ORGANIZATIONAL CULTURE CHANGE BY HRM TECHNIQUES IN BRITISH CORPORATIONS

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Abstract:

This study develops a theoretical framework that explains the interaction between firms in the manufacturing and service sectors, and the role of such interactions in influencing FDI spillovers and the performance of indigenous firms. We test our framework using a firm-level panel dataset of 1230 UK firms. We find strong evidence indicating that the performance of firms operating in manufacturing industries is a function of the external knowledge generated by foreign investors in the service industries (and vice versa). We demonstrate that the performance effects of inward FDI are not limited within a given sector (manufacturing or services) but manifest themselves across sectors. This points to the importance of distant knowledge in improving performance and provides an explanation as to how the right balance between manufacturing and services sectors may improve firm performance within a given economy and accelerate the effects of inward investment.

Keywords: *manufacturing-service interaction, FDI spillovers, technology transfer, servitisation*

1. Introduction

Today, the uncertain and unpredictable business environment leads to changes in organisations, including cultural change that can help organisations improve their performances and productivity. Bate (1994) cites that perceptions, attitudes, and social relationships between individual members of the organisations must be included in cultural change. Because culture change includes all individuals within organisations, human resource management (HRM) plays an important role in changing culture with its emphasis on the way to win 'hearts and minds' of employees (Legge, 2005). Thus, cultural change programmes in organisations can be implemented by utilising HRM techniques (Watson and Green, 1996). Therefore, this paper will critically discuss the use of HRM techniques in programmes of cultural changes in some British organisations to find out how

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they used them to change their culture as a lesson for other enterprises.

This paper is divided into four parts; apart from this section, the second reviews the literature of what cultural change is, why organisations have to change their culture, what are programmes of cultural change, and what HRM techniques for cultural change are. The third part is the discussion of the use of these HRM techniques in cultural change programmes in organisations which focuses on some key levers for cultural change; and the conclusion is drawn to sum up the main points of this paper.

2. Literature Review

What is Cultural change?

According to Porter and Parker (1992), cultural change is often seen as the attempt to 'renew, revitalise, change a large scale system, transform, or re-engineer' in order to change the way work is done and commitment of employees to the organisation. The stronger the culture of an organisation, the higher level of employees' consensus within this organisation (Payne, 1990). However, this concept is criticised to be pragmatic. Green (cited in Bate, 1994) argues that this view considers organisations are based on a unitary framework and common tasks and values are key things to bind them together. The culture of an organisation is constituted by all individuals within the organisation (Smircich, 1993). In addition, Bate (1994) also argues that all individuals' attitudes, perceptions and social relationships between individuals within organisations must be included in cultural change.

Schein (1985) states that cultural change can be achieved by behavioural changes which can also lead to values change. However, according Gagliardi who cited in

Ogbonna (1992), behaviour and attitudes can change, but core values are not easy to be changed. Ogbonna (1992) also argues that the targets of cultural change are employees' attitudes and their commitment rather than 'resigned behavioural compliances'. Thus, to avoid only emphasizing changes in behaviour, another way to define cultural change is: "it is a change in attitude towards the same aspects overtime" (Conell and Ryan, 1998: 132).

What are the programmes of cultural change?

Martin et al. (1998) represent the main features of a cultural change programme. First, 'winning employees' hearts and minds' was the basic belief of these programmes. Second, the roots of these programmes were taken from 'the view of culture as something organisations have. Third, they aim to 'constitute new identities' for all individuals within organisations in order to align with the organisational 'visions and values'. Fourth, they emphasized on leadership. Fifth, 'employee empowerment' initiatives should be employed. Finally, the main way of changing employees' values and attitudes is through HRM policies. However, there are criticisms of these programmes. Meek (1998) argues that culture should be seen as what organisation 'is', not what it 'has', it cannot be 'manipulated', 'turned on and off'. In addition, Cummings & Worley (2005) points out that the stronger and the more specific the culture is, the harder it can be changed. Thus, cultural change is not easy and takes time, but why do organisations have to change their culture? The following part will represent some reasons.

Why organisations have to change their culture?

