benchmarking exercises, with a specific focus on redesigning HR systems and processes, have shown success in terms of company performance as well as an effective implementation of revised people management strategies.

A trend is to focus on key HR areas such as recruitment and selection, performance management, compensation and training and to integrate these into a streamlined and standardised human resources management system. A primary element is to ensure that HR processes support business objectives.

Such initiatives have resulted in the decentralisation of management accountabilities and responsibilities to line management, the development and utilisation of standardised processes and tools for HR management, linking of measurable performance goals to business goals, and the provision of continuous feedback and coaching to employees towards the achievement of performance goals.

Observations regarding benchmarking have been that this is a continuous process which needs to be supported by a monitoring and evaluation process which involves its own benchmarking.

2.3 Decentralised Human Resources in practice

The Coca-Cola Company successfully manages its human resources in over 195 countries through a decentralised system. The company can be termed a ‘multi-local company’. Its business comprises the manufacturing and marketing of juice and juice-drink products and its global operations range from wholly owned subsidiaries and bottling companies to independent bottling and distribution centres that licence its products.

The businesses that produce, market and distribute the products are managed through 25 operating divisions making up six (6) global regional groups. Each of these groups has a president who is accountable for the business in the area. Thus, each region operates as an entity, although it is part of the bigger system.
What can be defined as a ‘global enterprise’⁹, the regions and businesses of Coca-Cola are linked together by a shared mindset to think globally and act locally. From a business perspective, in a ‘global company’ the emphasis is a combination of global integration and local responsiveness. In the context of the role of human resources, this can be viewed as getting “all the different functional capabilities – such as selection criteria, training processes and performance assessments – to reinforce the way people can think globally and act locally.”¹⁰

This is the perspective of the international human resources division at Coca-Cola: that Coca-Cola is a ‘multi-local company’. Like a family member, each business has its own unique qualities and can stand on its own, but benefits from being connected to the group. The common bond running through the company is its willingness to allow the locations to be different, to conduct the business in ways that are appropriate for the market in which they are operating.

A dominant culture has not been imposed, but this is left to the local offices to implement, as is the manner of selling the products. This culture of diversity has been found to be an essential element in the successful implementation of the human resources philosophy.

The role of the global human resources professionals is to maintain the link between businesses and the corporation. The structure of the HR function supports this role and enables businesses to act locally while thinking globally. The operating divisions and each of the six groups have a director of human resources, working fairly autonomously, but with support provided by the HR division at the Head Office.

The view of the Assistant Vice-President and Director of International Human Resources at the time that the article was written, stated that this goal has resulted in success for the company: through this decentralisation and empowerment, associates are able to react quickly to market needs, and provide responsive service which a central entity could not.

The corporate HR functions provide the core philosophy around the human issues but allow local businesses to apply the philosophies, as they feel are appropriate for their region. The goal is to promote equity internationally while applying the core philosophy in an optimal manner in the local market.

⁹ Pucik, V. Director of International Programs at the Centre for Advanced Human Resources at Cornell University, in Anfuso, D. (1994), HR unites the world of Coca-Cola Personnel Journal, November 1994, Volume 73 Issue 11, page 113
Human resource professionals working globally operate fairly independently, but receive support from the core HR staff at Head Office. One such support system is a Human Resources orientation, the purpose of which is to provide an overview of the company’s HR perspective. The business perspective is discussed; with the orientation of how the business translates into HR policies and what the practices are that follow from those policies.

HR philosophies, as well as the programmes and policies, which are already in existence, are introduced in the orientation programme, so that tools that exist elsewhere in the world can be used.

The HR network system is another benefit that participants receive. Specialists in the various areas in the company are involved in presentations and workshops and social events are organised to establish more personal contact. In this way, practitioners are exposed to the various specialists and are able to contact them when confronted with issues in the field. Thus, the establishment of a knowledge base is the goal.

At the time that the article was written, the company was planning to implement a more advanced development programme for HR professionals. The target of the programme is those employees who are not directors, but have shown the potential to attain that level. The aim is to build skills.

The Development Committee model is another support tool available to human resource practitioners. Every functional area of the company has such a committee whose role it is to identify talent within the particular area and then to take the necessary steps to ensure that the talent achieves its potential.

There are also steps taken to ensure that staff with the right skills are moved into the right positions, in order to ensure that the correct competencies are present in the organisation to assist in the meeting of the business needs on a continuous basis.

The HR Development Committee specifically, is tasked with ensuring that the HR function grows a steady supply of talent in human resources on an international basis by making strategic placements. The perspective is that a person placed strategically develops by virtue of that placement so that he or she can be assigned to other projects and continue to grow in the company.

The HR Development Committee has identified 'key experiences or job knowledge' in ten (10) areas, which are needed by HR staff. In addition to these, there are core foundation skills which general staff at the company need. These are a combination of capabilities and skills that the company use to evaluate any associate in the organisation. Development Committees identify key technical or professional skills for their functions' positions.

The HR Development Committee also conducts talent assessments by examining portion of functions and determining the skills required for the positions, evaluating the skills and talents of the staff in those positions, and implementing strategies to close any gaps.

In practice, the committee will encourage and provide the tools to managers in a function to do development planning for their associates. A leadership role is played, for which assessment tools, technical competencies and skills may be developed and then distribute these throughout Human Resources as tools for all managers in Human Resources to use.

The role of the development committee is not to watch over what managers do; managers still manage, coach and gather feedback, separate from the development committee.

2.4 The decentralised/devolved HR function

In the annual Focus on HR Practice report\textsuperscript{11}, in which contemporary HRM practice is studied, based on survey data, document analysis and interviews with a large group of HR practitioners, the focus was the current state of, and emerging trends within, the structure of the HR function.

At the time, there was evidence of organisations changing their HR structure, as well as of the intention to do so in the following two years, due to a more strategic focus being adopted and the cost factor emerging as a greater impetus for change.

Two main models of the HR function structure, based on the survey results, are a centralised model and a decentralised/devolved model.

\textsuperscript{11} Saratoga Consulting(SA) and HRM Consulting, 1997
• The centralised model is one in which there is a definite hierarchy, a sharp distinction between the operating core and the staff or service activities, role specialisation, control systems and highly formal communication channels.\textsuperscript{12}

• A shared services HR structure was also found to be operative to a small degree. This structure seeks to maximise the advantages of both the centralised and decentralised structures: each activity is placed in the best location for its execution, and the expertise is shared by all other locations within the organisation.\textsuperscript{13}

2.4.1 The decentralised/devolved model

Divisionalisation of functions has tended to occur as organisations grow and diversify. Functions are divided into individual units, usually on the basis of product or market groups, or by region.

The HR function tends to be decentralised or devolved to some extent in a divisionalised organisation, with HR staff in business units reporting to a central HR department and may have a ‘dotted line’ relationship to the director of the business unit.

In a devolved HR structure, HR staff in business units report to the director of the business unit and may have a ‘dotted line’ relationship to the central HR department. Alternatively, the HR staff may report exclusively to the business unit manager, or to a central unit.\textsuperscript{14}

On the international front, the survey revealed that 43% of the respondents had a decentralised or devolved HR function, and 60.3% of South African respondents reported having this model.

2.4.1.1 Benefits and disadvantages of a decentralised/devolved HR structure

Benefits, in descending order of importance were found to be:

• Alignment with business needs,
• Increased line awareness of, and accountability for, HR issues,
• Human resource management viewed by business units as a strategic issue,
• Improved internal customer service was another benefit.

\textsuperscript{12} Saratoga Consulting(SA) and HRM Consulting, 1997, page 17
\textsuperscript{13} Saratoga Consulting(SA) and HRM Consulting, 1997, page 24
Disadvantages, in decreasing order of importance were:

- Duplication of effort,
- Expense,
- Inefficiencies,
- Lack of quality control.

A further potential disadvantage identified by South African respondents was the conflict between strategic and operational business plans.

2.5 Factors influencing the HR structure

In a mainly decentralised/devolved HR structure, the following factors were found to influence the HR structure:

- Organisational structure based on the customer, geography or product line,
- Large organisations,
- Skilled workforces, and
- Multi-site organisations.

2.6 Planned restructuring of the HR function

A significant amount of change was due to occur over the two years following the survey – 44.8% of the South African respondents expected their HR function to change within that period; the major reasons for change being the alignment with organisational restructuring (24.1%), the HR department having identified the need to change the focus from an operational to a strategic one (18.9%) and the need to reduce costs through streamlining processes (18.9%).

Over one-third of South African respondents (38%) had changed their HR structures within the two years preceding the survey.

14 Saratoga Consulting(SA) and HRM Consulting, 1997, page 21
The most popular future model for the HR structure was identified as a devolved or decentralised model: of the respondents expecting to change their HR structure within the two years following the survey, over half intended to change to a decentralised or devolved model.

(The shared services model was indicated as a preference by nearly a third of the international sample respondents. Of the South African respondents, 42% indicated that they planned to change to this model.)
Chapter Three

3. Hypothesis

The theory and discussions that have thus far been presented in this study, coupled with line management perceptions about HR at *The Financial Institution* have led to the following set of hypotheses:

Hypothesis One:

H1 (research hypothesis) – The decentralised HR function model lead to inefficiencies and unnecessary costs in terms of HR service delivery and is not in accordance with world-class practices.

The ineffective service delivery may be expected, amongst others, because of different skill levels in different SBU’s of *The Financial Institution*, the lack of a learning culture between the various SBU’s, as they all operate completely independent, and duplicate HR services.

