Strategic Human Resource Management

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Section I
Strategy and Human Resource Management

Chapter 1

Strategic Human Resource Management: An Overview

In this chapter, we will discuss:

- Introduction to Strategic HRM
- People as Strategic Assets
- The Process of Strategic Management
- Value Chain Analysis
- Challenges for HRM

Colgate-Palmolive, the world leader in personal care and household products, had a long product line. As a result, it became difficult for the company to keep track of its operations. The company decided to restructure its operations into five divisions to make its operations simpler. The divisions were: oral care, personal care, hard-surface care, fabric care and pet nutrition. But as the company adopted new business strategies, it discovered the need to bridge the gap between business and human resource strategies. Hence, the company created human resource strategies that were aligned with business strategies. The company created a Global Human Resource Strategy (GHRS) Team by way of which it created a partnership between senior line managers and human resource leaders. The main objective of the GHRS Team was to team up with the management to build organizational excellence.

The alignment between HR and business strategy helped the team to identify several areas where business managers needed the support of the HR function. One such area was career planning. The Colgate Palmolive example illustrates the importance HR has assumed in the formulation of organizational strategies. Today, human resource management has become more interdisciplinary in nature because of its alignment with the strategic goals of the organization. The reasons for the changes in the human resource management are the changing business environment and technology. Corporate strategies, new organizational structures, the quality of management all have played an important role in making human resources an integral part of the organizational structure and strategy.

The chapter focuses on the significance human resources has gained in the present day business environment, the changing role of a human resource manager and the importance of strategic human resource management.

INTRODUCTION TO STRATEGIC HRM

In today’s organizations, HR managers have to contribute to the development and accomplishment of the organization's business plan and objectives. The objectives for HR are framed keeping in view the overall plan and objectives of the organization. For this the HR manager should be knowledgeable about the work systems in which people succeed and contribute. This linking of HR with other disciplines of the organization has an impact on HR functions such as the design of work positions; hiring; reward, recognition, performance development and appraisal systems; career and succession planning; and employee development. In his book, *Strategic Human Resources Management*, Jeffrey A Mello, defines Strategic Human Resource Management as, "the development of a consistent, aligned collection of practices, programs and policies to facilitate the achievement of the organization's strategic objectives."

PEOPLE AS STRATEGIC ASSETS

The definition of strategic human resource management (SHRM) clearly explains the importance of human resources in the implementation of strategies. To attain the strategic goals of the organization, employees must first understand and share the values and objectives of the organization. There is a need for a committed workforce who can work effectively and contribute to the overall performance of the organization. Human resources if managed effectively can become a competitive advantage. Therefore it is the responsibility of the management to recruit, develop and train employees with appropriate skills. Employees should be committed, competent, and their objectives should match the overall organizational objectives. This is possible if an organization develops effective policies for recruitment, selection, training and development. The challenges that organizations generally face in developing people are:

- Integrating people with the strategic goals of the organization.
- Managing employees effectively

Integrating People with the Strategic Goals of the Organization

One of the important tasks facing the present day managers is integrating people with the strategic goals of the organization. Various HR functions can be developed to align with the goals of the organization. Exhibit 1.1 explains how Wipro aligned employee development with organizational goals

Exhibit 1.1

Wipro's Initiative to Align Employee Development with Organizational Goals

As a step towards strategic human resource management to become a business leader in the competitive environment, Wipro has initiated a system called the People Capability Maturity Model (PCMM). According to Rajesh Sharma, Manager, Talent Engagement and Development, PCMM is an effort to align employee development with the business objectives. The model integrates people, processes and technology to help gain market supremacy. The company is promoting PCMM as a core corporate strategy. This implies that HRM will be aligned with all the key business initiatives. Let us take a look at the process. The process has five levels:

- Level 1 called 'Initial' where the thrust will be on enhancing the established practices in people management.
- Level 2 called ‘Repeatable’ focuses on the tailored initiatives by HR dept to enforce competence management.
- Level 3 called 'Defined' emphasizes team management that will be facilitated through measured and aligned people practices.
- Level 4 is ‘Capability Management’ followed by Level 5 called "Optimizing' where the effort is to continuously improve the practices.

At the level 2, managers take the responsibility of managing and developing their people through a host of unique approaches in compensation, training, performance management, staffing, communication and work environment. As a part of the PCMM implementation, there are competency-based training programs that are in action at Wipro. There are customized training programs and one of that being domain Specific Competency Programs (DSCP). In the training, the professionals are made to hone their skills to deal with different group of clients. This becomes essential as the clients are into specialized business like Finance or Retailing. Therefore, professionals who have to deal with the retail clients are trained on information related to retail.

Also, the company tries to optimize the time by lending the campus recruits a password and technological process by which, at a given time they can log on and undergo online chat sitting at their residence. This helps employees to perform from day one. Wipro has created a transition in the way people are managed with the help of PCMM implementation.

Adapted from "Wipro’s PCMM Initiative to Align Employee Development with Organizational Goals" The Financial Express, 6th March 2002.

Organizations should identify people who can work by aligning their personal goals with organizational goals. Recruitment should be done keeping in mind the short term and long term objectives of the organization and the employee's contribution to the organization. Organization's also have to take into account the developmental needs of the employees to train them effectively for achieving strategic objectives. Performance appraisal should be a part of the management development program.

Appraisal programs help the management to determine the suitability of a particular employee for a particular position. It also helps in identifying the developmental needs of employees and provides a basis for determining the rewards. For appraisals to be effective, the appraiser should be unbiased and objective. Rewards should be such that it motivates the employees to perform better.

The next important step in managing people is making them work effectively as members of the team. Team building increases the effectiveness of an organization. For a team to be successful, team members have to have shared and agreed objectives, effective communication, and the ability to coordinate both tasks and team members. A team performs effectively as it consists of people with different skills, abilities, talents and ideas. Teamwork can bring about creativity and new ideas to the project being developed. However, if the team members are not committed or lack cooperation, then the team may not perform up to the expected standards. Leadership also plays an important role in building and leading the team. A leader can act as a facilitator who can assess the strengths and weaknesses of the team and help employees develop in accordance with the strategic goals of the organization. It is important for the leaders to motivate and develop the members of the team.

Present day organizations need the involvement and creativity of the employees at all levels. Apart from money and position in an organization, factors such as recognizing the efforts of the employees, providing job satisfaction and giving them new responsibilities will ensure better performance. Better performance can also be achieved by empowering them and making them accountable for their performance. The role of leader is to understand his subordinates and identify factors that encourage employees to perform effectively in their job. According to McClelland, people have three needs that vary from individual to individual. They are the need for achievement, the need for power and the need for affiliation. Managers should analyze how their subordinates identify themselves with these needs. This will help them clearly understand the factors that motivate employees to perform.

Management by objectives (MBO) is very useful in integrating people with the goals of the organization. MBO is used to identify the quality, quantity and the time period within which to complete the work. MBO also requires the employer and the manager to meet regularly to review the status of the work performed. For MBO to be successful employees and subordinates should have goal congruence to perform effectively. In simple terms, the objectives of the management should be aligned with the departmental or functional objectives of the firm. MBO is important for a firm as it helps employees align their strategies with the strategic goals of the organization. It measures employee performance against the objectives set by an organization. According to the results, performance measures are used to modify and redefine future objectives. Though MBO is useful in increasing strategic awareness, it has its own drawbacks. Sometimes, managers who frame the objectives may not be involved in the project and this may lead to difference in ideas between the employees and the management. An alternative to MBO is performance management systems. Performance management system evaluates the performance of the employees in the job and analyzes the areas of development. It also makes an assessment of the individual strengths and weaknesses of the employees in the job.

Managing Employees Effectively

An organization that plans to constantly innovate and grow should have a capable leader who can guide it towards strategic goals. Strategic goal can be attained through constant innovation, entrepreneurship and quality improvements. Until and unless a leader is strategically oriented he cannot orient the employees towards these goals Leaders should also empower employees so that they are free to come out with innovative ideas and practices. According to Peters[1] and Austin (1985) a leader with vision, enthusiasm, passion and consistency is

- More customer-oriented and attentive to the needs of the customers and believes in innovation and creativity to tackle competitive pressures.
- Expects quality from employees. For this he trains employees, encourages creativity and involves them in the decision-making process and motivates them. Most of the successful companies deliver quality by involving the entire workforce in the decision-making process.

The role of HR manager has assumed significance as he has to manage people keeping in view the strategic objectives of the organization. This includes expertise in fostering a work environment where people will be motivated to work and contribute to organizational goals. The HR manager fosters effective methods of goal setting, communication, and empowerment and helps to build employee ownership of the enterprise. Further he helps to establish the organizational culture where people have the competency, concern, and commitment to serve customers well. In this role of integrating people with the strategic goals of the organization, the HR manager provides employee development opportunities, employee assistance programs, profit-sharing strategies, organizational development approaches to problem solving, and regularly scheduled communication opportunities. People are thus an important strategic asset and they can create and sustain a competitive advantage through quality training, entrepreneurship and leadership. An effective leader will always be successful in encouraging people to contribute ideas.

THE PROCESS OF STRATEGIC MANAGEMENT

It is important to understand the process of strategic management, to clearly understand the role human resources play in strategically directing an organization. Strategic management is the process of formulating and implementing strategies that will help in aligning the organization and its environment to achieve organizational objectives. Strategic management does not replace traditional management activities such as budgeting, planning, monitoring, marketing, reporting, and controlling. Rather, it integrates them into a broader context, taking into account the external environment, internal organizational capabilities, and an organization's overall purpose and direction (Refer Figure 1.1).

There are five stages in the strategic management process. They are:

- Defining the mission statement
- Analyzing the environment
- Organizational self-assessment
- Establishing goals and objectives
- Formulating strategy

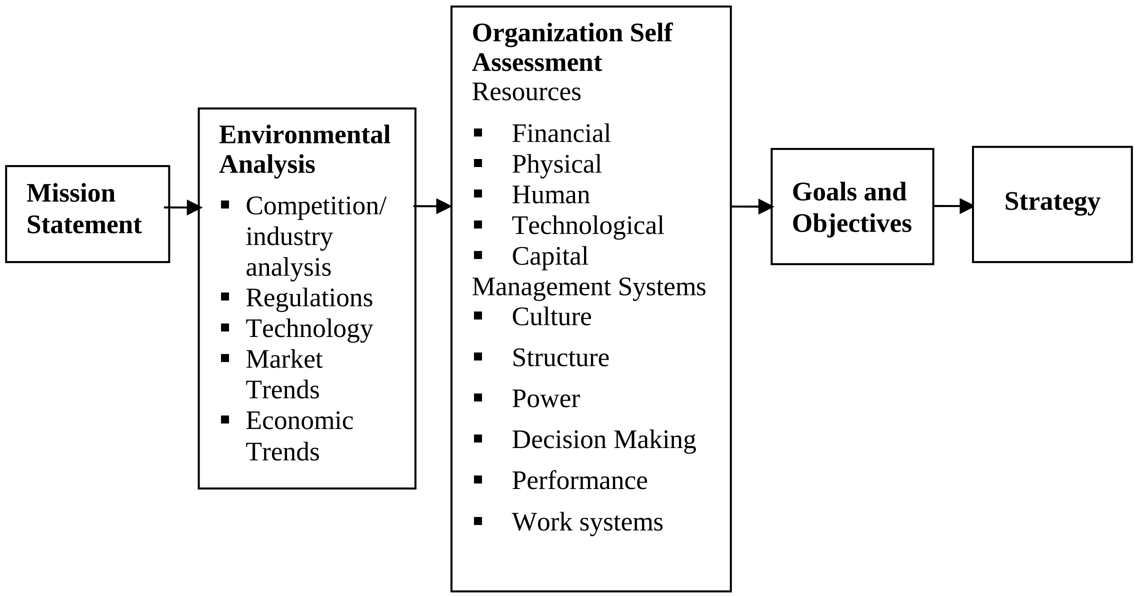
Defining the Mission Statement

Every organization should have a mission statement. A mission statement should be viewed as the guiding principle for an entire business. It should tell a company, its employees, vendors, customers, investors, the goal of the organization. Essentially, a mission statement defines a company's values and outlines its organizational purpose and reasons for existence. A mission statement should require little or no explanation, and its length is less important than it's power. Mission statement is usually restricted

[1]Peters, T and Austin, N (1985) A passion for excellence Collins.

to two lines, but it encompasses the basic foundation of the existence of the organization. For example, the mission statement of Lucent Technologies is "*to provide customers with the world's best and most innovative communication systems, products, technologies and customer support, and to deliver superior, sustained shareowner value.*" Thus, a company's vision and mission provide guidelines for general decision- making.

Figure 1.1: The Process of Strategic Management



Source: Jeffrey A Mello, Strategic Human Resource Management, (South Western College Publishing) 63.

Analyzing the Environment

This is the second step in the strategic management process. It includes the external environment such as competitors, market trends, technological changes, government regulations, economic policies etc. By analyzing the industry structure and the competitive work environment, an organization can identify the main competitors and the strategies that have to be framed. Some other factors that need to be considered are the barriers to entry, opportunities for mergers and acquisitions and the impact of complementary industries on the company's products. Government regulations include the preview of laws that may have an impact on organizational performance. This involves the local laws and international laws if the company is operating in the global business environment.

On the technological front, organizations should get themselves acquainted with new technologies. They should also decide whether they plan to adopt a new technology or invent a new technology.

While analyzing market trends, organizations have to take into account the potential customers, the target group of customers and the marketing strategies required for targeting new customers. This stage also requires analyzing the demographic, psychographic and other aspects concerned with the consumer's lifestyles. Economic trends include interest rates, inflation level, fiscal and monetary policies, GNP and the economic growth of the country.

Organizational Self-Assessment

After analyzing the external environment, the next step for an organization would be to assess the internal environment. This involves identifying the strengths and weaknesses of the organization, and working on the strengths to overcome the weaknesses. It also entails analyzing the financial, physical, human, technological and capital resources. Organization self-assessment is also about understanding the various components of change like culture, structure, power, the decision making process and past strategy and work systems. Let us now discuss the various resources.

As *financial assets* are the main assets through which other resources can be acquired, they have a direct impact on the organization's competitive advantage.

Physical resources include the assets owned by the organization, such as lands, machinery etc. The requirement of physical assets vary from industry to industry.

Human resources include the skill, knowledge, and capability of employees that can help organizations gain competitive advantage.

Technological resources are the processes the organization employs to produce goods. Organization should clearly identify the type of technology required for manufacturing the goods, irrelevant technology may add up costs for the organization.

Intangible resources include brand name, and goodwill.

Apart from the above resources, organizations also need to understand the management systems that guide the day-to-day functioning of the organization. They include the culture, organizational structure, power dynamics, decision making process, analysis of the organization's past strategy and present mode of functioning and work systems.

- While assessing culture, an organization clearly needs to articulate core values and philosophies that guide day-to-day activities. Hence, for a strategic planning process to be successful, an organization needs to clearly communicate the elements of culture to the employees. Employees should clearly understand the core values that guide the culture of an organization as this can have an impact on their performance.
- Organizational structures also have a major impact on the performance. The process through which the groups and departments interact for accomplishment of the organizational goals can have an impact on the performance of the employees. Effective organizational structures can achieve strategic objectives and if poorly structured can act as an impediment for the organization.
- Power dynamics and politics in the organization can hinder work, if people at any level misuse their power and authority.
- Decision-making constitutes an important process in an organization that looks into aspects like the people who are involved in the decision-making process, the method of information collection, the time span of the decision-making process, and the credibility of the sources of information. By analyzing the results of the decision-making process, an organization can decide whether it is contributing to the overall performance or whether it is inhibiting performance.
- An important part of organizational self assessment is analysis of past strategy that helps identify the loopholes and find out why a particular strategy was not successful.
- Work system design is an other important part of internal assessment. Work systems are concerned with the design of the jobs and the responsibilities that have to be assigned to employees. When designing work systems, an organization has to decide whether the job is suitable for the employee or not.

All the above-mentioned components of management systems are important for the assessment of an organization's internal environment.

Establishing Goals and Objectives

After an organization has assessed the internal and external environment, it has to set its goals and objectives. These goals and objectives should be specific, flexible and measurable, because of the changing business environments and the influences of the external environment. Setting goals under strict regulations is impractical especially when a business is operating in highly volatile conditions.

Formulating Strategy

The final step in the strategic management process is formulating the strategy and deciding on the implementation. The strategy that a company plans to implement has to be in alignment with the human resource strategy. This helps in developing a consistent set of policies and programs and helps employees to achieve organizational objectives.

There are five important variables that determine the success of strategy. They are: organizational structure, task design, employee training, reward system and information system. These five factors highlight the importance of HR in strategy implementation. Therefore, it becomes more important to align HR with the strategic goals of an organization. Another important change in the HR perspective is the trend towards customer orientation. Employees are trained to provide effective customer service. The HR function has to ensure that the company has a large number of employees with the desired skills. Effective control systems should be developed to align employee goals with the goals of the organization. Tasks have to be grouped into jobs so that the performance is more effective and strategy is more successful.

Strategy formulation usually takes place with the involvement of the top management. HR and strategic management process can be linked in four ways - administrative linkages, one-way linkages, two-way linkages and integrative linkages.

Administrative linkage is the linkage where the HR executive has very little time in the strategic planning process. Therefore, there exists very little alignment between the HR department and strategic management. The HR department in this linkage handles mostly administrative work that is restricted to the company's core business needs. The strategic goals of the organization are not included at this level.

In one-way linkage, the HR department is given the plan after it has been developed by the firm's strategic business planning function. The HR department does not from a part of the plan design team.

Two-way linkages make HR a part of the strategic formulation plan team. There are three steps in two-way linkages:

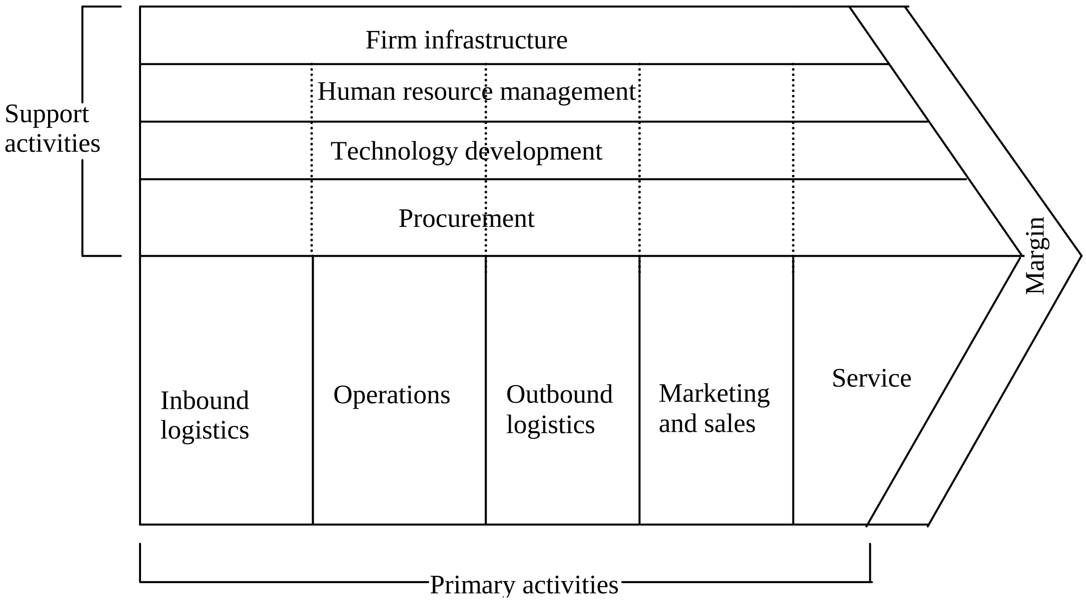
- First, the strategic planning department brings to the notice of the HR department the various strategies that the company plans to consider.
- Second, the HR department analyzes the strategies and presents the results of the analysis to the strategic planning department.
- Finally, the HR department develops programs to implement these strategies. In two - way linkages the strategic planning units and HR are interdependent.

Integrative linkage is most effective in strategy formulation and involves the HR manager in the formulation and implementation of the strategy. In this linkage, HR functions are integrated into the formulation and implementation of the strategy. This is the enterprising link as compared to other linkages as it incorporates people-related issues in strategy formulation.

VALUE CHAIN ANALYSIS

Competitive advantage of an organization depends on the way the organization performs as a unit and the way in which the various functions of the organization are integrated. Value chain analysis helps in studying the various activities - direct and support activities of an organization. The value chain developed by Michael Porter has five primary activities - inbound logistics, operations, outbound logistics, marketing, and sales and service (Refer Figure 1.2). These activities are linked to four support activities – procurement, technology development, firm's infrastructure and human resource management. All the above-mentioned primary and support activities incur costs and hence the organization must ensure that they add value to the company's product or service. Let us first discuss each of the primary activities:

Figure 1.2: The Value Chain



Source: Michael E.Porter, The Competitive Advantage of Nations (The Free Press) 41.

Inbound logistics are activities related to receiving, storing and distributing raw materials required for manufacturing of the products, internally. Inbound logistics includes warehousing, internal stock control and internal transportation.

Operations refers to the directive and control of the processes that transform inputs into finished goods and services. *Outbound logistics* relate to the distribution of finished goods and services to customers. *Marketing and sales* are about advertising, promotion and sales force activities. Finally, *service* means providing the necessary after sales service of the product or training related to the use of the product. Let us now look at the support activities:

Procurement means purchasing the inputs required for manufacturing of the products and making sure that all the departments receive the products at the right time.

Technology development refers to the utilization of the right technologies and methods for manufacturing the products.

The next support activity is *human resource management* that involves recruiting, training, and motivating employees to accomplish the goals of the organization.

Finally, *infrastructure* includes the structure of the organization, planning, financial controls and quality management designed to support the whole of the value chain.

Porter's value chain activities do not act independently. They are inter-linked and actions in one department can affect the activities of the organization as a whole. If a firm wants to gain a competitive advantage, it has to have a good understanding of linkages and has to align all these activities properly.

HR as a Support Function in Value Chain Analysis

Human resources as a support function of the value chain has gained considerable significance because of the inter-relationship with the other departments of the organization. All HR activities including recruitment, training, development and rewarding are now linked to the strategic goals of the organization. Strategy to be successful needs the full support of employees. Particularly during mergers and acquisitions, if people are not ready to accept the changes then the organization may not be able to implement the strategies effectively. As a support function in the value chain, HRM will provide for the integration of all management work by creating equal opportunities for employees. New organizational structures are emerging with greater flexibility and responsiveness to changes. Work teams have emerged and the focus now is more on empowerment, autonomy of work processes and the ability of an individual to adjust to the changing business environment. Thus, the HR department plays an important role in the value chain, as it integrates itself with technology, infrastructure and other functions of the value chain.

CHALLENGES FOR HRM

Organizational effectiveness in the future will depend on attracting, utilizing and retaining people who can use their knowledge to solve problems, create services, develop new work processes and satisfy customer needs. The information age has made knowledge the most important organizational resource. Company, regardless of its size, industry or location faces five challenges with respect to HR They are:

- Global business environment
- Profitability through growth
- Technology
- Intellectual capital
- Adaptability

Global Business Environment

In a global business environment, a manager is confronted with the task of managing a diverse work force and the complexity of diverse cultures. At the same time, he has to increase the effectiveness of the workforce so that they adapt well to the global work environment. The global business environment also requires HRM to gain insights about the laws and structures of the countries it is operating in.

Profitability through Growth

Organizations, today have to have the capability to attract and retain customers, in order to be profitable. HRM is becoming more and more customer oriented. Managers and employees are being constantly reoriented towards customer- satisfaction. Training in quality and productivity is intense, obligatory in most successful companies. Quality is recognized and rewarded. Quality circles, multifunctional groups, autonomous teams, task forces and committees are widely encouraged. Companies encourage creativity and innovation and free flow of ideas among the employees. All these factors help companies to gain a competitive advantage whereby they can achieve growth.

Technology

The biggest challenge for today's managers is how best they can utilize the available technology. Technology has made it easy for managers to communicate with employees and top management with the help of teleconferencing, video conferencing and the Internet. Managers should know how best they can utilize this technology.

Intellectual Capital

Knowledge has unseated capital as most important organizational resource and as the unlimited and fundamental ingredient for success. Knowledge has become a tool of competitive advantage for organizations. Therefore, companies seeking growth should attract, develop and retain individuals who can add value to the organization.

Adaptability

This is one of the most difficult challenges that companies face when they embrace change. The leader has to persuade employees to adjust to these changing circumstances.

Apart from these challenges HR also faces other challenges in its involvement in the strategy formulation and execution which are discussed in later chapters.

OVERVIEW OF THE TEXT BOOK

The textbook, Strategic Human Resource Management deals with the importance of human resources in strategy formulation. Success for any organization is impossible in the absence of effective HR policies. The book talks about the importance of relationship between HR and Strategy. The book has been divided into four sections. The first section has four chapters that deal with the importance of HR in formulating and implementing organizational strategy. The first chapter gives an overview of strategic human resource management. It talks about the process of strategic management and the future of HRM in the 21st century. The second chapter deals with the relationship between HR and strategy and discusses this with the help of theories relating HR and strategy. The chapter also discusses the investment perspective of HR and the economic indicators of HR. The third chapter talks about the relationship between HR and organizational strategies. The chapter also discusses the human resource strategy framework for effective implementation of organizational strategies and the trends in the field of human resource management.

The second section "Strategic Human Resource Management – Implications for the Organization" discusses the impact that strategy has on the various HR activities such as recruitment, training, performance appraisal etc. The 4th Chapter discusses the changes in the work systems, the various stages in redesigning work systems, the changes in organizational structure and the concept of a "Network" structure. Chapter 5 focusses on the importance of human resource forecasting. It discusses the different techniques of human resource forecasting. Chapter 6 discusses the strategic acquisition of human resources and issues in staffing and selection. Chapter 7 highlights the changes taking place in the field of employee training and development. The chapter also discusses the importance of technology in training and the future of Internet based training. Chapter 8 talks about the strategic aspects in performance management and evaluation, the concept of Economic Value Added and its future perspectives. Chapter 9 deals with the important changes taking place in the field of compensation package structure, the concept of ESOP and the future focus of ESOP. Chapter 10 takes a look at the strategic challenges confronting the leadership.

The third section is about strategic maintenance of human resources. Chapter 11 "Safety, health and labor relations" examines the changing nature of industrial relations and the strategic issues in employee safety and health. Chapter 12 talks about the importance of career management. Chapter 13 discusses employee separation and downsizing and its impact on the organization.

The final section focuses on the emerging trends and challenges in the field of human resources management. Topics included in this section are Knowledge Management and HR (Chapter 14), International human resources management (chapter 15), SHRM- Mergers and Acquisitions (Chapter 16), Outsourcing (Chapter 17), Information Technology and HR (Chapter 18) and finally Ethical Issues in Strategic Human Resource Management (Chapter 19).

SUMMARY

This chapter provided an overview of strategic human resource management and discussed the importance of people as strategic assets. The field of Human Resource Management is changing and it is aligning itself with the strategic goals of the organization. People can be looked as strategic assets by integrating them with the goals of the organization. The role of a leader assumes importance in motivating people towards achieving the strategic goals of the organization. To understand the importance of strategy for HR, it is important to discuss the strategic management process. The chapter has discussed the process of strategic management, which includes the formulation of the strategy, analysis of the environment, establishment of goals and objectives and strategy formulation. We also discussed the importance of HR in the value chain analysis. Any organization that plans to grow, faces five challenges. These include the global business environment, profitability through growth, technology, intellectual capital, and adaptability.

Chapter 2

Importance of Aligning Human Resources with Strategy

In this chapter we will discuss:

- HR's Emerging Role in the Formulation and Implementation of Strategy
- Models Integrating Strategy and HR
- Economic Indicators of HRM

Organizations are realizing the importance of aligning human resources with organizational strategies for effective performance. Now-a-days, organizations are aligning all resource activities, such as planning, training and development, with organizational strategies for gaining competitive advantage. This chapter focuses on the relationship between human resources and strategy and explains the importance of HR's role in the formulation and implementation of the strategy. It also covers theories that link HR with strategy and discusses the economic importance of HR and more importantly, it examines the investment perspective of HR.

HR'S EMERGING ROLE IN THE FORMULATION AND IMPLEMENTATION OF STRATEGY

The field of Human Resource Management (HRM) has changed dramatically over the last few years. The HRM concepts and practices of today are significantly different from those of the past. Planners and practitioners who understand these changes in HRM policies and practices will provide their organizations with a strategic competitive advantage. The creation of this competitive advantage will provide the basis for the survival of future organizations which can move ahead with the competitive environment. For strategic HRM to be successful, its goals should be aligned with the strategic goals of the organization. For example, when designing the reward structure, the HR manager should examine whether the reward structure is aligned with the strategic goals of the organization. The above points emphasize the importance for HR department to involve itself in the process of corporate or business level strategic planning.

The HR department can involve itself in the process of strategic planning, by coordinating with other functional departments. For example, in recruiting candidates, the organization has to analyze whether the candidate's goals are in alignment with the organizational goals. This will ensure that employees put in their maximum concentration towards their work. Thus, HR department has come a long way in involving itself in the process of strategic planning.

Transition from HRM to Strategic HRM

Changes in the business environment, brought about by globalization and the development of new technology have made it mandatory for organizations to involve HRM in the strategic decision-making process. To improve quality, productivity and achieve customer service and cost reductions, HR and business policy must be integrated at the strategic level. Human resource strategy can be defined as the set of ideas, policies and practices that management adopts to achieve a people management objective. Information technology, the TQM movement, new production methods have all changed the work environment. Because of these changes, there is a need for more teamwork, new organization structures, and employee involvement schemes. In most modern organizations, the human resources department has become multi-disciplinary in nature. The human resource department collaborates with all the other functional departments to effectively align itself with the strategic goals of the organization.

Changes in market conditions, economic conditions, labor markets, industrial structure, and international competition have all highlighted the importance of the management of human resources for gaining a competitive advantage. Hence, HR department must understand organizational level strategies and policies. Also, employees have to be rewarded as per their performance so that they work in alignment with the strategies of the organization.

Considering the changed role of HRM, it can now be defined as the integration of human resource strategy with the strategic needs of the organization. The 5P model of strategic human resource management clearly identifies the various HR activities that must be aligned with the strategic needs of the business to gain a competitive advantage. The five P's are Philosophy, Politics, Programs, Practices and Processes.

Human Resource Philosophy: This refers to the organization's attitude towards its human resources and how they should be treated, and the role they play in success of the business. HR philosophy is usually found in a company's statement of its business values. The philosophy reflects the culture of the organization and helps build trust and cooperation in the organization. The HR philosophy is derived from the firm's strategic business objective. Pepsi - Cola International's business objective is "Being No 1by creating value through leadership and excellence." Its business value also includes leadership in marketing by creating new brands and channels. Pepsi-Cola also seeks to establish and maintain a strong focus on customer service. Hence, for effective customer service, the HR philosophy for the firm should be to motivate the employees towards attracting and retaining customers.

Human Resource Policies: These are guidelines about the management of the people. The term HR policy does not mean a HR policy manual with general guidelines that employees perceive to be a rulebook. These policies have an effect on the immediate and future success of the business. It may include the need to hire skilled workforce or the need to improve productivity.

Human Resource Programs: HR programs can be defined as the coordinated HR efforts to initiate and sustain strategic organizational change. These programs are initiated by the organization to implement the policies proposed by the HR department. Further, these programs help in identifying the nature and scope of the strategic changes initiated by the organization, the commitment of the company towards the achievement of these goals and the organization's chances of meeting future challenges successfully with the present set of people.

Human Resource Practices: HR Practices include the roles (leadership, managerial and operational) that individuals assume in the organization. People in a leadership role have to guide, motivate, and train employees so that they can help the organization achieve its strategic goals. In a managerial role, employees have to plan, coordinate and organize activities to achieve the strategic goals of the organization. Managers must deal effectively with performance problems, encourage creativity in the workplace, form work teams and give employees a chance to participate in the decision-making process. In operational roles, employees have to identify and adopt methods that enable them to work effectively to achieve the desired results. These are the roles needed to deliver services or make products. In the service sector, for example, employees may have to attract customers, while in the manufacturing sector they may have to manufacture quality products according to certain set standards.

