

# Human Resource Management

## *‘Waisco shapes up for the future!’*

### Introduction

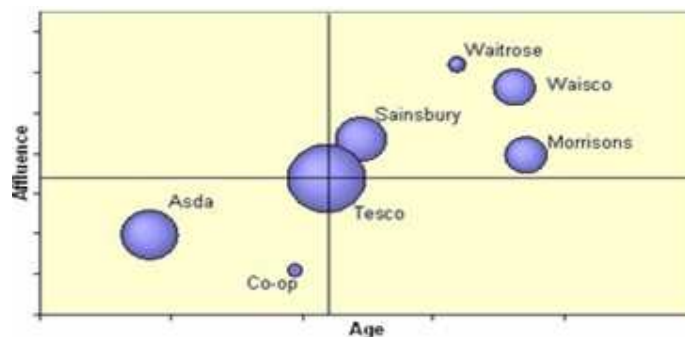
This report has been commissioned to investigate important issues surrounding the HR strategy of Waisco superstores. The report will look to address the significant changes needed to ensure the future survival of the company.

Waisco Superstores Ltd is a large food retailing company that has been in business since the beginning of the 20<sup>th</sup> century. They have 185 stores ranging across England, Scotland & Wales. They have directly targeted affluent areas of the country with its most profitable stores being found in the South East of England.

The company employs over 7000 people and like others in the food retailing industry is highly reliant on upon part time, female labour and casual employment from students for its shop floor employees. Management staff is mainly recruited through a graduate development program which focuses on training individuals on all aspects of the business. Again, like others in the industry Waisco suffers from a medium to high staff turnover, largely associated with the unsocial hours of work and high proportions of student labour who naturally move on to other employment after their studies.

Waisco does not actively recognise any trade union instead, using methods such as employee representation committees to highlight issues this, admittedly has fallen into disuse in recent years. This may be a factor encouraging employees to actively join the TGWU and it looks as though in the near future Waisco will be faced with a recognition claim as growing numbers increase its bargaining power.

Waisco directly targets the higher end shopper, particularly the affluent AB social grade (High end professionals and managers) who are more likely to desire quality foods and the price tag that is associated with them. They also have a strong base amongst older shoppers who have more spare cash and value the quality of a product. Waisco quality food is sourced wherever possible from local suppliers at its peak of freshness and is a key reason why they can charge the higher price tag. The graph below shows their market base in term of age and affluence.



Their aims as a retailer are as follows 'To combine the convenience of a supermarket with the expertise and service of a specialist shop'. When implementing any HR strategies it is important to ensure that they support and compliment the overall aim of the business.

The food retailing industry as a whole is a fiercely competitive environment. This competition recently increased further, as the attention of the consumer was brought to the higher price of food charged in the UK, in comparison to other European countries. Consumers had to cope with the financial crisis and recession of 2008/09 and the food retailers were faced with a radical change to the trading environment that they had become used to

The luxury and high end product market has been the hardest hit with consumers opting to substitute these goods with cheaper alternatives or targeting special offers. The increased competition and desire from the consumer for lower priced goods has seen large retailing firms become embroiled in 'price wars' and

This report will look to devise a HR strategy that aligns itself with the aims of the company. It will suggest HR practices to fit this strategy and present possible outcomes of their implementation. It is hoped that this report will spearhead changes within the HR of Waisco that will promote widespread success throughout the whole organisation.

### Recommendations

#### HR Strategy

Before decisions can be made upon specific practices within the organisation, the HRM strategy of Waisco must be defined. Strategic HRM has emerged from the ever increasing evidence of the link between HRM practices and organizational performance and has become vital in the modern business world, this will form the base for our HR strategy's.

The strategic HRM approach differs from the traditional HRM in its orientation towards the overall strategy of the company and its emphasis on adding value and improving profitability. A strategic approach to human resource management can contribute to a sustained competitive advantage. Within Strategic HRM there are two differing strategies that Waisco could adopt; they are the 'Best Fit' approach and the 'Best Practice'.

Both approaches view HR as having an important role in supporting organisational strategy and objectives. For best fit, organisational strategy comes first and HR systems and practices follow from this. Lawler (1995, p. 14) states that all organisational systems must start with business strategy because "...it specifies what the company wants to accomplish and how it wants to behave". It emphasises the fit between HR activities and the organisation's stage of development. The 'best-fit' school, argues that all Strategic HRM activities must be integrated horizontally (consistent with each other) and aligned vertically (Linked to the overall strategy of the organisation). In the Best fit approach, organisations see employees as a cost and try to counter act that cost through the use of incentives that are not consolidated into base pay in the hope of improving performance.