Hypothesis Two:

H0 (null hypothesis) – The decentralised HR function model have no negative effect on the HR functions perceived effectiveness and cost and the function aligns with world class practices.
Chapter Four

4. Method of research

This section entails an overview of the design, information on samples used, the procedure used and testing material. A Quasi-Experimental design was used, as a true experimental design is not possible with control procedures and random assignment procedures. The Quasi-Experimental design attempt to approximate the control features of true experiments in order to infer that a given program (such as decentralisation) did have its intended effect. This is thus an assessment of the potential impact that the decentralisation of the HR function has on the organisation, and if it is actually achieving its goals to be aligned with world-class practices.

The research contained the following components:

4.1 Strategic analysis

A strategic analysis were performed that covered:

- The underlying mental HR models, HR design and HR strategies that is in place and that influences performance and client satisfaction.
- An overview of the current decentralised organisational structure, with specific reference to HR processes and functionality.
- The Financial Institution's business strategies, vision, business plans, infrastructure and business model.

4.1.1 Focus of Sub-Project

To gain an understanding of the strategic focus of the organisation in terms of:

- Documented strategic focus,
- Individual strategic thinking of the senior management team as to the focus of the organisation,
- Individual strategic thinking of the senior management team as to their perception of the current strategic positioning of the HR discipline within the organisation and what they believe the strategic focus should be,
- Supporting the research team to ensure alignment between their proposed HR interventions and the strategic focus of the organisation.
4.1.2 Sub-Project Methodology

- Broad input from the HR Executive (*The Financial Institution's* project sponsor) as to the strategic direction of the company and the HR function,
- Detailed input from him as to the positions and responsibilities of the various senior people that would be interviewed,
- Perusal of "highly confidential" strategic overview documentation,
- Perusal of various other documentation and annual reports,
- Detailed interview with the head of Group Finance,
- Detailed interview with the Group CEO,
- Detailed interview with all the SBU leaders,
- An analysis of any other research that has been conducted recently by other researchers.

4.2 Financial analysis

The total HR cost per area, HR process and HR function was analysed, indicating cost structures, areas of cost duplications, over and/or under expenditure, hidden costs and possibilities for cost savings.

4.2.1 Focus of Sub-Project

The focus of this sub-project was to evaluate the financial aspects of the Human Resources function.

4.2.2 Sub-Project Methodology

- Information was requested from all decentralised HR divisions as well as the salaries function.
- Based on the HR budgeted costs and budgeted expenditure on other cost centres, the financial expenditure planned for the next year was analysed.
- Appropriate ratios were identified for benchmarking against other organisations.
- The total expenditure on HR and HR related costs were identified.
- Possible savings that could be attained by applying a different approach toward HR and Training Management were identified.
- Possible duplication where cost savings would be possible was identified.
4.3 Customer needs and satisfaction analysis and business processes analysis

Customer satisfaction levels and business processes were measured around two-core aspects, namely:

- Their satisfaction with the HR processes that are in place, such as training and development, remuneration, employment equity, recruitment, etc.
- Their satisfaction with the HR function, both centralised and decentralised.

The purpose was to identify service delivery- and process efficiency gaps.

4.3.1 Focus of Sub-Project

- To evaluate the current status of People Management Processes and to establish future needs regarding these processes,
- To identify performance gaps in terms of current status and future needs,
- To obtain inputs and perceptions of key stakeholders/customers with regard to People Management Processes,
- Qualitative and quantitative analysis of information.

4.3.2 Sub-Project Methodology

- Eleven workshops were facilitated across the organisation.
- A People Management Process Evaluation survey was utilised to quantify the current status and to establish the future needs regarding people management processes.
- Qualitative information was also gathered to ensure a clear understanding of current practices and issues.

4.4 Benchmarking

HR practices, infrastructure, processes and cost were benchmarked against National and Industry norms and best practices. The purpose was to establish norms for a potential redesign and to use the information selectively, keeping in mind the unique circumstances of The Financial Institution. Methods used included surveys/questionnaires, group sessions, individual interviews and research on best practice/world class.
4.4.1 Focus of Sub-Project

The focus of this sub-project was to evaluate, quantitatively, the overall practices within The Financial Institution and benchmark them against local and international best practice/world class. The purpose was a high level overview of the typical practices within The Financial Institution with a view to future change.

4.4.2 Sub-Project Methodology

- The Financial Institution has been benchmarked against two samples, one taken from a global survey of 2000/1 (PricewaterhouseCoopers); the second from a local financial services benchmarking (1999/2000) exercise.
- The International benchmarking sample contained information from 21 European countries and 8 countries in the Middle East. The total sample represents data from 977 companies with a total of 3 million employees. A total of five industry groups were included in the sample, namely Energy and Mining; Consumer & Industrial products; Information, Communication & Entertainment; Services; and Financial Services.
- The local sample consisted of a benchmarking report (1999/2000) compiled by a financial institution that is similar in nature to The Financial Institution under investigation.

All Human Resources staff in The Financial Institution were requested to complete the Benchmarking Questionnaire during the week of 18-22 June 2001. Sufficient questionnaires were received to complete the study. Additional questions were covered in a questionnaire that was completed by the Head of the HR function. The survey covered the overall HR function within The Financial Institution. This report compares The Financial Institution sample to two sets of data, one local, and one international. It should be borne in mind that a benchmarking exercise does not take into account the unique circumstances of The Financial Institution and as such all data obtained from this sub-project should be interpreted with The Financial Institution’s maturity profile in mind.
Chapter Five

5. Results

This section presents the findings in three ways, i.e. in a narrative form, a statistical form and by means of graphs and tables. The results discussed below are a summarised version.

5.1 Strategic Analysis

It appears that:

- There is no evidence of a clear strategic direction for the group.
- There is no orchestrated agreement that the focus must move from Product (Silo) to a single view of the Client i.e. Customer Centric. The reasons given to support this is that the profiles of most of the various business units' client bases are quite different from the others.
- Core services are: Banking, Insurance and Advisory.
- Focus of The Financial Institution is to be on the middle sector of the market.
- Every outlet will have to be equipped to attend to any of the services.
- HR, Marketing, IT and Finance should have a group-controlled function, however, certain of the key activities must be carried out by the individual business units (this line of responsibility must be clearly defined).
- The entrepreneurial success to date must not be lost sight of when the organisation's new strategic focus is concluded.
- Although HR requires a radical new order, this will not succeed without the IT status being totally upgraded/developed in order to enable the HR element of the organisation to behave in a client centric way.

Broadly, the perceptions of participants regarding the HR status in the organisation included the following:

- HR is not adding sufficient value to the organization.
- HR needs to be developed into a radical new order, which will be dependent on the IT capability in the organization.
- There is no current HR or appropriate IT strategy or protocol in place.
- No current aspect of HR is perceived successful enough to retain in the new order.
- The people working in the organisation have, however, been an integral part of the successes of the past few years.
- HR should play a stronger guiding role as well as being the "voice of reason" within the leadership team.

5.2 Financial Analysis

The table below reflects a general analysis of HR financial data that was analysed during the sub-project.

<table>
<thead>
<tr>
<th>Department</th>
<th>GSP</th>
<th>SBU 2</th>
<th>SBU 3</th>
<th>SBU 4</th>
<th>SBU 5</th>
<th>Labour Relations</th>
<th>Payroll</th>
<th>The Financial Institution Totals</th>
</tr>
</thead>
<tbody>
<tr>
<td>HR Client Data</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
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<td></td>
<td></td>
</tr>
<tr>
<td><strong>Client Staff numbers in Div</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Fulltime Employees in Division</td>
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<td>596</td>
<td>579</td>
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<tr>
<td>Part-time Employees in Division</td>
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<td>226</td>
<td>13</td>
<td>35</td>
<td>212</td>
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<td></td>
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<tr>
<td>Total No of Employees</td>
<td>41</td>
<td>684</td>
<td>609</td>
<td>614</td>
<td>862</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total Employment Cost</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total Employment Cost</td>
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<tr>
<td>Total Income Generated</td>
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<tr>
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<td><strong>HR Department Data</strong></td>
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<tr>
<td><strong>HR Staff in Division</strong></td>
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<td></td>
<td></td>
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</tr>
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<td>Professional Staff</td>
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<td>6</td>
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<td>Support Staff</td>
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<td>5</td>
<td>2</td>
<td>1</td>
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<tr>
<td>Total HR Staff</td>
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<td>7</td>
<td>5</td>
<td>9</td>
<td>7</td>
<td>4</td>
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<td><strong>Total HR Expenditure</strong></td>
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<td>Salaries</td>
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<td>R 96,321</td>
<td>R 115,416</td>
<td>R 264,561</td>
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<td>R 1,819,570</td>
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<td>R 1,543,268</td>
<td>R 43,500</td>
<td>R 40,000</td>
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<td>R 32,450</td>
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<td>Recruitment Costs</td>
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<td>R 720,000</td>
<td>R 978,769</td>
<td>R 588,000</td>
<td>R 300,000</td>
<td>R 20,000</td>
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<td>Bursaries</td>
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<td>R 240,000</td>
<td>R 160,000</td>
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<td></td>
<td>R 200,000</td>
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<td>Transfer Costs</td>
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<td>R 39,000</td>
<td>R 25,680</td>
<td>R 36,000</td>
<td>R 0</td>
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<td>Other HR Costs</td>
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<td>R 15,385</td>
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<td>R 1,000</td>
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<td>R 1,800</td>
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<td>R 201,760</td>
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<td>R 71,640</td>
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<td>Depreciation</td>
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<td>R 10,003</td>
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<td>R 4,584</td>
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<td>Professional Fees</td>
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<td>R 64,500</td>
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<td>R 42,000</td>
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<td>R 700</td>
<td>R 481,044</td>
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<td>R 21,490</td>
<td>R 56,204</td>
<td>R 103,185</td>
<td>R 95,120</td>
<td>R 149,377</td>
<td>R 579,888</td>
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<td>Department</td>
<td>Group Support</td>
<td>SBU 2</td>
<td>SBU 3</td>
<td>SBU 4</td>
<td>SBU 5</td>
<td>Labour Relations</td>
<td>Payroll</td>
<td>The Financial Institution Totals</td>
</tr>
<tr>
<td>-----------------------------</td>
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</tr>
<tr>
<td>Other Operating Expenditure</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Tax (VAT, Training, RSC)</td>
<td>R 726,115</td>
<td>R 106,756</td>
<td>R 55,587</td>
<td>R 50,325</td>
<td>R 85,333</td>
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<td>R 221,900</td>
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<td>Total HR Expenditure</td>
<td>R 9,773,252</td>
<td>R 4,493,365</td>
<td>R 3,702,745</td>
<td>R 3,081,686</td>
<td>R 1,746,531</td>
<td>R 1,697,575</td>
<td>R 1,973,054</td>
<td>R 26,098,760</td>
</tr>
</tbody>
</table>