Human Resource Processes: This involves the identification, formulation and implementation of HR activities to meet strategic goals of the organization. They also help employees get more involved in achieving the goals of the organization.

The 5P model thus shows how the HR department and the various other functions of an organization are related. It also illustrates the alignment of HR activities and objectives with the strategic goals of an organization.

Traditional HR Vs Strategic HR

While traditional HR activities were strategically administrative in nature, strategic HR activities are concerned with the empowerment of the employees. The main differences between strategic and traditional HR are:

- In traditional HR, employees are expected to specialize, and job design is geared to the development of an employee in a particular area. The purpose is to make an employee specialize in his area of work. In Strategic HR, the job design allows employees to change according to the needs of the external work environment. Rather than being bound by excessive rules and regulations, operations are controlled by whatever is necessary to succeed, and control systems are modified as need to changing conditions.

- In traditional HR, the role of the manager is to formulate policies and procedures and ensure adherence to the rules. A strategic HR manager however, acts as a good communicator and encourages people to develop ideas to meet the needs of the changing business environment. The rules and regulations are flexible and can be easily adapted to meet changing needs.
- Traditional HR, which concerned itself with the development of HR policies and its function, had a limited scope. But strategic HR is more interdisciplinary in nature. When framing rules and regulations, strategic HR considers the needs of all the organizational activities.
- Traditional HR is transactional in nature and is concerned with carrying out day-to-day activities in a routine manner. The focus is more on the short-term objectives of the organization. Strategic HRM is transformational in nature. It acts as a change agent, ensuring that the new organizational structures and systems help the employees achieve the strategic goals of the organization. This may include changes in the new organizational structures, work systems and job design to support strategic changes in the global business environment.
- Strategic HR regards people as intellectual assets whom the organization can invest in for reaping long-term benefits. People are viewed as a source of competitive advantage. As a result, many organizations invest in people in training and development programs. Traditional HR did not view people as competitive advantage.
- Changes in traditional HR are slow and fragmented. Strategic HR is more proactive and systematic. Since the present day HR department has become interdisciplinary, any change in HR department is integrated with the whole organization. Any strategic initiative must be developed and implemented in consultation with other departments.

Roles of Strategic Human Resource Management (SHRM)

Strategic Human Resource Management (SHRM) links HR with other functional areas of the organization. The major roles of Strategic HRM in an organization are given below:

Strategic role: The strategic role of HR involves formulating business decisions, translating corporate strategy into a human resource strategy, and training employees to concentrate on customer needs.

Information and decision-making role: in this role, the HR department must inform and advice the organization about the various best practices like efficiency in customer service or new product development. In the information and decision-making role, HR must take decisions about problems in employee relations.

Strategic HR functional role: This is a very important role. In this role, HR must select, design and implement planning and appraisal systems for employees. These systems should fit both the strategy and the culture of the organization concerned.

Administrative role: In this role, HR must implement policies and procedures for the organization. In addition, the HR department must try to improve the administrative system of the organization.

SHRM organizes various training and development program to encourage employee involvement. It thus motivates the employees to become flexible to achieve the strategic goals of the organization.

Barriers to SHRM

For a variety of reasons, many organizations have not adopted SHRM. The main reasons for not adopting SHRM are:

Focusing on short-term performance: Most organizations determine compensation on the basis of current performance. They do not consider a long- term view of the investment in people.

Lack of technical knowledge: Most HR managers do not understand the whole organizational process and are unable to link HR strategies to organizational strategies. Because of insufficient knowledge about other functional areas of the firm – marketing, finance, operations - they are unable to frame strategies that consider the needs of these areas.

Lack of strategic perspective: HR is usually not viewed from a strategic perspective. Most managers still regard the HR department's role to be purely administrative.

Difficulty in quantifying: Most HR managers find it difficult to quantify the costs and benefits of HR. Activities such as teamwork and other soft skills are difficult to quantify.

Apprehensions towards training people: Most organizations are reluctant to train people because they feel that after getting trained, the employees would look for better alternatives.

Resistance of employees: Most employees resist changes in technology and do not cooperate with their leaders. This is because the changing work environment makes employees feel threatened and insecure. Organizations should train and develop so that they do not feel insecure.

MODELS INTEGRATING STRATEGY AND HR

Effective HR programs and policies are essential for supporting organizational development. For this, there is a need for high performance work teams that desire to learn new skills and can adapt to changes in the work environment.

HRM plays an important role in influencing business strategy. HRM has undergone changes in the areas of recruitment, development, appraisal and reward systems. All these are now aligned with the strategic goals of an organization. To understand the alignment of HR with strategy, it is important to understand the models integrating strategy and management. Two models help us understand the relationship between HR and Strategy. They are:

- Model of Best Practice
- Model of Strategic Change

Model of Best Practice: Organizations often are faced with the problem of selecting best practices to implement strategic plans. HR strategy is not just concerned with implementing strategic plans, it also helps in long-term benefits for the organization through effective staffing, maintenance and development of human resources. Tyson and Doherty[1] have developed the model of best practice that helps in analyzing the best practices that a business can adopt according to its requirements. These outcomes are based at three levels. They are

- Strategic level
- Operational level
- Business Process level

[1]From the article Human Resource Strategies in Human resource journal

These outcomes differ according to the type of the business and the needs of the organization. Tyson and Doherty have also devised a best practice virtuous circle which clearly demonstrates the influence of HR activity on business strategy. It shows that by recruiting and selecting employees with desired competencies, HR can contribute to the successful accomplishment of business goals. The model of best practice helps to establish the approach that has to be taken by the organization and the value of the approach in terms of organizational effectiveness and efficiency. Effectiveness, according to this model, is defined as the extent to which the employees of the HR department give importance to the organization's objectives. Efficiency can be defined as the achievement of these objectives in a cost effective manner. According to this model, HR activities should be aligned with the overall management objectives. As mentioned earlier, to achieve the desired outcomes, HRM has to work at three different levels- strategic, operational and business process level. Let us discuss the impact of HRM on these three different levels.

Strategic Level: At the strategic level, the HR department must frame policies that support the organization’s strategies. HR is considered to be important for effective implementation of major changes in organizations. The HR department must also identify the programs and policies that can be integrated with the production/service delivery systems.

Operational Level: At the operational level, competencies are created to give a competitive advantage. This involves the development of sound recruitment and employee retention strategies. In addition, employee performance must be assessed and where necessary training should be provided.

Business Process Level: Employees should be involved in the framing of the policies. The policies should be fair and unbiased. At the business process level, the HR department checks whether equal weightage has been given to all the stakeholders.

The three levels discussed above are important for achieving the desired outcomes. HR has to work in congruence with the three different levels. At each level, according to the requirements of the organization the best practices have to be developed that can help in bringing cost control and help in designing work flow and jobs.

Models Integrating Strategic Change and Human Resource Management

These models integrate strategic change and human resource management. A flexible model for integrating strategic change and human resource management was developed at Harvard University. The model is called the "The Map of HRM Territory."(Refer Figure 2.1) According to this model, while developing HRM strategies, organizations have to realize the legitimate interests of the shareholders and other stakeholders in the organization. Their interests have to be aligned with the human resource strategy and the business strategy. This model has attracted attention because of its emphasis on the interests of the various stakeholders of a corporation. On the basis of the Harvard Model, Guest[2] has developed a set of propositions that can help researchers to create more effective organizations. The model has four basic propositions:

The first proposition is strategic integration. This refers to the organization’s ability to integrate HRM issues with its strategic plans. The proposition also includes involving HR in the decision-making process. The various functions of HRM like recruitment, selection, development, maintenance have to analyzed while taking strategic decisions in an organization. The second proposition is high commitment. This refers to the commitment of the individuals in achieving organizational goals.

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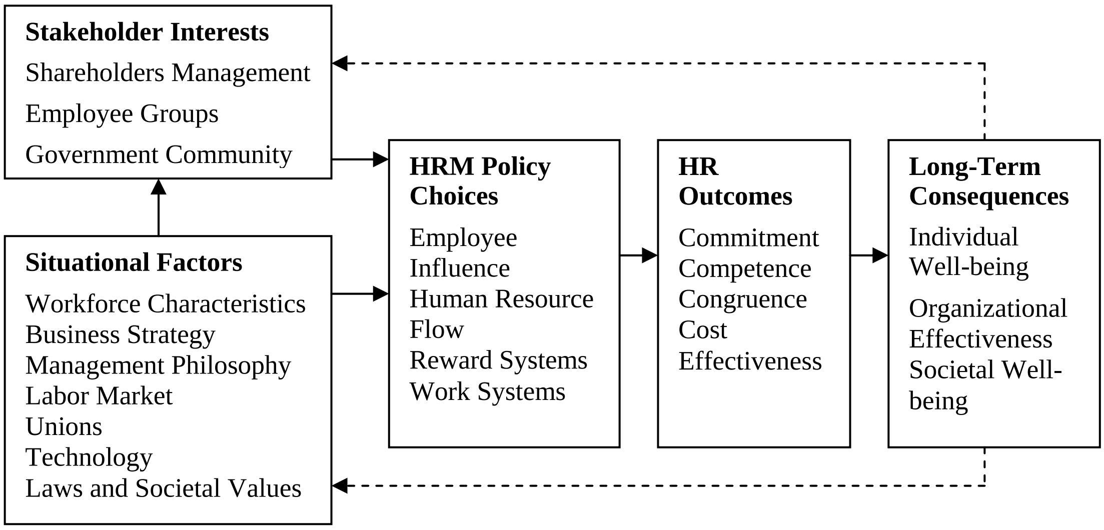
[2] Human Resource Management and the American Dream,' Journal of Management Studies, Vol.27, No 4,pp. 377-397

Figure 2.1: The Map of HRM Territory



Source: Human Resource Management by Ian Beardwell and Len Holden (McMillan India Ltd) 17.

The third proposition, high-quality, refers to the production of high-quality goods and services. Quality can be achieved if management invests in employees with the requisite qualifications, provides the necessary training and makes quality investments in training.

The fourth and final proposition is flexibility. This refers to the ability of the organization to adjust to the changing business environment.

These four propositions help provide a link between the objectives of HRM, policies and organizational outcomes. Taking a clue from this model, Hendry and Pettigrew[3] developed an integrative approach that integrates all the modes of HRM like staffing, recruitment and training (Refer Figure 2.2). This model is called the "Model of strategic change and human resource management.' These functions are integrated keeping in view the various internal and external forces (social, economic, political) that have an impact on organizational strategy. This framework explores the implications of employee relations on various approaches to strategic management.

In 1992, Storey's[4] model called the 'Ideal Type' explored how organizations are being transformed from personnel to HRM. He has classified these differences into four areas. They are beliefs and assumptions, strategic concepts, line management and key levers. Beliefs and assumptions include the assumptions that the management has about the tasks to be completed, nature of relations in the organization etc., Strategic aspects include key corporate planning and speed of decision-making in organizations. Line management involves the role of management, management skills and finally key levers include selection, job design, pay, training and development etc. which are essential for efficient completion of the tasks. The model discusses the shift from personnel practices to HRM practices.

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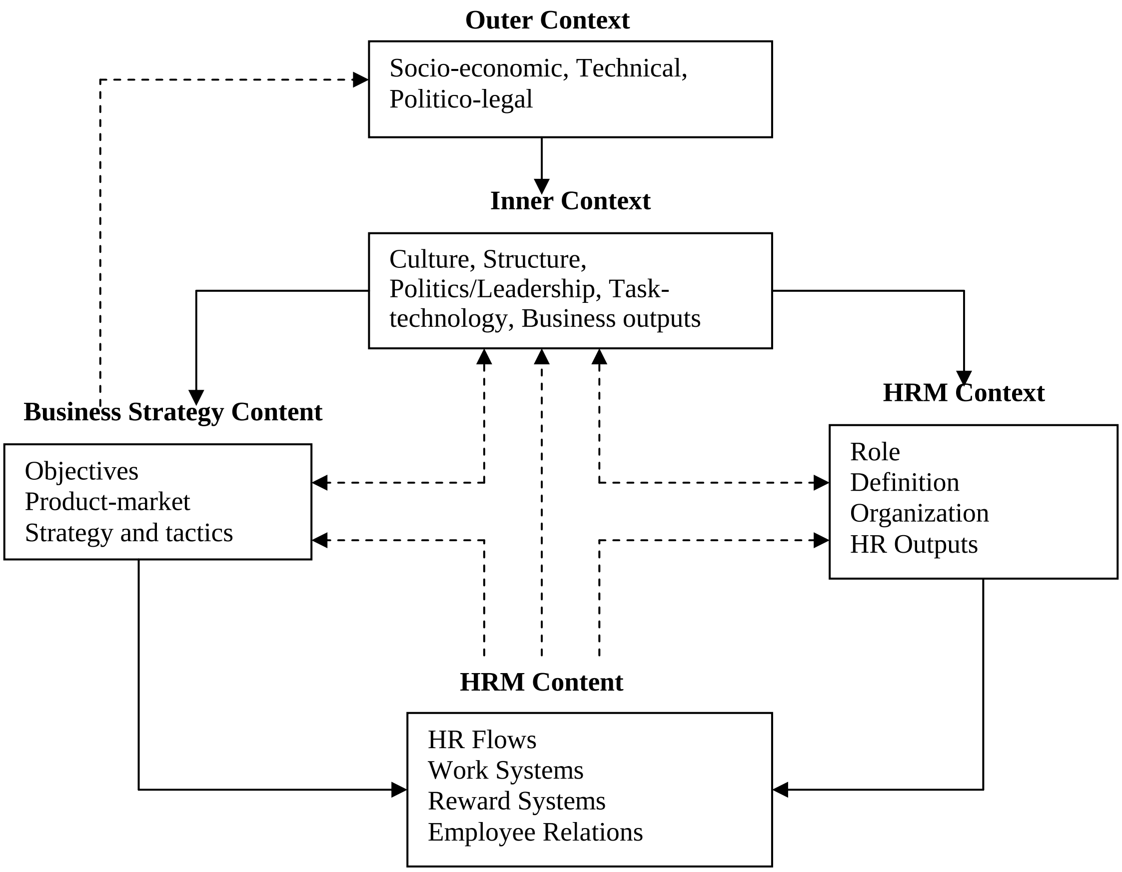
[3] Human Resource Management: An agenda for the 1990's, in International Journal of Human resource Management, Vol. 1, No 1 (1990)

[4] Storey J (1992) Developments in the Management of Human resources: An Analytical Review, London Blackwell

All the above-mentioned models bring out the importance of HRM in the formulation of organizational policies. These models have clearly shown the importance that HRM has assumed in managerial decision-making.

Figure 2.2: Model of Strategic Change and Human Resource Management



Source: Ian Beardwell and Len Holden, Human Resource Management (MacMillan India Ltd) 20.

ECONOMIC INDICATORS OF HRM

Organizations have realized that apart from having the best marketing strategy and technology, it is important to effectively manage human resources in such a way that their objectives are aligned with the strategic goals of the organization. In order to align employee objectives with business strategy, it is necessary to regard employees as assets. Organizations need to frame policies and programs that consider human beings as assets for investments. By developing such policies, organizations will achieve the following:

- Work practices that are necessary to stay ahead in the competitive environment.
- Global practices that can help them respond faster to changes in the international work environment
- Effective remuneration and performance policies that can motivate employees.

- Effective succession planning through efficient recruitment and selection strategies.
- An organizational structure that helps businesses to work effectively.

Investment Perspective of HR

Considering employees as assets helps organizations utilize their abilities. By analyzing the investments being made for the employees, organizations can prepare a plan that can help in making investments for the employees. For example, in training programs, an investment perspective would mean weighing the costs of the new program and, at the same time assessing the advantages of the program for the organization. An organization should analyze the potential benefits of training and, at the same time, calculate the man-hours lost because of the training program. If it is found to be profitable, then the organization should make the required investment in training. Value-based management programs have also gained importance. Exhibit 2.1 shows the importance of value-based management programs.

Exhibit 2.1

Value Based Management Programs

Value-based management programs have gained tremendous importance. Theoretically, these programs sound very simple. This has led organizations to believe that by calling in outside agencies to revamp their accounting system and framing strategies for performance and incentive strategies. The process is not that simple as it appears. In a research conducted by Harvard Business Review and the Boston Consultancy Group, it was found that companies usually fail to introduce fundamental changes in a company's culture while implementing a value-based management system. Successful value-based management companies share five important characteristics: make an explicit commitment to shareholder value; create an environment that is adaptable to change; create a broad-based incentive system thereby gives employees a sense of ownership; creating an environment that gives employees freedom of innovation; and focus on the broad and inclusive processes and functions rather than financial reports and compensation. Another important factor for successful value based management implementation is training almost all managers and investing huge amounts in training. Training forms the main difference between successful and unsuccessful VBM companies. Cadbury started off the training program by evaluating the training needs and capabilities of their top managers.

Another important feature of successful VBM programs is creating a sense of ownership among the employees and increasing their stake in the company. One company that has been successful in implementing these programs through compensation system is Siemens. It has developed a performance-related pay system for its top management. In Cadbury's, incentives of senior employees are related to the target level they have attained. Other important factors for successful implementation of the VBM program are avoiding complexity and keeping the technical aspects of VBM as simple as possible. The final benefit of any successful VBM program is making the employees understand the concept of value and empowering the employees, by bringing in a set of shared beliefs about the factors that create success in various parts of the business.

Adapted from Haspeslagh, Philippe; Noda Tomo; Boulos Farer, "It's not just about numbers," Harvard Business Review, Vol. 79 Issue 7, Jul/Aug2000.

Factors affecting investment-oriented organizations: There are five factors that play a crucial role in determining whether an organization is investment-oriented or not. These factors are discussed below:

The first factor is concerned with the management values. Any organization that regards people as assets, and encourages their development and invests in their training can be called as investment oriented.

The second factor is an organization's attitude towards risk. Many organizations are reluctant to train employees because they feel that trained personnel may leave the organization for better opportunities elsewhere. But, organizations that consider employee training necessary for success reduce the risk of losing employees by providing them with long-term contracts and stock ownerships. The third factor is the employee skills required by the organization. These can be developed well by training employees. Most organizations do not regard training employees as a gainful investment as they feel that employees would leave the organization after getting trained. To avoid such situation, organizations should adopt effective employee retention strategies.

The fourth factor is the cost benefit analysis. Cost benefit analysis is a technique for assessing the costs and benefits of an activity over a relevant time period. Most human resource programs do not have the ability to evaluate the costs and benefits. Evaluating costs and benefits for human resources is different from evaluating other assets (like financial assets). A cost benefit analysis of human resources must compare monetary costs incurred or benefits gained by stakeholders like customers, employees or community. As a result, a cost benefit evaluation of human resource programs is often subjective, based on both experience and commonsense.

The fifth factor is outsourcing. A firm should outsource its functions if outside specialists can perform better and if outsourcing results in cost savings. It can then concentrate on its core competency to gain competitive advantage.

Human Capital Accounting

The American Accounting Association (1970) defines human resource accounting as "the human resources identification and measuring process and also its communication to the interested parties." Rensis Likert (1967) first used the term "human asset accounting" a term since replaced by "human resource accounting."

In 1967, Rensis Likert attempted a system of human asset accounting. He designed a human capital balance sheet consisting of historical cost asset valuation. In this balance sheet, investments in replacements and development were balanced with losses through attrition and amortization. Though the method is not useful in the modern business context, it enables firms to calculate the cost of replacing a human resource i.e. the cost of replacing an employee when he leaves the organization. It also includes the cost of recruiting and training a new employee. These costs are called exit costs.

Another approach for calculating human capital accounting was developed by Flamholtz[5]. According to Flamholtz," An individual's conditional value is the present worth of the potential services that could be rendered if the individual stayed with the organization for x years." Conditional value here refers to the combination of productivity, transferability and promotability. Transferability and productivity are influenced by promotability. The conditional value when multiplied by the probability factor (time a person will stay in the organization) will give the expected realizable value. Realizable value gives a measure of a person's value. This value increases as the individual's learning increases.

Human assets sometimes become liabilities when employee skills become obsolete and employees no longer work effectively. To avoid such situations, organizations should offer continuous training and development programs to enhance employee skills.

[5] Human resources accounting 1985.

Sources of employee value

There are two major sources of employee value:. Productivity and added value.

According to Shaun Tyson, in his book *Human Resource Strategies*, productivity is "the level of output generated by a given level of input." Such measurement helps a firm analyze the performance of an employee and compare it with industry standards. To enhance productivity, employee performance must be consistently improved. An increase in employee productivity can lead to an increase in sales, profits, production volumes etc. This increase in output improves the performance of the organization. But measuring employee value on the basis of productivity has its limitations. The method assumes that each employee has the same average costs. This assumption does not hold true for organizations that have international operations and a large number of employees. In such cases, an average employee cost cannot be computed. In addition since this method only includes the head count, it cannot be used in organizations that employ many people, on a temporary basis. To calculate productivity accurately, this method should take into account the total cost of the contributing labor.

Another important approach for measuring productivity is called added value. It can be defined as "the wealth created through the efforts of the enterprise and its people." Value can be created by developing the right type of organizational structure, by effective career management, by offering rewards for performance, and by implementing effective attrition and recruitment strategies. An organizational structure that is designed to increase value and improve the overall contribution of the employees adds value to the organization. The main emphasis on the organization structure should be on decreasing the number of hierarchical layers so that the top management has greater span of control. While designing structures, each constituent must be assigned clear roles to eliminate confusion.

Adding value through rewards and benefits

The pay structure of most organizations is generally based on traditional methods. Traditional methods may often be mandatory. But in the areas of variable pay and bonuses organizations can fix the pay according to the performance of the employee. Usually, the base pay is decided on basis of the seniority or performance of the individual. More flexible and innovative organization however, tie pay to individual performances. Typically, most pay policies consist of a base pay with a variable element (determined on the basis of individual performance) and an incentive (if the person performs exceptionally well). Most incentives are constructed in such a way that the benefits are shared between the organization and the performers. This demarcation between variable elements and incentives can play an important role in motivating an individual to perform the best. The incentive factor plays an important role in motivating individuals. Productivity can be increased when individuals are provided a clear distinction between the incentives and remuneration. Stock options aim to distribute the benefits of achieving capital growth and to align employee rewards with those of the shareholders.

Adding value through attrition and recruitment

The traditional method for calculating labor turnover is very misleading. It is calculated taking into consideration the number of employees leaving in a time period /average number of people leaving over the time period. Also, this calculation is done monthly or quarterly. Moreover, this method does not distinguish between people who leave because of dissatisfaction and who leave the company because of other reasons like the location of the company. Sometimes, employees leave an organization because of the geographical distance between their workplace and residence. If traditional method is used, it will only indicate the turnover, not show why people are leaving an organization. If highly skilled employees leave an organization, the whole firm suffers. Not only has the company lost skilled workers, it has also lost the time and money it spent on recruiting and training them. To add value, companies must conduct exit interviews. Exit interviews help the organization to understand why an employee has left the organization. Absenteeism, manpower planning and skills planning should also be taken into account while calculating costs. Matthewen J (*HR Effectiveness*, *London IPM) (1993*) has recommended the use of human resource audits for calculating the value of human resource. He has identified four factors where these audits need to be covered. They include: quality of procedures and practices; cost benefit analysis and the effective use of time and resources; the ability of the staff to perform these tasks effectively; and the customer satisfaction.

SUMMARY

The changing business environment has made it mandatory for organizations to align human resources with the strategic goals of the organization. This chapter highlighted the link between strategy and HR. In order to understand this link, we examined the importance of HR in the formulation and implementation of strategy. The 5P model of strategic human resource management was discussed to show the transition from strategic to traditional HR. The 5P's include philosophy, policies, programs, practices and processes. The transition of HRM to SHRM has been explained by comparing the traditional HR activities with Strategic HR. This has been further elaborated by explaining the roles of SHRM. Models integrating strategy and HR were also discussed, with special reference to the Model of Best Practice and Model of Strategic Change. The concept of viewing human resources from an investment perspective was discussed, with special reference to human resource accounting and how employee value can be generated. Many organizations have started analyzing the potential benefits of treating employees as assets. In 1967, Rensis Likert developed a system of Human asset accounting. There are two sources of employee value: added value and productivity. HR audits are becoming popular because they help improve the quality of procedures and practices and encourage the effective use of time and resources.

Chapter 3

HR and Organizational Strategies

In this chapter we will discuss:

- HR and Corporate Strategy
- HR and Business Strategy
- Human Resource Strategy Framework

Mercer, a large international company providing life, health and disability insurance and retirement and investment services faced stiff competition in an increasingly global and consolidated industry. To compete, the management had to ensure that all its operations were aligned with its business strategy and HR initiatives. Mercer designed a performance management system that would encourage and reward behavior that supported the company's strategic goals. The company also felt the need to change to understand how each employee's work affected others in the process. The new system would have to address the issues of linking HR with organizational strategies to help the company become global, and market-driven.

In this chapter, we shall discuss the relationship between HR and organizational strategies. The chapter analyzes the relationship between HR and corporate strategy, HR and business strategy. It also examines the HR changes as a result of changes in the organizational strategies. Further the chapter analyzes the human resource strategy framework that includes the external environment scan and internal capital assessment.

HR AND CORPORATE STRATEGY

To achieve the desired outputs, an organization should include human resources in the formulation of the organizational strategy. HR strategy relates to selection, development and motivation of the right candidates for the job. To implement strategies effectively, plans and policies should be framed efficiently. According to Michael Porter, "Corporate strategy is the overall plan for diversified business." There are three different types of corporate strategies. They are:

- Growth
- Stability and
- Retrenchment

Growth

This strategy helps organizations to grow in the industry in which it operates. Growth strategy also helps employees to develop their skills and contribute to the overall performance of the organization. Growth can also be achieved by developing new products and services. An organization can keep pace with the changing market scenario by training and developing its employees to improve their performance. For the growth strategy to be successful there is a need for effective planning.

Mergers usually provide growth strategy. By merging dissimilar HR systems from different organizations a hybrid system may evolve. it Is probable that two different systems existed for staffing, compensation, performance management and employee relations. The appropriate system may or may not be one of the previous systems. It can be hybrid of both the systems. The evolved system can adopt the best practices of both the companies.

Stability

Stability is another corporate strategy where an organization adopts a status quo and sees very few opportunities for growth. Such organizations lack upward mobility and as a result, employees have very limited opportunities for growth and may leave the organization. For such organizations it is important to develop effective retention strategies.

Retrenchment

An organization attempts this strategy when it realizes that it is unable to compete in the global market. Often, a large organization will grow to a point where it becomes inefficient particularly relative to smaller competitors and finds itself unable to respond to the changes in the marketplace. The organization under such circumstances tries to capitalize itself on the existing strengths to remain solvent. In this strategy, an organization goes in for cost cutting and downsizing takes place in most organizations. When an organization attempts this strategy, it has to be careful in retrenching its employees. It must abide by the laws and identify the right individuals to be terminated. If the selection of the individuals to be retrenched is not done properly then the organization may incur more losses as experienced employees leave the work place. This strategy is mainly adopted to streamline operations and strengthen the organization's competency.

The organization should also make sure that the retrenchments do not affect the morale of the existing employees, as they can be disturbing to employees in regard to job security. Also employees may be given additional responsibilities which can stress them out. Hence, it becomes all the more important for the organization to boost the employees morale to increase their productivity.

HR AND BUSINESS STRATEGY

Corporate strategy is seen as the overall strategy related to business interests, while business strategy is designed to serve the interests of a particular business unit. Most large organizations usually have sub divisions on the basis of product. In such cases, strategies are developed to suit individual divisions. Different business unit strategies require different applications of HR strategies. Business unit strategies are of three types. They are:

- Cost Leadership
- Differentiation
- Focus

Cost Leadership

Organizations concentrating on cost leadership are customer-oriented and try to keep the manufacturing costs low to gain a competitive edge. This strategy can involve developing operational efficiency so that products and services can be priced lower than the industry competition. In this strategy, customers are perceived to be price sensitive and not brand loyal. Price plays an important role in determining the demand for the product. Companies that follow this strategy compete across a broad range of products. The HR strategy for such organizations depends on short-term performances of the employees. As efficiency of employees is taken into account job assignments are more specialized. According to slack or downtime periods employees can also be cross trained. Employees are also trained to build in customer loyalty.

Differentiation

In this type of strategy, organizations differentiate their products from that of the competitors by adding extra features or benefits. Companies follow this strategy to distinguish their products from that of competitors. Such organizations require creative and innovative people who can contribute to new product development. Employees should be empowered and given an opportunity to prove their creativity. Further, to motivate the employees, they should be given incentives. At the time of recruitment, the company should hire people with creative ideas and who can do things differently.

Focus

According to this strategy, an organization concentrates on one particular market and tries to maximize its profits from that segment. In companies adopting such strategies, employees should be aware of the particular market and the reasons for it to be unique. This can help them understand the market and frame strategies accordingly. Usually, people who are familiar with that market are hired as they can associate themselves with the customers and also understand their needs.

Dyer and Holder Typology for Strategies

An important business strategy was developed by Dyer and Holder in 1998. It is a typology which identifies three separate strategies -inducement, involvement and investment strategy. They focus on human resource strategies. The typology is based on the assumption that HRM's role is to develop policies and practices that will have direct employee involvement, and support to achieve organizational goals. Thus, the typology has primarily emphasized a fit between HR strategies and organizational strategies, to drive corporate performance. Let us discuss the three strategies:

- An investment strategy is adopted by organizations that keep track of the changing market and encourage creativity and innovation from the employees. The organization is also concerned about the employees' compensation package.
- Inducement strategy aims at retaining the employees by encouraging loyalty and commitment. In such organizations, job responsibility is narrowly defined to help employees perform effectively.
- Involvement strategy is one where the organization gives importance to both innovation and cost-cutting.

While the Dyer and Holder typology has provided a basis for conceptual discussions regarding the use of various types of HR practices, it has fallen short in examining the influence of HRM decisions on the organizational outcomes.

HUMAN RESOURCE STRATEGY FRAMEWORK

The human resource strategy framework shows the interaction between a firm and its environment. This framework shows the steps in strategic HRM formulation and also the interaction between the firm's organizational response and its environmental pressures. The steps in the strategy framework are:

- External Environmental Scan
- Internal Capital Assessment

External Environmental Scan

External environmental scan is the analysis of the external environmental forces that have an impact on the functioning of the organization. It is important because if an industry is operating in a competitive market it needs to first analyze the external environment and frame plans in accordance with it. The steps in the external environmental scan are:

- Competitor/industry analysis
- Stakeholder analysis
- PEST analysis (Political, Economic, Social and Technological)
- Environmental situational factors

Competitor /Industry analysis

It is an analysis of the industry, in which the firm is operating, and the competitive pressures the firm is facing. Michael Porter has proposed five factors that shape the business. The main idea of the study is that the firm's profitability is determined by the industry structure. It helps to understand how competitive forces shape the business strategy. The five factors that determine the structural competitiveness of any industry are:

Intensity of Rivalry: The intensity of rivalry among firms represents the various competing forces. The competition can be in the form of price-cutting to gain market share or in the form of product differentiation. The more intense the competition, the more tactics are used like price competition, and manufacture of innovative products to gain market share. The HR implications for intense rivalry are:

- Developing an innovative work culture
- A cost minimization approach

Threat of New Entrants/ Barriers to Entry: It is not only incumbent rivals that pose a threat to firms in an industry; the possibility that new firms may enter the industry also affects competition. In theory, any firm should be able to enter and exit a market, and if free entry and exit exists, then profits always should be nominal. In reality, however, industries possess characteristics that protect the high profit levels of firms in the market and inhibit additional rivals from entering the market. These are barriers to entry. A number of factors create barriers to entry.