Best practice on the other hand is described by Armstrong & Baron (2003) as "The 'best-practice' theory is based on the assumption that HR practices observed in high-performing firms can be transformed to other companies with the same results". Pfeffer, 1998 Huselid, 1995 describe HR as 'bundles' of Best practices including: selective hiring, extensive training, employment security, a structure that encourages employee participation and pay policies that lead in relation to industry competitors. Purcell (1999) states the most distinguishing aspect of best practice is there is no mention of the specific company strategy at all. Best practice is also known as the high commitment model as it focuses on giving more attention to the worker and getting rewards in terms of performance and loyalty.

Although both practices have their positives, the most appropriate strategy for Waisco is the 'Best Fit' approach. There are several reasons for this choice with the most important being Waisco's differentiation strategy of providing quality foods normally associated with a specialist shop, means that specific HR practices will be required to ensure this aim.

Sparrow and Hiltrop (1994) state, that 'Best fit' policies are developed or amended to maintain a 'line of sight' with strategy which, is what Waisco requires.

'Best Practice' is designed around the concept that its practices are universal in nature and relevant to the majority of situations. The differentiation strategy adopted by Waisco however, means that many of these practices will not relate to this organisation.

Another issue was the cost and difficulty of implementing a 'Best Practice' approach. The extremely high cost of implementing 'Best Practice' measures as well as the difficulty in terms of logistics and relevance means that for the economic environment of today and the situation Waisco finds itself in this simply wasn't feasible.

Within the 'Best Fit' strategy, there are several different stages that an organisation implements its strategies at, this is known as the 'Best Fit' Life cycle. The various stages each bring with them their own philosophies and scale of practices that can be introduced however, we will only focus the specific stage that will relate to Waisco the 'Maturity' stage. Ironically at this stage although fundamentally 'Best Fit' in nature we see many aspects of 'Best practice' emerge and play a key role in the organisation's strategy. The stage is characterized by little to no growth at all in the market, wide range of formalized procedures and a wage bill which is kept firmly under control.

### Company Culture

With the big retailing firms this has undoubtedly had a major effect on the philosophy of organisations across the retail sector as a whole. It is important from a Waisco point of view to understand our current and desired culture and what implications this will have on decision making.

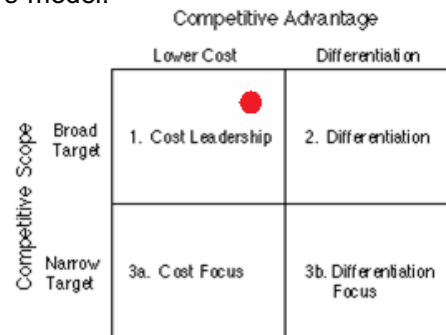
These decisions and strategies come together, to form the very basis of an organisation's culture and identity and therefore, are crucial to providing direction to the company. In the 1980s, Porter (1980, 1985) made a significant contribution to our understanding of decision making within organisations, by formulating a framework that described three competitive strategies: cost leadership, differentiation and focus. This is shown in the table below.

		Competitive Advantage	
		Lower Cost	Differentiation
Competitive Scope	Broad Target	1. Cost Leadership	2. Differentiation
	Narrow Target	3a. Cost Focus	3b. Differentiation Focus

The two areas which are most relevant to Waisco are cost leadership and differentiation. The low-cost leadership strategy attempts to increase the organization's market share by having the lowest unit cost and price compared with competitors. This describes the current retail market that Waisco exists within with all competitors being dragged in to 'price wars'.

An example of the extent of price competition is Waitrose who have a very similar target market to Waisco with even a greater emphasis on the very affluent. Waitrose possesses customers such as the royal household and prides itself on quality of product and high standards of service. However, with the amount of price competition in the market It has re-launched its own-brand products and began price- matching Tesco on leading-brand products.

Waisco has recently begun to be drawn in to these price wars with lower prices and special offers becoming focal points for its stores. This emphasis on price leaves it in the following location on porter's model.



This current strategy has had several implications for a company such as Waisco. Firstly as cost leadership becomes the main strategy there becomes an increasing pressure on managing internal costs in order to pass on savings to customers.