### Analysis

- **Client headcount per HR**
  - Professional: 702.5
  - Total staff compliment: 562.0
- **Average Total Employment**
  - Cost for HR Staff: R 508,211
  - Total Training Cost: R 3,636,996
  - Training Cost per Client employee: R 88,707
- **Total HR Expenditure per Client Employee**: R 3,478
- **Total HR Expenditure per HR employee**: R 1,954,650
- **Total HR Expenditure as % of Income**: 2.0%
- **Total HR Travel Costs**: R 329,196
- **Total Recruitment Costs (external costs)**: R 350,000

Specific points that were highlighted include:

- A consistent approach toward budgeting is not used throughout the organisation. Every HR Department/Unit budgets differently, using different General Ledger accounts, making consolidation and comparison very difficult.
- There does not appear to be effective quality control over the budgeting process. Costs for similar services vary significantly. The worst example is an amount of R211 900,00,
budgeted for flowers and wreaths. It appears an incorrect account was used for the budgeted expense, and not picked up by quality control.

- HR Staff are not adequately number literate/proficient. Most of them referred to the fact that they are HR people and are not “very comfortable with/good at working with figures”. This is a shortfall that needs to be addressed.

- Client employee headcount per HR Professional is 1:91. This is slightly lower than the commonly accepted benchmark. The variation between units/departments is however relatively high (1:114 to 1:172). The overall average is brought down by the corporate support services (Labour Relations, Employment Equity, etc)

- Client employee headcount per total HR Staff is 1:57 on a global benchmark. However, variation between units is substantial. The ratio varies from 1:68 (Home Loans) to 1:123 (SBU 5).

- The relationship between HR Professional Staff and HR Support staff is 31 Professionals to 18 Support Staff. This may not be appropriate in the case of The Financial Institution, where HR is largely manually operative, necessitating a larger number of support/administrative staff. The figures are in line with global benchmarks, but the basis of the global survey assumes greater automation. Problem areas may be SBU 4 with approximately 1 support staff member for every 1 professional and SBU 5 with 2 support staff members for 5 professionals.

- The staffing of the HR function relative to the number of client staff to be served is requiring attention. Some of the units may be understaffed whilst others may be overstaffed.

- An amount close to R6 million per annum is budgeted for staff training and seminars. It is questionable whether spending such an amount will necessarily derive the value required.

- The travel cost to present training (HR staff only) amounts to R 616 000,00. This takes the total training cost to R 6,6 million, which equals an amount of R 2 846,00 per permanent employee per annum (R 2 348.00 per person per annum if temp staff are included)

- Average Training Travel cost per HR employee amounts to R 19 883,00 per annum, which is the equivalent of approximately 7-8 trips to Cape Town per annum for every HR employee.

- The bulk of the training cost is budgeted by GROUP SUPPORT. Divisions actually budget reasonably small amounts.

- The HR cost per client employee varies between R 2 026,00 (SBU 5) and R 6 569,00 (SBU 2) per annum. The norm for the Group seems to be in the region of R 5 000,00 to
R 6 000,00 per annum. *SBU 5* is low relative to the other Divisions at R 2 026,00. The average for the Group is significantly increased by *GROUP SUPPORT*.

- Total HR Travel cost amounts to R 1,1 million per annum, which appears to be high.
- The average HR Travel Cost per HR Professional equals R 35 401,00 per annum and is the equivalent of 18 trips to Cape Town per annum per person.
- Total recruitment cost budgeted equals R 2,96 million.
- Marketing expenditure is budgeted at R 278 216,00.
- The computer expenditure budget at R 725 000,00 is very high.
- Professional fees are budgeted at R 2,1 million. This seems to be on the high side for an organisation of this size. This budgeted expense may include the cost of identified projects, but it is still deemed to be very high.
- Total HR expenditure per employee is R 9 419,00 per annum.
- Total HR expenditure as % of income does not seem to be too high. Reduction of this ratio may yet be possible, provided that cost expenditure is managed very carefully.

### Cost vs HR Process Effectiveness Analysis (see section 5.3)

<table>
<thead>
<tr>
<th>Department</th>
<th>Group Support</th>
<th>SBU 2</th>
<th>SBU 3</th>
<th>SBU 4</th>
<th>SBU 5</th>
<th>Totals</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total HR Staff</td>
<td>5</td>
<td>7</td>
<td>5</td>
<td>9</td>
<td>7</td>
<td>49</td>
</tr>
<tr>
<td>Total HR Expenditure</td>
<td>R 9,773,252</td>
<td>R 4,493,365</td>
<td>R 3,702,745</td>
<td>R 3,081,686</td>
<td>R 1,746,531</td>
<td>R 24,495,154</td>
</tr>
<tr>
<td>Client headcount per HR Professional</td>
<td>1:703</td>
<td>1:114</td>
<td>1:152</td>
<td>1:154</td>
<td>1:172</td>
<td>1:91</td>
</tr>
<tr>
<td>Client headcount per HR total staff compliment</td>
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<td>1:98</td>
<td>1:122</td>
<td>1:68</td>
<td>1:123</td>
<td>1:57</td>
</tr>
<tr>
<td>Total HR Expenditure per Client Employee</td>
<td>R 3,478</td>
<td>R 6,569</td>
<td>R 6,080</td>
<td>R 5,019</td>
<td>R 2,026</td>
<td>R 8,717</td>
</tr>
<tr>
<td>Total HR Expenditure per HR employee</td>
<td>R 1,954,650</td>
<td>R 641,909</td>
<td>R 740,549</td>
<td>R 342,410</td>
<td>R 249,504</td>
<td>R 540,168</td>
</tr>
<tr>
<td>Total HR Expenditure as % of Income</td>
<td>2%</td>
<td>0.7%</td>
<td>0.3%</td>
<td>0.1%</td>
<td>0.1%</td>
<td>0.8%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>HR Strategy</th>
<th>The Financial Institution</th>
</tr>
</thead>
<tbody>
<tr>
<td>Recruitment, Selection, Placement &amp; Retention</td>
<td>3.85</td>
</tr>
<tr>
<td>Performance Management</td>
<td>4.21</td>
</tr>
<tr>
<td>Assessment, Pay and Rewards</td>
<td>4.27</td>
</tr>
<tr>
<td>Employee Relations</td>
<td>4.95</td>
</tr>
<tr>
<td>Human Resources Development</td>
<td>3.69</td>
</tr>
<tr>
<td>Employment Equity/ Equal Employment Opportunities</td>
<td>3.95</td>
</tr>
<tr>
<td>Information Technology Systems</td>
<td>1.64</td>
</tr>
<tr>
<td>Overall Mean Score</td>
<td>4.04</td>
</tr>
</tbody>
</table>

- Best in Category
- Below Category Mean
- Above Category Mean
- Category Mean

30
Specific points highlighted include the following:

- **SBU 4** consistently received the highest effectiveness ratings. It should be noted, however, that the mean scores were still all under the 53rd percentile, indicating an overall ‘fair’/average performance. This area employs the highest number of HR staff (9) and therefore has the lowest ratio of HR to Client staff (1:68). Despite the high number of staff and low ratio the average expenditure per client employee (R5 019) is lower than the other areas with the exception of **SBU 5**.

- **SBU 2** consistently received the lowest effectiveness ratings, with an overall mean of 3.61. This area has the highest expenditure per client employee (R 6 569). The large expenditure may be due to the approximately R 1 million to be spent on Training (including travel cost), as well as another R 1 million budgeted for recruitment and transfers.

- **SBU 5** consistently received low effectiveness ratings (with the exception of IT Systems use). This unit, however, also has the lowest spend per client at R 2 026.00 per annum.

- The HR spend in SBU 3 is more or less on par with the rest of the organisation. The effectiveness ratings of this unit are the second best in spite of the HR Staff to client ratio of 1:152.

- The effectiveness ratings for HR Strategy development and implementation, HR Development and Information Technology use are assessed as the lowest of all effectiveness ratings in spite of fairly large expenditure budgeted for training and computer costs.

- The effectiveness of Human Resources Development is assessed as the third lowest factor in spite of training expenditure budgeted at R 6 million. This does not indicate good value for money with respect to the training expenditure.

- It is interesting to note that Employee Relations and Performance Management are the processes where effectiveness is rated as the best.

- The fact that HR Strategy and HR Development are rated low amongst the different HR processes is indicative of a focus on administrative roles amongst HR practitioners and a lack of focus on the strategic manpower matters.