- Inability of a new entrant to achieve economies of scale. When a firm enters a particular market or industry with limited investment and without the required cost advantage, then it is at a price disadvantage. This can create a entry barrier.
- Another way of creating an entry barrier is through product differentiation. To enter new markets, companies have to adopt strategies to differentiate their products from that of the competitors. Differentiation can be either in the form of advertising or establishing new brands. This can be a costly proposition and thus act as an entry barrier.
- Another barrier can be in terms of switching costs. When suppliers switch to new companies, they have to incur costs in terms of training employees to make them familiar with the new environment. Hence, suppliers usually avoid switching to new companies.

HR practices in such firms should have employees who are more flexible and are be able to adapt to the changing work environment. Multi-skilled employees are also an advantage for such firms. Young people, who can be trained according to the changing market scenario should be given preference.

Threat of Substitutes: The availability of substitutes determines the demand for a particular product or service. If there are close substitutes, the demand for a particular brand will decrease. To counter this companies usually resort to low pricing. They try to establish a clear differentiation to create customer preference.

HR practices in such organizations should recognize the importance of a committed workforce who offer extraordinary customer service. HR implications include differentiating services based on quality or innovation. Unless a company tries to improve the quality of the product or differentiates it from the other products in terms of service it cannot counter the threat from substitutes. Hence, it becomes necessary to have creative and innovative employees who can create a difference through their service.

Bargaining Power of Suppliers: The behavior of suppliers and their relative power can affect an industry's performance. The bargaining power of suppliers depends on five major factors. They are: concentration among suppliers, the degree of substitutability between the products of various suppliers, the vertical integration that can be initiated by the supplier, the extent to which the buyer is important to the supplier and any switching costs that have to be incurred by buyers which will strengthen the position of the suppliers. For example, in the US, the three major auto companies have more control on the suppliers. They accept goods from suppliers who implement ISO 9000.

The bargaining power of suppliers also increases when they have certain patented products and hence can change the prices according to the buyers demand. However, this can affect labor costs. To counter the suppliers' high prices, companies may reduce costs in other areas like labor. Sometimes buyers are also forced to continue partnership with suppliers even though they offer costly products and services. This is because they have trained their employees in the usage of the particular software. Retraining them in other supplier's software can sometimes be a costly proposition.

Bargaining Power of Buyers: The bargaining power of the buyer is determined by the concentration and size of the buyer. The degree of product standardization, which affects the substitutability and opportunity for buyers to switch suppliers also plays an important role in deciding the bargaining power of buyers.

The five forces model helps a firm to analyze the changing market scenario and the competition in the industry while shaping the industry.

Stakeholder analysis

After a firm conducts a competitor/industry analysis, it has to conduct a stakeholder analysis. A stakeholder analysis identifies and assesses the importance of key people, groups of people, or institutions for the organization's success. It also includes the different expectations the stakeholders have from a company in terms of its performance and effectiveness. Stakeholders include shareholders, employees, customers, owners, government, communities, unions, suppliers etc. Each group has different expectations from the company. Shareholders like to see the value of shares go up. Employees expect pay to be balanced with the performance. Hence, it is important for the manager to frame a HR strategy that includes the expectations of all stakeholders.

Once a company has a list of all potential stakeholders, it needs to identify the specific interests they have in the company. It can include the benefits they expect.

Pest analysis

PEST analysis is important for analyzing the fit between HR and organizational strategy. PEST analysis is concerned with the analysis of political, social, economic and technological factors that influence organizational strategies. The external environment affects the performance of a firm. It is important to develop and organize financial and human assets according to the changing business environment. Firstly, let us examine the technological factors that play an important role in framing organizational strategies.

The technological advancements have changed the work performance and revolutionized the work place. It is important for each firm to identify the technological trends that have an impact on the performance of the industry and employees. Managers have to train employees to utilize technologies like intranets and web - based services. Advanced technology like telecommuting and virtual teams have decreased the boundaries in the work place by creating a flexible environment for the employees. HR practices and policies that guide employees have to be framed keeping in view the technological changes. At times, the workforce has to adapt to the changing external environment. Hence, companies are adopting strategies to fit the changing business environment. For example in HP, employees are encouraged to be innovative so that they can adapt to the changing needs of the customers. Organizational structures can also undergo changes to suit the changing business environment as in the case of the recent restructuring of HP. The visionary CEO, Carly Fiorina, restructured the 64 units into six units to attend better to the customers needs.

The political and legal environments have an impact on the framing of the strategies and this affects the overall HR strategies. When companies operate globally, there is a need to know about the laws of a particular country in which it is operating and hence it has become important to train managers on legal issues.

Among the external factors, the economic and demographic patterns affect an organization, the most. Economic factors have a major influence on organizational strategies. For example after the September 11^{th,} 2001 attacks, the US economy was badly affected and many companies had to downsize and restructure.

The PEST analysis helps an organization to assess the various external factors that have an impact on the framing of organizational strategies.

Environmental situational factors

With the changing business environment, human environment is also undergoing a number of changes. Two major challenges that the human resources field has to face are:

- Managing Diversity
- Demographic Trends

Management of Diversity: Diversity represents the difference in the age gender etc. Diversity among employees can create better performance when it comes to creative tasks such as product development. In such tasks people from various functional groups are involved. In the present day globalized business environment, it is important to manage heterogeneous workforce. An example of a firm which aligns its business strategy and diversity strategy is Lucent Technologies. At Lucent Technologies, managers are evaluated and rewarded when they achieve diversity objectives. The company has a code of conduct for diversity, diversity training, diversity policy at the corporate and business level, a diversity network, and zero tolerance for discriminatory behavior. Diversity of employees is taken into account while recruiting. Thus, Lucent provides an example of a firm with diversity initiatives.

Lucent's example shows the impact of diversity programs on an organization and how it influences its functioning. Human resource environment is undergoing gradual changes and diversity is one of them. Managers have been trying to increase diversity to achieve the benefits of innovation and creativity. However, these initiatives may not generate the required benefits if diverse groups lack a shared understanding. This can make communication slow and difficult. First, we will analyze reasons for the evolution of the diverse workforce and later discuss the various paradigms of the diverse workforce and the way these are managed.

Reasons for the evolution of the diverse workforce are:

- Shift from manufacturing to service economy
- Globalization of the markets
- Changing business strategies
- Mergers and acquisitions
- Changing Labor Market

Shift from Manufacturing to Service Economy: Wit the increase in competition most of the industries are concentrating on the marketing and service aspects to gain customer satisfaction. Service based industries like banking, financial services and tourism require interaction with customers. It includes customers from diverse groups and different ethnic backgrounds. Hence, employees should be able to anticipate, monitor needs and expectations of the diverse groups. Similarities in culture, dress and language between the service workers and customers improves interaction and business prospects. Global companies operating in different countries are realizing the need to recruit local people who can communicate and associate with the customers. This means that companies have to manage and retain a diverse workforce which is an essential part of HR strategy.

Globalization of the Markets: Globalization has brought in more challenges for organizations around the world. They have to compete to gain customer satisfaction. Hence, companies have began to establish their presence through advertising and promotion of products in the local language or forging international alliances. As companies are operating in different countries with different cultures, the ability to understand market needs has become very important for them.

Changes in Business Strategies: HR goals are now in accordance with an organization's strategic goals. The new work environment requires better quality, innovation and effective time management. This can be accomplished better with collaborative teams. Team building must also be encouraged to produce quality products. Team building also brings in innovation as it brings in people with creative and new ideas who can collaborate and work towards gaining a competitive edge for the organization. Team empowerment should be promoted to instill a sense of commitment to the employees. Hence, it is important for teams to collaborate to develop new products, and improve customer service as part of the business strategy.

Mergers and Acquisitions: Mergers and acquisitions bring in diversity as it brings together new cultures and diverse workforces. Cultural differences are usually seen when there is a merger of companies from two different countries. The merger of Daimler Chrysler shows the importance of culture during mergers and acquisitions. Since employees were from different backgrounds they were unable to adjust to the merger. Hence, during mergers and acquisitions, it is important for both workers and managers to understand and work together for the success of the new venture.

The Changing Labor Market: The labor market is undergoing gradual changes with more women and ethnic groups joining the workforce. Managers should be able to manage these diverse groups who belong to different cultures, and religions. To make them move along the organizational structure. They have to be provided with the right skills, incentives and information to improve quality and respond to changes.

All the above reasons contribute to the evolution of diverse workforce and it becomes important for organizations to manage them.

Managing diversity paradigms

Managing diverse employees is a strategic issue and has an impact on an organization's productivity and success. (Refer Figure 3.1) The diversity program ensures that all employees are treated fairly without discrimination. According to David A. Thomas and Robin J.Ely[1] (1996) there are three paradigms, which guide the diversity initiatives in an organization. The three paradigms are:

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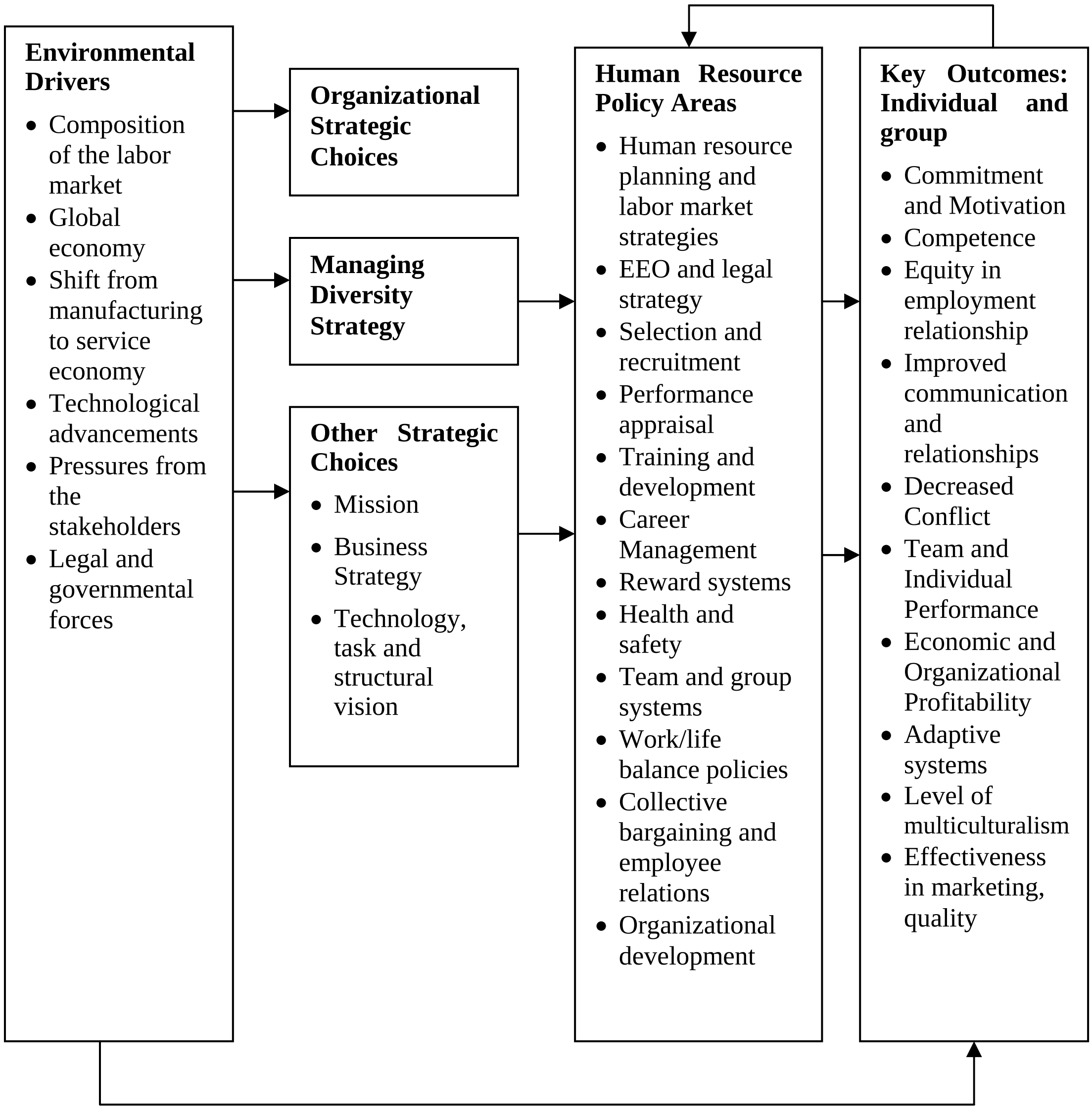
[1] David A. Thomas and Robin J. Ely, Making Differences Matter: A New Paradigm for Managing Diversity, Harvard Business Review September-October 1996

Figure 3.1: Human Resource Strategies for Managing Diversity: An Orienting Framework



Source: Ernest Kossek And Sharon A Lobel, Edited, Managing Diversity(Blackwell Publishers) 70

- Discrimination and fairness paradigm: Here, diversity is measured by a company's recruitment and how it maintains a diverse workforce. It also focuses on equal opportunity, fair treatment, and compliance with policies. Under this, mentoring and training programs are targeted at women and minorities. All the HR functions, including recruitment and training emphasize concentrate on diversity awareness. The training also helps employees to understand the various cultural differences.
- Access and legitimacy paradigm: Diversity is measured by how an organization matches internal demographics with the external diverse customers. The basic assumption of this paradigm is that organizations need a diverse workforce to establish in a multi-cultural market. Under this paradigm, organizations need to recruit employees with multi-cultural knowledge.

- Learning and effectiveness paradigm: Here, diversity is measured by connecting unique contributions to work. Employees' perspectives are aligned with the work of the organization. The goal is to redefine primary missions, strategies, markets, and practices.

Diversity processes help in managing diverse employees.

Diversity processes

Diversity Processes are developed by organizations to manage diversity. Exhibit 3.1 shows the diversity initiatives taken up by companies in US. There are a number of processes like cultural audits, awareness training, skill building training, diversity enlargement hiring strategies. Organizations can use any one of these processes or a combination of all. The main diverse processes are:

Exhibit 3.1

Diversity Initiatives in Major Companies

- At IBM, diversity is seen as the "bridge between the workplace and the marketplace," and it has become central to IBM's ability to win in the global marketplace. Diversity permeates every facet of IBM's management and technical operations. Under Gerstner's leadership, 40% of IBM's top 54-member Worldwide Executive Council are women, multicultural, or people not born in the US. These women and multicultural executives are given significant responsibility in the organization. Thirty members of IBM's Worldwide Executive Council are involved in guiding specific corporate-wide diversity initiatives. They are accountable for recruiting, retaining and developing talent and, most important, for linking IBM's diversity initiatives with the global marketplace.
- At Verizon, diversity initiatives include acknowledging the unique needs of multicultural employees, customers and other stakeholders, driving value for the customer, enhancing economic development for many types of businesses and communities, increasing shareholder equity, and winning in a global marketplace. The company also has a management bonus and compensation plan tied to diversity performance.
- For Phil Marineau, former CEO for Levi Strauss, diversity is a personal core value. The company's diversity belief system translates into a four-component diversity strategy that has been instrumental in building its business. The diversity belief system includes sourcing diverse talent, involving the community, promoting creativity and innovation. The company closely monitors reports regarding recruitment, retention and advancement of diverse people.
- Ricky Priory, CEO, Duke Energy has led the company successfully into an enterprise wide diversity model to support its position as the world's leading integrated company. Priory leads by example, sharing accountability for talent development and diversity throughout the organization. He provides the presidents of Duke Energy's various businesses with an enterprise-wide framework for diversity, at the same time grants them the freedom to create their own diversity models to support their business and derive results.

Adapted from www.businessweek.com

Cultural Audit Surveys: It is similar to needs assessment survey conducted before designing a training program. A survey is conducted to know employees' attitude towards diversity, organizational values and norms and the position of different diversity groups in the organization.

Awareness Training: Training programs to make employees understand and sort the cultural differences. The basic aim of the program is to help employees bridge the differences between them.

Skill Building Training: This helps employees to focus on the behavior and skills needed to work in a heterogeneous environment.

Diversity Enlargement Hiring Strategies: The strategies employed by organizations to hire individuals of different backgrounds to develop a more diverse workforce. An organization will become more multicultural if it hires a more diverse workforce.

Most present day organizations have been successful in managing diversity programs. They have done this by redesigning the human resources policies and practices. These practices include:

- Creating diversity awareness
- Involving the top management in the diversity initiative program
- Developing a plan of action for diversity programs
- Identifying the changes required in the human resource functions.

Management of work teams

Another important aspect of diversity is the evolution of the work teams and virtual teams. Managers of present day organizations must also manage work teams. Traditional project teams consisted of a group of people who had the requisite skills to undertake the project work. However, the new team environment reflects new values, beliefs of an organization. The present day companies encourage teamwork as it increases participation decision making and commitment of the team members to achieve certain targets. Teams are an integral part of an organization and are the basic building blocks. The changing business environment has paved way for acquiring the expertise of several people in designing new products. To use current technological innovations more effectively, an organization needs to have not just skills but also team work. Teams are thus useful in increasing efficiency. Present day organizations use many work teams. They include task forces, networking groups, project teams, self-managed teams, quality teams and cross -functional teams, to name a few.

Teams and diversity go hand in hand. The present day composition of teams differs from those of the past. A number of factors have contributed to the changes in the work teams. One factor is the changing demographics. Many organizations now have teams that are diverse in terms of age, sex, race, national, and educational background. These organizations have to frequently use cross-functional teams and self-managed teams to be more competitive. These teams bring in employees from separate functional areas with each having expertise in a particular functional area. For example, in the manufacture of new products the company needs the expertise of both the manufacturing and marketing personnel. The marketing team provides details about the type of products consumers prefer and the manufacturing team develops these products in a fast and efficient manner.

Another reason for the growing importance of work teams is the emphasis on customer satisfaction. To stay ahead of the competition, companies have to attract and retain consumers. For this, they need to manufacture products that can retain and bring in new customers. With the increased emphasis on customer satisfaction companies are teaming up their marketing experts, and manufacturers with customers. As a result of diversity, teams have increased the potential for creativity and problem-solving. At the same time, differences in performance can also crop up as people from different backgrounds have different perceptions regarding a product or service. There is no guide for managing a diverse work team effectively. But criteria on which a team is evaluated includes both the organizational and individual outcomes. Organizational outcomes include productivity, profits, increased creativity, innovation etc., while individual outcomes include job satisfaction, cohesiveness, motivation and commitment. In the organizational context, the characteristics of effective work teams are:

- The team should comprise of members with appropriate knowledge, skills and abilities to perform the tasks assigned to them.
- Have clearly defined mission and objectives, which are specific.
- Have clearly defined responsibilities for all the team members
- An efficient leader who can guide, coach and provide the team members with information and material resources.
- Provide employees with autonomy, support, feedback and rewards towards the effective performance of the team.
- In the team context the characteristics of effective work teams are:
- Having a systematic well-defined plan that can enable members to use effective communication skills and also reduce distortions in communications.
- Each member of the team should be accountable and responsible for his/her work and should actively participate in discussions and decision- making.
- Each member of the team should be receptive to each other's ideas and should be committed to the work.

Management of virtual teams

Virtual teams can be described as a group of geographically or organizationally dispersed employees to address a specific task, project or ongoing function in the organization. Virtual teams make working across continents and countries easy. The technological advancements, and the operations of companies in different continents have increased the importance of virtual teams. Using a combination of technology and teams, many companies are pursuing virtual teams to share and collaborate knowledge transfer, increase the speed of solutions and decrease bottlenecks or delays between customers and suppliers.

Planning and design are the key to the success of a virtual team. The important elements for successful implementation of virtual teams are organizational design, job design, team design and the coordination of the work of employees with the help of technology. Hence, strategic planning of HR plays a crucial role in management of virtual teams. The primary mode of interaction for the members of a virtual team is through technology. Though the virtual teams are a product of technological and organizational advancements, its growth depends on the employees ' ability to adjust to the transition from traditional to virtual work.

Specifically, virtual work creates a distance between employees and their organizations- their supervisors, co-workers and subordinates. However, distance can also be bridged through relational mechanisms like creation of trust between employees by insuring that virtual workers remain connected to retrieve important information regarding their careers. In a virtual team, it is difficult to communicate with people who have never met each other but have to share information constantly. An example of a company that has addressed this problem and brought about changes in its system is the New York-based Deloitte & Touche. The company has 90,000 employees in 130 countries, and it needed virtual work teams to make accurate information available to everyone at all times. So, the firm created a web-based tracking system that enabled anyone, anywhere in the world to check the status of company projects. The system operated like a file that contained all policy documents necessary to serve the clients, including appropriate practice tools that were developed at different locations around the world. For example, if a decision on tax issues was to take place, the company put the issue on the website. The question was posted on the Web and was answered quickly. This way, information was available to everyone on the website.

Impact of demographic trends on HR strategy formulation

Demographic changes create a number of challenges for the HR management. The older workforce which includes baby boomers (those born between 1946 and 1964) have increased in number and their supply has exceed the demand. Being mostly in the middle and senior management ranks the positions are limited in number and hence their supply has exceeded their demand. As one moves up the management hierarchy, there are fewer and fewer positions available. Incentive programs have to be developed by employers for their early retirement. Until the baby boom generation retires, there may be fewer opportunities for the Baby busters (born between 1963 to mid-1970s).

Generation X (those born in the late 1970's and early 1980's) individuals bring in advanced technologies into the work atmosphere. Their attitudes and perceptions differ from that of their predecessors. Employees of this generation would like to be empowered in their jobs and demand opportunities for personal growth and creativity. They require autonomy in the tasks being performed. Organizations should find ways to manage these professionals and device strategies to retain them. Now, project teams have emerged to help organizations manage these employees. Some organizations have also come up with stock options and other employee schemes to motivate and retain them.

Organizations also have to understand the role diversity plays in strategy formulation. The HR strategy formulation should also take into consideration the educational levels of the employees, racial diversity and age. These are the major demographic challenges for HR strategy formulation.

Internal Capital Assessment

Internal Capital Assessment helps analyze a firm’s strengths and weaknesses in financial, technological and human resources. One of the most significant trends affecting HR and people in organizations is technology. With advancements in technology and worksplaces organizations are under increased pressure to implement or develop efficient means of operation. As newer technologies are developed and implemented, the skills and work habits of employees change. It is the responsibility of the organization to upgrade existing employee skills. These changes also create demand for workers with more sophisticated skills and training. The implementation of advanced technological systems has resulted in many organizations eliminating lower level positions held by employees as these tasks can be performed through automation. Organizations have also eliminated some levels of management with fewer levels in hierarchy. Also, collaborative work is gaining importance because of technological advancements. Similarly, technology has created more flexible, dynamic organization structures that facilitate change and adaptation to changes in organization's environment. These alternative structures take the form of unbundled corporations, autonomous groupings or subsidiaries that are designed to be more responsive to changing customer needs and competitive pressures.

The rapid growth of the Internet has also significantly affected how organizations are managed. Company Websites have been utilized to reach many market segments and customers who would otherwise be inaccessible to the organization. Organizations have to manage these technological changes effectively and prepare the workforce to manage these changes.

Human resource assessment includes the analysis of the workforce, organizational culture, the changes to be implemented in the organization culture and the technology to be used for effective performance of the employees. Organizational structure and the work design are changing according to the technological changes. The present day employees expect a culture where organizations encourage teamwork, autonomy creativity and trust employees equally. The characterization of employees as human assets has important implications for the strategic management of human resources. As human assets cannot be duplicated they can therefore become a competitive advantage for an organization. Financial assessment included the balance sheet, analysis of cash flows etc., Hence, it is important for an organization to assess the human assets for effective strategy development.

Strategy Formulation

After an organization has identified the internal and external capabilities and weaknesses, it has to have a vision and mission for the successful implementation of the HR strategy. Vision presents a core ideology and an envisioned future of the organization. It should be measurable and easy for the employees to understand. The mission statement corresponds to the basic philosophy or vision underlying the business. The mission statement should describe the company's business and its activities and the position it plans to achieve in its field. The next step for an organization is to develop the future projections and the strategy through which it plans to achieve these projections. This plan can also help the organization identify and overcome loopholes.

The next step is to integrate the HR plans with the organizational plans. This will ensure the integration of HR in the strategic formulation process. The final step is to allocate organizational resources, developing processes and systems to support the HR roles. It is also important to communicate to the employees the importance of each HR policy in the formulation of the strategy.

Thus, the HR framework has to be integrated with the business strategy to be responsive to the highly competitive market.

SUMMARY

Companies have begun to realize the importance of integrating HR strategy with organizational strategies. Hence, it is important to analyze the importance of integrating HR and corporate strategy and HR and business strategy. The three different types of corporate strategies are: stability, growth and retrenchment. In the context of business strategy cost leadership, focus and differentiation have been discussed. Dyer and Holder typology is an important business strategy which identifies three separate strategies. They are inducement, investment and involvement strategies. The typology has primarily emphasized a fit between HR strategies and organizational strategies, to drive corporate performance.

An interaction of a firm with its environment is important in framing strategies. The Human Resource Strategy Framework helps in analyzing the external environmental scan and internal capital assessment. The external environment scan includes competitor analysis, stakeholder analysis, political, economic, social and technological analysis (PEST). The competitor analysis can be discussed on the basis of Porter's five factors that shape the performance of a firm. They are – Intensity of rivalry, threat of new entrants, threat of substitutes, bargaining power of buyers, and bargaining power of suppliers. Apart from these, the demographic factors and the influence of work teams play an important role in HR strategy formulation. Stakeholder analysis includes the different expectations the stakeholders have from a company in terms of its performance and effectiveness. Strategy formulation should hence consider the interests of all the stakeholders. An internal capital assessment helps analyze a firm's strength and weaknesses in financial, physical, human and technological.

Other factors that influence the formulation of HR strategy are the diversity trends and the demographic trends. The shift from manufacturing to service economy, globalization of the markets and changes in business strategies played an important role in managing a diverse workforce. Managing virtual teams and work teams is also important for the present day HR departments. If these teams are managed effectively, they can bring about a collaborative work environment that can be beneficial for organizations.

Section II

Strategic Human Resource Management–Implications for Organizations

Chapter 4

Redesigning Work Systems

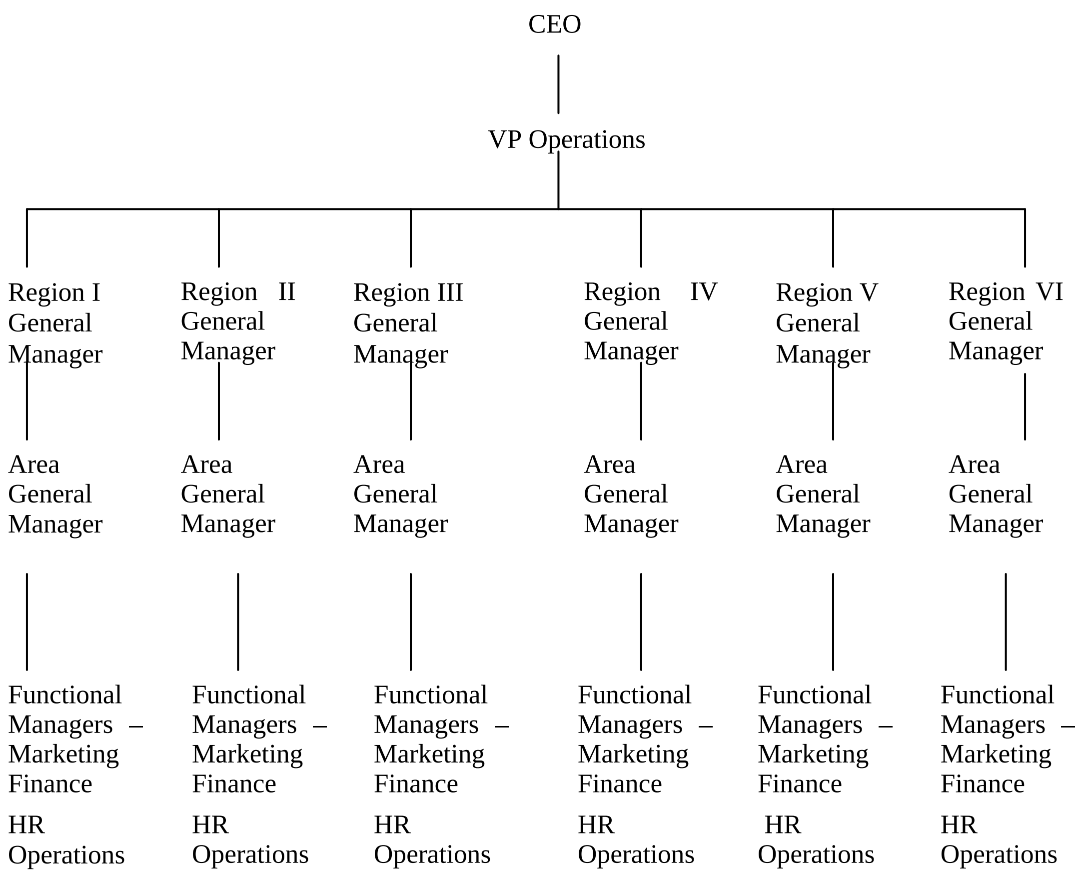
In this chapter we will discuss:

- Designing Work Systems
- Redesigning Work Systems
- Organizational Design Processes
- Factors Affecting Design Processes
- Organizational Structure
- Types of Organizational Structure
- Enacting Strategy for Structure
- Emerging Issues in Organizational Redesigning

By 1999, seven CEOs had resigned from Coca-Cola (India) within a span of four years. It was obvious that something was wrong within the company. Coca-Cola identified that the problem lay in its human resources and hence took up a restructuring exercise. The restructuring process began with the merger of four of its bottling operations.

Coca-Cola's four bottling operations were merged to form two separate entities. Coca-Cola India (Corporate and marketing division) and Coca-Cola beverages. The merger was followed by an organizational restructuring plan to create a better, flat and flexible structure with clear reporting relationships (Refer Figure 4.1). Coca Cola divided India into six regions. Each region had a regional general manager who directly reported to the Vice-president (operations). All the six regions also had their area managers. Each area manager looked after the operations of at least six bottling plants. The functional managers at the bottling plants reported to the area managers. Coca-Cola also instituted a new career planning system and a performance appraisal system. It also took comprehensive cost-cutting measures to increase profitability. As a result of the restructuring, the company registered an increase in its market share and profits.

Figure 4.1: Coca-Cola after Restructuring



Source: Icfaian Centre for Management Research

DESIGNING WORK SYSTEMS

The human resource department, with the help of other functional specialists, designs an organizations work system. The focus during the whole process is to create a work system which can support frequent technological changes. Secondly the job design, which is an integral part of the work system should motivate employees and keep them busy. Work done by employee as part of their job implies productivity for the organization and constitutes a career for the employee. The need is mutual and so is the benefit, however an improper job design can demoralize the employee. A well-designed work system can extract the best out of an employee.

Approaches to Work System Design

Organizations adopt different approaches for designing their work systems. Some of this approaches are:

- Specialist approach
- Generalist approach
- Strategic approach

Specialist approach

Initially, the focus of work systems was on the employees' specific jobs. A limited number of tasks constituted a particular job. Employees were made to specialize in only those tasks. This was done to increase efficiency and productivity. The best example of a company that adopts a specialist approach and which believes in a high degree of specialization is United Parcel Service (UPS). The major drawback of this approach was that work became monotonous.

Generalist approach

The basic objective behind this approach is to develop employees who have a wide range of skills. Management uses techniques like job rotation, job enlargement and job enrichment to develop employees who have a wide range of skills. Employees are held responsible and accountable for a variety of jobs and as a result they become experts in doing a number of jobs. This approach is being followed by many modern organizations.

