Ten things you need to know about people

Ian Marcousé provides a framework of ten people concepts that you can base your revision around

1 Asset or cost?

Most firms say their staff are a key asset, but often treat them as a cost to be minimised.

Example: Amazon’s vast distribution depots rely largely on temporary staff paid the minimum wage, who need to avoid three ‘points’ or risk being sacked.

Advantage: treating staff as an asset provides an opportunity to get great things out of them, e.g. Jonathan Ive, head of design at Apple.

Disadvantage: treating staff as a cost means they will do no more than enough to get paid. Treating staff as an asset might cause some to take advantage of their job security.

2 Centralisation

Bringing decision making back to the centre, i.e. the head office.

Example: In 2013 convenience grocery group Londis centralised the buying of its frozen foods. It invested £4 million in refrigerated lorries, but found that gross profit margins rose by 2% and sales volumes by as much as 300% as a result of its initiative (and centralised buying power).

Advantage: helps ensure consistency across a range of branches, e.g. McDonald’s. This is important to the consumer, who wants predictable quality, service and prices.

Disadvantage: reduces the amount of responsibility held by individual branch or area managers, which may reduce their motivation.

3 Charismatic leadership

A leader whose authority is based on a strong, compelling personality.

Example: David Cameron’s rise to lead the Conservative Party (and the UK) was based on his bright, youthful aura and skill as an orator.

Advantage: charisma attracts followers who are committed to the leader’s cause.

Disadvantage: leadership based on charisma needs to shift to leadership based on successful decisions and a fine track record (former Manchester United manager Alex Ferguson — yes; David Cameron — no).

4 Empowerment

Moving beyond delegation of authority to give staff the power to decide on goals as well as strategies.

Example: In the late 1960s Associated British Foods (ABF) allowed middle manager Arthur Ryan to start a new discount clothing business. Today Primark has sales of £4 billion and the business contributes nearly half of ABF’s profits.

Advantage: many people thrive on responsibility, especially if they have the freedom to decide on their own targets rather than have them dictated by senior management.

Disadvantage: in the banking sector, too much freedom led to dealers such as Nick Leeson and Kweku Adoboli making huge losses.

5 Incentives

Incentives are used to encourage staff to behave in ways desired by an organisation’s management. They are usually financial, e.g. commission or bonus payments.

Example: in 2013 Lloyds Bank was fined £28 million and blamed by the Financial Conduct Authority for ‘creating a culture of misselling’ among the bank’s sales staff through its incentive schemes.

Advantage: financial incentives will regulate the behaviour of staff, focusing them on the firm’s objectives.

Disadvantage: the results may follow the ‘law of unintended consequences’, creating staff behaviours that no-one wanted at the outset.

6 Morale

Morale indicates the confidence and enthusiasm of an individual or group at a point in time.

Example: when morale is high, everything seems possible, however improbable. When morale is low, success may seem impossible to achieve.

Advantage: high morale can get a team through a phase of difficult results.

Disadvantage: high morale may prove to be a distraction from underlying problems. This may have been the case at Tesco’s US Fresh & Easy division.

7 Motivation

Motivation was defined by Professor Herzberg as ‘doing something because you want to do it’, i.e. not because there’s an external reward such as a bonus (he called this ‘movement’).

Example: Arsenal FC manager Arsène Wenger is so motivated that he spends his evenings watching videos of other football matches when there are no games to attend.

Advantage: Herzberg stresses that motivated employees will work harder and smarter than is needed to hold down their job, because they want to.

Disadvantage: a motivated employee may love the job in an idiosyncratic way and therefore not achieve the organisation’s objectives.

8 Retention

Retention measures the proportion of staff who stay within the business. It is the residual left after labour turnover has been allowed for, e.g. 20% labour turnover gives 80% staff retention.

Example: a 2013 Australian report shows a rise in labour retention to 87% from 81% 5 years ago. The report says that the two biggest retention problems are lack of promotion opportunities and poor relationships with managers.

Advantage: high retention leads to experienced staff with a full understanding of the methods and culture of the organisation.

Disadvantage: high retention may mean a lack of new, forward-thinking staff who might inject new ideas into the workplace.

9 Teamworking

Teamworking means organising jobs so that people can work together and interchangeably (instead of high division of labour and specialised job functions).

Example: Brompton Bicycle switched from linear to cell production in 2011 to enable staff to work together to produce and assemble the bikes.

Advantage: less reliance on specialisation may reduce job dissatisfaction (even alienation) and help generate not only improved productivity but also more employee suggestions from the shop floor.

Disadvantage: it may be harder to hold individuals to account for underperformance.

10 Zero hours

An employment contract promising nothing. The hours being offered for the next week may only be announced on the Friday before.

Example: retail chain Sports Direct keeps almost all staff on zero hours contracts, apart from head office managers, who receive salaries and share options.

Advantage: firms benefit hugely from zero hours contracts because they convert staff from fixed costs to variable costs (just like buying in raw materials or components).

Disadvantage: lack of job security may undermine staff morale and commitment. Zero hours staff may be denied access to benefits associated with salaried work, such as mortgages.