This arises in several forms and can have a profound effect on the working environment and HR issues of a company. Waisco has experienced this by failing to replace departing staff which has put increased pressure on those that remain, this increased pressure has led to de-motivation of staff. These HR choices (typical of a cost reduction strategy) are described by Guest (1999) as Hard HRM strategy, this is where workers are viewed as resources to be exploited and is a growing characteristic within Waisco's planning and decision making.

The subsequent de-motivation of staff is described in Adams (1965) model of distributive justice. There are two variables: inputs and outcomes. 'Inputs' refer to factors contributed by individuals to the workplace environment. 'Outcomes' are the rewards provided by the organisation in exchange for individual inputs. Motivation is particularly affected if the comparison results in 'negative inequity' or the belief that an employee's greater effort is not being recognised by higher rewards. So by putting increasing demands on the current workforce for no extra reward, we are seeing the demotivation of Waisco's workforce and subsequent fall in quality standards.

With the focus of Waisco's overall aim on providing a quality service, these falling standards are of real concern and need directly tackled. The route of the problem is the companies shift towards cost leadership and we believe a complete overhaul of company strategy is required.

The simple alternative to cost leadership is a shift back towards a differentiation strategy. This would see Waisco distinguish what they offer from their competitors by providing distinctive levels of service and product. Waisco's recommended position is shown below.



This will see a shift in Waisco's culture to offer a more 'customer orientated' service. Bamberger & Meshoulam (2000) describes this as a change from process-based control, in which the focus is on efficiency and cost containment (The hard HRM approach seen above where focus is on managing and exploiting staff), to a 'outcomes-based control', in which the focus is on actual results(staff are offered freedom to make choices and are given the training and resources for which to do so) .

Having acknowledged that to achieve the organisational aims there has to be a shift in focus to acknowledge the vital role employees play in the future of the company. This report suggests that the following term should be the first point of reference in all future HR decisions.

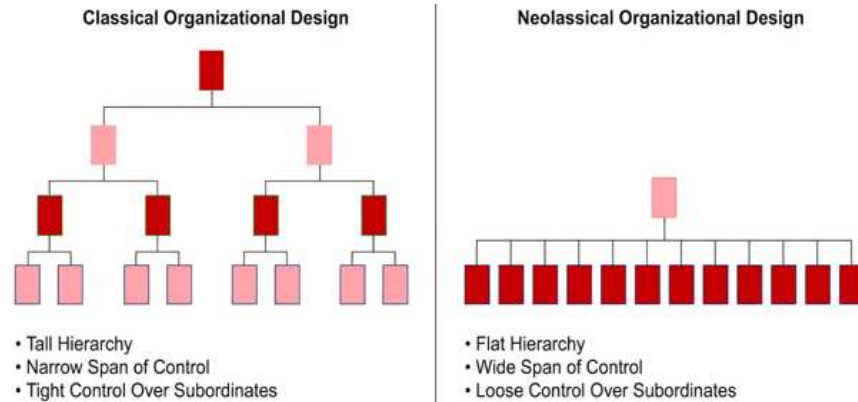
*"Employees must be treated as individuals if they are to perform as individuals and, as a result, provide the best possible service to our customers"*

This statement successfully recognises the importance of staff and will be the driving force behind future culture changes.

This change in culture has significant implications for the companies HR strategy and will affect a wide range of areas including business structure, recruitment, pay & reward, performance management and training and development. These areas will be focused on in this report with the aim of promoting the change in culture .

## Structure

The first suggestion will be changes to the organisational structure of Waisco. The existing set up is based upon a hard approach to HRM which has seen large numbers of senior management staff with a view to effectively managing 'resources'. The implications of this is that Waisco currently has a tall organizational structure which Fontaine (2007) states that Because there are so many levels of management , managers in a Tall Organization tend to have a 'Narrow Span of Control' and due to communication problems between stages , decision making tends to be 'centralised' (decision making is top down). The diagram below is an example of the two types of organisational structure discussed, in reality they are more complicated than shown however, and the diagram shows the basic principles of each.



Example of structure. Fontaine (2007)

This report suggests that Waisco's organisational structure should be chopped down to reflect a much flatter organisation. The advantage of this is that it facilitates de-centralised decision making much more efficiently. Decentralized decision making is a model in which the organization tends to push the decisions down to the lowest levels. Waisco should aspire to an "inform and involve" culture, rather than one of "command and control" as in the old days.