Strategic approach

In this approach, jobs are assigned keeping in mind employee's capability and the nature of job. The objective behind adopting this approach is to assign right job to the right employee. Strategic approach can be further categorized into two types:

1) Fitting people to jobs
2) Fitting jobs to people

Fitting People to Jobs

In this approach, the employees are selected keeping in mind the job design. For example, call center jobs are monotonous as they require the call center executives to answer calls continuously. Here, the nature of the job cannot be changed so the call center industry has to find people who can fit into such jobs. This can contain discontent due to the nature of the job. Hence, the need for fitting people to jobs.

Fitting Jobs to People

Sometimes, an organization needs to redesign a job to suit an employees requirements rather than that of the organization. For example, a scientists job in a research and development center requires a high degree of specialization but lacks job interdependence. In case organization appoints a brilliant scientist who cannot fit into the available jobs then it has to design a job to suit the scientist's requirement.

Elements in Redesigning Work Systems

There are a three elements that need to be considered while designing work systems. They are:

- Job design
- Job inter-relationships
- Employee needs

To begin with lets first understand what is meant by a job. Job is a combination or collection of various tasks which are performed by an employee to attain the overall organizational objective. For example, college may have a number of lecturers teaching different subjects but they all do the same job namely teaching.

Job design

It is defined as the "Delineation of task responsibility as dictated by organizational strategy, technology and structure, and is a key determinant of individual motivation and ultimately of organizational success." (De Cenzo). Job design is the 'How' part of any job. It is the study of every single task, its attributes and how these tasks combine to form a job. Job content is one of the biggest motivator for employees. If the job is repetitive and boring, it will lead to disillusionment on the part of the employee.

Job inter-relationship

In an organization, no job is a stand alone job. Each employees job is interrelated or interdependent on co-worker's job. An employee has to coordinate with other employees to perform a particular job. Hence, jobs are interrelated and interdependent.

Job interdependence can be of three types:

Pooled Interdependence

A job where there is very little inter-dependence and allows employees to work at their own pace. The work environment is not regulated and usually a framework is provided for coordinating the effort of individual employee. For example life insurance agents work independently but within the framework of LIC's guidelines.

Sequential Interdependence

An employee's work is totally dependent on the work of fellow employees. This kind of job relationship is linear and follows a definite structure. For example, in case of a production unit's assembly line the work is done in a sequential manner. There is need for perfect coordination as the job of a worker in the assembly line is dependent on the job done by his co-workers.

Reciprocal Interdependence

It is an unstructured and non-linear work relationship. This kind of work relationship develops in organization where the work done is unpredictable and which requires an organization to adapt to different situations. Reciprocal interdependence is mostly seen in project teams.

Employee needs

The Hawthorne experiments[1] and the subsequent human relations movement led management thinkers analyze employees' expectations from job. A study of the demographics of workforce showed that employees came from different social and cultural backgrounds. Since they had different reasons for working their perception of

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[1] The experimental studies conducted by Elton Mayo and his team at the Hawthorne plant of Western Electric for determining the relationship between work setting and workers productivity are referred as Hawthorne experiments.

work also differed. Workers needs at the workplace too were not the same. Hence, the workers required different types of training, compensation and benefits programs. Another area that needs to be looked at is the loyalty of employees. Many employees leave their jobs because they are unable to find time for their personal life. Organization should try and design work systems which balance the work and personal life of employees. Long working hours can cause frustration in employees and they may suffer from a burnout which ultimately affects their performance. Finally, while designing work systems, sufficient thought should be given to the safety and comfort of workers, especially in manufacturing organizations.

REDESIGNING WORK SYSTEMS

To keep up with technological changes, improve performance, increase flexibility and adaptability, organizations need to change their work systems. Organizations need to stress more on teamwork and cross-functional teams rather than individuals specializing in a particular job for achieving the same. Redesigning should be done taking into consideration the needs of both the employer and the employee. As work redesigning is a change process, it is important for the employer and employees to work together to achieve the desired results. The whole process must focus on developing an efficient system which improves the performance of employees (Refer Exhibit 4.1).

Exhibit 4.1

HP's Redesigned Work System

Hewlett-Packard, the US-based IT company, manufactures IT products like printers, microcomputers, scanners etc. In the case of printers, HP has a market share of more than 40% but has a very small share for other products. In 1990, John A. Young, the then CEO of HP, started an organizational analysis to know why HP's other products were trailing in terms of market share. HP found that the problem lay in its organizational structure and so began a restructuring process. The company found that its organizational committees, which had been formed for coordinating various businesses, were the major stumbling blocks. These committees made the process of decision-making, time consuming. Young wanted to redesign HP on the lines of its printer business. HP's printer business was an independent unit without any organizational committee. As part of restructuring, Young dismantled the committee-based structure and reduced the number of levels in HP's structure. He also reorganized HP's businesses by dividing them into two main groups. The first business group was to focus on personal computers and printers while the other was for workstations and minicomputers. As a result of the restructuring, HP gained market share in all its businesses.

Source: Ricky W. Griffin, Management, Fifth edition, (AITBS publications)

Stages in Redesigning Work Systems

Before redesigning the work systems, organizations need to look at certain strategic areas and go through a process of organizational analysis so that the new system is better than the existing one.

Redesigning work systems can be categorized into four stages:

1) Inquiry and reflection
2) Asking critical questions
3) Unearthing assumptions
4) Applying change

Inquiry and reflection

A manager needs to understand the flaws in the old system and the need for a new system before redesigning the work systems. Organizations form design teams to redesign an existing work system. The design team consists of employees from all levels, suppliers, customers, labor organizations etc. The redesign team begins by questioning the efficiency of the existing system and the characteristics of the future system. Some of the questions are:

- What is the need for having a new system?
- How will the new system increase the efficiency of employees?
- How will a new system affect an employees work?
- What will happen if the redesigned system fails?

Asking critical questions

Although the questioning process begins in the first stage itself, the design team, needs to ask certain critical questions which are important for redesigning of the new system. They are:

- What is the aim behind redesigning?
- What is the guarantee that change will be for the better?
- What are the crucial areas where changes are needed?

The answers to these questions will help in the designing of a better system.

Unearthing assumptions

Organizations need to consider the appropriateness of human resource policies, practices, leadership, and teamwork while designing work systems. When an organization designs a system for the first time, it makes certain assumptions about the human resource policies, practices, leadership, and teamwork. These assumptions should be kept in mind while redesigning the work system. Finally, organizational culture should not deteriorate due to the redesigning.

Applying change

In some organizations, an external consultant is hired to redesign the work systems. However, whether an organization has an internal team or hires an external consultant to redesign the work systems, it is important for at least the key employees to know the concept, need and importance of organizational change. It is also important for the changes to be implemented in stages rather than at one go. It is also important to take employees into confidence while redesigning the work systems as they fear loss of position or authority because of redesigning. The reason for redesigning and the apparent need for change should be explained to them.

ORGANIZATIONAL DESIGN

It is the process by which an organization develops its structure keeping in mind its goals and objectives. The focus of organizational designing is to align organizational goals with the organizational structure for better implementation of strategies. The level of complexity in organizational designing differs in each organization. The organizational design is also changed to adapt to different situations. Table 4.1 shows the differences between old and new organizational designs.

Table 4.1: Differences between Old and New Organizational Design

Old Organizational Design	New Organizational Design
One large corporation	Mini business units and cooperative relationships
Vertical communication	Horizontal communication
Centralized top down decision making	Decentralized participative decision making
Vertical integration	Outsourcing and virtual organizations
Work or quality teams	Autonomous work teams
Functional work teams	Cross-functional work teams
Minimal training	Extensive training
Specialized job design focused on individual	Value chain- team focused job design

Source: David Hunger and Thomas Wheelen, Strategic Management, Sixth Edition, Addison Wesley publications.

ORGANIZATIONAL DESIGN PROCESSES

Organizational designing can be done in two ways:

1. Differentiation and
2. Integration

Differentiation

Organizations work towards achieving certain goals. These goals are achieved when people perform their jobs in accordance with the set strategy. Differentiation is the process by which various organizational goals are broken into identifiable tasks.

The various dimensions of differentiation are:

1) Horizontal differentiation
2) Vertical differentiation and
3) Spatial differentiation

Horizontal differentiation

Organizations are divided into various sub-units. This division is done on the basis of knowledge, training or on the type of work done by employees. The extent to which the organizational sub-units differ from each other is called horizontal differentiation. For example, the nature of work of a software quality testing engineer and a product quality testing engineer in a software and production department differs fundamentally, though both are designated as quality testing engineers. Horizontal differentiation increases with the degree of specialization.

Vertical differentiation

Employees have different degrees of authority and responsibility because of the difference in their positions. Differentiation arising due to the difference in levels or positions of employees is called vertical differentiation. Some organizations have tall structures while others have flat ones. Organizations with tall structures have greater vertical differentiation compared to those with flat ones. Tall structures are more bureaucratic so process of decision-making takes more time.

Spatial differentiation

When an organization sets up branches and offices in new areas, the lateral expansion which increases its number of business units is called spatial differentiation. Coca-Cola is an example of a company with vast spatial differentiation.

Integration

Organizations usually have various departments and divisions which perform various functions. The extent of coordination and collaboration between the divisions or departments or sub-units is called integration. Integration is of two types:

1) Vertical integration and

2) Horizontal integration

Vertical integration

As there are different levels in an organization, there is a need for coordinating employee activities to achieve organizational goals. This process of coordinating activities of different levels in an organization is called vertical integration. Organizations use a variety of tools to achieve vertical integration. These are called as vertical linkages. Linkages can be in the form of policies, procedures, rules and regulations which govern the accomplishment of the organization's tasks and objectives.

Management Information Systems (MIS) is also a tool for vertical integration. MIS integrates the organization by facilitating information flow between various levels. Organizational hierarchies are also manipulated for achieving vertical integration. Organizations having tall structures need more vertical integration than those with flat structures.

Horizontal integration

Coordination of activities of the same level and within the departments is called horizontal integration. Horizontal integrators include communication tools like telephones, fax, liaison officers, task forces and cross-functional teams.

In some organizations, a department or person acts as an integrator. In organizations where there are many departments or divisions, there is a greater need for horizontal integration.

For example, Ford Motor company uses a number of cross-functional teams to achieve a higher degree of horizontal integration.

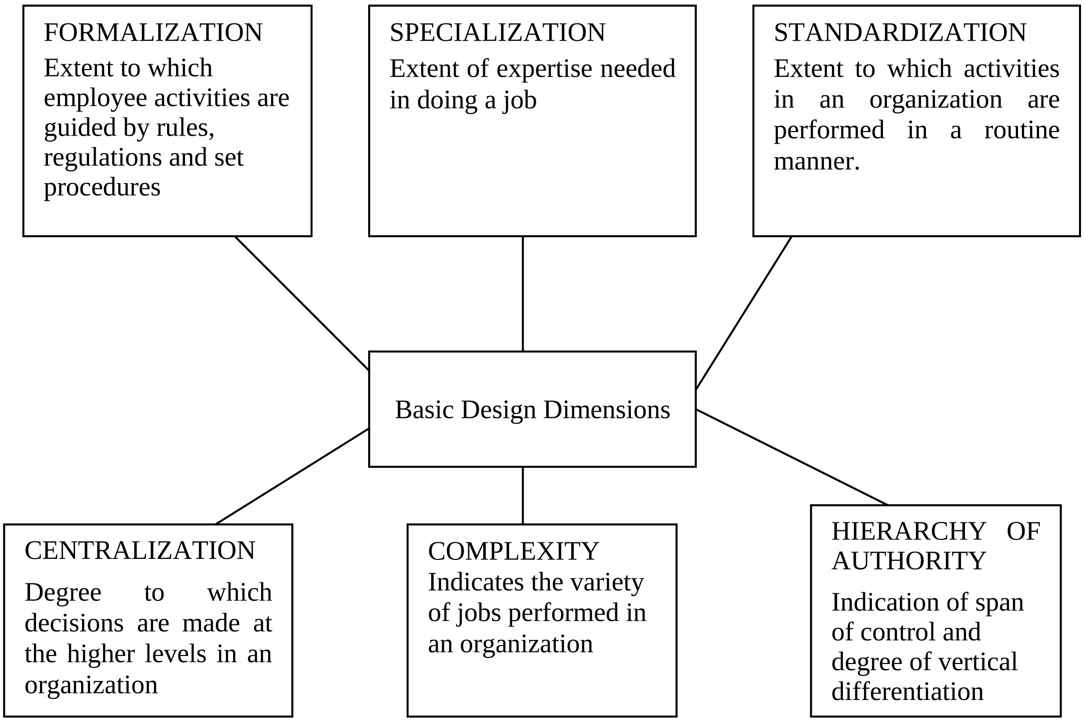
Organizational Design Dimensions

To achieve organizational goals, organizations need the right mix of integration and differentiation. We have already discussed the importance of organizational design elements as central to achieve these goals and objectives. Organizations need to consider certain design dimensions for designing a suitable structure which is coherent with the organizational strategy (See Figure 4.2).

These design dimensions combine in variable proportions and indicate the kind of organizational structure present in an organization.

A high degree of specialization, centralization, complexity and standardization indicates that the organization has a tall, bureaucratic structure where the decision-making takes a lot of time. They are highly controlled and the authority is with the top management. On the other hand, organizations which are low on these attributes have greater flexibility and have a lesser degree of control.

Figure 4.2: Six Basic Design Dimensions



Source: Icfaian Center for Management Research

FACTORS AFFECTING DESIGN PROCESS

Organizations undergo change, become obsolete or ineffective due to changes in size, technology, environment and its strategies and goals. Hence it is difficult to label one particular structure as an ideal structure for any organization.

Hence organizations need to review and redesign their structures as and when the need arises. The structure should be redesigned keeping in mind certain factors like:

1) Size
2) Technology
3) Environment
4) Strategies and goals

Size

It's an indication of the number of employees working for the organization. Size is very important in the context of designing an organization. In most cases, the size of the workforce is an indication of the organization's scale of operations. In most organizations its assets, employee strength, geographical spread, diversity and production are an indication of its size.

From Table 4.2 it's evident that complexity, specialization and standardization are low in small organizations. Larger organizations may have more levels in their hierarchy and hence may have tall structure when compared to smaller organizations. For example, Mcdonalds, a fast food giant, specializing in hamburgers has a high degree of formalization, specialization and standardization.

Table 4.2: Organizational Size and Design Dimensions

Basic Design Dimensions	Small Organization	Large Organization
Formalization	Less	More
Centralization	High	Low
Specialization	Low	High
Standardization	Low	High
Complexity	Low	High
Hierarchy of authority	Flat	Tall

Source: Debra Nelson and James Campbell, Organizational Behavior, third Edition (South-Western College Publishing)

Technology

Technology has redefined the way organizations work. Organizational structure varies according to the degree of usage of technology. Variability of structures can be attributed to the tools, techniques and equipment used in an organization in the process of delivering a product or service.

Joan Woodward[2], a sociologist, wanted to study the relationship between the size and success of an organization. She could not find a relationship between the success of a firm and its size.

She then focussed her attention on technological aspects, which affected the organizational design. She identified three tiers of technologies which affected organizational designing. (See Table 4.3)

Table 4.3: Woodward's Findings on Effect of Technology on Organizational Structure

	Small Batch	Mass Production	Continuous Process
Levels of Management	3	4	6
Executive Span of Control	4	7	10
Supervisory Span of Control	23	48	15
Industrial workers Vs staff	8.0:1	5.5:1	2.0:1
Formalization	Low	High	Low
Centralization	Low	High	Low

Source: Debra Nelson and James Campbell, Organizational Behavior, Third Edition (South Western College Publishing)

1. Unit and small batch production
2. Large batch and mass production
3. Continuous process production

[2] Joan Woodward was a British academician. She authored number of books, some of which are 'Industrial Organization: Theory and Practice' and Industrial Organization: Behavior and Control.

The complexity of technology used in these systems increases from small batch to continuous process technology.

Unit and small batch production

In this system, customized products are manufactured. The customer's specifications drive the whole manufacturing process. Customized Limousines car (Stretched Limousines) are an example of this kind of product.

Large batch and mass production

As the name suggests, products are made in large numbers. Assembly lines are used during production. For example, microchips used in computers are mass produced.

Continuous process production

Raw materials are processed in continuous manner by a number of machines to get the final product. Chemical and petroleum refineries are one such example. Woodward conducted her research by taking a sample of 100 UK-based companies. From her study she concluded that:

1) Increasing complexity of technology also meant a tall organizational structure with a number of levels.
2) Increase in the executive's span of control.
3) Requirement of fewer but highly skilled workers.
4) Level of specialization and formalization needed was very high in large and mass production organizations.

Environment

Tom Burns and G.M.Stalker[3] hold the credit for finding the relationship between environment and organizational design. They studied twenty organizations and came to the following conclusions. They identified two types of extremities in the environment. One was a highly stable environment and the other was highly unstable. Then they identified organizations which worked in these environments. They found that the organizational design of companies working in stable environments differs from those working in unstable environments. On the basis of this, they divided the organizational designs into two types. (See Table 4.4)

1) Mechanistic and
2) Organic

Mechanistic

This organizational design is characterized by a bureaucratic system, tall structures, highly centralized decision-making, with rules and regulations for every activity. This kind of design is adopted by organizations which work in a highly stable environment.

Organic

It's an organizational design characterized by a high degree of flexibility, flat structures and delegation of authority. Organizations which work in an unpredictable environment and which have to change and adapt for their survival belong to this category.

Organizational strategies and goals

Organizational design is greatly affected by an organization's strategy. Both corporate strategy and business strategy have a say in the organizational design.

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[3] Tom Burns was Emeritus Professor of Sociology at the University of Edinburgh. Along with sociologist G.M. Stalker wrote the landmark book 'The Management of Innovation' in 1961.

Table 4.4: Relationship between Environment and Organizational Design

Characteristics	Mechanistic	Organic
Environment	Stable	Unstable
Decision-making	Centralized	Decentralized
Rules and Regulations	Many	Few
Form of Communication	Instructions and decisions imposed by superiors	Information and advice provided by superiors
Communication channels	Top-down	Top-Down and Lateral
Tasks	Specialized	Generalized
Structure of control	Hierarchical	Networked
Emphasis on	Loyalty and obedience to superiors	Commitment to goals

Source: Debra Nelson and James Campbell, Organizational Behavior, Third Edition (South Western College publishing)

Corporate strategy and organizational design

Corporate strategy is the overall strategy adopted by an organization to manage all its strategic business units.

Business strategy

It's a strategy that is focused on a single business unit rather than the whole organization or business group. Table 4.5 shows the various structures that can be adopted by organization depending on their business strategies. For example if an organization has adopted cost leadership strategy then functional structure would be an apt structure for this strategy.

Table 4.5: Competitive Strategies and HR Practices

Strategy	Structure	Design Dimension
Focus	Functional	High formalization, centralization, and low complexity.
Cost Leadership	Functional	High formalization, centralization and low complexity
Market Differentiation	Divisional / hybrid	Moderate complexity ,centralization and formalization
Innovative differentiation	Matrix	Low formalization, decentralization and flat hierarchy.

Source: Debra Nelson and James Campbell, Organizational Behavior, Third Edition (South-Western College Publishing)

The mapping of business strategy to the organizational structure has been done by Danny Miller[4]. He suggested suitable structures for Michael Porter's different business strategies.

1) Focus
2) Cost Leadership
3) Differentiation

Focus

It’s a business strategy in which the company tries to gain competitive advantage by concentrating on one particular product, market or customer group.

Cost Leadership

If the company reduces the cost of its product for gaining competitive advantage then it's called cost leadership. For example Wal Mart, a retailing chain, uses this strategy for edging out its competitors. It sells a variety of products at a cost lower than its competitors for gaining competitive advantage.

Differentiation

If a company’s products and services are unique in the sense that they are the only one of its kind available in the market then it is called differentiation. Uniqueness in product features, service delivery system etc. is termed as differentiation. Differentiation can be further divided into market and innovative differentiation. For example, BMW has differentiated itself on the basis of its features in its cars.

ORGANIZATIONAL STRUCTURE

It is a formal pattern of linkages between different jobs and departments within the organization. It is usually depicted in an organizational chart as a wiring diagram which also indicates the reporting relationships. Formal here, implies the formal relationship created by the management which is specific and applicable to a particular function. Informal relationships which are formed because of commonality in interests also exist in organizations.

Enacting Strategy for Structure

The most important question that arises during the discussion relating to the relationship between strategy and structure is "which comes first, strategy or structure." Alfred D. Chandler[5], business historian, was the first to ask this question. In his book 'Strategy and Structure' he has written about the precedence of strategy over structure. He studied the top twenty US firms and concluded that strategy governs structure. In other words, whenever organizations change their strategy a change in structure usually follows.

Business environment is dynamic and there is a need to adapt to the changing environment. Companies devise various strategies to adapt to the changing business environment and structure plays a vital role in the implementation of these strategies. The problem here is that structures cannot be changed immediately when there is a change in strategy. Hence, organizations have now realized the need for flat and

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4 Danny Miller and G. Morgan in their book 'The case for Configuration' have discussed the concept of mapping strategy and structure.(Sage Publications, 1983)

5 Alfred Chandler is the Isidor Straus Professor of Business History, Emeritus at the Harvard Business School. For an introduction to Chandler and his work, please see 'The Essential Alfred Chandler: Essays Toward a Historical Theory of Big Business'

flexible structures. Alfred Chandler's work has been criticized by other management thinkers on the ground that it is not comprehensive. The relationship between structure and strategy is complex and hence needs a broader view. Structure may follow strategy but in many cases, changes in structure had changed or altered strategy.

For example, Eastman Kodak was losing a lot of business to Fuji Photo between 1981 and 1985. The problem lay with the Eastman Kodak's structure which did not allow it to implement a strategy whereby it could compete with Fuji. In order to become more competitive, Eastman Kodak changed its structure which in turn prompted a change in strategy. Eventually, Kodak began to regain its lost market share.

Hence, whether structure follows strategy or vice versa, a misfit between the two should be avoided.

TYPES OF ORGANIZATIONAL STRUCTURES

There are two types organizational structures. They are

- Traditional structures and
- Emerging structures
- Traditional structures can be further divided into
  - Functional structures
  - Divisional structures
  - Hybrid structures
- Emerging structures can be further divided into
  - Matrix structures and
  - Network structures

Functional Structures

Grouping of positions in an organization on the basis of the function performed is called functional grouping and the structure formed is called functional structure. Table 4.6 explains the various functions performed in an organization. These are broadly the functional areas in an organization. Some organizations may also have other functional areas depending upon the product or services.

Functional areas may differ depending upon the type of business. For example, a company which deals in the transmission of power may have an energy department but not a sales department. (See Figure 4.3)

Uses of functional structures

Small and medium scale companies use functional structures as it is easy to coordinate between the different levels in the organization. Functional structures have a clear reporting relationship and hence are adopted by smaller organizations having a single product or service.

Advantages

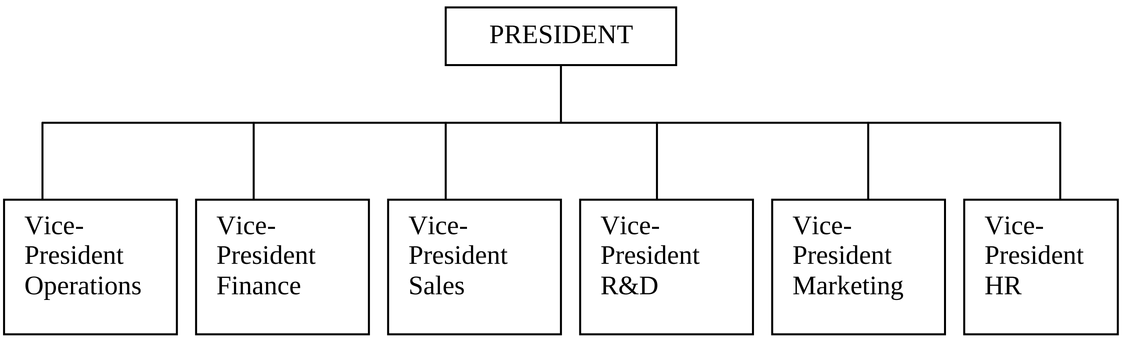
Employees working in the functional departments become experts in that field over a period of time. This makes them more efficient and they plan their careers in the area of their expertise. Functional structures offer better coordination and better utilization of resources and this gives an organization a competitive advantage over other firms.

Table 4.6: Work Done in Various Functional Departments

Function	Work Done
Production	Concerned with manufacturing of products and providing services
Finance	Obtaining finance (Money) for the organization for its projects or operations
Human Resource	Acquiring, motivating and retaining of personnel for the organization
Accounting	Deals with preparation of financial statements and financial reporting
Legal	Role of an advisor on legal function.
Marketing	Deals with advertising, distribution, sale of product and services
Research and Development	Develops new and unique products for the organization through research and also helps in the development of new methods of production.

Source: Icfaian Center for Management Research

Figure 4.3:Functional Structure



Source: Kathryn and David Martin, Management, Second Edition, (McGrawHill Publication)

Disadvantages

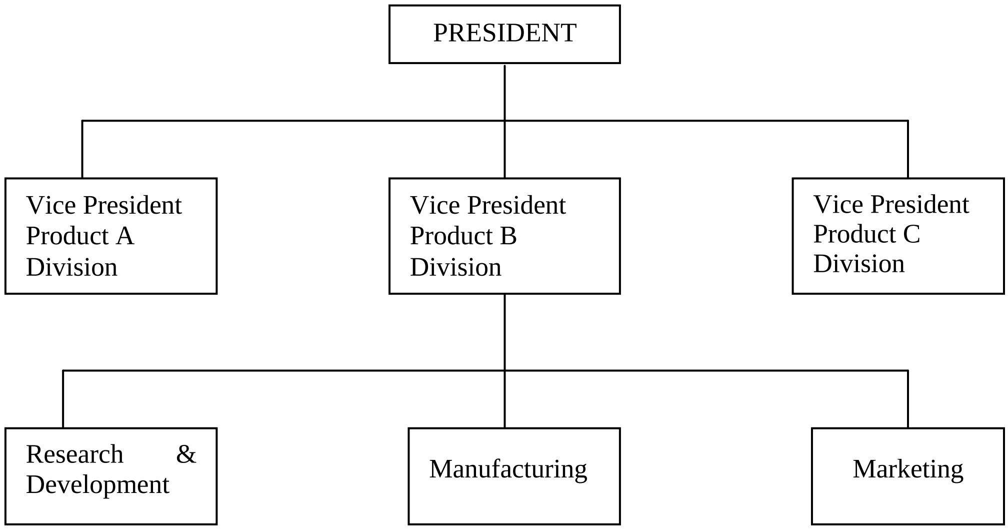
Functional structures are bureaucratic and hence the decision-making takes a lot of time. The employees become specialists rather than generalists. Another major disadvantage with the functional structures is the difficulty in measuring an employee's performance. In a functional structure, employees who do not perform well may go unnoticed because of the efficiency of other employees.

Divisional Structure

Some organizations offer a variety of products and services to their customers. These products and services may result from related or unrelated diversification. The structure that results from this type of grouping based on the similarity in products, services, markets etc. is known as divisional structure. (Figure 4.4 and Table 4.7)

In a divisional structure every product has its own functional departments. Divisional structures has its own variants like product divisions, customer divisions, and geographic divisions.

Figure 4.4: Divisional Structure



Source: Kathryn Bartol and David Martin, Management, Second Edition,(McGrawHill Publication)

Table 4.7: Organizational Divisions and their Focus

Type of division	Focus
Product divisions	Every product the company offers has its product division. Aim is to concentrate well on all the product lines.
Customer divisions	To take care of particular type of customers. For example a division may be set up particularly to deal with corporate clients.
Geographic divisions	To take care of the markets in different geographical areas in which the company operates.

Source: Icfaian Center for Management Research

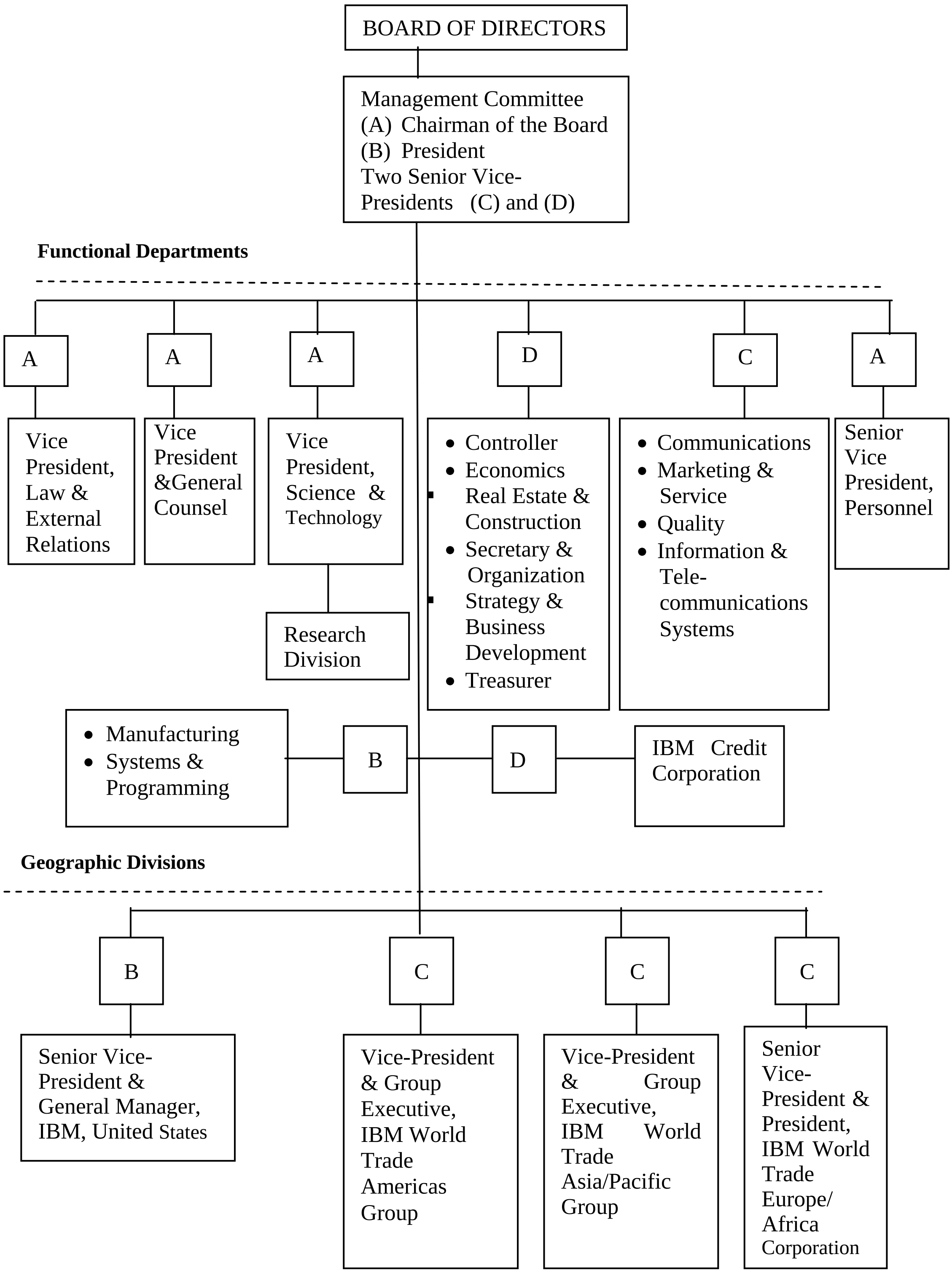
Advantages of divisional structures

Divisional structures make organizations proactive. It takes them closer to their prospective customers and makes them focus on their needs and demands. A divisional structure has more autonomy and hence decisions are made quickly. Further, as organizations focus more on their customers, markets and products, they can easily gain competitive advantage over their competitors.

Disadvantages

In the case of divisional structures, every division has its own functional departments. Having the same functional department in all the divisions leads to duplication of resources. If a company has a functional structure it has only one sales department. If it has a divisional structure every division has its own sales department. This means employing a sales force for every department and hence an increase in expenditure. Finally, this may lead to unhealthy competition among employees in various functional departments within the divisions.