There are some main causes that lead to cultural change. Firstly, Luthans (1989) and

Burton and Obel (2004) argue that organisations have to change their values because of the changes in the business environment (both macro and micro-environment) which affect the performance of organisations. Specifically, cultural change is needed when organisations see the signs of decreases in efficiency and performance such as financial loss, low productivity, or low degree of commitment (Robbins, 1993). Therefore, organisations need to change to ensure their survival and adaptability when the old culture is weak and cannot help organisations to respond to the changes in environment. Secondly, according to Schein (1985), organisations also need to change their culture due to different stages of organisational development (including establishment and early development, growth, and maternity stages). For example, in the growth stage, organisations need direction, so subcultures with acceptable values can be chosen to change the culture (Kulvinskiene and Seimiene, 2009). Amstrong (2001) argues that all changes aim to be better, so all employees should be involved to give new ideas to their organisations.

Because culture involves all individuals, as mentioned above, HRM plays an important role in cultural change, and HRM techniques can be used in programmes of cultural change in organisations. So what are HRM techniques for cultural change?

HRM techniques for cultural change

According to Legge (2005), there are 3 types of programmes of cultural change with HRM techniques. The first type is re-education programme which includes: communication, quality management, training and development. The second one is re-placement programme which consists of selection, promotion, and redundancy. These programmes aim to make sure that people within an organisation have the right value that the organisation needs. The third type is called programmes of re-organisation including new structure, appraisal, and reward system which aim at re-orientation.

Similarly, Guest (1987) also defines HRM techniques for cultural change as follows:

Figure 1 . HRM techniques for cultural change

1. **Organization and job design**
2. **Policy for mulation and implementation/ management of change.**
3. **Recruitment, selection and socialization.**
4. **appraisal, training and development.**
5. **Manpower flows - through, up and out of the organization.**
6. **Reward systems.**
7. **Communication systems.**

(Source: Guest, 1987)

It is argued that HRM techniques can reconstruct, constitute employees' values, and re-define the competences of a better employee in an organisation. For example, the requirements of positions within organisations which are defined in job descriptions, the criteria of selection applicants for the jobs can demonstrate which competences and personalities of employees that organisations expect them to have. Additionally, through the centrality of empowerment, employees are encouraged to develop and enhance their talents, initiatives, and potential. However, according to Hale (2000) and Wilkinson (2005), even though empowerment helps in improving their contributions to their organisations, power and authority sharing is rare. Moreover, not all employees welcome empowerment. Legge (2005) argues that it is difficult for employees to involve in 'designing and

implementing empowerment programmes'. He also cites that entrepreneurial values which are encouraged by cultural change programmes can go along with 'strong leadership'. These disadvantages may lead to the concern of employees about the credibility and legitimacy of these programmes.

These above reviews can provide a critical approach to understand HRM techniques and cultural change programmes. From that point, the next part will give a critical discussion about the use of HRM techniques in programmes of cultural change in organisations, focusing on some main techniques including recruitment and selection, performance appraisal, reward and training and development which are also main functions of HRM and are considered as key levers for cultural change.

3. The use of HRM techniques in programmes of cultural change in British corporations

Recruitment and Selection

Recruitment and selection is considered as one of the key levers for cultural change. Recruitment and selection aim to choose new employees for organisations, so it is argued that when new people come (or go), there is an opportunity for organisations to change their culture (Keyton, 2005). He also argues that new employees can make a significant change in culture, and it also depends on the number of new staff in comparison with existing ones. Similarly, Williams et al. (1993) points out that recruitment and selection have a big impact on the culture of new comers which also influences powerfully on employees who have been already working in the organisations. In addition, the induction which emphasises reinforcing the values and behaviour that organisations expected can help the new culture to be managed (Watson and Green, 1996). So, how can recruitment and selection be used in programmes of cultural change? Through recruitment and selection processes with job analysis, person specification, and selection criteria, the profile of 'ideal candidates' is redesigned, and there is also a shift from ability to perform a particular job to broader competencies and potentials. To support this view, Brannan and Hawskin (2007) argue that recruitment and selection should ensure 'organisational fit' rather than 'job fit'. To be fit, candidates are required to have the right behaviour, skills, knowledge and competences that organisations expected in order to be able to perform successfully. For example, IBM in the UK defined a set of competencies that they require applicants to have which complement their values and indentify skills that applicants need to have to be successful in IBM. This aims to a culture of inspiration, support, and collaboration in IBM. These competencies are shown in Figure 2 as follows:

Figure 2. Core competencies defined by IBM, UK
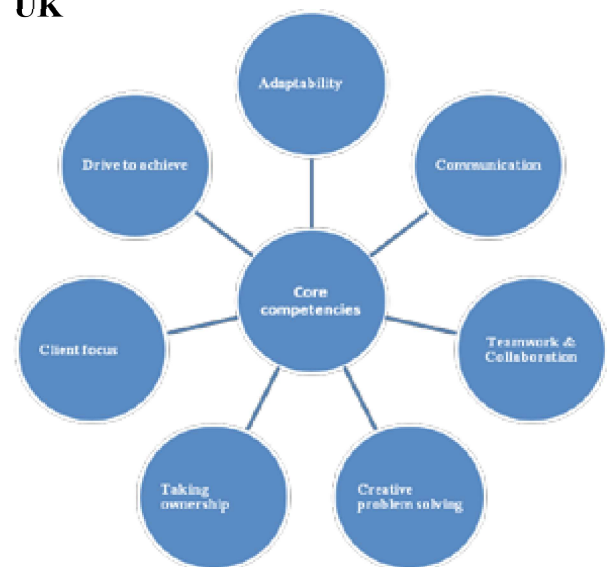
(Source: IBM, UK Recruitment, 2011)

Nevertheless, there are some arguments against the use of selection in cultural change. First, it is argued that redesigning 'ideal candidates' can reproduce senior managers' self-image or bias. Zwanenberg and Wilkinson (1993) argue that when the profile of 'ideal candidates' are redesigned, senior managers may make it subjective and mysterious. Kanter (1977) also sees this problem as 'replication of managers' as the same kind of social individuals. Claringbould and Knoppers (2007) argue that senior managers such as the management board can use recruitment and selection methods as a way of reproducing themselves to be a 'dominant group'. They give the example of the boards of the Dutch sport organisations; they tried to employ women on their boards to prevent the bad image of having all men on the boards; however, they paid little attention to this especially when there were only one or two women on their boards to influence changes. Thus, it can also lead to the concern about equal opportunity to all candidates. Second, there are some ethical issues of conformity in the selection process. When recruitment and selection processes define 'ideal candidates' to be employed to embody the organisational culture and image, Goss (1994) argue that particular types of personality are constructed and normalised. This issue is seen as 'social engineering' in order to conform with organisations. These above disadvantages may affect the cultural change in organisations. However, it is difficult to deny that recruitment and selection are one of key levers for cultural change.

Performance Appraisal

Another HRM techniques that can be used in programmes of cultural change is appraisal. Generally, performance appraisal aims to ensure that required standards are matched and performed by employees. In performance appraisal, it is necessary to define criteria to evaluate employees' performance. Performance appraisal includes setting aims and expectations of an organisation for the whole organisation as well as all individuals within the organisation. The criteria may focus on traits, important personality characteristics and competencies, which can help employees perform the job such as reliability, creativity, enthusiasm and communication skills, conceptual skills, adaptiveness, etc; or behaviours which employees need to perform when they do the job; or outcomes of the jobs such as sales, productivity or customers' satisfaction. Watson and Green (1996) argues that the appraisal can send 'strong cultural messages' about which behaviours are acceptable. Thus, to change the culture with new values, an organisation can define them in the criteria of performance appraisal which can help re-orient employees within the organisation (Legge, 2005). One example of using performance appraisal in cultural change is BP (British Petroleum) in the 1990s. Horton – CEO of BP states (cited in Bach and Sisson, 2000) that BP new culture is labelled "Open" which includes 'Open Thinking, Personal Impact, Empowering, and Networking'. To support this cultural change, BP revised their appraisal process which allowed employees to suggest to managers ways of achieving goals; this was called "Upward Process". In addition, confidential feedback to managers' performance could be given by employees. This aimed to make sure that managers performed behaviours that related to the developed culture in BP.