- An additional 13 trainers have been appointed recently in **SBU 5** but have not been budgeted for. The appointment of these staff will increase the costs of HR in that area by at least R 1.3m.
Possible Scenario

If the SBU 4 current structure is used as a benchmark for The Financial Institution (as their effectiveness was rated higher than the other HR processes), the following potential scenario emerges:

<table>
<thead>
<tr>
<th>Department</th>
<th>Group Support</th>
<th>SBU 2</th>
<th>SBU 3</th>
<th>SBU 4</th>
<th>SBU 5</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total No of Employees</td>
<td>41</td>
<td>684</td>
<td>609</td>
<td>614</td>
<td>862</td>
</tr>
<tr>
<td>Total HR Expenditure per Client Employee</td>
<td>R 3,478</td>
<td>R 6,569</td>
<td>R 6,080</td>
<td>R 5,019</td>
<td>R 2,026</td>
</tr>
<tr>
<td>Assumed total HR Expenditure per Client Employee</td>
<td>R 5,019</td>
<td>R 5,019</td>
<td>R 5,019</td>
<td>R 5,019</td>
<td>R 5,019</td>
</tr>
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<td>Total HR Expenditure</td>
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<td>R 3,056,571</td>
<td>R 3,081,666</td>
<td>R 4,326,378</td>
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<td>R 3,081,686</td>
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</table>

- From the above scenario, it is clear that should the costs and structures of SBU 4 be duplicated across the organisation (and all Head Office costs remains the same), the costs of the HR function will increase by R 873,284 per annum.
- The assumption is that, given this scenario, there will be a positive increase in the service delivery to the client. It should, however, be noted that the ratings received for SBU 4 were only considered ‘fair’ (4.36 out of a possible 10).
- This scenario is not a recommendation, as the increased cost will only have an incremental improvement on service delivery.

5.3 Customer Needs and Satisfaction Analysis and Business Process Analysis

The following graph depicts a summary of the findings from the People Management Process Evaluation survey.
### People Management Process Evaluation: Divisional HR Groupings – Results

<table>
<thead>
<tr>
<th>Questions</th>
<th>Group 1</th>
<th>Group 2</th>
<th>Group 3</th>
<th>Group 4</th>
<th>Group 5</th>
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<tbody>
<tr>
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5.3.2 General overview of people management process evaluation survey

- The total sample for all the focus groups was 174 respondents.
- Respondents that viewed the measured processes negatively totaled 62.9%.
- Respondents that viewed the measured processes positively totaled 8%.
- Respondents that can be considered to be neutral totaled 21.1%.
- The Bloemfontein, PE and Pretoria regions viewed the processes significantly more positively than Durban.
- On a scale of 1 to 10, the current state of all processes measured between 2.74 and 4.75, which indicates that all processes are perceived as either ineffective or insufficient.
- The process that received the highest score was ‘Employee Relations’ and the lowest score was for ‘Information Technology’.
- The desired status for all processes measured is between 8.41 and 8.76, which indicates that a desired ‘competent’ level of performance is required.
- Not one of the eight processes, however, had a standard deviation that would indicate consensus among respondents. This indicates that the decentralised HR structures have led to different standards of service delivery within respective divisions.
- More detailed findings are provided per process in the following slides.
There is no formalised change strategy in place and change in general is not properly managed.

The HR function is not part of organisational change initiatives and is not actively driving change in the organization.

The organisation limits consultation on change issues.

5.3.3 Survey results per process

5.3.3.1 Human Resources Strategy Process (survey results)

- The current overall HR Strategy process was viewed as ‘insufficient’ with an expected level of performance rated at ‘competent’ level.
- HR Strategy, People Management Policies and Organisation Design received the highest ratings whilst Culture Management and Communication Strategy received the lowest ratings.
- The Durban region rated this process significantly lower than the other regions and viewed it overall as ‘ineffective’.
- The SBU 3 rated this process relatively higher than the other divisions.

5.3.3.2 Human Resources Strategy Process (qualitative findings)

- No Corporate HR strategy is in place and the necessary governance rules are not defined.
- HR practices and procedures lack the necessary focus and direction.
- HR policies are not well communicated and not easily accessible.
- Some HR policies are outdated and different versions exist across divisions.
- HR policies are not consequently applied across divisions as there is no policy and procedure manual to guide HR staff.
- The HR function is not aligned to the strategic goals of the company and operates in a vacuum.
- The HR function is too administratively focused.
- There is a feeling that HR has lost touch with staff and their needs. They are seen as not being customer focused.
- There is a perception that HR is not represented at top management level.
• There is no formalised change strategy in place and change in general is not properly managed.
• The HR function is not part of organisational change initiatives and is not actively driving change in the organization.
• The organisation limits consultation on change issues.
• No internal communication strategy exists.
• Staff members are not informed on issues affecting them directly.
• No formal communication forums exist to facilitate two-way communication.
• Communication is not timed well in general and is mainly reactive.
• Inconsequential and conflicting messages are often experienced.
• There are no active attempts to build a corporate culture.
• Different divisional cultures exist in the organisation.
• Culture is not effectively diagnosed.
• Where culture is diagnosed, appropriate actions are not implemented in instances where culture deviates from required practices.
• Some HR policies are updated to keep abreast with legislative changes without considering the business implications.
• Organisational design occurs in every division but without alignment to the overall organization.
• Organisation design is generally reactive and the rationale for redesign is not well communicated.
• Staff are generally not consulted during redesign processes in order to ensure that client service is not unduly sacrificed.

5.3.3.3 Recruitment, selection, placements and retention (survey results)

• The current Recruitment, Selection, Placement & Retention processes were viewed overall as ‘insufficient’ with an expected level of performance rated at ‘competent’ level.
• The Recruitment Process and Job Requirements received the highest ratings whilst Succession Management and Induction received the lowest ratings. The Induction process is viewed as totally ineffective.
• The Pretoria region rated the Recruitment Process and Job Requirements significantly higher than the other regions and viewed these processes as fair.
- SBU 3 & HR rated this process higher relative to the other divisions.

5.3.3.4 Recruitment, Selection, Placements and Retention (qualitative findings)

- Different practices exist across divisions.
- HR and line management roles are not well clarified.
- In certain divisions there is evidence of good HR support with regard to recruitment and selection and in others the opposite holds true.
- Cloning and nepotism exist across all divisions.
- No corporate orientation programmes exist.
- Some divisions have their own one-day induction programme, but are generally ineffective.
- No competency model exists in the organisation. Some divisions have competency profiles for certain positions.
- Vacancies are advertised internally but in many cases it is viewed as a formality.
- The Recruitment and Selection process is not integrated with other HR processes.
- Selection tools are not adequately utilised to ensure objectivity in the selection process.
- No formal succession management process is in place.

5.3.3.5 Performance Management (survey results)

- The current Performance Management process was viewed overall as 'insufficient' with an expected level of performance rated at 'competent' level.
- Ownership of the System was rated the lowest whilst the Objective Setting and Performance Review processes were rated higher.
- The Durban region rated ownership of the system significantly lower than any of the other regions.
- Group Financial Services, SBU 3 and Strategic Services rated the objective setting process as 'fair'.

5.3.3.6 Performance Management (qualitative findings)

- An annual appraisal process is in place but the application and effectiveness differ across divisions.
• Performance feedback does not happen on a regular basis in most divisions, other than during the annual feedback process.
• There is limited focus on using information generated from the appraisal process for development purposes.
• Information generated during annual appraisal is used to determine annual salary increases.
• The process does not really differentiate between performers and non-performers and the focus is mainly on achieving financial objectives.
• Financial objectives/targets are clearly stated and not negotiable whilst qualitative measures are omitted.
• No consistency with regard to ratings exists across divisions.
• The performance management process is isolated, not aligned with overall business objectives and also not integrated with other HR processes.
• Performance management is not effectively driven from the top and the process does not have the necessary credibility in all divisions.
• The real value of performance management is not fully understood in most instances. It is mainly seen as an annual formality.

5.3.3.7 Assessment, Pay and Reward (survey results)

• The current Assessment, Pay and Rewards process was viewed overall as ‘insufficient’ with an expected level of performance that was rated at the ‘competent’ level.
• The Job Evaluation process was rated higher than Pay and Reward Strategy and Policy and Incentive Scheme Management.
The Pretoria, Bloemfontein and Port Elizabeth regions rated this process slightly higher than the other regions.

SBU 2 and 4 rated this process slightly higher than the other SBU's.

5.3.3.8 Assessment, Pay and Reward (qualitative findings)

- No formal remuneration strategy and policy is in place.
- Huge discrepancies exist between divisions regarding pay practices, resulting in remuneration disparities. The ripple effect of this is unhealthy competition for resources.
- Each division has its own approach in developing and implementing incentive schemes which gives rise to unfair distribution of bonuses and incentives.
- In some cases, the inefficient design and unnecessary complexity of incentive schemes demotivate staff as opposed to enhance performance.
- There is no internal remuneration specialist and IR is responsible for remuneration.
- There is no team focus in remuneration practices and remuneration is not performance and/or competence based.

5.3.3.9 Employee Relations (survey results)

- The current Employee Relations process was viewed overall as 'insufficient' with an expected level of performance rated at 'competent' level.
- Employee Relations received the highest rating of all the processes but was still, however, viewed as 'insufficient'.
- The Disciplinary, Grievance and Dispute processes were rated relatively higher than Workplace Democracy. The Disciplinary Process received the highest overall rating across all sub-processes but was still viewed as only a 'fair' practice.
- The Pretoria, Bloemfontein and Port Elizabeth regions rated this process slightly higher than the other regions.

5.3.3.10 Employee Relations (qualitative findings)

- Line managers are not adequately equipped to deal with disciplinary and grievance matters and relies heavily on the central IR support function.
- The disciplinary process is known and followed.
• The grievance procedure is not often used due to fear of intimidation.
• Line managers are relatively happy with the service and advice they receive from the central IR function.
• The role of HR managers/practitioners in dealing with IR matters is generally not clearly defined.
• There are no supporting structures in place to enhance union/employee relationships.

5.3.3.11 Human Resources Development (survey results)

• The current Human Resources Development process was viewed overall as ‘insufficient’ with an expected level of performance that was rated at the ‘competent’ level.
• Training and Development Strategy and Programme Development and Delivery were rated slightly higher than Training Effectiveness Measurement.
• SBU 3 and SBU 1 rated the processes slightly higher than the other divisions.