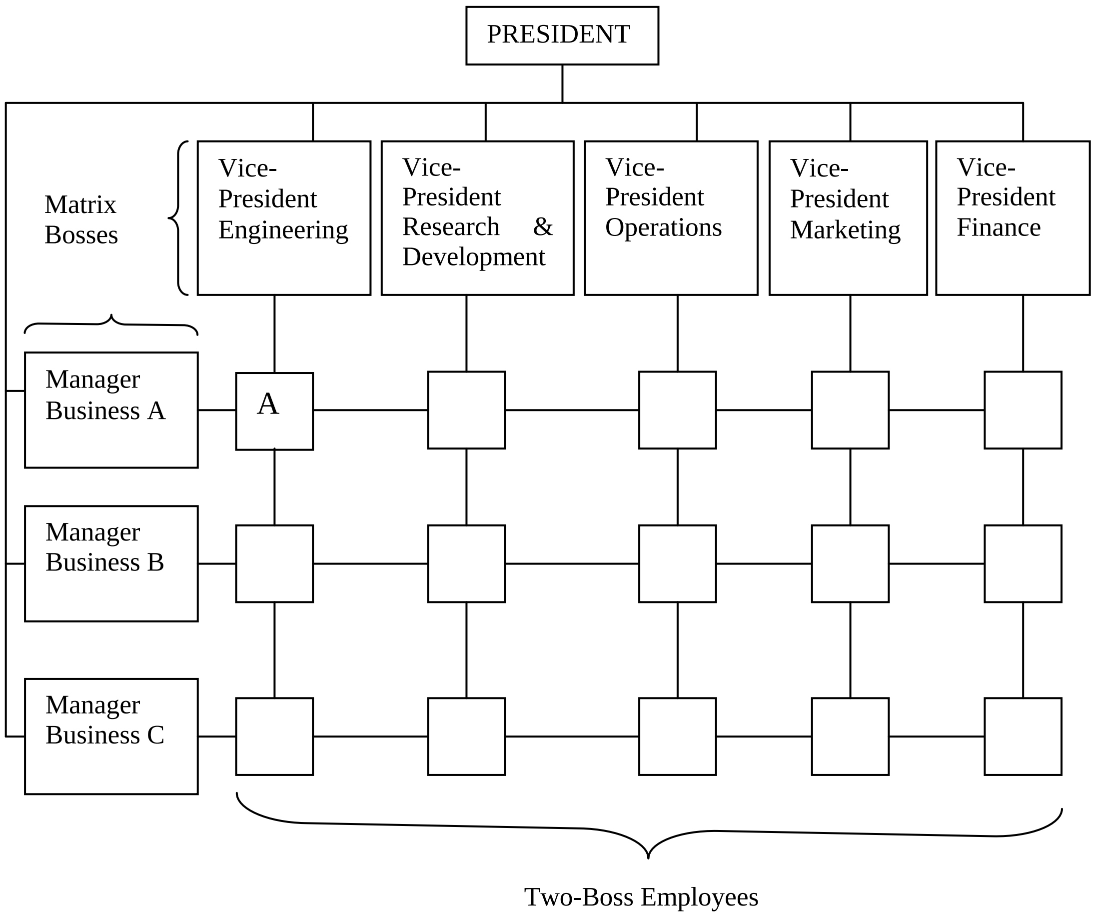
Figure 4.5: Hybrid Structure at IBM



Note: Reporting Relationships are indicated by letters A, B, C, and D.

Source: Kathryn Bartol and David Martin, Management, Second Edition, (McGrawHill Publication)

Figure 4.6: Matrix Structure



Source: Kathryn Bartol and David Martin, Management, Second Edition, McGrawHill Publication.

Hybrid Structure

A hybrid structure combines the best attributes of both divisional and functional structures. As discussed earlier, functional structures offer economies of scale, efficiency and employee expertise whereas divisional structures make organizations more focussed in terms of its customers, products and markets. In hybrid structure functional departments are known as corporate departments. Organizations which are huge in size, operate in many countries and offer a variety of products to its customers adopt this kind of a structure. IBM has this type of structure (See Figure 4.5).

Advantage of hybrid structure

The functional expertise combined with divisional focus is a great advantage for big firms with multiple products and markets.

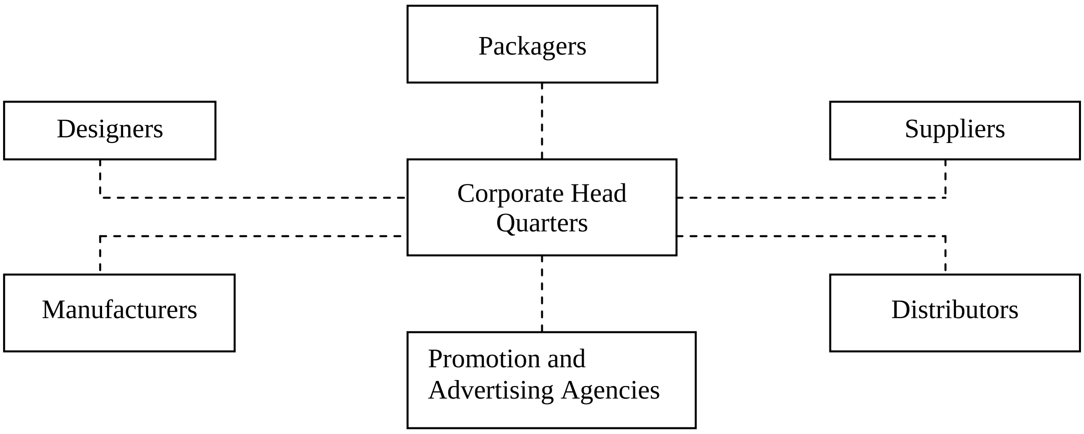
Disadvantages

There is a possibility of conflict between employees of the functional and divisional structures. There is duplication of resources. Coordination between levels become difficult in hybrid structures and this delays decision-making.

Matrix Structure

Matrix and Hybrid structures are often confused for each other. In the case of hybrid structures, the functional and divisional structures do not lose their identity. In case of

Figure 4.7: Network Structure



Source: David Hunger and Thomas Wheelen, Strategic Management, Sixth Edition, (Addison Wesley Publications)

matrix structure functional and divisional forms are superimposed and hence they both lose their identities. Employees working in an organization with a matrix structure have a dual reporting relationship. For example in Figure 4.6 employee 'A' reports to the manager of business 'A' and also to the Vice-president (engineering). Matrix structures are ideally suited for organizations that work on projects.

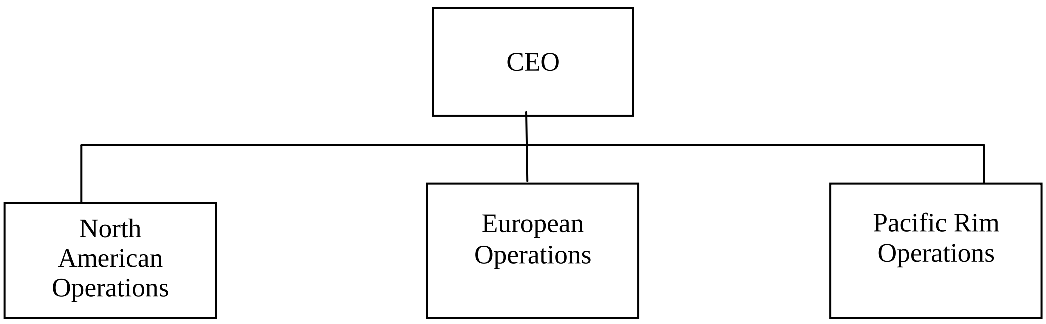
Advantages

The biggest advantage of a matrix structure is that the decision-making is pushed to the lowest level in the organization. It encourages teamwork and every employee contributes in some way or the other. There is a high degree of coordination and efficient use of available human resources. Matrix structures help organizations adapt to the changing business environment.

Disadvantages

The matrix structure violates 'Unity of Command'[6] principle of management. It leads to conflict and confusion because of the dual reporting relationship. There are chances of a clash between project managers and functional managers. Administrative costs increase because of the inclusion of project team members.

Figure 4.8: Structure at Ford



Source: Hill W.L. Charles, International Business, Second Edition, McGrawHill Publications.

[6] Henry Fayols' Principles of Management.

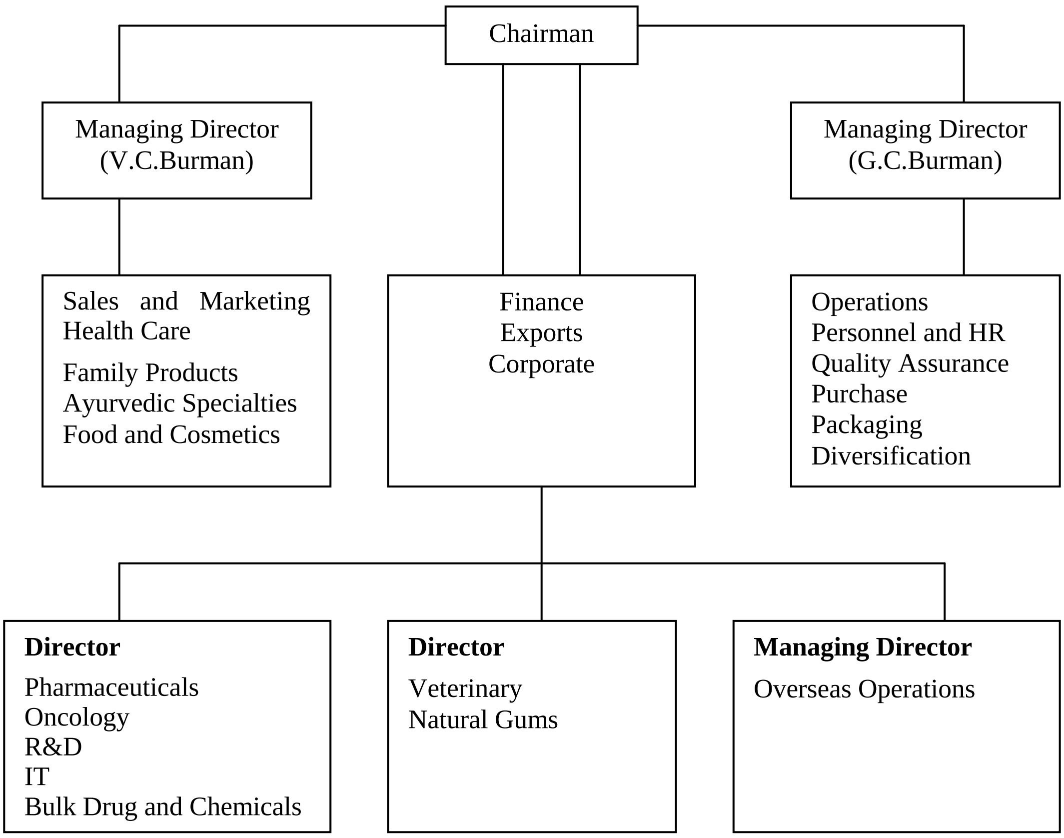
Exhibit 4.2

Restructuring Dabur

Dabur, India's Ayurvedic and pharmaceutical major hired Mckinsey & Co. for its restructuring. Dabur, which had diversified into the Fast Moving Consumer Goods (FMCG) sector, was doing badly in its pharmaceutical and ayurvedic business which was its core business. To regain its market share and also improve its FMCG business, Dabur revamped its organizational structure. The Burman family, which had a majority stake in Dabur, handed over the management to professional managers and for the first time appointed CEO from outside (Ninu Khanna) to take care of its businesses. It also took initiatives to benchmark its HR policies against FMCG majors like HLL, and Procter & Gamble. In terms of structure, it separated all its businesses, appointed separate business heads, and turned them into individual profit centers (Figure 4.9 and 4.10).

Source: Icfaian Center for Management Research

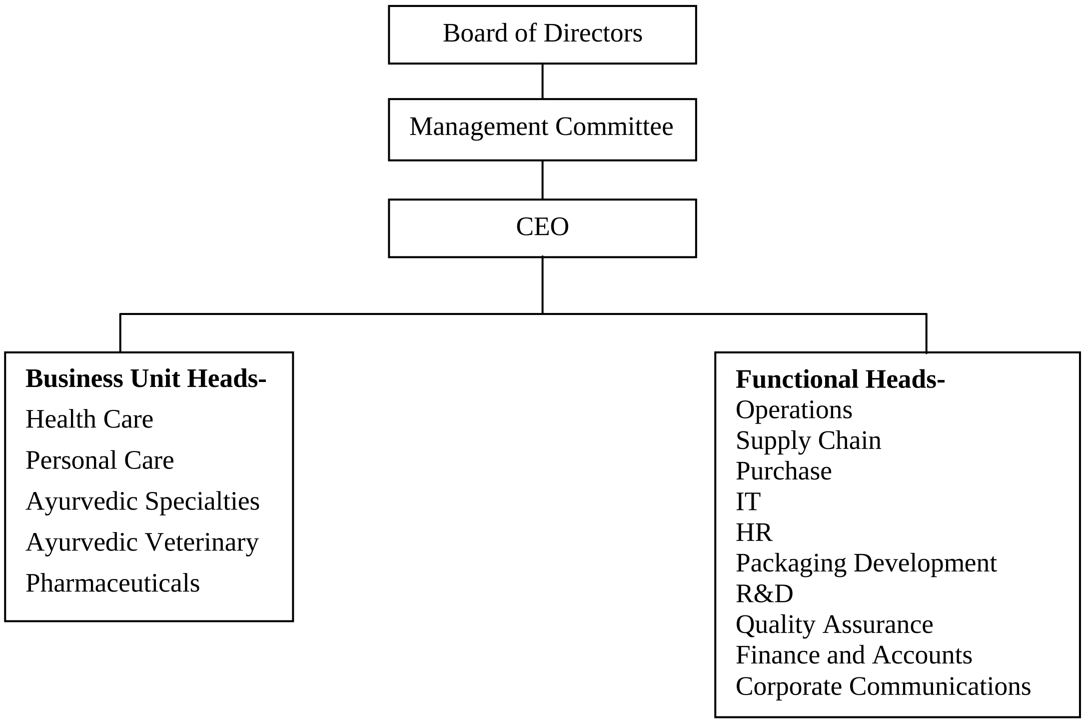
Figure 4.9: Dabur's Organizational Structure before Restructuring



Network Structure

Network structures also known as "nonstructures", are new and emerging structures which are characterized by the complete absence of in-house business functions. Organizations that have network structures are also referred to as "virtual organizations". In a network structure, the organization mainly forms a collaborative relationship with distributors, suppliers, designers, and manufacturers for conducting business activities. They also outsource a host of activities for gaining competitive advantage. Network structures are adopted by firms that work in a highly unstable environment and needs to make quick decisions. Firms with network structures increasingly use information technology to communicate and coordinate with its subsidiaries, product divisions, and service providers. Some companies which have a network structure are Nike, Reebok, Cisco, and Dell (See Figure 4.7)

Figure 4.10: Dabur's Organizational Structure after Restructuring



EMERGING ISSUES IN ORGANIZATIONAL DESIGN

There are three issues which affect the way organizations are designed today. They are:

1) Information Technology
2) Globalization, and
3) Organizational flexibility

Information Technology (IT)

Most modern organizations have flat structures. As computers are doing most of the work previously done by people, this has reduced the number of levels in the organization. IT has also enabled organizations to coordinate between their various levels.

Globalization

Globalization has made it necessary for organizations to redesign their structures. Philips, the Netherlands-based electronics giant is a classic example of an organization, which went global and later failed to do well because its structure suited the domestic operations but not its international operations. On the other hand, Ford revamped its structure and designed a new one when it went global (See Figure 4.8).

Organizational Flexibility

In today's changing business environment, organizations need to change and adapt quickly to survive. This is possible only if they have flexible organizational structures which focus on team work rather than individual performance. The matrix and network structures have emerged because of the need for flexibility.

SUMMARY

The human resource department along with other functional specialists design an organization's work system. The focus during the whole process is to create a work system which does not get outdated and can support frequent technological changes. The ultimate aim is to get the best out of an employee in terms of quality and quantity. Different approaches for designing a work system are specialist approach, generalist approach and strategic approach. The work system comprises of three elements – job design, job inter-relationships and employee needs. Modern organizations are discarding the traditional systems where the stress was on individual performance and specialization. Now, the stress is more on teamwork and cross-functional teams. The process of redesigning work systems can be categorized into four stages - inquiry and reflection, asking critical questions, unearthing assumptions and applying change. Organizational structure is a formal pattern of linkages between different jobs and departments within the organization whereas an organizational design is the process by which the organization develops its structure to achieve its goals and objectives. It is difficult to label one particular structure as an ideal structure for any organization. Organizations need to redesign their structures as and when the need arises. Organizational designing can be done by differentiation or integration, considering an organization's size, technology, environment, strategies and goals. Organizational design is greatly affected by an organizations corporate strategy and business strategy. Organizations also need to devise various strategies to adapt to changes in the environment so as to gain competitive advantage. Structure plays a vital role in the implementation of these strategies. Organizational structures can be fundamentally divided into traditional structures and emerging structures. Traditional structures can be further divided into functional, divisional and hybrid structures. Emerging structures can be divided into matrix and network structures. There are three issues which affect the way organizations are designed today. They are information technology, globalization and organizational flexibility.

Chapter 5

Human Resource Forecasting

In this chapter we will discuss:

- Human Resource Forecasts
- Strategic Issues in Forecasting Human Resources Supply
- Utilization of Supply Forecasting Techniques
- Techniques for Forecasting the Demand for Human Resource
- Strategic Issues in Demand Forecasting
- Utilization of Demand Forecasting Techniques

Organizations need people, just as they need other resources, to function successfully. Modern organizations claim that people are their biggest assets. To meet the future needs for efficient people, organizations need human resource planning using which they can forecast the human resource requirements.

The first step in developing a human resource plan is determining the future supply and demand for human resources. The supply of human resource can be forecasted by interviewing employees and by analyzing standard HR data such as work histories, skills required, job progression and demographics. The demand for human resources can be forecasted by estimating the number of employees and the skills desired in the future.

Forecasting human resources enables managers to estimate the number of employees and the desired skill sets. The different techniques for forecasting also enable managers to determine whether the future demand for employees can be met within the organization or the organization has to recruit people from outside.

This chapter examines the importance of human resources demand and supply, and the different techniques to forecast the demand and supply of human resources.

HUMAN RESOURCE FORECASTS

Human resource forecasts enable managers to estimate their human resource needs for the future and identify sources from where these resources can be obtained. Forecasting human resource supply is of two types:

- Forecasting the external human resource supply, and;
- Forecasting the internal human resources supply

Forecasting the External Human Resource Supply

Sometimes, organizations may have to recruit some employees from outside the organization on a contract basis. It is difficult to find and hire employees who can perform well as soon as they join the organization. While some organizations find colleges and universities as the best sources of potential employees, others target competitors or even unsolicited applications. For example, a firm may discover that graduates from a particular college or university can adapt well to its business environment and work culture.

Organizations can also collect information about the employment history of potential employees to develop statistics and select the best. The information is collected either by interviewing the employee or through questionnaires.

Forecasting enables managers to identify where potential employees may be found. They can also predict the type of individuals likely to succeed in the organization by listing the qualities needed to succeed. Government agencies and human resource associations estimate the external human resource supply by first making regular projections of labor market conditions. Later, they determine the number of personnel required within a field or profession. However, estimation of human resource supply by government agencies is influenced by external factors like economic, social and political conditions, government and legislation, market and competitors and changing technology.

Forecasting the Internal Human Resource Supply

Often, the demand for future employees can be met internally. In small firm’s, since the management knows all the employees, their skills and aspirations, it is easy to understand how they fit in the organizational culture. For example, if a small firm is creating a sales position, an employee who has been with the firm for five years and has the necessary skills can take up the job. Large firms will find the matching process increasingly difficult. Therefore, human resource professionals use management inventories, succession planning, and skills inventories as successful techniques to forecast internal human resources supply.

Exhibit 5.1

Changes in Man Power Availability in IT Industry

It is estimated that about 70,000 software professionals graduate from 1900 institutions in India. About 45,000 obtain degrees in specified courses from private training institutes. India approximately supplies 75,000 software professionals at home and abroad.

Though the man power availability for IT industry has been increasing, analysts predict that the demand-supply situation will remain tight for next three years. India is considered to be a cheap source of manpower. Many Indian companies lose their talented professionals to their competitors to foreign companies. Many software companies have realized that to increase productivity, they have to reduce employee turnover. This becomes even more important if the employee has to be trained initially to develop specific skills. One major reason for turnover is that some employees do not continue in a single organization for long. Added to this is the 'poaching' of talented professionals by competing companies which offer lucrative salaries and perks.

Therefore, many software companies are offering attractive incentives to retain talented professionals, specially at the senior levels. To motivate employees they are provided with better facilities at workplace. Indian professionals are known for their ability to learn things fast and adapt to changing environment. Though Indian software professionals have a rich work experience, many software companies, both in India and abroad , are ready to invest in training them.

Source: Icfaian Center for Management Research

Management Inventories

Certain organizations maintain a database for each employee. This information is used to identify individuals who have the potential to move is higher level positions. It includes data such as:

- Educational background
- Field of specialization
- Work history and experience
- Current job performance
- Strengths and weaknesses
- Whether or not eligible for promotion at present
- Career goals and preferences
- Preferred location
- Retirement date
- Personal history

Succession Planning

Succession planning refers to the process of identifying, assessing, and developing talent to ensure that every key position in the organization is held by an efficient leader. As a part of succession planning, the management develops profiles of individuals who can lead the organization both at present and in the future. At GE,

Exhibit 5.2

Challenge for the Mind, Reward for the Soul: Training at Wipro

Wipro believes in *individual growth and overall development*. It recognizes the potential of employees and offers them opportunities for further learning. Wipro's training programs are widely appreciated by its employees and are among the best in the industry. Every year, a large number of software engineers become qualified professionals in their chosen field. Training facilities at Wipro are well-equipped and can handle 80,000 man days of training every year.

Wipro has a *'virtual campus'* which integrates multimedia, instructor led, and real time learning techniques into a facilitated, and collaborative learning environment. Wipro calls this method of training as '*e-learning*.' The objectives of e-learning are to make training available to the entire base of employees and to address the needs and problems of real world.

Wipro also has *educational tie-ups* with the Illinois Institute of Technology, Chicago: the Indian Institute of Management, Bangalore, Indian Institute of Science, Bangalore, and the Birla Institute of Technology and Sciences (BITS), Pilani. The purpose of educational tie-ups is to allow employees build on existing qualifications.

Wipro also has leadership *programs*, which help employees take on new challenges in every stage of their career. These leadership programs are designed to identify the skills of a Wipro leader. Plans are developed to help them hone existing skills and acquire new ones. The different leadership programs are:

1. Entry Leaders Programs: designed for new recruits from campus or industry
2. New Leaders Programs: designed for first time managers
3. Wipro Leaders Programs: designed for middle level managers
4. Business Leaders Program: designed to enhance commercial orientation, business development, legal and customer interaction skills
5. Strategic Leaders Program :designed for the top management

The ***Wipro Academy of Software Excellence (WASE)*** aims at preparing some of the best Bachelor of Science students for the application programming environment. The course enables fresh graduates to develop skills to work in a growing software company.

The training programs provide an understanding of how required competencies can be developed to help employees perform better and increase their productivity. After each training program, action plans are developed which are implemented by the managers through ongoing feedback.

Adapted from www.wipro.com

succession planning is a part of the organization culture. GE has a management development institute at Crotonville that trains about 10,000 employees every year. About 50 employees are selected as successors for existing leaders on the basis of their skills, abilities, and knowledge. Jack Welch, the erstwhile CEO of GE, chose his successor through succession planning.

Skill Inventories

Skill inventories refer to the information about non managerial employees who can be placed at higher levels in the organization. They include the following data:

- Work experience
- Background and personal data
- Completion of in-house training programs
- Previous performance appraisal evaluations

- Career goals
- Interests and personal characteristics

Replacement Charts

Some organizations use replacement charts that contain important managerial positions, the persons occupying them and their proposed tenure, to identify persons who are best qualified to move to higher positions. Replacement charts enable organizations to be knowledgeable about talent within the organizations and be aware of possibilities for promotions and replacements.

However, replacement charts provide little information. Organizations, therefore, supplement replacement charts with 'replacement summaries' that list likely replacements with their relative strengths and weaknesses. Not only do replacement charts and summaries provide valuable information to human resource administrators, they are also easy to be created and maintained. Further, they provide useful insights on whether or not the organizations needs training and development.

STRATEGIC ISSUES IN FORECASTING HUMAN RESOURCE SUPPLY

Some strategic issues involved in forecasting the human resource supply are:

Make Vs Buy

Organizations can either recruit people who possess the required skills to perform competently or select people from within who may not possess the skills and train them to deliver the desired results.

This is often referred to as a 'make-or-buy' decision. It is cost-effective to 'buy' human resources than to 'make' them. A selection process that is accurate enables organizations to hire employees who possess the required capabilities. Career enhancement programs can also improve the performance of employees.

It has been seen that there is a significant increase in productivity when employees, who do not possess skills to perform competently, are trained. However, employees who are internal to the organization and possess the required skills to perform competently may not be very enthusiastic about the training. Organizations may also feel that it is a waste of time and effort training employees internally. This stops the employees from honing their skills or picking up new things at the training programs.

A 'make' approach is described as a 'pure development strategy' i.e. hire people internally or externally who are willing to learn the KSAO (knowledge, skills, abilities, and other characteristics) required for the job. The 'make' approach results in a long-term relationship between the organization and employees. Organizations that use the ‘make’ approach look for employees who have multiple skills.

The 'buy' approach is often described as a 'pure staffing strategy' i.e. hiring employees who can deliver results soon after joining the organization. Organizations that use the 'buy' approach look for employees who have particular competencies that helps them implement the chosen strategy. Further, organizations prefer recruiting employees who can "hit the ground running."

Many organizations use a combination of two approaches to get the best results. For example, the 'buy' approach can be used for jobs that demand the latest technological skills and the 'make' approach can be used for less critical and less dynamic jobs.

Investing in Training Facilities

Training results in improved performance. It improves the skills of employees thereby resulting in improved performance.

Some formal methods of training are: apprenticeship programs, job instruction training, classroom lectures or conferences, simulation exercises, computer modeling etc. Organizations invest in training facilities

- To orient new employees
- To improve employee skills and abilities
- To motivate poor performers
- To correct poor work habits
- To reduce absenteeism
- To handle complaints
- To reduce employee turnover
- To overcome resistance to change

Performance is often considered a function of skills, abilities, motivation, and the opportunity to perform. If the performance is not up to expectations due to a motivation problem, a training session which emphasizes rewards and disciplinary actions is more relevant than discussing personality development. Managers should ensure that the benefits that accrue from training exceed the costs incurred.

However, there are certain problems that lead to poor performance which training cannot address. Examples are low salaries, poor supervision, inadequate worker benefits, improper physical work layout etc.

Organizations must spend time and money wisely on training programs to improve performance. One way is to ask employees to make list of topics such as problem solving, coping with stress, customer service, leadership etc. This list can be presented to company trainers, external consultants, or training vendors who are experts in conducting training sessions.

Many IT companies spend heavily on training. Leading IT companies also offer training courses, which focus on proprietary technologies and skill upgradation. IT training can be broadly divided in two categories:

- Imparting user-oriented training for basic awareness regarding computer and software packages; and
- Imparting career-oriented training to those who aspire to pursue a career in information technology.

Franchisee model of training

In this model, the training company gives the franchisee the right to use its brand name, the technical know-how and a manual containing the training objectives. These objectives are consistent across all its franchisees. The franchisee invests in the office premises, hardware, and other infrastructure and retains 60-80% of the revenue while the training company gets the rest.

International presence

Many Indian IT companies have set up training centers in countries such as China, Hong Kong, Indonesia, Singapore, Philippines, and USA. Many global players also set up training facilities in India.

Many global players have started Authorized Training Centers (ATC.) Companies like SAP and Oracle depend largely on India for supply of trained and skilled manpower. Oracle has a Global Education Center which has set up several ATCs.

IBM Global Services has also set up ATCs around the world. Other International players such as Intel, Unisys and Compaq plan to set up ATCs in India. The purpose of ATCs is to help people develop necessary skills to perform well on the job.

Wipro Technologies develops various training programs for its employees. These programs aim at individual growth and the overall development of the organization. The company has a virtual campus that promotes e-learning. It also has an educational tie-up with the Illinois University. The company also has leadership programs that groom leaders for top positions. Wipro also offers a software course for its employees to help them increase their proficiency in software.

Small firms which do not have adequate infrastructure can tie up with large firms to impart training to their employees.

UTILIZATION OF SUPPLY FORECASTING TECHNIQUES

Organizations use replacement charts to list each important managerial position and persons who can occupy these positions. At Emerson Electric, the replacement chart consists of credentials of 700 top executives. Their education, skills, work experience, and career aspirations are also listed.

One industry that utilizes supply forecasting techniques is the call center industry. Call centers entered India in early 1999. It was predicted that Indian IT-enabled services will reach great heights by 2008. However, by early 2002, everything was not right with call centers. Many Call centers had empty cubicles with not many people willing to make a career in the industry.

In 2001, the call center industry was worth $800 million dollars, and was expected to generate employment for 18 million people by 2002. But, the future of the call center industry seemed to be bleak for it had few takers in India. However, some prominent players in the Indian call center industry like HLL, BPL, ABN-AMRO, Godrej, American Express and Airtel spelt hope for the industry.

One major problem faced by call centers in India was the recruitment of agents. In spite of best efforts to retain people, most of the employees quit the centers within one or two months of their recruitment. Employees at the call centers complained of odd timings and the stressful and monotonous nature of work. Their biological clock was disturbed and this took toll on their health. Call centers took various measures to deal with this problem.

First, they identified various sources from which they could get people to work in their centers. They also identified the kind of people who could handle the work without complaining about the odd timings or stress.

People from sound academic backgrounds were employed as they had good communication, oral and written. Students who had their education in English medium schools were given preference as they could be trained easily to improve their accents, pronunciation, grammar and diction and become familiar with western culture and traditions. Housewives and back-to-work mothers were also employed to help them cope with boredom and financial problems. Some call centers used the skills inventory of their previous employees to identify the type of skills they wanted in selecting new employees.

Exhibit 5.3

Call Centers in India

There has been a growing demand for cost-effective, customer-oriented call centers in India. India being a major outsource destination for call centers because:

- It has a booming IT industry whose strengths are recognized all over the world.
- It has the largest English-speaking population after the USA.
- It has a diverse workforce and computer literate workers.
- About 1,00,000 engineers graduate in India every year. They can be hired in call centers as most of them have good communication skills and basic knowledge about computer software and hardware.
- Several international technology vendors operate in India which has led to the emergence of advanced technologies in call centers.
- India has 25 CTI (Computer Telephony Integration) and 300 to 500 non-CTI Call Centers.
- The British Airways subsidiary employs about 750 people and plans to hire 800 more. GE has 1000 personnel at its CTI facility at Gurgaon.

Adapted from www.Outsource2india.com

The popularity of call centers began to increase significantly and this popularity led to the employment of more and more people in call centers.

Exhibit 5.3 shows the reasons for popularity of Indian call centers in the international call center market.

TECHNIQUES FOR FORECASTING THE DEMAND FOR HUMAN RESOURCES

The demand for human resources can be forecasted using the Delphi method, expert consensus and the time-series methods.

Delphi Method

The Delphi Method is a structured approach to get a number of experts onto comment on a specific issue. The method was developed to facilitate group decision making. It has also been used in human resource forecasting.

First, experts who can analyze internal and external factors affecting the business are chosen. Experts can be first-line supervisors or top-level managers. For example, to estimate the level of demand for labor, an organization may select managers from corporate planning, human resources, marketing, production, and sales, as experts. If organizations do not find the expertise internally, they may rope in experts from outside.