However, performance appraisal is criticised to be not objective in practice and may include bias. Redman (2005) argues that it is questioned about the accuracy of performance evaluation because of many distortion. This leads to negative effects on employees' credibility to the performance appraisal, thus, it can impact negatively upon the culture. For example, some organisations such as Ford Motor and Microsoft had to face the litigation because of lower ranking old, minority and female employees. Another negative impact of appraisal is that appraisal which focuses on individuals rather than teams or groups may create negative competition and a harmful environment in the workplace which impede cultural change; for instance, one of the failures of Enron Corporation because of relative ranking. Moreover, Bowler and Coates (1993) point out that actual performance of employees may not be evaluated via appraisal because of creating favourable impressions or suitable images that organisations expected. For example, an employee sends messages to the manager late or leaves the coat at the office to show that he or she is hard-working and committed to the job. Anyway, despite these criticisms, appraisal is still used in cultural change such as in BP as mentioned above. Additionally, performance appraisal is also used to reward staff which is another technique in cultural change.

Reward

Reward is also one of HRM techniques that can support cultural change through the payment systems that organisations use. In this part, I want to focus on performance related pay (PRP) because of its significance. Amstrong (2001) suggests that PRP is a lever for cultural change. Kerr and Slocum (2005) believe that organisational culture can be modified successfully if the reward system is considered carefully. They argue that the values and norms of organisational culture can be reinforced by reward systems, as a result, reward can be used as a way of sending messages to employees within an organisation about desired behaviours and attitudes. Specifically, Lewis (2005) argues that PRP or merit pay has some objectives and one of them is to assist organisations with cultural change. Similarly, Amstrong (2001) cites that cultural change can be achieved by PRP because it encourages employees to focus on key objectives and enhances accountability; however, if the shift is too rapid, it may lead to a failure. Employees are paid based on their performance, they get paid for what they give, so they know what can help them to be paid. Therefore, through this method, organisations message to employees what to do, which values they want to promote, and which competences they want their staff to have.

Although PRP can shown its support in cultural change, it is still disapproved because of several reasons. Firstly, according to Lewis (2005), in fact, performance and motivation are affected inconsiderably by PRP. If the pay rise of high performers is not much different from low performers, it will demotivate employees who perform well. As a result, it will lead to a 'culture of fear' and conformity in which employees focus on only what they are encouraged to focus upon and may concentrate less on other objects, they do not want to be innovative. Second, if performance of employees is not connected to their reward, they will not trust this programme (Kressler and Purcell, 1992). Thus, it creates a bad feeling in employees within the organisations

which can affect the culture. Third, because of relating to performance appraisal, PRP may have a similar disadvantage with appraisal which is co-operation and teamwork discouragement and negative competition dangers (Storey and Sisson, 1993). Finally, the assumption of PRP about motivation force is too simple. It is argued that money is not the only way to motivate everyone. Some people are interested in other factors. For example, many people who work in fashion such as fashion designers want to do that job because it is their interest, their dream, or their desire. Therefore, if employees and their desires are not understood well, reward cannot re-orient them to change the culture.

One example of using PRP to change the culture is Finbank (a high street bank) which was cited in research of Lewis (2000). This bank wanted to change its culture from 'bureaucracy to openness', from an inertial system to a dynamic one, and from 'efficiency to effectiveness'. Lewis cites that PRP played an important role in cultural change in Finbank that it included new values and assumptions which are described in Figure 3 below.

However, the promises of the PRP systems were not fulfilled with a decrease in the amount of money in pay. In addition, managers were not happy with the way of setting the goals of their performance, and they were also not satisfied with the lack of openness in performance feedback and the failure of communicating information about the awards. As a result, this creates a lack of trust in the systems.