5.3.3.12 Human Resources Development (qualitative findings)

• Training is not needs based and mainly reactive.
• Focus is on technical training and not on soft skills training.
• A learning culture is not actively promoted.
• No training and development strategy is in place with the exception of management development.
• There is no integration between Training and Development and Performance Management with specific reference to the development of individuals.
• Inconsistencies exist with regard to the accountability for Training and Development in the divisions.
• Training and development is not competency based with the exception of management development.
• The effectiveness of Training and Development interventions are not generally measured.
• There is no process in place to integrate training and development in the workplace and no follow-up mechanisms exist to ensure successful application of acquired skills.
5.3.3.13 Equal Employment Opportunities (survey results)

- The current Equal Employment Opportunities process was viewed overall as an ‘insufficient’ process with an expected level of performance that was rated at the ‘competent’ level.
- Commitment and Communication and Awareness received slightly higher ratings than Implementation/Monitoring and Action Planning.
- The Durban Region viewed this process as significantly lower than all the other regions.
- SBU 3 rated the processes slightly higher than the other divisions.

5.3.3.14 Equal Employment Opportunities (qualitative findings)

- In most divisions there is an employment equity plan in place. In many instances it is not well communicated and monitored.
- The staff composition on the lower levels is more diverse. There appears to be a lack of diversity on senior and middle management levels.
- The current staff composition is not in line with their target market.
- There is resistance towards Equal Employment opportunities in general.
- Top management is white and is not perceived as actively promoting equal employment opportunities.
- In isolated cases equal employment opportunities are actively promoted and monitored.

5.3.3.15 Human Resources IT systems (survey results)

- The current Information Technology Systems was viewed overall as ‘ineffective’ with an expected level of performance rated at ‘competent level’.
- This process was rated overall as the lowest of the 8 processes.

5.3.3.16 Human Resources IT systems (qualitative information)

- There is not an integrated HR system in place.
- The Web –HR project has been approved and is currently being implemented.
- The Intranet is not currently adequately utilised.
There appears to be a lack of HR management information available to assist management in decision-making.

5.3.4 General

- There is a perception that HR decisions are taken in isolation without any form of consultation taking place with management or staff.
- There is, in general, a lack of appropriate skills within the HR function (e.g., absence of OD and specialist remuneration skills).
- There is an un-coordinated and unplanned approach to utilising external HR consultants.
- Divisional HR staff does not frequently discuss matters of mutual concern.
- In general the HR function is viewed as not visible and not credible.
- The HR function is often “side-lined” by business as a result of the above.
- No formal policy on language is in place and communication in Afrikaans is not acceptable to other cultures.
- The HR function operates in isolation and does not adequately support or influence the business.
Chapter Six

6. Benchmarking Results

6.1 HR Job Category

The Financial Institution has a higher ratio of management staff than the global best practice reports. This is offset by a slightly lower ratio of clerical/administrative staff when compared to other companies. The figures for specialists and generalists are in line with global trends.

![Bar chart showing employees per HR FTE](chart.png)

6.2 Overall HR FTE (full-time equivalent) Ratio

The overall FTE for The Financial Institution (57 per HR staff member, including the payroll function) is in line with global trends and is below the local sample, consisting of a competitor. This figure is purely quantitative as it assumes effective and efficient departments and processes in all cases. No qualitative data is used to derive the figure. The ratio of professional staff to support staff appears to be out of line with 18 support staff for 31 professional staff. This issue was discussed in the financial analysis earlier. As indicated above, the concern is the number of staff considered 'management' within the staff categories. It is suggested that the ratio of professional staff as opposed to management staff be investigated to ensure that the titles allocated to staff are appropriate for the work being performed.
6.3 Allocation of time spent on HR Activities

The Financial Institution conforms fairly well with time allocated to activities when compared to the global benchmarking sample. Time spent on Industrial Relations issues is three times greater than the benchmark figure. The Payroll function also consumes more time than the global survey indicates. This may be as a result of the number of ‘payrolls’ run as well as the fact that two runs are done each month. Although HR administration is well below the global benchmark we believe that the HR staff have underestimated the amount of time spent on Administrative functions. This remark appears to be confirmed by the various HR departments clients who believe that HR are completely immersed in administration and have very little time for anything else. This fact varies across the HR structures and can be seen within the ‘Customer needs and Satisfaction’ section.

6.4 Alignment with strategic business issues

It would appear that the HR function is not aligning itself to strategic business issues. Evidence suggests that HR structures created in a decentralised model have been operating at micro level and that the focus has been limited to their own particular area of responsibility.

6.5 HR Performance Measurement

Global as well as local benchmarking surveys indicate that HR performance measurement is vital to the acceptance of HR as a strategic business partner. The Financial Institution does not perform significant performance measurement on processes and services. This makes it extremely difficult to evaluate the contribution that HR makes to the business.
6.6 Service Delivery Channels

Detailed in this study are the modern trends with regard to service delivery channels. They are: Self service channels, shared service centres and business partners. *The Financial Institution* currently uses a decentralised service model that, according to research, contributes to varying standards of service delivery and duplication of services and effort, therefore contributing to increased costs.

6.7 The Workforce

The inflow of new employees has been skewed by the growth within *The Financial Institution* and comparisons are difficult as a result. The concern is, however, the large number of staff leaving the organisation, where the figure is twice that of a local competitor and two and a half times that of the global sample. A conservative estimate of the direct cost of replacing these staff is R23.6m per annum. This is based on the period 1/5/2000 to 30/4/2001 where a total of 786 staff left *The Financial Institution* out of an average workforce for the period of 2238 staff. In addition thereto are the indirect costs that can increase this figure significantly. It is vital for the long-term success of *The Financial Institution* to investigate the real reasons why people are leaving the organisation in such large numbers by implementing a process whereby data can be collated on these employees, to be used in an attempt to prevent further resignations. Substantial skills are lost to the organisation and the cost thereof enormous.

6.8 The HR Department

Research confirms the advantages of centralised HR departments and the employment of more specialists to fulfil the functions. Effective use of Information Technology has reduced the number of administrative staff required to perform basic HR functions. The overall European average reported is 57 employees per HR FTE. Nordic organisations have substantially smaller HR departments than any other region. This is largely due to their innate efficiencies as well as their reliance on superior automation of processes.
6.9 HR Information Technology

Effective and efficient HR information systems are the key to many of the efficiencies expected from HR departments. It should be seen as the enabling platform from which all other functions will feed. Organisations using modern systems are not necessarily achieving staff cost reductions. Instead, they are shifting staff from administration to consulting and strategy issues. On average, the ratio HR FTE/total FTE remains more or less the same. The Financial Institution is well behind both global and local organisations with regard to IT.

6.10 Centralised Services

During the investigation, consideration was given to the centralized HR functions within The Financial Institution. Given below is a high level report on each of these.

6.10.1 Centralised Service - IR Division: Head Office

The investigation dealt with the department’s primary functions and current objectives, the apparent implications of current practices, and possible and practical recommendations.

The IR Department is seen to be rendering an employee relations’ advice/consulting service to the organisation. Although the HR function has been decentralised, IR still renders a centralised service due to its specialisation field.

Some of IR’s primary functions include:

- Advising the chairperson during disciplinary enquiry proceedings on the procedure as well as the finding and sanction to be made.
- Managing annual wage negotiations including determining and establishing the procedure to be applied for the wage negotiations process.
- Advising on the applicable procedure and process in terms of the conducting of forensic investigations.
- Involvement in investigations with regards employee misconduct.
- Advising operationally with regards the management of discipline, grievances and, in general, employee relations’ activities.
- The perusal of employment and independent assignee agreements.
- Assisting with/conducting operational restructuring/retrenchment processes, and
- Formal scheduled training and development in terms of a BBL programme.
General Comments:

- It appears that the role players are, due to an historical organisational risk management culture, highly driven by a risk identification and risk management orientation, instead of employing an anticipatory and preventative employee relations' management philosophy. IR’s current approach is common in the field of law, particularly labour law, and goes hand-in-hand with conflict management, litigation and dispute resolution. This being the case, it remains questionable whether an attitude of complacent reactivity is conducive to the establishment of healthy employee relations’ processes and practices.

- It is also noted that role players advise, assist and coordinate in areas of law not necessarily applicable to the IR field, including that of civil and criminal law. Whilst an investigation into employee misconduct may require the lodging of a separate and further process in terms of criminal prosecution, much of what appears to be coordinated by the legal representative is, whilst relevant, not applicable to the primary objectives in the area of industrial relations.

- Other related services also include the perusal of company and commercial contracts.

- Budgetary provision, housed in Finance, is made for one specific Employee Relations office, inclusive of one Labour Law consultant and one other consultant/assistant. IR is seen as an overhead expense, and does not operate independently or as a self-sufficient cost centre with an aim of self-sufficiency. Service Level Agreements with the various divisions have not been concluded, and as a consequence, a list of vendors currently utilising IR’s expertise and services is not available. It is also not possible to conclusively indicate which of the various divisions utilise its services most, although the SBU 4 and SBU 1 divisions are consistent clients. Whilst it may be indicated which national regions are visited periodically in order to render service, this is not conclusive.

- No formal client satisfaction feedback occurs. It will be correct to assume that IR’s services is consistently used by divisional clients due to its apparent efficiency (as indicated in the statistics obtained from the ‘People Management Process Evaluation’), although it must be born in mind that due to its specialisation service offered, the immediate and reactive nature of the service, and the visibility of end results, the assumption could be exaggerated.

- Divisions from time to time instruct two (2) or three (3) attorneys as may be required, and legal services are internally appointed in the SBU 4 and SBU 3 departments.