With decentralized decision making, the individuals who have to work day in, day out with the decisions are given a direct input in to the process (part of the inform and involve). These individuals are better suited to highlight problems or improvements and therefore, make quick decisions to alter the day to day running of the company. Decentralized decision making in supermarkets was highlighted in *Management Today* (Dec 1995, Pg54) when it highlighted Asda's attempts to improve bottom up decision making through a move away from weekly manager meetings to twice-daily 'huddles' where management and workers come together to discuss performance and plan future actions. They believed that not only did this empower members of staff but made management much more responsive to change.

In terms of Waisco this refers to the shop floor worker who is in contact with customers on a day to day basis and so, they are much better placed to make decisions that are sensitive to the customer. This can have two benefits for Waisco firstly; these decisions may help improve company performance directly. Secondly this empowerment of staff may motivate employees, which will then have benefits in other areas including performance standards and loyalty.

Another benefit of a neoclassical flatter organisation is improved communication between the different levels of authority. This means ideas and recommendations can flow more freely through the business. Not only this but removing the tall structure removes a large percentage of management as well. This has a significant impact on the wage bills of management which can then be passed on to the shop floor. An example of this in practice is rivals Asda, who had a management shakeup, was recently commented on by Bently (2008) "Asda is to create more than 2,000 shop floor jobs after cutting hundreds of management posts. The supermarket said plans to simplify its "complicated and bureaucratic" business meant it was now able to invest in 2,250 frontline customer service roles. David Smith, Asda's human resources director, said the new jobs would make the company's 279 stores more customer-focused. This is a perfect example of that Waisco

should be following and the change will help push the company closer to its Organisational goals.

### Pay & Reward

Pay and reward will play a crucial role in ensuring the organisational goals are achieved. As these aims put a significant emphasis on soft HR issues i.e. the staff it is vital that they as a collective group share the same vision for Waisco. In order for them to do so they must be motivated, this motivation can arise from various different areas but pay & reward will feature heavily in this sector.

Pay and reward however, should not just focus on motivation Armstrong (1999) argues that the reward strategy provides an opportunity to reinforce the organisation's values and beliefs in such areas as performance, quality, teamwork and innovation. This makes it a vital tool for any organisation and can be used in a variety of circumstances as shown below.

Objectives of reward system
<ul style="list-style-type: none"><li>• Attract and retain employees;</li><li>• Motivate performance;</li><li>• Promote skill and knowledge development;</li><li>• Contribute to corporate culture;</li><li>• Reinforce and define structure; and</li><li>• Determine pay costs</li></ul>
Adapted from Lawler (1996)

As Waisco is adopting a best fit approach to strategy Schuster and Zingheim (1993) states "This means that an organisation's reward system (and other practices) will be unique and should conceivably change with major adjustments to organisational strategy."

This suggests that as our organisational strategy has changed our reward system should change accordingly. The issues to be discussed in this section revolve around standard pay, profit share and recognition in the workplace.

The first area of discussion is 'standard pay' of employees and whether an increase in this area would promote motivation towards Waisco's values. Lawler (1996) states that pay should make the most valuable employees feel satisfied when they compare their pay with those received by individuals performing similar jobs in similar organisations. This suggests that the workforce will subsequently be motivated by an increase in pay; Waisco's current pay rate is similar to the industry standard so by lifting rates above this we will see the improvements.

However, the food retailing market with its low skilled work and no real shortage of new employees does not suit this approach. Lawler (1996) himself states that for some organisations, it is more cost effective to keep wages low and accept high turnover, especially if replacement costs are low as with unskilled labour.



Kohn (1993) looks deeper at this by suggesting that using pay as a motivator does not work as it does not alter underlying values and feelings of the staff. While Schuster and Zingheim (1993) suggest that there is a critical flaw in reward systems that use base pay as the main motivator because, the increases lead to a permanent escalation of operating costs that has generally no link to the financial situation of the organisation which can be extremely dangerous.

It is this view of connecting rewards to performance coupled with the nature of work which forms the conclusion of not altering pay of Waisco staff.

The advantage of linking performance to pay is explained by Pfeffer, (1998, p. 219) "The organisation itself can create an atmosphere where employees don't want to let their company or their colleagues down." By creating this link between an employee's actions and rewards they can see the direct benefit of their actions.