The queries are sent to the experts through mail or through electronic media. Experts send their answers back to the organization.

The Delphi Method does not allow face-to-face interaction to avoid the difference of opinions and conflicts that may arise due to differences in hierarchical levels. It uses an intermediary to pool and summarize information (regarding the forecasts). Experts are given the needed feedback about the information. Experts are given the chance to revise their forecasts. They are also requested to give reasons for their forecasts. The process is repeated until a satisfactory opinion is identified.

Exhibit 5.4 shows how BHEL used Delphi technique to develop different forms of energy resources.

Exhibit 5.4

The Delphi Method at Bharath Heavy Electricals Limited (BHEL)

BHEL is the largest heavy-electrical-equipment manufacturer in India. It offers a wide range of equipment, systems and services in the field of power, transmission, transportation, non-conventional energy sources, oil & gas, and telecommunication. BHEL used Delphi process which involved 286 company members from a variety of engineering disciplines to estimate technological breakthrough in the industry.

In the first round, prospective respondents (experts) were sent an open-ended questionnaire regarding major technological breakthroughs that could be developed within the next 30 to 40 years. Participants were also asked to estimate when they expected the technological breakthrough to occur.

In the second round, participants were given a list of possible technological breakthroughs. They were also told when these estimates were expected to occur. Participants were given an opportunity to revise their timing estimates, and provide fresh ones. They were also asked to rank each technological development as per the requirements of the organization.

In the third round, participants were asked to comment on the new information about time estimates collected in round 2. They were also asked for their final estimates and the reasons for their forecasts.

The Delphi process led to the development of 19 different forms of energy sources. It also provided guesstimates regarding when such energy sources will be discovered. BHEL found these estimates to be useful in corporate planning and in formulating R&D projects.

Adapted from Kathryn Bartol & David C. Martin, Management (McGraw Hill, 1997) 266.

Guidelines for using the Delphi method effectively

Given below are some guidelines to make the Delphi Method more effective

- Experts should be given enough information to make a judgment.
- The exercise should be kept simple. The facilitator should ask questions that can be answered even by a unit manager.
- Experts should be given an opportunity to explain how sure they are of the forecasted figures.
- The top management and the panel of experts should be made aware of the importance of the Delphi process in forecasting.

Limitations of the Delphi method

A large retailing firm used the Delphi Method to forecast the number of buyers for the next one year. Researchers who conducted the process found that the Delphi Method has some limitations. The Delphi Method is a time-consuming and expensive process. In spite of the limitations, the Delphi Method is a popular forecasting technique.

Expert Consensus

This is commonly referred to as the 'jury of expert opinion method.' It is widely used in forecasting. Experts either from the organization or from outside with knowledge of the subject (in this case demand forecasting) are approached for forecasts. A consensus is reached through discussion. Unlike the Delphi Method, expert consensus permits face-to-face discussion. It is faster than the Delphi technique. Experts can

Exhibit 5.5

Scenario Planning

Scenarios are specially constructed stories about the future. Every scenario represents a distinct world. The purpose of scenario planning is to help organizations realize how different forces can manipulate their future. It enables organizations to prepare themselves organization for future changes. It also improves planning and increases receptivity to change. Scenario planning is said to be effective only when it can anticipate future needs to some extent.

Writing Scenarios

The first step in writing scenarios is identifying the focal issue or decision. The next step is creating stories about what may happen to the focal issue in the future? What will be the impact of technology on the banking sector five years from now? Will physical transactions become extinct? The next task is building more scenarios. During this stage, it is important to identify the driving forces that are capable of predicting what may happen the next day. These forces are:

- *Social Dynamics:* This refers to demographic issues such as increased immigration, minorities, baby boomers etc. It also includes issues such as values, lifestyles and beliefs.
- *Economic Issues:* Economic trends such as competition, monopoly, elasticity of demand, market forces and economic indicators also influence scenario planning.
- *Technological Issues:* Updating innovations and inventions has a tremendous impact on scenario planning. Technology has the power to change the future of the organization.
- *Political Issues:* Issues such as government regulations, taxation and government interference affect scenario planning.

Pierre Wack, an expert in scenario planning says, "Uncertainty is a basic structural feature of business environment. It can no longer be considered as an occasional and temporary deviation from reasonable predictability." Scenario planning suggests that it is unwise to make attempts to constantly predict future. Does this suggest that forecasts should be abandoned? Certainly not. Scenario planning improves the process of human resource forecast by assessing the various possible scenarios in the future. Customer preferences change quickly, new products emerge within no time, and competitors surface even in unrelated industries. Scenario planning enables organizations to develop strategies to build scenarios for these changes and prepare themselves for the possible events in the future.

Adapted from Ellen Ernst Kossek and Richard N.Block, 'Managing Human Resources in 21st Century", and http://edie.cprost.sfu.ca/~idea/scenarios.html.

either be internal or external to the organization.

Time Series

Most organizations use time-series methods to forecast employment levels. In the time series technique, organizations take past quantitative data on demand and discern demand patterns to forecast the future. A basic assumption of time-series models is that the patterns or combination of patterns repeat over time. The three types of patterns identified by time-series methods are: trend, seasonal and cyclical. A trend suggests a general long-range movement in a upward or downward direction on a graph. A seasonal pattern reflects upward or downward changes that coincide with particular events in a given year. A cyclical pattern indicates changes at particular points in time that extent to a span of more than a year.

Though time-series methods identify patterns to predict future, they do not explain the cause of such patterns.

STRATEGIC ISSUES IN DEMAND FORECASTING

Demand forecasting techniques are necessary to perform annual analysis for every significant job in the organization. Exhibit 5.4 talks about an emerging concept in human resource forecasting- scenario planning. Scenario planning, a technique of forecasting human resources as well as other resources, enables organizations to identify forces that can manipulate their future, and develop strategies to create a 'ready to face change' mindset. This concept is still new to Indian companies.

Accuracy of Demand Forecasting Techniques

The accuracy of demand forecasts for human resources varies for different firms. The errors range from 2-20%. Factors that influence the forecasting of demand are:

- The quality of data used to forecast the demand.
- The duration of the planning period.
- The extent of integration of human resource planning with strategic business planning.
- The degree of flexibility in staffing the workforce.

It is almost impossible to forecast demand accurately due to the uncertainty in the internal and external environments.

Matching Forecast Results to Action Plans

Other activities such as recruitment, selection, performance appraisal, training, and transfer are affected by demand forecasting. These activities consist of action programs which help organizations adapt to the changes in their environments.

Diversity in the workforce has increased in the last few decades. Organizations now have to provide training programs to develop the managerial skills of individuals who come from different cultural backgrounds.

Demand forecasting enables managers to identify workers who may not possess the skills immediately but who can be trained to perform well on their jobs. For example, a software firm may discover that a reputed IT institute is the best place to look for programmers. The firm can train these people and help them develop managerial skills.

Organizations should first have an accurate and valid selection process in place to hire people with good qualifications. Then, they can apply action programs that can enhance employee performance. Firms which can match forecasts with action programs are more likely to gain competitive advantage.

Implications of Future Demand

Forecasting human resources results in human resource inventory that covers a specific period of time in future. Organizations need a heterogeneous mix of people. Employees in an organization are usually not substitutable for each other. For example, vacancies in the engineering department cannot be filled by transferring employees from the purchasing department. The organization has to select people with relevant educational qualifications and skills to fill the vacancies. It can also forecast the type of people required to fill the vacancy. Demand forecasting techniques should allow the recognition of specific jobs and the total number of vacancies.

UTILIZATION OF DEMAND FORECASTING TECHNIQUES

Demand forecasts are usually developed around job categories that are important for an organization's survival.

Matushita Corporation of Japan is an example of a company that has enjoyed the benefits of demand forecasting. Much of Matsushita's revenues come from exports. An important indicator (it is an objective measurement that accurately predicts future labor demand) in determining the demand for human resources is the value of Japanese yen against other currencies.

Matushita's products are expensive when the value of the yen is high which means there is negative correlation between the yen and the sales of the company. As a result, the demand for products decreases, thereby decreasing the demand for labor.

In 1988, officials at Matsushita anticipated that the price of yen will increase by 30% by 1994. This would result in over supply of labor. Instead of expanding in Japan, the company opened ‘export centers' in Malaysia, China, and the United States.

These centers designed and produced televisions and air conditioners. The prices of these goods were unaffected by the rising yen. The export centers did booming business. They started forecasting the demand for future labor. The company looked for people who possessed the right skills to perform well. Since Matsushita enjoyed goodwill in Japan and other foreign countries, the export centers found it easy to hire competent people.

SUMMARY

This chapter examined in detail the need for forecasting the demand and supply of human resources. Some external sources of human resource supply are universities, competitors and unsolicited applications. Internal sources of HR supply are skills inventories, succession planning and management inventories. Organizations find it easier to 'buy' human resources than to 'make' them. Many companies invest in training facilities to help employees improve their skills.

Different techniques for forecasting demand for human resources are: the Delphi Method and expert consensus and time-series methods.

It is difficult to forecast demand accurately due to uncertainty in external and internal business environments. Organizations must avoid a mismatch between results and action plans. To meet the demand for human resources in the future, organizations can forecast the type of people they require.

Chapter 6

Strategic Acquisition of Human Resources

In this chapter we will discuss:

- Strategic Recruitment
- Strategic Selection
- Strategic Approaches on Staffing
- Strategic Issues in Staffing
- Impact of Technology on Staffing

Traditionally, staffing was restricted to the selection of the right candidates without assessing whether they were right for the job and the organization. Now-a-days, it is vital for organizations to select people who can help achieve the organization's goals and objectives. Selecting the wrong person for any job can lead to failure and cost the company money. That is why it is important for HR professionals to step in and help their companies save money by getting involved in the selection process early. This can also involve learning some key predictors of success as well as common mistakes that lead to failure. The real challenge for the modern day organizations is not just recruiting people, but hiring people who can effectively contribute to the organization's goals. The changing business environment calls in for different staffing decisions. For example, the staffing decisions in technology and service companies are different from those in other companies. Also in staffing, organizations need to make sure that employees fit into the organization's culture. This chapter looks into the changes taking place in the staffing policy of organizations. It also discusses the different approaches in staffing. The strategic issues in staffing are also discussed with emphasis on the impact of technology on staffing.

STRATEGIC RECRUITMENT

Recruitment involves searching and obtaining potential job candidates in sufficient numbers and quality so that the organization can select the most appropriate people to fill its job needs. Strategic recruitment is a process of creating a long-term strategic plan for the organization. It also involves having specific requirements for each job and aligning them with the organization's strategic plan.

Concepts to be Covered under Recruiting

Recruitment involves identifying and attracting the right pool of candidates for filling the vacancies. An organization should address the following aspects before creating a successful recruitment strategy.

Recruitment goals: A good recruitment program should attract a high proportion of well qualified candidates interested in the job. It should attract good performers who are likely to stay in the organization for a reasonable period.

Recruitment philosophy: The key aspects in recruitment philosophy are:

- To decide whether to recruit candidates from the existing employees or through external sources.
- To decide whether the recruitment is for a short period or a longer duration.
- The diversity of the candidates being hired.
- To see whether the recruitment process is fair and honest.

Recruiting scope and intensity: The availability of qualified candidates for a particular job determines the scope and intensity of the recruiting effort. The complexity of the job, the availability of qualified applicants and the willingness of individuals to relocate or commute also plays an important role in recruitment. For example, if a company has branches in different countries it has to adopt a global recruitment strategy.

Recruitment message: It includes the types of messages an organization uses to call prospective candidates. An organization usually has four types of recruitment messages. They are traditional, realistic, attractive and targeted. Traditional recruitment messages provide very little information about the job. Realistic recruitment messages give the candidates a realistic view about the pros and cons of the job. An attractive recruitment message focuses on the organization’s positive aspects. Targeted recruitment messages focuses on the particular segment of the job market. For example, the advertisement can be specifically targeted for civil engineers.

Media for recruitment: The print and electronic media are usually used for recruitment. Most modern organizations use more than one media. They advertise in newspapers and also on the Internet.

Evaluating the recruitment process: A commonly used ratio in an organization's recruitment process is the yield ratio. It is a process which shows the percentage of candidates who move into each stage of the recruitment. For example, if the number of applicants who have applied for the job is 50 and the final candidates selected are 20 then the yield ratio is 20/50 = 40 percent.

Temporary Vs Permanent Employees: When an organization plans to recruit employees it has to decide whether to hire temporary or permanent employees. Human resource forecasting has to be accurate for effective recruitment. The organization also has to decide the time required for the completion of the projects. And the cost of hiring temporary or permanent employees.

Internal Vs External Recruitment: This decision mainly depends on the organizational goals and culture, the quality and quantity of labor required, the availability of sources, and financial constraints. When an organization hires in-house employees, it has the following advantages:

- The employee's skill, capability and performance are already known and also the employee is familiar with the organization's culture.
- As the employees are already familiar with the work culture, the time required to train them is reduced.
- Employees are motivated to work as they feel they are provided with opportunities for development.
- Financially, an organization can save money by recruiting people from within the organization.

However, there are also certain disadvantages with internal recruitment. Employees who are not selected can feel demotivated and this can lead to political and conflicting environment.

External recruitment has its own advantages and disadvantages. On the positive side, an organization will be able to increase its knowledge base and develop a more creative and innovative workforce.

However, external recruitment is expensive and time-consuming as organizations need to train employees to get acquainted with the new work atmosphere.

Another alternative for organizations in recruitment is to hire an outside firm to perform the entire function. This makes an organization more efficient as the jobs are performed by specialists. Employee leasing is another way of obtaining services for a longer period. Employee leasing is a contractual arrangement between an employer (the leasing company) and a company which does not desire to employ its workers directly. The leasing company handles the payroll and assumes the risks. An employee leasing firm recruits, trains and compensates employees. The organization that leases them provides them with the required work facilities, supervision and duties.

Whether the recruitment is internal or external, effective planning and strategy formulation are essential for successful recruitment. An organization has to look into the following basic aspects at the time of recruiting:

- The number of employees required for the job.
- The time when an organization should start its recruiting efforts. This can be analyzed by reviewing the data of the past recruiting practices.

Methods of recruiting

Recruitment is an activity to ensure that an organization has a number of qualified applicants to chose when any vacancy arises. Most small companies conduct recruitment informally mainly through word of mouth or the departmental head chooses someone who has the required qualifications. Large organizations usually recruit by means of formal job postings in newspapers or on the Internet. External recruitment can also be done informally through contact with friends and acquaintances of existing employees.

Recruitment can also be done with the help of advertising in a selected media. Most modern organizations are using the Internet. It gives organizations a global exposure and the chance to hire a diverse workforce besides speeding up the recruitment process.

STRATEGIC SELECTION

Strategic selection is a process in which an organization hires individuals who can perform in congruence with its goals. An organization's performance depends upon its employees hence decisions regarding staffing have to be taken seriously. Organizations should look for reliability, validity, generalizability, utility and legality while selecting candidates.

Reliability relates to the quality of measurement. In its everyday sense, reliability is the "consistency" or "repeatability" of measures. A reliable test means that the selection methods, tests and ensuing results are consistent and do not vary with time, place or different subjects. Selection of employees is inherently not reliable because standards may vary between selectors over a period of time. This may be reduced by using a variety of measuring devices (tests, interviews), and by training interviewers and using more than one interviewer. Low reliability usually occurs when an important criteria for decision-making is missing. For example, if a newspaper reporter writing skills are not assessed during the selection process, then there is very low reliability.

Validity refers to the accuracy of the job performance. Validity is critical to ensure proper selection. There are two types of validity that support the selection criteria. They are predictive validity and content validity. Predictive validity refers to the outcome or results of the selection technique and the ability to perform effectively when on the job. Content validity refers to the assessment of the skill or ability that is relevant to the job. It refers to the desired knowledge that the employer should have to perform the job.

Generalizability refers to the extent to which the validity of the selection tests are suitable in other work contexts.

Utility refers to the cost benefit analysis of using the selection methods.

Legality refers to the legal standards that any selection method should adhere to.

Selection Methods

In a typical selection process candidates are selected through applications, validity of resumes, tests, interviews, reference checks, and physical examination.

Interview is one of the most important selection methods. Interviews should be structured, standardized and focussed to help companies select employees of their choice. To avoid subjective errors, it is important to use multiple interviewers. Traditional interviewing techniques do not hold good for modern selection tests. The traditional job interview uses general questions (open ended questions) such as, "why do you want to work for this company," and "tell me about your strengths and weaknesses." The success or failure of a job seeker in an interview is often based on his or her ability to communicate than on the truthfulness or content of their answers.

Interview techniques such as situational and behavioral description interviewing are gaining popularity. The behavioral job interview is based on the theory that past performance is the best indicator of future behavior and uses questions that probe past behavior. Prior to interview each position is assessed for the skills/competencies and characteristics that relate to job success. Interview questions are then developed to probe into these areas. All candidates are asked the same questions and notes are taken in order to evaluate candidates.

Situational interviewing is similar to behavioral interviewing in that it seeks specific information about actions that are taken to solve a problem or complete a project. Exhibit 6.2 shows how Cognizant uses behavioral interviewing techniques. It is based on a hypothetical situation created by the company to test the candidate's skills rather than a specific past experience of the candidate. The situations are created based on the job's functions. Sometimes, situational interview could also involve taking a tour of the workplace and asking the interviewee to actually perform some aspect of the job, or a closely related aspect of the job.

Exhibit 6.2

Behavioral Event Interview Method at Cognizant

There has to be a conscious effort on the part of the organization to instill values of openness, innovativeness and transparency in all that it does, both in individuals who own the processes, as well as in the processes themselves. A young, but growing organization, Cognizant Technology Solutions has struggled with one important issue: how to retain the DNA strands of a small organization – the flexibility, the innovativeness and the openness of a small organization – while growing. Cognizant has been growing and changing dramatically, not just in numbers and in its geographical spread, but also in terms of a fundamental shift in the nature of its business. It has had to keep pace with and remain at the forefront of the changing nature of work and business. The critical learning's that Cognizant has discovered by experience over the last three years are: while it’s critical and important to manage all types of growth, it is as important not to lose the cultural strands or real core of a small organization. So, the focus of the organization's efforts has been on keeping its key strengths of openness, innovativeness and transparency intact, in all that it does. And to achieve this, Cognizant uses a two-pronged approach:

Firstly, Cognizant assesses processes on a continuous basis to ensure that they have those three elements built into them. It looks for/builds these traits in all the recruits who join the organization. These competencies are inculcated through training as well as continuous assessment of on-the job-behavior. Secondly, the company’s selection process for all lateral recruits focuses on these attributes in the individual. The interviewer asks questions about where these traits have been demonstrated in the applicant’s past job or jobs. So, the questions are not around “What would you do if this were to happen?”, the questions are always around “What did you actually do?” Cognizant thus ensures that people joining it from elsewhere have these traits, at least in some measure.

Source: Bhaskar Das, “Retention beyond Compensation,” Praxis Business Line May 2001

Interviews can also be classified on the basis of structured or unstructured interviews. The structured interview is an assessment tool designed to measure the competencies of people applying for employment in an organization. It is designed to obtain a sample of behaviors that demonstrate the competencies that are important to effective job performance. It is a specific set of questions asked in a predetermined order. Unstructured interviews are a conversation with no prepared questions or predetermined line of investigation. Rather they have a number of themes or issues or include loosely-defined questions to track and explore what is meaningful to the respondent. Although structured interviews provide the greatest consistency, unstructured interviews provide the interviewer with a broad evaluation of the job.

Factors that influence the fit of a job: The factors that influence the job choice of a candidate are:

Pay: Pay is considered to be the most important motivating factor for individuals when selecting their jobs. Higher pay attracts more number of candidates to the job.

Responsibility and career advancement: Most employees feel that they need autonomy and empowerment in their jobs. The job which helps them learn and gives them career advancement possibilities are also important criteria for job seekers.

Job security: The extent to which an organization provides job security to employees also plays an important role in job selection. This can be brought about by providing employee benefits.

Geographic Locations: Geographic locations play an important role in attracting individuals to the jobs. When a company is located in a remote area, most employees do not prefer to relocate. Hence, it is the organization's responsibility to provide premiums to attract employees.

Employee Benefits: The type of benefits an organization offers helps attract candidates. Benefits include medical, travel allowances etc., The above factors influence a candidate in selecting a job.

Predictors

Another core concept in selection is the concept of predictors. These help forecast an individual's performance. Cognitive ability, personality traits, and past performance are the predictors that are usually used in selection.

Cognitive ability is an important predictor of individual performance. It is an individual's ability to store, retrieve, acquire and use information. It also involves the individual's ability to learn, perform and deal with complexities in the job. Other types of cognitive abilities are verbal, numerical and spatial abilities which are used depending on the type of job. Another predictor that has gained popularity in the selection of the jobs is the personality. According to the Big Five Framework suggested by McCrae and Costa[1], there are five primary components of personality. They are: negative emotionality, conscientiousness, agreeableness, openness and extraversion.

- Negative emotionality refers to the number and strength of stimuli required to elicit negative emotions in a person. More resilient persons are bothered by fewer stimuli in their environment, and the stimuli must be strong in order to bother them.
- Extraversion refers to the extent to which an individual is comfortable in dealing with people. High extraversion is characterized by the number of relationships an individual has and the time spent by him or her in enjoying them. Low extraversion is characterized by a less number of relationships an individual has and a smaller proportion of his or her time spent in pursuing those relationships.
- Openness refers to the number of interests to which one is attracted and the depth to which those interests are pursued. High openness refers to a person with relatively more interests and, relatively less depth within each interest, while low openness refers to a person with relatively few interests and relatively more depth in each of those interests.

[1]McCrae, R. R., & Costa, P. T., Jr. (1997). Personality trait structure as a human universal. American Psychologist, 52, 509-516.

- High agreeableness describes a person who studies many norms and decides among these norms, and low agreeableness describes one who, in the extreme, only follows one's inner voice.
- Conscientiousness refers to the number of goals on which one can concentrate. High conscientiousness refers to a person who focuses on fewer goals and exhibits the self-discipline associated with such focus.

Research according to the above framework suggested that an individuals' personality had an impact on his or her performance. For example, for a sales representative’s job extraversion can be used to predict performance

Past performance is also another predictor of selection. It refers to the experience that an employee has in performing a particular job. Reference checking is also a crucial process for selection. This is usually done in the final stage of the selection process.

Strategic Staffing

By integrating staffing into strategic planning a firm can decide what type of workforce it requires. Staffing is a key strategic area for the human resource management. This requires effective planning so that the organizational and individual goals are in congruence. An organization's staffing policy depends on the following factors:

- The general skills and ability of the employees.
- Diversity of the business operations also plays an important role in hiring the workforce.
- To encourage the right applicant it is essential to use the right kind of staffing practices.

HR consultancies play an important role in selecting the right candidates. These consultancies usually know the kind of people an organization requires. The selections is based not just on hiring the right candidates but also considering the employee future prospects with regard to retention, development, promotion and retirement benefits.

The process of communication between the firm and the prospective employee, with regard to the work environment should also be considered while recruiting.

Core Concepts in Staffing

The core concepts that have to taken care during staffing decisions are:

To match the needs of the individual and organization

Modern organizations align individual goals with the organizational goals for effective staffing decisions. A good match between the individual and the organizational goals can create a long-term relationship between the two.

Staffing as a process

Organizations and individuals need to go through the recruitment and selection process to achieve the right kind of fit. The different stages involved in this process are:

Recruitment: This is the first stage where the organization's main aim is to attract applications from the right candidates. This can be done by identifying candidates through placement agencies or campus recruitment.

Screening: This is the second stage where the organization screens suitable candidates. Screening refers to the process of narrowing down the overall applicant pool to only those who are minimally qualified for the job. The advent of technology has made it easier to scan resumes by the use of Human Resource Information Systems (HRIS). By using technology, it becomes all the more easier to screen the required candidates. Once the basic information is in the HRIS, screening on minimum qualifications can be a fst and efficient process.

*Analyzing the Person's fit for the Job***:** In this stage, the aim is to further reduce the search for candidates. The search is narrowed down through personality tests, ability tests and interviews. These tests help an organization decide how well a person suits the job.

Person-organization fit: This stage helps analyze an individual's compatibility in the organization culture and work environment. It also analyzes the individual's ability to interact with peers and supervisors through personality and psychological tests.

Decision-making: This is the final stage in the staffing process which helps evaluate the candidate's skills and decide about the recruitment.

All the above steps have to be analyzed to see whether the selected individual is suitable to work for the organization.

If an organization fails to reach a consensus, it has to reconsider its recruitment process or begin a fresh recruitment.

Organizational and job analysis

An organizational analysis consists of analyzing the needs and requirements of the employees in the organization. The organization should consider the following aspects:

- Its strategies and goals and the human resources required to fulfill these goals.
- Its staffing needs to accomplish these goals.
- The impact of its environment on the management of its human resources.
- Its culture that can influence job performance.

These aspects help the organization analyze its short and long-term goals and select the right candidates who can fulfill these goals. For example, an organization that plans to gain a competitive edge in terms of customer relationship selects candidates who have good communication skills and who can improve customer relationships.

Job analysis helps identify key skills and abilities required for the job. It is also an analysis of the task, knowledge, skill and ability required for the job. A task is something that produces a meaningful work outcome. Job context refers to the physical conditions and the environment under which the job has to be performed. Knowledge is the information that an employee has about the job that can be used for the performance of the tasks. Ability refers to the individual's capability to perform the tasks.

Job analysis thus, helps analyze the fit between an organization and the employee.

Person-job fit

This is the stage in which an organization brings in a congruence between job demands and individual abilities. In other words, it is a match between the demands of the job and the capabilities of the employee. It also assesses the congruence between an individual's expectations about the job and whether the job meets those expectations.

If the employee's capabilities are more than what is expected for the job, the employee feels demotivated as there is no career advancement. If an employee's capabilities are not sufficient to perform the job, he or she can be trained to suit the job.

The benefits of a person job-fit hiring are as follows:

- Employees perform better because of job satisfaction.
- It also results in lower absenteeism and turnover.

The disadvantages include inability of an individual to perform multiple jobs as he or she is qualified for a particular job. Some skills can become obsolete due to the rapid technological advancements. In today's changing business environment, a person-job fit does not guarantee any benefits for an organization. Most modern organizations are laying emphasis on hiring people who can fit the job.

Person - organization fit

This is a new selection model for hiring employees. It brings a congruence between the individual overall skills, personality and values and the organization's environment and culture. It also includes the contextual performance of the individual in accordance with the changing business environment. Individuals, whose values fit with the values of the organization are more committed and perform more effectively. Such individuals also follow organizational rules and practices. If an organization plans to hire people on the basis of person-organization fit, it has to hire people with multiple talents and skills to keep up with the organization's changing needs. Exhibit 6.1 explains the different steps in hiring for person - organization fit.

Exhibit 6.1

A Hiring Process for Person-Organization Fit

Assess the overall work environmental

- Job analysis
- Organizational analysis

Infer the type of person required ↓

- Technical knowledge, skills and abilities
- Social skills
- Personal needs, values and interests
- Personality traits ↓

Design "rites of passage" for organization entry that allows both the organization and applicant assess their fit

- Tests of cognitive, motor and interpersonal abilities
- Interviews by potential co-workers and others
- Personality tests
- Realistic job previews, including work samples

Reinforce person- organization fit at work ↓

- Reinforce skills and knowledge through task design and training
- Reinforce personal orientation through organization design

Source: Jeffrey A Mello, Strategic Human Resource Management (South Western Publications) 255.

Assessing the work environment: The first step involves assessing the fit between the individual's knowledge, skills and attitudes. Techniques used to assess these include questionnaires and critical incident techniques. While the traditional job analysis models emphasize on the evaluation of the work content, the person-job fit model emphasizes on the importance of knowledge, skills and capabilities of an employee.

Inferring on the type of person required: An organization must pay more attention to the skills required for a job while recruiting. Some jobs like that of a sales representative require personality and social skills, while some other jobs require technical skills. Hence, organizations should hire people with the required skills.

Assessing the organizational and individual fit: The mutual fit between an organization and an employee can be assessed through cognitive, motor and interpersonal tests. Personality tests also play an important role in assessing the fit.

Reinforcing the person-organization job fit: In this stage, an employee's knowledge and skills are reinforced through training sessions by assessing his or her ability to perform the job.

The advantage of this model is that due to the greater involvement of the employees and the organization, there is greater job satisfaction and commitment on both sides. This leads to low rates of absenteeism, turnover and grievances.

The disadvantage associated with this model is that, an organization has to spend more time on recruitment and also change the process in accordance with the changing business, technological or cultural requirements.

STRATEGIC APPROACHES ON STAFFING

It is important to understand the impact of staffing on organizational goals. Effective staffing can help implement a successful business strategy. The strategic impact of staffing has been discussed with emphasis on three methods. They are:

- Traditional approaches
- Strategy implementation approach
- Strategy formation approach

Traditional Approaches

The traditional approaches on staffing are formulated on the basis that staffing has no role in the formulation and implementation of the business strategy. These approaches do not consider the importance of involving staffing in the process of strategic planning. The traditional staffing methods assume that people and jobs are stable. However, these traditional methods may not be successful in the modern environment where employees have to be skillful and flexible in their jobs. But the traditional methods also have certain advantages.

- These help in the better analysis of a specific job in the organization.
- They help assess the person-job fit, which helps in the recruitment and the selection of the most qualified person for a specific job.

Though traditional approaches were successful in the past, the changing business scenario has made organization's realize the importance of aligning their strategic goals with the HR strategy.

Strategy Implementation Approach

This approach aligns the staffing process with the organizational goals. In this approach, it is presumed that for an organization to perform effectively, staffing has to be a part of strategy implementation. Strategy implementation assumes that to be stable and to achieve results the HR strategy has to be aligned with the business strategy. The main steps involved are

- Identifying the organization's business strategy
- Deducing the organizational capabilities needed to implement the strategies

- The recruitment and selection processes that focus on candidates who can work in congruence with the organization's goals.

For example, an organization that is into teaching and research has to recruit people who are good teachers, innovators and who have a zeal to learn new concepts.

Strategy Formation Approach

This approach focuses on the importance of hiring candidates who can add value to an organization's product and services. This value can help the company in retaining its position in the market. It is based on the presumption that staffing and strategy are variable and they can be changed according to the external environmental factors. Rather than hiring people for a specific job, it recognizes the importance of hiring people who can add value to the organization's performance. Adding value here means people who offer KSA's unique or different from the organization's current stock of human talent. It involves identifying the best candidates and building the strategy based on their skills. This method assumes that successful business strategies can be built around human resources. It also stresses the need for staffing to have equal status with other resource acquisition and allocation decisions in a firm. Finally, it assumes that the fit between an organization and its human resources should be flexible to keep with the changing business environment.

The following steps are used to implement this strategy effectively:

- Organizations should hire people who are creative and can adapt themselves to the changing business environment.
- It has to devise retention strategies to retain these employees and also introduce effective systems to make use of their skills.

The above strategies change depending on the type of organization.

Make Vs Buy Approach

The 'make' approach depends on hiring individuals who are willing to learn the skills required for the job. The organization trains such employees and builds an environment of trust and commitment to work. The 'buy' approach focuses on hiring individuals who have specific skills and are able to work effectively and in coherence with the organization's goals. 'Make' is a purely developmental approach where an organization trains employees in accordance with their skills. An organization needs to have a combination of both 'make' and 'buy' approaches.

A purely 'make' approach can sometimes cause organizations to spend huge amounts on training the workforce. Jobs that require technological skills can be filled by using the buy approach, while some jobs like in administration can be filled by using the make approach.

STRATEGIC ISSUES IN STAFFING

Managers in modern organizations need to select a high quality workforce to achieve organizational goals. Selection methods focus on an individual's capability to perform expected tasks. These also include the relationship the individual has with his team members, maintaining personal discipline and facilitating peer and team performance. Hence, the modern selection programs focus on two important aspects; adaptability and effective performance.