- SASBO is the sufficiently representative trade union, and the organisation has established the practice of bargaining wages at plant level, although this is not required in terms of the Act.
The maintaining of bargaining units is primary, and non-members are not representative in any way. Apparently a need is evident for the creation of an employee representative forum.

- In the course of retrenchments, IR authorises and approves all correspondence with regards preliminary notifications, substantiation of operational rationale, final notifications and agreements entered into between the distinctive role players. Whilst line managers may actively facilitate the process, IR plays an advisory and monitoring role, which is critical to the successful conclusion of the process.

- IR is the one point of entry with regards all labour law and employee relations' queries; most operational managers contact IR directly for assistance. Calls are, however, not monitored, and response times have not been actively and conclusively measured.

- Line managers deal with the day-to-day business of discipline, and only those managers on a G-level and upwards have authority to do so and/or to dismiss. IR is apparently visible throughout disciplinary processes, and assists chairpersons to reach a fair and consistently applied verdict and appropriate sanction. Whilst the presence of IR is to ensure that similar practice is consistently applied, it could, in our opinion, be successfully argued that this approach is irregular in that the specific chairperson fails to reach his/her determination on his/her own insight and without undue influence. In order to ensure that chairpersons are capable of managing same, training of line managers in this regard is required. Since the organisation lacks a centralised governance function, authorisation for applicable action vests in IR (This role appears to have evolved without formal sanction).

- No formal, structured IR training is in process save for the BBL training programme. Accordingly, the lack hereof endorses the organisation's current reactive approach, and continues to place an undue and unnecessary burden on the IR department.

- Whilst human resources policies are implemented, these are apparently outdated in that new practices have been initiated since the recent decentralisation. Thus, policies are apparently being inconsistently applied across the various divisions, are not adhered to and are in general, not known. These are also not electronically available. Concern is to be had with the visible eradication of unfair discriminatory practices in terms of the Employment Equity Act, and practices relating to recruitment, training and development, promotion, remuneration and job grading. Although it is indicated that an Employee Equity plan has been submitted and an audit conducted on the current practices and policies within the organisation at the prescribed time last year, it appears that based on the audit, no visible changes as required at law were made to the policies and practices.
• It is noted, however, that a new bundle of policies are in the process of being drafted by an outside consultant, and is facilitated by IR. It is assumed that this is not an integrated effort in that consultation has not been entered into with relevant employees (only HR practitioners), stakeholders and/or other forums/divisions, inter alia the department responsible for employment equity. It is furthermore noted that policies applicable to various employment equity initiatives are drafted without the input of the employment equity department, employment equity forum, and is as a result, in direct contravention of specifically prescribed procedures for consultation with staff in this regard.

• It will be of the utmost necessity to train line managers and HR on the interpretation and application of the various policies, once these have been redrafted and implemented.

• IR indicated that a need exists for a separate “law office”, demarcating operational management of employee relations issues from that of law advice. Whilst it is noted that some of the divisions instruct their own attorneys on an ad-hoc basis from time to time, some overlapping of services exist.

6.10.2 Centralised Service - The Financial Institution Payroll: Head Office

Although the Payroll function falls under the control of the Finance Division, it is important that it be seen to be part of the HR function as an analysis of an HR function would be incomplete without it.

Salary costs are debited to each separate unit. The cost of running the payroll is carried centrally in the financial division. These costs are not recovered from the client.

Focus areas:

• Payment of all staff.

• Payment of monies to third parties such as the Receiver of Revenue, medical aid, pension fund etc.

• Reconciliation of all accounts and control accounts.

• Journal entries to transfer the appropriate costs to each cost centre through an automated system and adjustments journals.

• Provision of management information. This is a large task due to the lack of an appropriate HR system that could provide the required Management Information automatically.

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Structure:

- One payroll Manager, with two systems advisors. They are responsible for electronic data transporting across systems, including reconciliation's (e.g. Medical schemes). Their role includes responsibility for hardware and software. The unit operates their own separate server.
- Two senior salaries staff and six clerical salary staff. Roles within this area will include data capture, calculations of various adjustments, payment of overtime, salary controls. Etc.
- One filing clerk

System – VIP Payroll

- Own server
- To March 2001 the company ran a ‘one company’ payroll
- Eleven separate payrolls (companies) were then created, each as a separate legal entity

The use of Consultants

- Only one consultant is used to generate reports via the VIP system. Backup is required for one advisor. With the appointment of a second system advisor this function will be phased out.

Service Provision can be enhanced by:

- Co-operation with other units in respect of data collection can improve service delivery. The objective is to automate as much as possible.
- There are two salary runs per month. This is being changed from October to one run at a later date during the month.
- Technology – There is very little server downtime.

Plans for Improvement:

- Electronic filing system to file data is planned and will be implemented - total integrated electronic data input will simplify workflow and will allow for easier resolution of queries. It will also enable HR to handle queries themselves.
- Electronic data transfer will also allow for integration with a new HR system.

Data Integrity Control:

- The system performs certain system checks.
• Planned manual checks are also performed to ensure system integrity.

Documentation:
• HR policy and procedures are outdated and need to be reviewed.
• Internal procedures are updated regularly.
• No existing strategic/business plans exist. It is, however, necessary to ‘clean out’ the system and this needs to be well planned.
• Knowledge of the system and the possible use of existing and available functions/facilities can improve and will add value to the salaries function.

Measurement of Effectiveness:
• No formal measurement is done on the effectiveness of the service rendered.
• The only measure is the number of queries resulting from pay runs. There are numerous controls in place to avoid errors (‘checks & balances’).

6.10.3 Centralised Service - Development and Training Division: Head Office

The purpose of the department is to render, on a centralised basis, services to develop and enhance the intellectual and emotional capacity of the organisation.

The main focus areas include:
• Development service
  • Strategic management development
  • Operational management development
  • Junior management development
  • Fast track development
  • Skills audit
  • HR system infrastructure
  • NQF alignment and workplace skills plans (Banking SETA).
• Selection and evaluation services. (The investigation and research in new techniques and recommendations to various divisions)
• Employee assistance programmes (Outsourced, well established and supported)
• Succession planning – a newly acquired system has just been obtained to support this process in the future.
General Comments:

- The programmes presented are well researched and of a high standard.
- External consultants are often used in the provision and implementation of these programmes.
- The various divisions and line management do not experience these programmes as being needs based.
- As a consequence, the learning experience is not coordinated and/or integrated in terms of business practices, although the content of these programmes are of a high standard.
- No effective measurement and follow up services for these interventions exist.
- Ownership of Learnerships and management development resides with HR and the role and accountability of line management in this process is not clear.
- These interventions do not take place against a background of a well-established learning culture.
- A workplace skills plan for 2001/2002 in terms of Banking SETA requirements is available and has been submitted.

6.10.4 Centralised Service - Employment Equity Division: Head Office

The main purpose of this department is to promote equity in the workplace and introduce employment equity interventions.

The main focus areas include:

- Development and implementation of an employment equity policy.
- Establishment of an equity forum.
- Development and monitoring of an employment equity plan.
- Liaison with the Department of Labour.
- Reporting to Exco and The Financial Institution Board on the progress.
- Establishment of a recruitment function/agency to promote equity.
- Oversee a HR support function – i.e. Properties and Human Resources.
- Responsible for certain training programs e.g. diversity training, Free to Grow life skills programme, financial life skills programme, HIV Aids awareness programme and ‘In Road’ internship programme.
General Comments:

- Employment Equity policy and plan are available.
- An Employment Equity forum has been established on group level but is chaired and driven by Human Resources instead of line management.
- The accountability and role of line is not well established in the Employment Equity process.
- Supporting infrastructure is not established on divisional level. Accountability and roles are not clearly defined to support effective implementation of Employment Equity.
- The progress on Employment Equity is slow and the current employee distribution is still predominately white with little or no equity representation on senior management level.
- There is no alignment between employee composition and the preferred target market of The Financial Institution.
- The business language is Afrikaans and seems not to be accommodating certain population groups.
- There seem to be little or no integration between this function and other HR related functions such as IR.
- The recruitment function/agency has not yet been established.
- The use of recruitment functions and use of agencies appears to be uncoordinated and seems to be very costly.
- The logic behind the link between the position of equity and the group HR support function is not clear.

6.10.5 Centralised Services - HR Information Technology: Head Office

HR IT systems are crucial for the successful implementation of a “new” HR model into The Financial Institution. HR Information systems should serve as an enabling technology, which in turn should support the business strategy. It is clear that the current IT scenario within HR is completely unsatisfactorily, and it is for this reason that The Financial Institution decided to implement WEB HR. It is my understanding that WEB HR will:

- Serve as the introduction of the HR database into a corporate data environment, and ultimately the data warehouse.
- Maximise service levels through implementing Employee Self Service (ESS).
• Dramatically reduce potential service costs and service level exposure compared with the existing HR System environment.

• Provide an ideal migration path from the current legacy-based HR/Payroll system to a modern "open systems" environment.

The benefits of WEB HR should thus be:

• Elimination of Salaries and HR process “bottlenecks”, thus improving service levels and having the benefit of cash savings.

• Realignment of the critical HR Database to modern “open systems” standards, thus allowing it to conform to group strategic direction.

• Ensure the currency of the Human Resources database by monitoring, controlling and enforcing continuous updates to employees’ personal details.

• Providing the security of full duplication of the HR Database as well as allowing the facility to extract management reports in any format as required by The Financial Institution Executives.

It is our understanding that the following outcomes are envisaged:

• An effective, real-time, flexible and user-friendly HR management instrument as utilised by HR management, operational management, payroll administration and the individual employee.

• Cost savings regarding time economics and increased effectiveness (e.g. drafting staff turnover reports, skills development plans/reports, employment equity plans/reports, salary increase projections and administration)

• Effective electronic processes by means of workflow technology (e.g. leave administration, disciplinary actions, recruitment, performance appraisal etc.)