Figure 3. Finbank's PRP with values and assumptions

Symbol	Value to be created	Underlying assumptions to be challenged
Changed basis of pay from "rate for the job" or length of service to individual performance	Necessity for Finbank managers to be "achievers" Greater sense of fairness by paying high performers at a higher rate than lower performers	The bank values loyalty Experience deserves higher pay because will lead to better job performance The bank will pay the same to all, regardless of performance
Clear goals set for performance consistent with business goals	Finbank managers to be goal-directed and key part of the organisation	Finbank branch managers are isolated from the organisation – only senior managers are concerned with corporate goals
Managers who monitor employee performance	Implementing managers must "manage" – all employees must be more performance conscious	Implementing managers are technical experts first and people managers second
Pay as an individual aspect of the employment relationship	Self-reliance in managers – not all managers are the same	Union is responsible for determining pay: it is the responsibility of someone else
Pay increases have to be justified by individual and organisational performance	Greater awareness of labour costs from all employees	The bank can always afford increases in pay

(Source: Lewis, 2000)

Training and development

Another HRM technique to be used in programmes of cultural change in organisations is training and development. Training and development has been considered as a method for HRM to demonstrate its capacity of dealing with change, including cultural change. Organisational objectives should be integrated in training and development; for example, it can be used as a programme of cultural change (Gibb and Megginson, 2005). Thus, cultural change can be achieved through training programmes. Indeed, employees can trained with knowledge, skills that organisations expect them to have. To support cultural change, training programmes add values, necessary skills to help employees to improve. An example of using training and development programmes to achieve cultural change is British Airways (BA) in the 1980s which was given in the research of Grugulis and Wilkinson (2001). BA faced a lot of difficulties at the end of the 1970s and the beginning of the 1980s such as financial loss, low productivity in comparison with its rivals, and customer dissatisfaction. This led to the need of cultural change at BA. Then, a training programme named 'Putting People First' was implemented in 1983 with the aim at revolutionising employees' attitudes and modifying their behaviours. The content of this training programme was how to set up personal goals, how to deal with stress and build confidence. Simultaneously, there were the commitment of the executives; the CEO of BA at that time attended most of the courses, and his appearance became the symbol of the new culture at BA. As a result, BA overcame the difficulties and became the most profitable airline in 1997; BA was also the most favourite destination of most graduates; and in 2000, BA got the second position in the list of most admired companies in Europe. In this case, training programmes show their advantages in supporting cultural change.

However, training is criticised for its complex relationship with performance and commitment. Antonacopoulou (2001) argues that when objectives are competed with priorities, training may lose its effectiveness in improving performance. In addition, the benefit of employers and employees within an organisation in training may incompatible. Antonacopoulou also cites that employers tend to implement training programmes which support certain objectives or keep employees within their organisations rather than programmes that enhance their credentials to be competitive in the labour market. Although there are still several arguments against training, it is still a lever for cultural change, especially in the case of BA mentioned above.

The above discussion has mentioned some main HRM techniques that are considered as key levers for cultural change and 'a messenger for change' (Watson and Green, 1996). Besides, there are some other techniques that can be used in order to support cultural change in organisations such as communication through meetings, surveys, organisational publications, groups, information sharing sessions, etc; promotion and redundancy (Legge, 2005); or manpower flows (Guest, 1987). From the above discussion, it can be seen that these techniques have been used to support the cultural change in many organisations to help them improve their productivity and respond effectively to the changes in the business environment to survive and develop, and to obtain competitive advantages (Watson and Green, 1996). Each

HRM technique has its own disadvantages, but obviously, these techniques can support cultural change in organisations effectively.

Conclusion

To sum up, this paper has reviewed several previous researches of some authors about cultural change and the use of HRM techniques to achieve the change in culture in organisations. From this literature review, this paper gives a discussion about some main HRM techniques that can be used in programmes of cultural change in organisations including recruitment and selection, performance appraisal, reward, and training and development. It can be seen that these techniques have shown their advantages in supporting cultural change through several examples in practice such as British Airways,

IBM, and British Petroleum. Cultural change requires the involvement of individuals within an organisation, and HRM techniques affect all employees in an organisation, thus these techniques show their strengths of re-education, replacement, re-orientation, or re-organisation which can impact on employees' behaviours, attitudes and values. As a result, these impacts can support cultural change within organisations. Although there are still some arguments against the usefulness of these techniques, it cannot be denied that cultural change in organisations can be achieved successfully without these HRM techniques. Therefore, it is necessary for organisations to understand both advantages and disadvantages of these techniques to use them effectively in programmes of culture change.❑

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