Waisco can create this link by introducing a 'Profit Share' scheme this, is where a percentage of the company's profits are returned to staff in the form of a lump sum reward at the end of the financial year. An example of this is Sainsbury's who earlier in 2010 announced that each member of staff would receive around £620 in profits; this was an increase of 17% on the previous year and Chief executive Justin King put the rise down to "good performance from all staff in difficult trading times". This scheme will make each member of staff directly responsible for not only the organisations performance but their own financial situation which is a powerful tool.

One possible problem with scheme's such as profit share is that encourages laziness after a period of time, as people feel they can rely on colleagues to cover their share of the workload. To counter this Waisco should look to introduce individual rewards and competition amongst groups of employees. Individual rewards could include employee of the month schemes where, incentives could include free gifts or extra holiday days for the employees judged to be high performers. By comparing performance between different sections of the store a healthy competitive environment can be created. Morrison's is one such company who employs this; they place leader boards in each store highlighting percentage change between departments, with the leaders receiving small awards. Norman Pickavance the group HR director paid tribute to these schemes as ensuring that departments 'kept their eye on the ball' in terms of performance.

Despite the various techniques discussed above being different in nature they all share one common goal, to align the workforce to the organisations aims. As these aims are achieved through performance of the workforce, it is crucial that the HR practices mentioned above have the purpose of motivating the individual to meet what is required of them.

### Training & Development

The motto that underpins all HR decision mentions the need to treat each employee as an individual in return for higher performance is directly addressed in this section. In order to achieve this the employee relations of Waisco are central to the company's attempts to ensure that staff turnover remains low, This is all part of the aim of a philosophy where maintaining service by retaining staff and allowing them to develop their abilities, rather than

having to continually train new staff -members. Therefore, Staff retention is highlighted as a crucial area in ensuring the success of training and development within Waisco.

Supermarkets have significantly contributed to a rise in retail employees achieving vocational qualifications in the past year. One training scheme that has become increasingly popular amongst the retailing sector is the retail apprenticeship scheme. Recognising and rewarding employee's progress at work is extremely important and these allow employees to gain vocational qualifications while enhancing their skills. Competitors such as Morrison's, Tesco, Sainsbury's and Asda have all invested in these schemes with Morrison's reporting staff turnover having fallen from 38.3% to 22.5% in the past 12 months and 95% of its general managers being promoted internally. Their HR director commented "Our apprenticeship programme has led to improved retention rates, motivating staff who are able to provide excellent service to customers and improved business performance." It is important to note though that employees engage in relevant areas of qualifications as Morgan (2001) believes that training will produce positive returns only if the trained workers are then given the environment and setting to employ their skills.

This scheme fits directly into Waisco's strategy, improving performance of members of staff, providing them with qualifications which in turn will lead to increased motivation amongst the workforce with higher staff retention rate and a better standard of service for the customer following.

### Recruitment Policy

The recruitment policy for Waisco will be significantly affected by changes suggested above surrounding the structure of the organisation.

Firstly graduate recruitment will be cut significantly in order to reflect the number of management & other roles available. However, the recruitment procedure should be intensified in order to ensure that only the best candidates are selected. This is a point made by Morgan (2001) when he states that long-term commitment can be achieved through more rigorous recruitment and selection. As well as commitment this will ensure that the company recruits only the most suitable candidates who will increase the overall performance of the business.

Although management positions will be cut, a shortfall will still exist due to the reduction in graduate recruitment this, should be filled by encouraging internal recruitment. Not only will this increase management's ability to stay in touch with workers at the shop floor level but also serve as a motivational tool to members of staff offering the potential of promotion in return for good performance.

### Conclusion

Waisco as a result of the economic downturn has suffered from a confusion of identity by trying to please a wide customer base and has succeeded in pleasing none. The plans outlined above offer a clear identity for Waisco, its customers and its staff.

For Waisco and its customers they now have to offer a clear position in the market place which is as a bastion of good quality produce provided by top of the range service 'with a personality derived from the heart of the company'. For Waisco's staff the aim is to transform the old culture, which had grown autocratic and slow-moving, to one where all members of Asda feel involved in improving the business. The old culture had become cumbersome and over bearing on members of staff which had resulted in rise of the trade union. These HR measures coupled with a voluntary acceptance of a trade union could go a long way to assuring staff and avoiding potentially costly legal battles.

By adopting a best fit approach to HR policy, these aims can be met efficiently & effectively and offering a real opportunity for Waisco to 'Shape up for the Future'.

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