• Improved reliability and validity of inquired information, reports and feedback.

• A powerful management information source.

Based on our understanding of the envisaged technology, it appears that the implementation thereof will be in line and will serve as an enabling technology for the future HR model.
Chapter Seven

7. Conclusion, Discussion and Recommendations

The following conclusions can be made, based on the research conducted:

7.1 High Level Conclusions

The following conclusions can be drawn from the research:

- HR is not strategically aligned to the business.
- There are different levels of service delivery in different divisions.
- HR has little or no formalised strategy in place that can drive service delivery.
- HR lacks a degree of strategic leadership and credibility.
- HR needs to be repositioned at a strategic level within Exco.
- HR lacks the appropriate skills to deliver value added services required by the client.
- There is an ineffective decentralised HR structure in place.
- The HR service delivery model is ineffective.
- HR policies are inconsistently applied across the organization.
  - Different versions of the same policy are being applied
- Remuneration policies and practices are inconsistent and little internal parity exists.
- The HR function is not seen as customer focused.
- The Financial Institution is not seen as people orientated, creating barriers for HR.
- HR is administratively focused rather than providing a strategic contribution.
- Perceptions of HR service delivery and that of their clients do not correlate about services rendered.
- There is no performance measurement of HR functions.
- Many HR staff members are not sufficiently figure literate.
- There appears to be a lack of HR staff with business skills and business understanding.
- Inconsistent approach to budgeting.
  - Poor quality control on budgeting
  - Different approaches to budgeting
  - Items budgeted for in one area but not another
- The decentralised HR function leads to duplicated costs.
  - Travel cost resulting from decentralised HR function is very high
  - Duplicated services
• Duplicated research and development of services

• High expenditure budgeted for training. As it is not measured it is questioned if it provides value for money.

• The decentralised model failed due to a lack of governance and lack of consistent application of policies and procedures.

• The IR division appears to be responsible for non-core functions that are fundamentally in conflict with its required outputs. By nature, an IR division should not be directly responsible for salary negotiations and should not be involved with remuneration strategies. Salary negotiations and remuneration must be moved under the direct control of HR specialists.

• The IR division has evolved to a point where the organisation is highly dependent on their services. This includes services for which IR are not usually responsible for, nor desirable that they are involved. It is suggested that this dependency is reduced and line management and other HR practitioners more empowered to provide these services.

• The Financial Institution currently operates on a high autonomy/low control basis, leading to a lack of governance.

7.2 Discussion

The research hypothesis is supported by the research conducted. Although world-class companies have a tendency to decentralise and to empower its staff towards joint participation and shared ownership as was indicated in the research chapter, the decentralisation of HR at The Financial Institution clearly did not achieve world-class practices and has not added the required value nor has it achieved the anticipated results. It is my opinion that this was due largely to the absenteeism of a proper Governance model during the decentralisation process which would have ensured that the decentralised business units adhered to certain minimum requirements, such as the non-duplication of functions and activities, a process-based approach with the delivery of customer satisfaction in mind, proper communication models to ensure the integration of the business objectives throughout the organisation and the establishment of a continuous learning culture, inter alia.

It is clear from the findings, as indicated above, that Corporate governance management practices do not exist, and as mentioned, particularly a process-based approach and pay for performance. The organisation is internally known for its lack of a “valued people” approach and manages in such a way that people do not feel trusted or empowered. As is clear from the investigations’ results, the decentralised structure proved to be costly, resulting in a negative economic impact on the organisation’s bottom line.
The Financial Institution falls short of exercising and embracing many world-class practices, including a culture of continuous improvement; a shift from tight control bureaucracy to flexible, rapid response capability and customer service excellence. Certain characteristics of world-class principles are also absent, such as a clear vision and set objectives, a focus on customer needs, low cost production and process based teams. Each of The Financial Institution's decentralised HR units did what it considered to be required, or what it deemed capable of delivering; often not taking into account the business' strategic objectives and its customers' needs. Their decisions were not aligned with the strategic direction of the company.

The results achieved are thus the opposite to those of a world-class organisation in which joint governance is primary, communication and transparency is practiced because these are essential; structures are flat and not inwardly focussed; the organisation’s people are focussed on its customers and the needs of its people, realising that the organisation’s people are its most valuable possession. HR agents should be seen as “change agents”, - continuously taking the organisation strategically forward by means of change processes such as effective communication strategies, appropriate training and development, and implementing processes and systems to support business strategies and objectives, but at The Financial Institution this is clearly not the case.

Whilst The Financial Institution is a primary example of a decentralised HR function which is dysfunctional due to its lack of adequate and appropriate governance, it is writer's opinion that with a proper Governance model in place and by embracing principles synonymous with that of a world-class organisation, decentralisation of the HR function at "The Financial Institution", along with implementing corrective measures could result in progressive success that would add significant value in order to fulfil the organisation's strategic objectives and instil and nurture transparency and trust in its people and its customers.
7.3 High Level Recommendations

The following recommendations are thus made and follow a logical sequence of events. Various activities are within each box.

- Conduct a strategic planning/decision/clarification exercise with Exco to ensure an agreed future HR strategic focus and drive where individual members embrace (and not just 'agree') upon the strategic drive. Exco to agree the strategic People Management Model that will drive the HR component of the business.

- Articulate overall company HR strategic focus.

- Develop a HR strategy, based on and aligned to, the company strategy and HR model.

- Develop a preferred service delivery model.

- Design a new structure for the HR function, based on the new model.

- Review and/or redesign all HR business processes.

- Audit and review and/or redesign all HR policies/applications.

- Conduct a skills audit of current HR staff.

- Determine and define the required HR skills and levels required within the new HR model and structure.

- Recruit, select, place, re-deploy or outplace staff in new structure.

- Conclude Service Level Agreements with internal clients.

- Conduct phased implementation of new policies and processes.

- Consider decentralised regional offices with services rendered to client divisions across divisional boundaries.

- Consider single budget format with financial consolidation of HR budget across Divisions for quality control and monitoring purposes.

- Implement centralised recruitment office.

- Implement preferred supplier agreements with recruitment agencies based on reduced costs.
7.3.1 Quick Wins

A quick win is defined as something that has:

- Low cost
- Valued by customers
- Has quickly realised benefits
- High profile
- High impact

The following quick wins are recommended:

- HR must openly accept and acknowledge that service delivery has not taken place to the satisfaction of the client
- The Executive Management team (incl. HR) to go on a road show to communicate results of this evaluation process to demonstrate seriousness of their intentions and to negotiate the way forward
- The profile and strategic positioning of the HR Director to be reviewed
- Create a centralised recruitment office
- Compile preferred supplier for recruitment agencies and negotiate more favorable rates
- Consider the outsourcing of payroll. Payroll costs R1.973m to run, which equates to R 58.51 per employee per month. It is possible to outsource this for approximately R 35.00 per employee per month, realising a saving of R 792 757.00 per annum.
- Until the new model is implemented, all HR practitioners to liaise before travelling out of town to avoid, where possible, more than one person travelling to an area. Total travel costs amount to R 1.1m per annum.
- Review professional fees and develop a more coordinated approach to the appointment of consultants/contractors by compiling a preferred supplier list. The R2.18m spend could be reduced.
- Review the ‘marketing’ cost of R278 000 and ‘transfer’ costs of R400 000.
- Consolidate the suppliers of training and negotiate a cost structure for the group. This should result in a cost saving as well as improved effectiveness and control of training. Trainers in general should be multi-skilled so that one trainer can deliver multiple training courses in a geographical area. This will result in cost savings.
- Revisit the Training and Development strategy for The Financial Institution. This training must be needs based and requested by the client. Total training costs for The Financial
Institution amount to R6m representing 2% of payroll. Whilst this is commonly regarded as the benchmark for training costs, the client, indicating a low return on investment, considers training and development within The Financial Institution inadequate.

- The savings achieved from the above few points could be reapplied to enhance the skills base of HR staff.
- Review the ‘temporary worker’ (491 staff) approach within The Financial Institution. Consider consolidating all into one pool and supply them to all areas where required. Better utilisation of staff may be achieved resulting in cost savings. Consideration should be given to creating a centralised administration centre for all temporary staff to allow regional staff to concentrate on their core business.
References


Appendix A: Example of a Benchmarking Questionnaire

HR Benchmarking Questionnaire - Head of HR
(This questionnaire is intended for the executive in charge of HR only)

In order for the Research team to advise on HR Best Practice it is necessary to gather information on the current HR practice and compare it with local and international trends. We ask that you spend a few minutes answering the questionnaire.

Question 1

Please indicate the average percentage of your time spent on the following activities in any given month. If you spend a significant percentage of your time on activities not listed please add them in the additional blank spaces. Please ensure that your activities total 100%. Should the need arise refer to Appendix 1 for definitions of each of these activities.

<table>
<thead>
<tr>
<th>Activity</th>
<th>Percentage</th>
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<tbody>
<tr>
<td>Non-HR functions (Other portfolio)</td>
<td></td>
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<tr>
<td>Payroll/Salaries</td>
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<tr>
<td>General HR administration</td>
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<tr>
<td>Training and education</td>
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<tr>
<td>Recruitment and Selection</td>
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<tr>
<td>Management of HR Function</td>
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<tr>
<td>Compensation and Benefits</td>
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<td>Health and Welfare</td>
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<td>HR Policy Development</td>
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<td>HR Information Systems</td>
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<td>Management Development</td>
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<td>Performance Assessment</td>
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<td>Industrial Relations</td>
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<td>Organisational Design</td>
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<tr>
<td>HR Planning</td>
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<tr>
<td>Job Design and Evaluation</td>
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<tr>
<td>Strategic HR issues/forums</td>
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<tr>
<td>Total</td>
<td>100%</td>
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</table>

Question 2

What non-routine or new HR related tasks/projects have you been involved in during the past year? Non-routine tasks are those that you do not usually perform on a day-to-day basis.
Question 3

List three HR related topics, in order of priority, that you believe the Financial Institution should focus on in the near future.