Restructuring of an organization, downsizing, decentralization have all added to an organization's need to have a flexible workforce. Employees should be able to adapt to the changing business environment by learning new skills. For example, if an organization is going in for technological advancements, the employees should be ready to learn new skills.

Pulakos et al[2]. (2000) developed eight-factors that highlight the importance of adaptive performance in organizations. The eight factors are:

- Handling emergencies or crisis situations,
- Handling work stress,
- Solving problems creatively,
- Dealing with uncertain and unpredictable work situations,
- Learning work tasks, technologies, and procedures,
- Demonstrating interpersonal adaptability,
- Demonstrating cultural adaptability, and
- Demonstrating physically oriented adaptability.

Contextual performance refers to the behavior that can be useful for effective performance. These usually deal with the soft skills of the workforce. These include endurance, cooperation with the team members. With the changes in the nature of the work it has become important for organizations to make contextual performance even more important in selection criteria.

Some of the predictors of contextual performance are cooperativeness, extraversion and agreeableness.

Selection for Competitive Advantage

In today's changing world, it is important for organizations to select individuals who can be a competitive advantage. Selecting individuals who are flexible, increases the company's capacity to create new products. Exhibit 6.3 shows the steps that an organization can take to retain the best talent.

Exhibit 6.3

Steps for Retaining the Best Talent

In many organizations today, talent is becoming a primary determinant of shareholder value. People and their skills are a competitive advantage to attract customers. As a result, the battle to attract and retain talent is growing more intense. When an organization loses talent, it results in tangible and intangible costs. There are costs involved in hiring, orienting and training and developing talent. When an organization does not retain this talent, it raises its hiring, orienting, training and developmental costs. A company's competitive advantage is defined by its employees. Companies that do not have a strategy to retain the best talent can easily fall prey to losing their talented employees. To develop and retain the best talent, organizations have to keep the following points in mind:

- It has to clearly analyze its internal talent
- Examine what would happen if employees left the organization. Further identify replacement costs, recruiting costs, relocation expenses, and hiring bonuses.
- Determine how competitive and attractive the company is in terms of compensation packages, salaries and incentives. This can be done with the help of market surveys and interviews.
- A retention strategy needs to be based on what a company needs to do, can do and wants to do. The strategy can include performance-based compensation, employee benefits and opportunities for challenge and respectful and responsive workplace.
- Like organizations, individuals are dynamic and ever changing. What works for one person may not work for others. What works now may not work the same way later. Hence, it is important for organizations to recognize such individuals and focus on retaining the best talent.

Adapted from "Recruitment and Retention: The Talent Connection," Fortune, October 9th 2001.

Impact of Technology on Staffing

In the face of increasing global competition, the ability to attract, hire, and develop the most capable talent is the most important determinant of organizational effectiveness. The distribution and collection of information through, computerized resume databases reduces the time and cost compared to traditional recruiting processes. Staffing costs are lower because the process is paperless. Jobs can be posted and resume information can be retrieved directly from a database. Applicants who match specific hiring criteria can be readily identified through specialized software.

Technology is changing the recruitment and selection methods of organizations. Organizations that are most effective in using the technology to manage information flow have more flexibility and speed than other recruiting sources. Interactive Voice Response Technology (IVRT), is now being used along with other database technologies to get information about potential employees and give a company more flexibility and speed up the hiring decisions. Nike is an example of a company using computer-assisted interviewing (Refer Exhibit 6.4). The company uses IVR technology to hire employees for its retail stores.

At one level, the success of e-recruitment shows that the application of technology can improve efficiency and financial savings in HR. At a higher level, e-recruitment demonstrates the critical need for the redesign and integration of most HR systems and practices. In terms of recruitment the most successful companies are gaining a competitive edge by having career pages that make it easy for both prospective employees and companies to size each other up and see if there's a fit. A company's Website, which uses the firm's own Web page as a recruiting tool, may be the best e-recruiting technique as marginal cost is low and the company has control over the content. However, the company's success depends on its ability to attract applicants to its site, and the manner in which the e-recruitment process is managed. In such companies, e-recruitment is not treated as a stand-alone HR tool. It is integrated into the overall recruitment and selection strategy that includes sophisticated behavioral and skills assessment, interviews by people trained in modern interviewing techniques.

Exhibit 6.4

Computer Assisted Interviewing at Nike

By using computer-assisted interviewing, Nike has been able to reduce hiring time. It has also been able to reduce turnover in the retail division by 21 percent in two years. (Other processes like coaching and counseling have also played an important role in reducing the turnover.) The company uses an Aspen Tree (a software designed for hiring) product to hire employees for its retail stores. For example, for stores in Las Vegas, the company has used IVR technology for interviewing candidates. The process of interview included the response of applicants over the telephone. 3,500 applicants were screened out because they were not available when needed or did not have retail experience. The rest had a computer-assisted interview at the store, followed by a personal interview. The computer interview identified those candidates who had been in customer service environments, and would make good Nike customer service representatives. The computer interview (conducted in batches) included a video which showed three scenarios for helping a customer. Then the applicant was asked to choose the best one. Every group of applicants were given 45 minutes. As applicants completed the interview, a printer in the next room printed their responses. Applicants

Adapted from Linda Thornburg "Computer Assisted Interviewing Shortens Hiring Time" HR Magazine. February 1998

Techniques of e-recruitment

For many employers, online recruitment has been a significant response to their staffing challenge. e-recruiting includes different tools and a wide variety of ways to use them. The major techniques include using general commercial sites, specialized job sites, chat rooms or newsgroups, and company websites. E-recruiting is relatively inexpensive, has the ability to reach prospective employees who may not be accessible through costlier and more conventional methods, is faster and more efficient than other methods.

E-recruitment increases applicant pools by enabling both applicants to locate potential employment opportunities and employer's ability to access job seekers. Convenience and speed attract educated and computer-literate job seekers to the Net. Companies that use their own websites combined with internal databases that employ all online recruitment tools integrated with conventional methods are likely to have the biggest advantage.

SUMMARY

Staffing is an important decision for any organization as it is the process of identifying candidates who can work effectively for an organization. The chapter has discussed the strategic importance of staffing and its implications for an organization. Recruitment and selection are important aspects in staffing and the decisions regarding them have to be taken keeping in view the fit between the employee and the organization. The organization has to decide whether to hire temporary or permanent employees or recruit from the internal workforce or select through external sources. Interview is one of the most important selection method. In the modern day selection methods, situational and behavior description interviewing are gaining importance. The core concepts in staffing include matching individual needs with the organizational needs, the importance of staffing as a process, the importance of organizational and job analysis, the person-job fit for an organization and the growing emphasis on person -organization fit.

The chapter has also discussed the different approaches in staffing. They are traditional approach, strategy implementation approach and strategy formation approach. Traditional approaches to staffing are formulated on the basis that staffing has no relation to the formulation and implementation of the strategy. Strategy implementation approach aims to align the staffing process with the organizational goals. The strategy formation method is based on the presumption that staffing and strategy are variable and they can be changed in accordance with the external environmental factors.

Finally, the strategic challenges in staffing have been discussed where it has become important for organizations to select employees who can be a competitive advantage. The impact of technology on staffing has also been discussed. E-recruiting is being adopted by most companies today considering its low cost and high speed.

Chapter 7

Strategic Implications of Training and Development

In this chapter we will discuss:

- Overview of Training and Development
- Strategic issues in Training and Development
- Use of Technology in Training

Wipro Technologies, the largest Indian IT-listed company, is striving hard to become a $5 billion dollar company by 2003. According to Wipro Chairman, Azim Premji, the company invested Rs.90 crore in training and developing its staff in the year 2001. This was one of its strategies to become a top IT company. The company spent Rs. 90 crores towards an employee training fund. Wipro employees are trained through a virtual campus in the office. The company also has several training and development programs that help employees grow professionally and personally. The purpose of this virtual campus is to enable employees learn anytime and at any place.

Wipro also has an Academy of Software Excellence, to prepare students and employees for different tasks. Wipro is trying to transform itself into a learning organization by helping employees learn to accept and adapt to changes. Wipro plans to acquire overseas firms that are knowledge-based. According to Premji, acquiring knowledge-based firms would bring wealth and resources to India and also contribute to the development of human capital. As we can see from this example, companies invest in training to gain competitive advantage. Training results in improved job performance. The need for training arises due to rapid changes in the business environment.

Training and development activities involve developing strategies aimed at motivation, allocation of resources to the activities etc. Globalization of businesses has also contributed to the increased importance to training and development. Organizations have realized that training is essential to retain talented professionals. Organizations need training and development to maintain a viable and knowledgeable workforce to contribute to the competitive advantage. This chapter examines the strategic implications of training and development and the impact of technological advances on training and development activities.

OVERVIEW OF TRAINING AND DEVELOPMENT

Training and development refer to a planned effort to help employees learn job-related behaviors to improve their performance. The terms 'training' and 'development' are often regarded as synonymous; however, the two terms are distinctive. While training refers to efforts that help enhance employee skills for carrying out the present job, development is concerned with preparing employees to handle other types of tasks or higher jobs.

Need for Training

Training is needed:

- To improve the current job performance of employees
- To familiarize employees with the policies and procedures of the organization
- To enhance the creativity, adaptability, and versatility of the employees and to facilitate learning at the workplace
- To prepare employees for future jobs
- To change the skills, knowledge and attitudes of the employees on a permanent basis
- To help employees manage their careers
- To maintain a knowledgeable workforce
- To gain competitive advantage through a knowledgeable workforce
- To promote organizational growth through individual growth.

Determining Training Needs

Training aims at improving the productivity of the organization. Hence, training is necessary when there is a drop in productivity or when the job performance is unsatisfactory. If productivity is low even though the concerned employee is working hard, the manager should realize that there is a need to improve the employee's skills through a training program.

Training is also essential when the company plans to redesign jobs or when a technological breakthrough has occurred. Employees can be prepared for planned change through training. Hence, it is essential for an organization to determine the training needs of its employees.

Training needs are determined through various methods. One method involves the observation and analysis of job performance. Staff conferences, surveys, reports, management inventories and interviews also help in determining training needs. Sometimes, training needs are identified by analyzing job requirements.

Training needs can also be determined by analyzing:

- The goals of the organization
- The tasks to be completed to achieve the goals
- The skills needed by the employee/incumbent, and
- Whether or not the incumbents possess the required skills to exhibit desirable behavior.

Importance of Development

Development activities in an organization are future-oriented. They help employees deliver a better performance. While training teaches an employee a specific set of skills, development attempts to teach employees to think in a rational and logical manner. Development activities teach employees how to develop required skills and how to apply these skills to improve individual as well as organizational performance.

Development activities lay emphasis on the personal growth of employees. Hence, it is important to understand the development process.

The development process

In this process, organizations undertake activities that improve job performance and contribute to growth of an individual. It is a long-term educational process that utilizes a systematic and organized procedure to enable the personnel to enhance conceptual and theoretical knowledge.

Developmental activities are concerned with the learning and performance improvement for individuals, teams, as well as the whole organization. These activities integrate individual development, career development, performance management, and organization development with the strategic goals and objectives of the organization.

In individual development, individuals are provided adequate help to identify their strengths and weaknesses. They are given proper guidance to build on those strengths and correct their weaknesses. If developed individually, employees contribute to the organization. To attend to individual development issues, organizations use performance management processes.

In performance management, employees are made to understand what exactly is expected of them in their jobs. It is also ensured that managers provide employees adequate support and feedback to help them meet expectations.

In career development, the emphasis is on the match between the individual and his or her job and developing the individual over his or her career span.

Organization development is an effort, planned organization-wide, and managed from the top to increase organizational effectiveness through planned interventions in the organization's processes by applying behavioral science knowledge.

Developmental activities pertaining to individuals, their career, performance, or those pertaining to organization are initiated after thoroughly examining the objectives of the organization. The first step in the development process is to study the organizational objectives to provide a framework from which the managerial needs are determined. Analysis of organizational objectives is necessary as they indicate the future plans of the organization. Organizations can determine developmental needs by studying the future implications of their present activities.

The second step is to appraise resources available to the management with the help of skills inventory, management inventory and executive inventory. The appraisal of resources is necessary to ensure participation of the people in development activities.

The third step is to ascertain whether there is adequate managerial talent to fulfill managerial needs in future. A statement of objectives and an executive inventory are essential to perform the third step.

The fourth step is to determine the individual development needs: the need to develop skills, to change attitudes, and to acquire knowledge.

The fifth step is to develop programs that can match these needs. Examples of development programs are coaching and sensitivity training. These development programs should be tailored to the strengths and weaknesses of each employee.

The final step is to evaluate the developmental activities. Managers have to look for changes in the behavior of employees and an improvement in their performance.

Exhibit 7.1 shows the different methods of training and development adopted by certain organizations. The purpose of these methods is to help managers and employees develop the required skills to improve their productivity.

Exhibit 7.1

Training and Development Methods

Training Methods	**Methods for Developing Managers**
On -the-job Training	***On-the-job Development***
• Apprentice programs	Coaching
• Job instruction	Understudy assignments
Off-the-job Training	Job rotation
• Classroom lectures	Committee Assignments
• Films	Off-the-job Development
• Simulation Exercises	Sensitivity training
• Experiential exercises	Transactional Analysis
• Computer Modeling	Lecture and simulation courses

Source: David A.DeCenzo & Stephen P. Robbins, "Personnel/Human Resource Management," Chapter 10 'Employee Training and Development,' (Prentice Hall of India, Fifth Indian Reprint)

STRATEGIC ISSUES IN TRAINING AND DEVELOPMENT

Training and development are no longer considered as cumbersome processes. Instead, they are considered as strategies to gain competitive advantage. The different strategic issues involved in training and development are: integrating training with performance management, compensation, and organizational strategy, the shift from training to learning and the development of a learning organization.

Integrating Training with Performance Management

The purpose of performance management is to ensure that the activities of the employee are congruent with objectives of the organization. Performance management specifies activities and outcomes that help an organization implement organizational strategies successfully.

Integration of performance management with training helps employees synchronize their activities with the organizational objectives. General Electric (GE) has successfully integrated training with performance management. GE has set up Crotonville University, America's first corporate university. Crotonville's mission is:

- To develop leaders
- To bring about cultural change
- To spread corporate initiatives throughout the company

At Crotonville, employees are educated on leadership, change, Six Sigma, and e-business. Employees are trained to improve their commitment to GE's values. This helps them synchronize their activities with the objectives of the company. Employees are also encouraged to learn and share information. They are allowed to interact across functions, businesses and hierarchies. They are also encouraged to build strategic relationships with customers.

GE also offers leadership programs as a part of its management development programs. These leadership programs are designed for GE's high performing employees. GE also has a 360 degrees feedback program for employee development. Through coaching and planning, managers help employees shape action plans for their short-term goals and long-term goals which are in tune with the organization's goals.

Integrating Training with Compensation

Integrating training with compensation helps reinforce desired behaviors in employees. When employees are expected to learn new things and implement leaning to improve their performance as well as the organizational performance, there should be a reward to do so. Employees who learn new skills and implement this learning to enhance organizational performance, should be compensated.

To hire and retain talented people, IT firms link training with compensation. Employees in high-tech areas quickly tend to leave firms if they are not given challenging work and encouraged to develop new skills. An organization can provide all these through training, and by linking training with compensation.

Organizations must ensure that compensation reflects the results of training. Employees who learn new skills and knowledge and successfully implement this learning to enhance the performance of the organization, should be compensated in a way that they feel is significant to them. Compensation need not always be monetary. Training that guarantees promotion and other non -financial rewards can also motivate an individual to remain with an organization.

Linking Training to Organizational Strategy

Sometimes, training may not produce the desired results. To prevent this from happening, training should be linked with strategy. However, most organizations find it difficult to link training with strategy as they are unclear about their mission and vision. The first step to linking training with organizational strategy is to clearly specify mission and vision of the organization. The second step is to link educational activities to the specified mission and vision. This can be done by assessing the needs of the organization. Assessment of needs can be done by determining why the organization requires specific training activities and by placing the training within an appropriate organizational context.

Needs assessment is done at three levels: organizational, task, and individual. At the organizational level, the training needs are considered well within the context of the organization's culture, politics, structure, and strategy. Task-level assessment examines specific duties and responsibilities assigned to different jobs and the skills and knowledge required to perform these jobs. At the individual level, people who are to be trained are considered. To do this, organizations must address certain issues such as analysis of the existing levels of skills and knowledge of people, learning styles preferred by them, their personality and their interpersonal styles in interacting with others.

Apart from imparting skills and knowledge to the employees, training should provide them information that will help them in future. It is important to analyze organizational needs when linking training with strategy. This makes the process of linking training with strategy, easier.

Modern organizations must focus on strategic training. Strategic training is a training process in which the training needs of the organization are aligned with the organizational goals. Suppose an organization intends to undertake succession planning. The CEO has to identify a successor who can lead the organization. The goal is to have a capable leader who can run the organization successfully. To lead the organization, the potential successor needs to have specific skills and knowledge which he may not possess. The CEO may identify the training needs for the successor and provide him adequate guidance to develop the required skills. At the end of the training process, the potential successor might have developed the needed skills and possess all the qualities of a successful leader. However, strategic training has cultural and political barriers. These barriers stop the employees from applying new knowledge in the organization.

Shift from Training to Learning

Training provides learning opportunities. In a training session, people 'learn' how to improve their job performance. A training program designed to enhance employee skills can be transformed into a "learning" program by focusing on core competencies instead of skills.

Traditional training sessions are usually designed by specialists. They are conducted by a supervisor. But, most organizations have shifted to self-directed training programs. Instead of conducting training sessions that are driven by individual requests, organizations can conduct training sessions that are driven by corporate strategy.

A typical training session imparts knowledge, but does not explain how to make proper use of the knowledge. However a training program that emphasizes learning, encourages people to share experiences in workplace. Traditional training sessions are usually trainer-centered i.e., the topics to be discussed during the training session and the timing of the sessions, and the mode of teaching is decided by the trainer. But a training session which is intended to be a learning experience for the employees is learner-centered i.e. training sessions are scheduled according to the convenience and interest of the learners, and facilitated jointly by the trainer and the trainees.

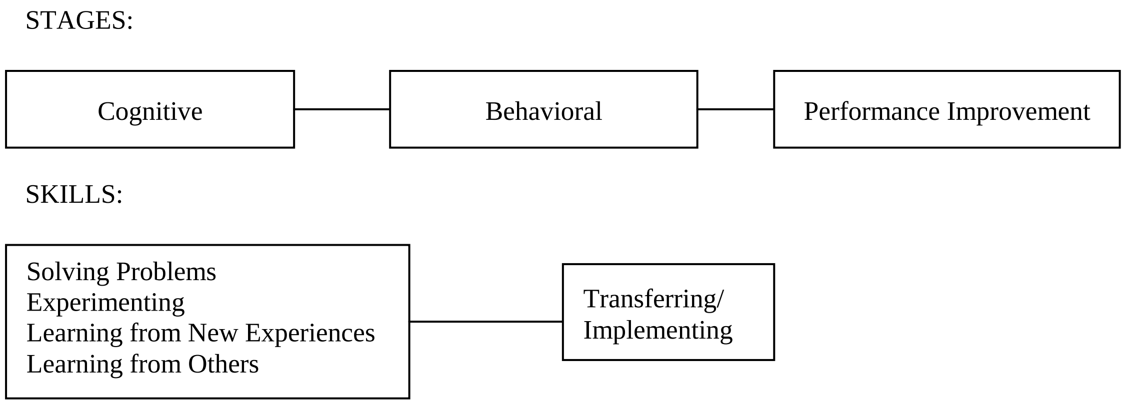
From a formalized short-term instruction, learning in the workplace has shifted to an informal, strategically-focused learning facilitation by internal employees and stakeholders. Modern organizations that have shifted from traditional training to a learning orientation have 'action learning' teams. These teams identify a common problem, establish strategy for it, and take necessary action. After sometime, the team evaluates the action taken by it, learn lessons from it, if any, and chart out strategies for further action.

Certain organizations have a 'chief learning officer,' who facilitates learning and change in the organization, improves the individual, team, and organizational effectiveness by using communication media, performance consulting, training, and organizational design, and supports business strategy.

Developing a Learning Organization

Companies like Wipro, GE are gradually transforming themselves into learning organizations by emphasizing lifelong learning. Learning organizations constantly respond to the changing needs of the employees and pay attention to their personal development. They are characterized by open communication, people-centered leadership styles, and participative management. A learning organization creates, acquires, and transfers knowledge and modifies behavior of the employees so as to reflect new knowledge and insights. Figure 7.1 shows the stages and skills involved in building a learning organization.

Figure 7.1: “Building A Learning Organization



Source: “Building a Learning Organization”, Harvard Business Review, July-August 1993.

As we can see from the figure, "learning" in organization involves three stages. They are:

- Cognition
- Behavior
- Performance

Cognition (act of knowing an item of information) helps the organization to learn new concepts; behavior helps the organization develop new skills and abilities; and performance enables it to get things done in a proper way. This type of learning enables the organization to bridge the gap between theory and practice.

The skills required for a learning organization are:

- **Solving Problems:** In order to become a learning organization, an organization should have the ability to identify problems and find creative solutions to these problems.
- **Experimenting**: Organizations can learn new things through experimentation.
- **Learning from organizational experience:** Employees can learn from the successes and failures of the organization. They can also learn from role models within the organization.
- **Learning from others:** Organizations can draw upon a great deal of valuable knowledge from sources such as feedback from employees and customers.
- **Transferring and Implementing:** The process of building a learning organization would be meaningless if there is no transfer of knowledge. Implementation of various strategies such as educating employees regarding knowledge sharing, and innovative technological systems can bridge the gap between ideas and skills, and superior organizational performance.

At GE, employees and managers are driven by the belief that the organization should possess the ability to continuously learn from any source. This learning has to be converted into action to gain competitive advantage. To encourage employees to learn, GE has made major changes in the compensation system. Employees who discover new ideas and share them are rewarded.

USE OF TECHNOLOGY IN TRAINING

Wipro no longer trains employees in the old-fashioned classroom style. It has a 'virtual campus' that facilitates collaborative learning environment by integrating multimedia, instructor-led, and real time learning. This web-based training initiative is available to every employee in the organization. It also addresses real world problems and needs.

Modern organizations use technology to train their employees. Computers allow greater flexibility in training people. Though computers are used mainly to teach technical skills, an increasing number of firms are using computer-based training to train people in management and sales skills. Technological advances influence the skill requirements of an organization. Therefore, organizations need to design training sessions to teach new technology. To teach new technology to the trainees, trainers need to be familiar with computer hardware, networking, video conferencing, and multimedia software.

Refer Exhibits 7.2 and Exhibit 7.3 to understand the impact of technology on training. Exhibit 7.2 shows the different learning options offered by the website learn2.com. The website enable organizations to provide online training to their employees. Exhibit 7.3 illustrates the e-learning programs undertaken at Cisco. Cisco uses e-learning to impart training and education to employees, quickly and effectively.

Concept of Internet-based Training (IBT)

IBT is a form of distance training in which the Internet is used to deliver training material. Professional instruction material developers are hired to create training materials. These materials are then delivered over high-speed networks.

Some important components of Internet-based training are:

- The World Wide Web
- Electronic Mail

Exhibit 7.2

Online Training

LEARN2UNIVERSITY

Learn2University is an interactive learning site designed for corporate training. The site offers training in 200 popular business applications such as Windows, Office 95 & 97; Internet training; and Programming. Organizations can choose from a wide range of subjects. Employees are trained online and are assessed through exams. Detailed reports are sent to organizations about the employee's progress and test scores. A completion certificate is awarded to those who complete the course requirements. Courses are priced on the basis of the number of employees enrolled and content being used.

LEARN2PERFORMANCEMOTIVATOR

Learn2PerformanceMotivator provides necessary information about how to motivate employee participation in corporate e-learning initiatives. It incorporates automatic employee rewards and recognition through the Learn2Unversity e-learning package. Users are given specific learning objectives set by the employer and are rewarded points for meeting and exceeding the objectives. The points are redeemed immediately through the website. Employees or colleagues can view their progress each time they log in.

LEARN2SMARTCARD

Learn2Smart Card provides a physical link text or graphic which can be selected by a user to view a page, section, or document) to e-learning. This wallet sized smart card provides users with the information they need to access the courseware. It has an encoded serial number and a unique URL (Unique Resource Locator: the method by which Internet sites are addressed. For example,http://learn2.com is the address of Learn2) enabling access to legitimate users. Smart cards are made available to consumers at retail outlets.

Source: *Management of E-business: Case Studies on leading Companies, Volume IV, Transworld University, Case 5 Learn2.com,*

- Chat Rooms
- Virtual Conference Rooms
- Videoconferencing
- Intranet (Internet technologies within the organization)

Strategic Issues in Internet-based Training

The strategic issues involved in IBT are: studying the advantages of IBT, analyzing the reasons for not choosing IBT and choosing the right kind of IBT.

Advantages of IBT

IBT has many advantages. Some of them are mentioned below:

- It grants employees the freedom to participate in self-paced and self-directed training irrespective of time or location.
- It gives trainees the opportunity to explore training topics in depth as different websites are connected through links.
- Employees find IBT more enjoyable than other forms of training since it is interactive and uses multimedia.
- Since IBT grants anonymity to the trainees, they find it easy to comment, ask questions, or even present opposing views. This encourages communication that leads to better learning.

- IBT is cost-effective. Trainees only need to be literate and should have access to a computer.
- There is no restriction with respect to time, space and content.
- Organizations find IBT reliable and quality-oriented as they are certain that Internet imparts identical training to all the trainees.
- It is easy to revise and update training material on the Internet. This aspect of online training saves time and money for organizations.

Exhibit 7.3

Cisco's Learning and Training Programs

Cisco is famous for its e-learning program and its collaboration with buyers and sellers through these programs. Years ago, in the absence of a unified strategy, individual business units throughout Cisco took training and education into their own hands, resulting in redundant efforts and unnecessary expense. It identified two objectives as it restructured its training program. They were to design programs to eliminate needless repetition and identify personal and organizational gaps. Cisco's learning network is designed to develop and deploy training and education as quickly and as effectively as possible. Content is captured using slides and other means and is divided into smaller components. Learners select a curriculum or an individual module and take an exam to assess their needs.

Based on the results of the assessment, objects can be selected from the database to address deficiencies. Results of the post-learning assessment are stored in a personal training history in the human resource database. Cisco offers training programs specifically for its partners and clients.

Source: 'Training Outside the Box: V.Anessa & R.Franco,'Pg 34, HRM Review: A Monthly Digest of Human Capital, Oct 2001, ICFAI Press

Reasons for not Choosing IBT

Training needs**:** IBT is useful when a large number of employees are geographically scattered. It may not prove beneficial if there are only a few trainees and are geographically proximate. In such a situation, classroom training may be preferable.

Technical Skills of Trainees: To use IBT, trainees should be familiar with the computer and the Internet. If they are not, managers should make efforts to ensure that they are comfortable working with computers and accessing the Internet. Without these efforts, the benefits of IBT cannot be realized.

Motivation and Self-discipline of Trainees: To use IBT successfully, trainees need to be motivated to use the training material. Trainees can be motivated by providing interesting training material. However, some trainees feel that IBT cannot take the place of a caring teacher. Such trainees vigorously oppose IBT.

Availability of Computing Systems and Support Staff: Organizations with limited computing resources should first determine whether IBT is worth using. Such organizations may find it difficult to maintain support staff necessary for upgrading the training material.

Choosing the Right Kind of IBT

IBT varies along two dimensions: synchronous and asynchronous. The synchronous dimension is concerned with instructor-facilitated learning while the asynchronous dimension is concerned with self-paced and self-directed learning. When making decisions regarding IBT, managers examine the extent to which the trainers and trainees are required to interact with each other in real time.

One more dimension, interactive/static dimension, is concerned with the extent to which interesting, interactive, and dynamic materials can be included in the training module.

It has been found that IBT is moving in the direction of asynchronous learning that is supported by synchronous elements such as chat help rooms, and virtual offices.

IBT is said to be high-end one when it incorporates multimedia and interactivity in the training module. Low-end IBT is relatively simple. Given below are different modules of IBT arranged from low-end to high-end:

E-mail only, slide shows and text only: The training material is not interactive. The trainee has little choice concerning the sequencing of the training material.

Drill and practice: The trainee is repeatedly presented with and tested on a specific topic. The purpose is to help the trainee acquire factual knowledge of a topic.

Trainee-selected pathways: The trainees select their pathways to learning. They can skip the material already learnt or they can revise a topic again and again till they master it. Thus, the trainee controls the sequencing of the training material and the content of learning to some extent.

Prepared simulations: Video and animation are used to learn a topic or procedure. In this method, the trainee cannot control the sequencing of the teaching material. This method is useful when trainees are required to master a particular procedure.

Fully interactive simulations: This is a high-end form of IBT. The training material is highly interactive. The trainee can determine the nature of the training material, and can change it to suit his needs. This is a very complex and expensive form of IBT.

High Rate of Return

Internet-based training allows organizations to train people at a low cost. It has been found that employees respond positively to Internet-based training. In 1999, at Unisys Corporation's corporate university training sessions were 75% instructor-led and 25% Internet-based. By 2000, about 54% of classes were taught through the Internet. By 2003, the company plans to have 75% of its classes Internet-based. During the year 1999-2000, about 8,500 employees enrolled for technical certification training online. More than 2000 employees were trained through online programs every year. The company also spent less money when compared to what it had spent in the year 1999.

Internet-based training speeds up the training process. This is specially helpful when organizations have a high employee turnover. It has been found that Internet-based training receives higher satisfaction ratings than classroom training. Internet-based training is popular because of its flexibility. It can be accessed by users anywhere in the world, from any facility. It also makes learners feel that they are in control of their training schedule. This enhances the commitment of the users, which in turn improves their productivity.

Competitiveness

Globalization has increased the need for a versatile multi-skilled workforce as well as the need for adapting to the changing business environments. Organizations can no longer afford to use time-consuming processes and strategies in today's competitive environment. Therefore, more and more organizations are turning towards IBT, which saves time and resources for the organizations. Many leading global companies have accepted IBT as a part of their organizational culture.

Challenges and Opportunities

The challenges for organizations using Internet-based training are:

- Identifying and exploiting strategic Internet opportunities
- Developing the Internet-related skills of individuals and teams
- Re-engineering jobs to take advantage of new information flows, especially between the corporation and its external strategic partners (e.g. customers and suppliers.)

Internet-based training promotes cross-functional teamwork. It is a great tool for collaboration, especially among geographically dispersed team members. Companies can hire people to help employees manage information technology and content, and subject or functional specialties thereby creating employment opportunities for more people. Internet-based training provides organizations with the capacity to innovate and thus push ahead of the competition. It also helps organizations to keep up with the pace of change. It also helps them overcome the traditional barriers that are encountered when communicating with employees in different countries.

FUTURE OF IBT

Internet-based training is a convenient way of enhancing human skills without worrying about the barriers caused by time, distance and socio-economic status. In early 2000, it was estimated that leading companies spent about $66 billion a year on training. While 20% of the amount was spent on online training, 80% was spent on traditional classroom instruction. By 2003, the figure is expected to change to 40% for online training and 60% for traditional classroom training. The US corporate e-training market is expected to exceed $11 billion. This implies a compounded annual growth rate of 83%.

Many new companies are striving hard to be recognized as IBT market leaders. Companies like Ford Motor, Delta Airlines, American Airlines, Wipro etc., provide personal computers to their workforce at a nominal cost to encourage online learning.

The increased acceptance of Internet-based training has led to the emergence of websites that offer e-learning modules for organizations. These websites offer courseware and solutions to governments, financial institutions, healthcare organizations, and consultancy firms. Online training is one of the fastest growing segments of the e-business industry. It is expected to become a $20 billion industry. Organizations have realized that they can save money by cutting down classroom instruction. Internet-based training has become popular among organizations because it combines communication, education, information, and training. Many leading organizations are launching their own corporate e-learning universities. The learning content in these e-learning universities is modeled after a textbook.