1. 
2. 
3. 

Question 4

List six business issues (i.e. Cost reduction) that you feel are the most important issues facing the Financial Institution at the moment. All issues relating to changes of shareholding must be indicated as such

1. 
2. 
3. 
4. 
5. 
6. 

Question 5

HR departments perform a variety of roles. In the Financial Institution, which roles do you believe are currently considered the most important by the organisation? Please rank the following activities in order of importance, firstly, as you believe the organisation currently views each activity and then, as you would like to see the organisation view them. Should you wish to add activities not listed please use the open spaces at the bottom of the table.

<table>
<thead>
<tr>
<th>Activity</th>
<th>Current Rank</th>
<th>Desired Rank</th>
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</thead>
<tbody>
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<td>Payroll/Salaries</td>
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<td>General HR administration</td>
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<td>Training and education</td>
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<td>Recruitment and Selection</td>
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<tr>
<td>Management of HR Dept</td>
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<tr>
<td>Compensation and Benefits</td>
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<td>Health and Welfare</td>
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<td>HR Policy Development</td>
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<td>HR Information Systems</td>
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**Question 6**

How is the effectiveness of the Human Resources processes measured? Please give very brief details of how each process in HR is measured.

<table>
<thead>
<tr>
<th>Activity</th>
<th>How Measured</th>
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<tbody>
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<td>Payroll/Salaries</td>
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<td>General administration</td>
<td>HR administration</td>
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<td>Training and education</td>
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<td>Recruitment and Selection</td>
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<td>Management of HR Dept</td>
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<td>HR Policy Development</td>
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<td>HR Information Systems</td>
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<td>Management Development</td>
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<td>Organisational Design</td>
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**Question 7**

What HR activities, if any, are outsourced to vendors or service providers? If there is no outsourced component please leave that activity blank. Outsourcing could also refer to aspects listed below that are outsourced to another function within the Financial Institution.

<table>
<thead>
<tr>
<th>Activity</th>
<th>Outsourced</th>
<th>Service Provider/s (if 'partially' answered please indicate which aspects)</th>
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<tbody>
<tr>
<td>Payroll/Salaries</td>
<td></td>
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<td>General HR administration</td>
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<td>Management Development</td>
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<td>Performance Assessment</td>
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<td>Industrial Relations</td>
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<td>Organisational Design</td>
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66
### Question 8a

HR currently operates on a decentralised model, although some services are centralised. Please indicate the status of each activity by placing a cross in the appropriate column. (Outsourced activities to service providers should be indicated as “centralised”)

<table>
<thead>
<tr>
<th>Activity</th>
<th>Centralised</th>
<th>Decentralised</th>
<th>Combination</th>
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<tbody>
<tr>
<td>Payroll/Salaries</td>
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<td>General HR administration</td>
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<td>Recruitment and Selection</td>
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<td>Management of HR Dept</td>
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<td>Compensation and Benefits</td>
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<td>Job Design and Evaluation</td>
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### Question 8b

For each activity that you indicated ‘combination’ please elaborate briefly.

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<tr>
<th>Activity</th>
<th>Explanation</th>
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Definitions of HR processes

1. **Management of the HR department**: Managing (part of) the HR department in its day-to-day operations, including formulation of tasks and assignment of tasks to subordinate staff. Motivation of HR staff.

2. **HR policy development**: Development of organisational principles and methods covering management of employees. Planning and programmes regarding work/life issues of employees (policies for travel, telecommuting, flexible work schedules etc.) Development of rules and guidelines that are part of the workforce culture (dress code, working hours etc.)

3. **HR planning**: Defining qualitative and quantitative workforce needs of the future. Identifying future cultural requirements, employee competencies and resource numbers as determined by assessment of business plans. Workforce financial management (budgeting and planning for annual workforce changes, “HR controlling”).

4. **Organisation design/change management**: Design of organisation relationships, interactions, responsibilities and roles as well as behaviour required to support the company’s strategy and goals. Determining development efforts needed to support changes in the organisation. Guiding organisational change processes, commissioning or conducting organisation/culture research.

5. **Industrial relations**: Negotiation and management of trade union agreements. Administration and management of employee grievances and issues. Also includes the support of works councils.

6. **Recruitment & selection**: External recruitment, internal staffing and selection procedures (job posting and advertising, management of recruitment agencies, co-operation with employment offices, testing, interviewing and evaluating, compiling offer letters with salary and benefit information). Introducing employees and managers to the company (excluding induction training) and assigning location and equipment. Managing the fulfilment of temporary positions filled by external resources or internal employee pools.

7. **Job design and evaluation**: Creation of job descriptions, assigning job levels job requirements and creating performance standards and measures for specific jobs.

8. **Competency management and performance assessment**: Identification and communication of key performance standards/competencies defined for specific job levels and/or individuals. Preparing and administering evaluation forms and conducting performance appraisals.

9. **Management development/career development**: Developing professional and personal plans, training and professional development of managers, preparation and organisation of management training for managers and specialists with the aim of improving management and technical competence and skills, communication and strategic planning. Succession
planning (designing individual and group development programs to ensure ready succession of key positions).

10. **Training and education:** Induction training, position-oriented training (preparation, organisation and, if applicable, execution), preparation and organisation of training at the workplace, study counselling, education centres, training for graduates (excluding activities mentioned under management development / career development).

11. **Compensation and benefits:** Managing and administering compensation and benefits, including administration of health and welfare, equity savings plans, pension plans and maintenance of records. Also allocation and timing of individual compensation (including changes).

12. **Counselling, health and welfare:** Counselling on health, absence and other personal matters.

13. **Payroll:** Payment of salaries and wages, including maintenance of records, calculations of salaries, wages, (travel) allowances, deductions, and distributions of paycheques. Payment of incentives and “banking” of future incentive amounts.

14. **HRIS maintenance and support:** Development, maintenance and support for HR information systems

15. **General HR administration:** Data processing, development of employee record and data structure, maintenance of career related and life-event changes and employee status changes, secretarial, clerical work and management reporting (providing key data to various levels of management).
Appendix B: Instruction Sheet for the HR Process Evaluation

Instructions for Completing the People Management Process Evaluation

Introduction

Processes covered by the People Management Process Evaluation are predominantly managed by Human Resource Departments. However, some processes run across different departments or could be managed by other departments. Nonetheless, all the processes are deemed to have an impact on the work done by HR department.

Thus, remember ... you will not be rating the HR department, but the people management evaluation processes, which may or may not be 100% controlled by HR.

Furthermore, it is worth noting that this is not a scientific measurement tool. A fair amount of detail is provided under each level and process to facilitate an objective rating based on a common understanding of the facts. However, it should be understood that people management processes are complex, multi-dimensional and interdependent. An absolute measurement is thus nearly impossible. It can thus be expected that perceptions of individuals may impact on the rating.

Purpose

The People Management Evaluation Process will be used by the consultants to:
1. assist in benchmarking people management processes against HR best practices (Where are we now?)
2. determine which processes should be the focus of the HR Function Transformation Project? (Where do we want to be in future and where is the performance gap the greatest?)

How to use the rating scale

You will be required to rate each process twice. First, indicate the level at which you currently experience the process by marking the relevant block on the scoring sheet with a X. Secondly, indicate the level at which you believe the process should function in the short to medium term (Note: some realism is required here) by marking the relevant block on the scoring sheet with a O.

A 10-point rating scale is used, allowing for two rating under each evaluation level. As explained earlier, the levels are not absolutes. Thus, if statements under the “Fair” evaluation level are in essence (e.g. 80% accurate description) a true reflection of the status quo – a rating of 5 or 6 could be given to reflect the current level of performance. A rating of 5 would be assigned if some of the statements under the “Insufficient ” evaluation level also hold true. However, if more of the statements under the “Competent” evaluation level holds more truth than that stated under the “Insufficient ” evaluation level – then a rating of 6 should be assigned.

We therefore recommend that you start reading the statements from the left-hand side (Ineffective), progressing towards the right-hand side, until you find the “block” (evaluation level – e.g. “Fair”) that in your view describe the current functioning of the process best (i.e. 80% accurate description of your experience of the process). Then look at the “block” (Evaluation level) just above (e.g. “Competent”) and below (e.g. “Insufficient”) the selected “block” (e.g. “Fair” in this example) to determine whether the rating should lean towards the higher or lower “block”. If you are in the “Fair” block, and more of the statements under “Competent” are true than that listed under “Insufficient ”, you should assign a rating of 6.

The same approach should be adopted when assigning ratings to the future or expected level of evaluation for a process.
Please note: HR – Refers to HR function
PM – Refers to people management practices and processes

**People Management Process Evaluation**

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**ELEMENT 1: HUMAN RESOURCES STRATEGY**

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**ELEMENT 2: RECRUITMENT, SELECTION, PLACEMENTS & RETENTION**

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**ELEMENT 3: PERFORMANCE MANAGEMENT**

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**ELEMENT 4: ASSESSMENT, PAY AND REWARDS**

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**ELEMENT 5: EMPLOYEE RELATIONS**

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### Workplace Democracy
- Disciplinary Action
- Grievances
- Disputes

#### ELEMENT 6: TRAINING AND DEVELOPMENT

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#### ELEMENT 7: EMPLOYMENT EQUITY / EQUAL EMPLOYMENT OPPORTUNITIES

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#### ELEMENT 8: INFORMATION TECHNOLOGY SYSTEMS

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**General Comments:**

Thank you!