Internet-based training creates a virtual classroom experience and improves employee retention and productivity. More and more organizations will turn to Internet-based training as it has been found to be an effective means of developing new instructional designs and delivering lower cost solutions.

The latest trend in Internet-based training is Learning Content Management Systems (LCMS.) This allows companies to develop small units of instructional content called 'learning objects.' LCMS is believed to reduce the time and cost associated with the development of content.

However, Internet-based training faces stiff opposition from people who strongly believe that it cannot replace the environment of a physical classroom

SUMMARY

This chapter examined the importance of training and development in an organization. The strategic issues involved in training are: integrating training with performance management, integrating training with compensation, linking training to learning, and developing a learning organization. The chapter also examined the impact of technology on training.

Traditional training techniques are considered to be time-consuming. Technological advances have led to the emergence of online training, which is faster and more cost-effective than traditional training methods. Internet-based training is widely accepted by most organizations today. Although IBT is very popular, organizations must decide whether or not they really need IBT. Organizations should opt for IBT only if it suits their needs, provides training at a low cost, and enables them to become competitive. Online training has led to the emergence of various websites that offer e-learning modules for organizations. Online training has become one of the fastest growing segments of the e-business industry.

Chapter 8

Performance Management and Evaluation

In this chapter we will discuss:

- Strategic Dimension of Performance Appraisal
- Moving from Performance Appraisal to Performance Management
- Organizational Appraisal - Balanced Scorecard
- Economic Value Added (EVA)

The assessment of employee contribution to an organization can be defined as the process of performance appraisal. Assessment of employee performance helps organizations determine whether the performance of employees is aligned with the goals of the organization. Performance appraisal can be defined as the process implemented by managers to help employees perform better. This process involves three types of activities: strategic, administrative and developmental. On the strategic front, employee activities must be linked with the strategic goals of the organization. Organizations should design appraisal systems that maximize the performance of employees. This also involves developing feedback systems that enable employees to perform effectively. From an administrative point of view, performance appraisals are useful for taking decisions regarding salaries, promotions, retention/termination of employees.

As a developmental tool, performance appraisal can be used in several ways. It helps identify the career needs of the employees and motivates them to perform better. In this chapter, we will discuss the strategic aspects of performance appraisal and different organizational appraisal systems.

Types of Performance Appraisal Systems

There are three types of performance appraisal systems: trait based system, behavior based system and results based system. Each system measures a different aspect of performance. The trait based system is used to measure the personality or personal characteristics of employees. Among other things, this appraisal system assesses a person's ability to communicate effectively. This appraisal process helps managers and subordinates appraise each other's performance. By assessing each other's performance, they can identify the changes needed to carry out the work in a more effective manner. A behavior based approach helps identify performance of employees on the job. For example a behavior based appraisal of a sales person assesses how well he interacts with customers.

A results based approach measures the outcome of the work performed by employees.

STRATEGIC DIMENSION OF PERFORMANCE APPRAISAL

The strategic dimension of performance appraisal involves developing performance standards for achieving the organizational goals, user involvement, feedback, self-appraisal, coaching and counseling.

Developing Performance Standards

After an organization determines the level of performance it expects from its employees, it needs to develop ways to measure employee performance. A performance appraisal system must meet the following five criteria.

Strategic congruence: This refers to the extent to which a performance system is in congruence with the strategic goals of an organization. The system should be flexible enough to adapt to changes in the business environment. If the appraisal system remains the same over a long period of time, then very little improvement in the performance of the employees can be expected.

Validity: An appraisal system can be considered valid only if it measures all the relevant criteria. For example, a performance appraisal system in an university that evaluates its employees only on the basis of its research activities and not teaching skills, is clearly deficient.

Reliability: This refers to the consistency of the performance measures used by an organization. One type of reliability is called interrater reliability. A performance measurement system is said to be interrater reliable if two evaluators use similar evaluation methods. It is also important to consider the extent to which all the items rated internally are evaluated in a consistent manner.

Acceptability: This refers to the acceptability of the performance system by the people using it. An effective performance system can be developed only when the people using it are consulted. Therefore both managers and employees should be involved in the development of a performance measurement system. Such involvement will increase the acceptability of the system.

Specificity: The performance measures should clearly indicate what is expected of the employees to achieve the strategic goals of the organization.

Practicality: A performance appraisal system should be relatively easy to use and should have a high degree of employee and managerial acceptance.

User Involvement

It is important to involve the users when developing or revising performance management processes. Involving those who will be affected by the performance appraisal system will serve a number of purposes. They are:

- The perspectives and insights of the users will lead to the creation of a better process.
- By involving the users, there can be less resistance to the revised appraisal system. Future appraisees may be supportive, as their insights have been taken in the new appraisal system.
- Psychologically, employees are motivated to perform as the performance management programs are concerned with helping the individual and the organization to achieve success.

Feedback

Feedback is a critical aspect of performance appraisal. Information about their performance helps employees improve. Feedback is generally provided by top management. The purpose of feedback is to encourage employees perform better. Traditionally, feedback was concerned with overall organizational performance; present day performance feedback however is directed towards a specific individual.

Self Appraisal

Self appraisal helps employees participate in the employee development process and thus motivates the employee towards achieving organizational goals. Self appraisal is considered to increase the motivation of employees by involving them in the appraisal process. However, self appraisal tends to be more biased than other methods of appraisal.

360 Degree Feedback as Performance Appraisal

The fast-changing business environment requires human resource applications that help employees to improve their job performance. Some organizations are responding to changes in the business environment by adopting a 360-degree appraisal system. 360 degree feedback helps managers find out how they are viewed by their direct subordinates, peers, customers and clients. This type of performance measurement is successful in firms that encourage a participatory climate.

Before implementing a 360 degree performance appraisal system, an organization should define the mission and scope of the program. An organization has to analyze how well this appraisal system will be successful. The following points help an organization to analyze the scope of the appraisal system.

Need for the appraisal system The failure to determine the basic reasons for implementing a 360-degree appraisal minimizes its chance of success.

Purpose for which this appraisal system will be used: Some organizations use 360-degree appraisals for employee development only. While others incorporate them into their performance appraisal systems.

Identify the people who will be involved in the appraisal system: The employees who will be involved in the process of appraisal and the people who will appraise them have to be established clearly.

It should be made clear whether the people who are appraising will be anonymous or not. Anonymity promotes honesty, leading to effective feedback.

Questions to be asked during the appraisal process: Questions can be related to job competencies, organizational values, or both, and should support critical success factors.

The method through which data will be reported: Employees often receive a written copy of their individual ratings and aggregate company scores. Some organizations hold individual or group meetings to discuss results.

The process through which the organization will administer the program: Many organizations take the help of consultants to develop and implement the program. Consultancies provide expertise, experience, and objectivity. Technology can be used to collect, analyze, and distribute data.

Evaluating the success of the program: The intent should be to change and reinforce behavior, not fulfill appraisal requirements. Follow-up and action steps to implement findings are critical to success, credibility, and maintenance of employee support. All these help in evaluating the success of the program.

Organizations must identify the criteria on the basis of which the employee will be judged. The criteria or questions used in 360-degree appraisals should be based on areas that the rater is familiar with. Before 360-degree feedback can be successfully incorporated into appraisals, employees should be made to feel comfortable with the appraisal system. They should trust the system and feel that it will rate them honestly and fairly.

The advantages of 360 degree appraisal are described below:

- This appraisal system provides managers with an effective means for managing the workforce.
- The appraisal system helps an employee compare his self appraisal with the appraisal by peers, subordinates, superiors etc.
- A 360-degree appraisal provides a formal communication link between employees and their customers. It makes employees much more accountable to their internal and external customers.

An appraisal system can be effective only when it is used by well informed, knowledgeable employees. Employees' should therefore be educated about the various aspects of the appraisal system. It is important to discuss the system with employees who will be involved in the appraisal process. Enough time should be given for employees and managers to ask questions about the process, its implementation and the uses of the feedback. Introductory sessions can be conducted (in groups) to discuss the process and its goals.

The disadvantages of 360-degree appraisal are:

- This method of performance appraisal is said to be time consuming. Selecting raters, filling out forms, and analyzing information takes up a lot of time.
- If there is no anonymity, there can be conflict among employees. Moreover, a superior may not like to have his mistakes pointed out by subordinates.
- 360 degree appraisal requires training and significant effort from the whole organization.

Coaching and Counseling

Coaching and counseling play an important role in developing employees. It helps employees, identify problem areas or difficulties in their work. Along with performance evaluation, coaching and counseling help employees achieve organizational goals.

Coaching

The basic difference between a coach and a consultant is that while a consultant concentrates on the overall functioning of the organization, a coach focuses on an individual in an organization and guides him to perform effectively, keeping in view his personal goals. In most cases, what is good for the individual is also good for the company. Usually, individuals do not perform as expected under stressful conditions. With the help of a coach, stress can be relieved and the job can be done better, faster and with more enthusiasm. Hence, while evaluating the performance of an individual, a manager should act like a coach.

Mentor coaching is highly valued in today’s business environment. A mentor trains, develops, and promotes a learner who, in return, works on the mentor’s projects. The mentee learns and grows, gaining valuable experience, while the mentor’s projects move ahead. Coaching helps individual's implement organizational agendas.

Counseling

Counseling is a process in which a person helps another person to solve his or her problems. Counseling does not simply mean telling a person how to solve problems. It also involves analyzing, implementing, and understanding employee behavior and showing compassion and kindness.

Steps in counseling

The different steps involved in counseling are:

Identifying the problem: In the first step, the counselor must ensure that the problem is known and understood. The Japanese technique of 'Five Whys' can be used here. When confronted with a problem, the Japanese ask 'why' five times. By the time they answer the fifth 'why' they know the cause of the problem.

Analyzing the forces that influence behavior: The next step is to determine the forces that influence the behavior of the person being counseled. The counselor must also examine whether the employee has control over these forces, and whether these forces can be controlled with the help of a counselor. It is also important to determine whether these forces can be modified, eliminated, or enforced.

Planning, coordinating, and organizing the session: The third step is to determine the best time to conduct the counseling session. The sessions should not have frequent interruptions and should not be terminated abruptly.

Conducting the session with sincerity, kindness, and compassion: The counselor should be sincere, kind and compassionate. Such behavior will enhance the reputation of the counselor.

Analyzing the causes identified by the person to be counseled: The counselor must analyze the causes for the employees counter productive behavior and identify the steps to set the employee on the right path.

Formulating action plan: The sixth step is to formulate an action plan for the employee using the facts. At this stage, the time and date for the next session is fixed.

Reviewing the progress of the worker: It is important to review the progress of the person who has been counseled to ensure that the problem has been solved.

Strategies for effective counseling: The following strategies can help managers and leaders counsel employees effectively:

Respect for employees: It is important to believe that people are responsible for their own actions. Managers should be aware of each employee's unique skills, attributes, and values. During counseling, employees should not be forced to accept different values. Instead, they should be advised to retain their skills and values. The managers should also suggest ways in which they can improve their skills.

Credibility: Employees are more likely to approach only those leaders who are honest and consistent in their statements and actions. Organizations should choose those managers and leaders as counselors whom the employees trust the most.

Empathy: It is important for counselors to understand the situation of the employee. Leaders who are empathetic can help employees understand the situation in a better way and also help them develop an action plan to improve the situation.

MOVING FROM PERFORMANCE APPRAISAL TO PERFORMANCE MANAGEMENT

Performance management is the process of creating a work environment or setting, which enables people to perform to the best of their abilities. A performance management system includes the following activities:

- Developing clear job descriptions.
- Selecting appropriate people with an appropriate selection process.
- Negotiating requirements and accomplishment-based performance standards, outcomes, and measures.
- Providing effective orientation, education, and training.
- Providing on-going coaching and feedback.
- Conducting quarterly performance development discussions.
- Designing effective compensation and recognition systems that reward people for their contributions.
- Providing career development opportunities for employees.
- Assisting employees with exit interviews.

In the conventional performance appraisal or review process, the manager comments the performance of a reporting staff member on a document supplied by the HR department. In some organizations, the employee is asked to fill out a self-review. In some cases, performance appraisal often fails because managers may have limited interaction with subordinates or they may be poor at giving feedback. Despite the fact that annual raises are often tied to performance evaluation, managers avoid them for as long as they can. This demotivates the employee who feels his manager does not care enough to facilitate his annual raise. Performance appraisal is one of the steps in performance management. Performance appraisal takes a close look at past performance of the employee whereas performance management analyzes what needs to be done in the future to help employees perform effectively. An effective performance management system nurtures individual creativity and strengths. The following are the goals of performance management:

Improving employee performance: Performance management systems should give employees a clear picture of what is expected of them and their performance. It should state what is expected from employees and how the employees should support the management in achieving organizational goals.

Ensuring that employees work for organizational goals: Performance management systems should help link organizational goals to individual goals. Employee will be able to perform effectively if they are informed of the strategic initiatives, goals and objectives of the organization. An effective performance management system, will enable the organization to evaluate the employees on the basis of their performance in relation to managerial goals. The four essential elements of performance management are:

- Aligning individual objectives with business strategy.
- Conducting a performance appraisal of employees
- Reviewing the pay and reward system of employees
- Influencing business strategy.

The Performance Management Cycle

The performance management cycle identifies the major components of performance management. The different stages in the cycle are:

Defining the Job: The process starts with aligning individual activities with organizational activities to accomplish the goals and objectives of the employer. The organization structure, job analysis and job structure should be so designed that they motivate employees to perform effectively. Job description plays an important role in effective individual and performance management.

Providing a Clear Picture of the Job: Most employees are not clear about their role in their job. For effective performance, both the employer and the employee should be aware of the duties and responsibilities of the job. This includes knowledge of the company's performance standards. To provide a clear picture about the job the organization has to:

- Review organizational and individual performance standards. This gives a clear picture of the organization’s plans to achieve performance standards. Organizational and individual goals must be congruent to accomplish goals.
- Identifying the objectives, duties and projects to be fulfilled.
- Identifying performance measures and standards
- Identifying the performance factors and monitoring and developing a plan of action.

Evaluating the Performance Appraisal: A periodic review has to be conducted to find out whether the performance appraisal is taking place regularly. This review also helps in analyzing whether the goals and objectives of the organization are being achieved by the employees. These reviews are usually conducted annually.

Constant Feedback: The next step of performance management involves conducting constant feedback sessions to improve the performance appraisal process. The feedback session should help the appraiser review employee objectives and also gather data related to an individual's progress in the organization. The discussion can help the supervisor determine the areas in which the employees work can be improved. After the review process has been summarized, the action plan for the next performance period starts.

A number of common errors occur during an appraisal - halo error, recency effect, leniency, etc. The halo error occurs when one aspect of the subordinate's performance affects the rater's evaluation of other performance dimensions. In the recency effect, the rater gives more weightage to recent occurrences than to earlier performances. In leniency the rater tends to give all employees favorable ratings, without differentiation between anyone. Most employees get commendable or outstanding ratings. Regular discussions between the appraisee and the appraiser can help minimize these errors. (Refer Exhibit 8.1 which illustrates the performance management system at Praxair)

Exhibit 8.1

Performance Management at Praxair

Praxair is one of the largest industrial gas suppliers in North and South America. The company produces, sells and distributes atmospheric, process and speciality gases and high performance surface coatings. Under the able guidance of CEO Bill Lichtenberger, the company has created a strong performance culture. The human resource staff has a key role in linking business strategies to the thousands of employee relations activities occurring within business units, including compensation, benefits, staffing, training and development, performance management, labor relations and organizational development. The company was regarded as world class in linking employee competencies with performance management processes. The company's performance management process was widely benchmarked by other firms. But, because of changes in the business environment, the company planned to replace its performance management system with a new one which integrates values and behaviors with competencies and raise the bar on overall performance requirements. The new performance management system uses a team-based, pay-for-performance system throughout the organization. The process is linked closely with the firm's incentive-compensation plans. The performance based system includes management incentives for performance sharing among the employees and special recognition awards. The team based performance management system uses primarily four levels of measurement. They include: company wide, business unit, cross functional teams within business units, and special initiative project teams. The system provides an opportunity for high performing teams to be nominated for special recognition awards. The firm has also identified a number of difficulties associated with team based performance and compensation systems. This includes the management of employees working on multiple teams, and the management of employees who are assigned to new teams or projects.

Adapted from Barbara R Harris, Mark A Huselid, Brian E Becker, Human Resource Management (John Wiley & Sons 1999)

Performance Related Pay

Performance Management is concerned with the integration of HR policies into a system, that is measurable, can be improved and linked to wider organizational objectives. One system that has gained popularity in recent years is "performance related pay." In this system, an individual's increment salary depends entirely on his appraisal or merit rating. This system helps communicate performance objectives to employees by monitoring their achievement of objectives and rewarding them on the basis of accomplishing the objectives. This rating system takes into account not only individual output but other indicators of performance such as quality of work, flexibility, team work and ability to achieve targets. John Purcell[1] (1993) has classified "performance based pay" along two dimensions: type of performance and unit of performance. The type of performance refers to either output or input. The unit

[1]Performance related pay: theory and practice', Human Resource Management Journal, 2 (3): 16--33.

of performance is further subdivided into individual and collective systems. Individual systems include commission, individual bonus, individual performance related pay, skill based pay and merit pay. Collective systems include team bonus, profit sharing, gain sharing etc.

ORGANIZATIONAL APPRAISAL-BALANCED SCORECARD (BSC)

A new approach to performance management that has attracted the attention of many organizations is the balanced scorecard approach. The scorecard provides four different perspectives on performance measurement (Refer Exhibit 8.2). The balanced scorecard a new approach to strategic management was developed in the early 1990s by Robert Kaplan and David Norton. Recognizing some of the weaknesses and vagueness of previous management approaches, the balanced scorecard approach provides a clear prescription as to what companies should measure to achieve organizational performance.

Exhibit 8.2
Balanced Scorecard

Learning and Growth Perspective

- Technology Leadership
- Employee Motivation
- Knowledge Management
- Innovation and Learning

Customer Perspective

- Developing New Products
- Providing On-time Delivery
- Choosing the Right Supplier
- Promoting Customer Partnership

Financial Perspective

- Increase in Cash Flow
- Quarterly Sales Growth and Operating Income by Division
- Increased Market Share and ROE

Business Process Perspective

- Technological Capabilities
- Improving Manufacturing Excellence
- Innovative Designs in Productivity
- New Product Development

Source: Icfaian Centre for Management Research

The balanced scorecard is a management process involving four main steps.

- First, determining the vision of the organization.
- Second, determining how the vision can be turned into a competitive advantage.
- Third, determining how the four perspectives -financial perspective, customer perspective, learning growth perspective and internal business perspective - help improve the performance of an organization.
- Fourth, determining the critical elements for ascertaining how far the organization has proceeded on the path to success.

The balanced scorecard helps organizations gain a wider perspective on their strategies by focussing not only on financial aspects but also on other perspectives like customer perspective, learning and growth perspective, and internal business perspective. The balanced scorecard is a management system that enables organizations to clarify their vision and strategy and translate them into action. It provides feedback regarding both internal business processes and external outcomes, thus helping organizations improve strategic performance and results on a continuous basis. According to Robert S Kaplan and David P Norton in their book *'The Balanced Scorecard':* "The Balanced Scorecard translates an organization's mission and strategy into a comprehensive set of performance measures that provides a strategic framework for a strategic measurement and management system." The Balanced Scorecard not only enables companies to track their financial results but also helps them build capabilities and acquire intangible assets.

Importance of Balanced Scorecard

Companies are increasingly using their Balanced Scorecard to balance their short and long-term objectives. Exhibit 8.3 shows how Sears has become profitable by implementing a balanced scorecard. This essentially means that companies adopting the BSC realize that long-term objectives are not automatically reached through financial short-term objectives.

The BSC can be analyzed through:

- Financial results
- Customer satisfaction
- Process performance
- Competence level.

Financial results are considered to be a "lagging" indicator. They indicate what has been achieved in the past. Customer satisfaction is an indication of future sales potential, and new opportunities. Therefore, customer data provides indications of future financial results and a company’s competence level.

Customer perceptions are a result of process performance. Here the term "Process" includes all types of processes such as production, logistics, sales promotion.

The balanced scorecard is not only a system of measurement but a management system that enables organizations to clarify their vision and strategy and translate them into action. It provides feedback about both internal business processes and external outcomes in order to continuously improve strategic performance and results.

The balanced scorecard can be viewed from four perspectives:

- Learning and growth perspective
- Business process perspective
- Customer perspective
- Financial perspective

Learning and growth perspective

Because of changes in technology, knowledge workers have to continuously learn new concepts and techniques. Learning and growth are essential for the success of any knowledge-based organization. This perspective is designed to keep the company focused on creativity, product development, and improvement. It measures factors such as number of new products or services offered, new degrees or certificates earned by employees, or some measure of involvement with industry groups or industry education programs. This perspective is concerned with reviewing both employee training and corporate cultural attitudes. In a knowledge- based organization, people are the biggest asset.

Exhibit 8.3

Sear's Successful Shift to Balanced Scorecard

Rick Quinn, president of Hilton Head, S.C was the chief architect of Sears, Roebuck & Co's successful cultural shift in the mid-1990s, which was based on the Balanced Scorecard's four perspectives: customer, internal business, financial, and learning-and-growth.

Sears radically improved profitability using the Balanced Scorecard's four perspectives. However, shortly after Sears' implementation of the standard Scorecard, the company discovered that maintaining the company's increased shareholder value would require more change. For Sears, sustaining the Balanced Scorecard's initial improvements required senior management to alter the company's overall vision and incorporate a new perspective into the company's Scorecard.

As a result of this realization, Quinn began holding sessions on the vision of the company with the organization's top 100 executives. In off-site three-day sessions, Sears' corporate managers developed a list of the company's five-year objectives. In addition to examining the internal changes needed, the group discussed methods for aligning itself more with what was happening outside the company.

Initially, Quinn formed task forces around the four basic perspectives of the Balanced Scorecard. Each group was asked to define "world-class status" for each perspective (customer, internal business process, learning and growth, financial) identify Sears' obstacles to achieving world-class status in that area, and design metrics for measuring the company's progress in the area.

The customer task force was determined to get a first hand assessment of how well the company was listening to its clientele. To learn more about Sears' customer-service challenges, the task force held 80 focus-group sessions with customers around the country. As a result of its findings, the customer task force set four goals: offering the right merchandise at competitive prices; providing effective customer service by hiring, training and retaining the best employees; building customer loyalty.

The internal business task force held 26 employee focus groups and studied extensive data on employee attitudes and behavior. Each Sears employee was asked to complete a 70-question opinion survey every alternative year. The internal business task force found that, time and again, employees responded with the clear message that they were interested in the company's success and were proud to work for Sears. The task force also learned that two dimensions of employee satisfaction — attitude toward the job and toward the company — had a greater effect on employee loyalty and behavior toward customers than all the other dimensions put together.

The financial task force focused on shareholder value. The learning-and-growth task force launched a research project on the nature of change and suggested an effort to generate one million ideas from employees. The company identified a fifth perspective which was designed to measure overall values of the company. The task force used employee surveys to identify six core values that Sears employees felt strongly about: honesty, integrity, respect for the individual, teamwork, trust and customer focus. The task force determined that Sears' corporate culture was too paternal in nature and didn't value people as much as it should. These task forces helped the company identify the need for change and showed how the company can perform effectively using a balanced scorecard.

Adapted from Ivy Mc Lemore, "Putting the Balanced Scorecard to Work"Businessfinancemag.com

Kaplan and Norton emphasize that 'learning' is more than 'training'. Learning also involves the ability of mentors and tutors within the organization, to help employees to communicate effectively which can help in organizational learning.

Business Process Perspective

This perspective is concerned with the study of a company's internal operations. The efficiency and effectiveness of the company's internal business processes are examined. Metrics based on this perspective enable managers to find out how well their business is running, and whether its products and services conform to customer requirements. These metrics have to be carefully designed by those who are familiar with internal business processes for example, an operations manager should design metrics for measuring different aspects of the delivery of products.

Customer perspective

This perspective helps companies identify the customers and market segments in which they should compete. Typical measures include customer satisfaction ratings, number of referrals or repeat customers, or market share. Managers are increasingly realizing the importance of customer focus and customer satisfaction in any business.

Financial perspective

This perspective focuses on the study of a company's financial strength. The measures selected for the financial perspective would be those that are most important to the long-term success of the company. For example a cash flow measure, a profit measure, and a liquidity measure.

Kaplan and Norton are of the opinion that a financial perspective along with other perspectives will help a company perform efficiently. According to them, managers must do their utmost to provide timely and accurate financial data.

*Building a Balanced Scorecard***:** According to Nils-Goran Olve, Jan Roy and Magnus Wetter in their book "*Performance Drivers*" constructing a Balanced Scorecard involves an eleven-step process.

- First, the firm's internal and external framework must be analyzed. External analysis involves an examination of the competitors and other external factors like the impact of the economic, political, technological environment on the organization. Internal analysis focuses on assessing a firm's resources, core competencies and other assets.
- The second step involves the development of a strategic vision. The company must ensure that employees are informed of the vision of the company and are committed to the implementation of the vision.
- Third, the company must decide which perspective (financial, customer, internal business process, and learning and growth) it must adopt. It also needs to analyze the areas (perspectives) in which it is not performing as expected.
- In the next step, the company must examine the implication of the vision for each perspective. For example, in the customer perspective, a company should clearly define as to how it is going to build market share, build loyalty with existing customers, and acquire new customers etc.
- The next step involves creating top five objectives for each perspective. These objectives will help a firm in deciding the top criteria for each perspective.
- In this step, a balanced set of measures should be created that bring in congruence between the short-term and long-term considerations of the organizations. This stage also involves assessing the costs associated with collecting the data for the proposed perspectives.
- The measures developed in the above step should be communicated to top management for their approval. After approval, the measures must be communicated to the whole organization.
- The scorecard should be communicated to the appropriate organizational units. Depending on the size of the organization, scorecards can be created for various divisions, business units, departments and, in some cases, for each employee.
- The next stage involves creating goals for each measure, indicating short and long- term objectives.

- The next step involves developing an action plan for the successful implementation of the organization's projects.
- The final step involves implementing the balance scorecard process by conducting regular reviews against the current scorecard and the effectiveness of the current scorecard and strategy. It also involves discussions about the progress of the scorecard.

Linking balanced scorecard measures to business strategy

There are three basic principles that link an organization's balanced scorecard to its strategy. They are:

Cause and effect relationships: According to this principle a balanced scorecard to be effective, should, clearly state the sequence of relationships between the different perspectives and the performance measures of these perspectives.

Balance between performance measures and outcomes: A good balanced scorecard should strike a stability between the performance measures (the financial drivers of profitability, the market share) and the outcomes (such as customer satisfaction, employee skills etc.). Outcomes are called lagging indicators while performance drivers are called leading indicators.

Linkage to financial aspects: According to this principle a balanced scorecard should be linked to financial aspects like return on capital employed or economic value added. Programs such as total quality management, employee empowerment should be linked to outcomes that directly influence customers and deliver future financial performance.

These three principles link the balanced scorecard to strategy.

ECONOMIC VALUE ADDED

In recent years, value-based management systems, such as EVA, have increased in popularity. On the lines of EVA, Godrej has adopted a performance linked variable remuneration (PLVR) scheme to assure sustained performance from its employees. This plan provides design flexibility, ensures alignment between employees and shareholders, and significant motivation can be achieved with reasonable retention risk and shareholder cost. In the first level of the plan, target bonus determines how much cash incentive compensation, managers are paid for achieving expected performance. The use of EVA has grown steadily as business managers have become disgruntled with standard accounting practices that often fail to generate information helpful for decision-making. Therefore, more companies have turned to performance measurement tools such as EVA to improve their understanding of and ability to achieve profitability. Faced with increased competition in capital markets and pressure from shareholders to boost stock prices, companies are adopting systems that measure value creation. One such system that is generating widespread interest is EVA. It measures the residual value created by a company's operations.

Developed by Joel Stern and Bennett Stewart of New York City-based Stern Stewart & Co., (Stern Stewart & Co. introduced EVA in 1982) EVA and EVA-related metrics are increasingly being used not only for internal decision-making, but also for evaluating company and executive performance. EVA seeks to measure whether the capital employed by the organization is creating value.

Economic value added is an accounting-based measure of periodic operating performance, and is defined as the after-tax cash flow generated by a business minus the cost of the capital it has deployed to generate that cash flow. Accordingly, EVA represents residual income that is left after investors earn their required minimum rate of return which compensates them for the risk incurred by investing in the company This residual income can be expressed as:

EVA = Net Operating Profits after Taxes - WACC x Invested Capital

where

WACC = Weighted Average Cost of Capital

The weighted average cost of capital is the overall cost of capital calculated by weighing the cost of each type of capital by the proportion of that type of capital in the total capital structure. Value is created when operating profits exceed the cost of capital. The cost of capital is defined as the minimum required rate of return to leave the market price of shares unchanged.

In the mid-1990s, EVA became a popular supplement to the balance sheet. Companies such as Hewlett-Packard began using EVA to show investors just how profitable they were. Let us discuss the importance of EVA for present day companies.

Advantages of an EVA management system

- The primary advantage of EVA is that it encourages managers to act like owners by linking their annual compensation to shareholder wealth.
- As a value-based management system, EVA includes measures to gauge financial performance, evaluate strategic plans, identify unprofitable product lines, and increase working capital.
- Another advantage of EVA is that it eliminates the confusion and conflict that arises when a firm uses multiple performance measures, such as earnings per share, return on investment, return on equity, and net profit margin.
- EVA aligns the interests of managers and shareholders.
- The system motivates employees by encouraging them to act like owners.
- EVA links manager and employee performance evaluation with compensation
- The system provides benefits to all stakeholders, including employees, customers, shareholders, and suppliers.
- EVA can also be used to increase operational efficiency by restructuring operations, focusing on capital employed and identifying process improvements.

Today, a number of prominent companies, including AT&T, Boise Cascade, Briggs & Stratton, Coca-Cola, CSX, Deere & Company, Eli Lilly & Co., Equifax, Olin Corp., Quaker Oats Co., have implemented EVA. The Aditya Birla Group, NIIT, Tata Consultancy Services and the Godrej Group are pioneers in implementing EVA in India.

Disadvantages of EVA

- EVA is biased in favor of large, low return investments. Large companies that earn returns only slightly above the cost of capital can have better EVA than small businesses earning much higher returns.
- A common pitfall in implementing EVA systems is the failure to integrate them with the company's existing financial management information system. The company's periodic financial reports should include EVA performance measures. Therefore, dual accounting and management information systems may be necessary.

Steps in implementing EVA

The commitment of senior management is essential for the successful integration and implementation of EVA programs. Without management involvement, employees may view the program as just another temporary corporate trend.

The EVA implementation plan should provide for continuous training at appropriate organizational levels and link EVA performance with manager and employee compensation. Before proceeding with the development of an implementation plan, management should conduct a feasibility study of EVA for both the company and its competitors. This allows the company to benchmark its performance.

Many companies attempt to implement EVA too fast. Depending on a firm's profits, integration can take anywhere from four months to a few years. And the full impact of the system on shareholder wealth creation may be felt after three to four years. So senior management should use EVA daily, to help employees to become familiar with the process of implementing EVA.

Although proponents of EVA believe that the full benefits of the system are best realized when the concept is extended to all organizational levels, most companies do not implement it beyond the corporate level. The administrative requirements and training costs are often the main deterrents to company-wide implementation.

Educating and training employees about EVA is a challenging task. Employees must understand how they influence EVA through their actions. In addition, key value drivers need to be identified at all organizational levels.

Some companies attempt to implement the system by having staff accountants, regional sales managers or branch managers train all other employees. If the appointed trainers do not fully understand EVA, this approach will not work. Better results can be achieved when the company designates a few key individuals with the requisite knowledge and experience to conduct EVA training. After the program is implemented, the company must commit itself to continuous training to ensure that employees feel comfortable using the new system.

Although the concept of EVA is simple and easy to understand, some companies are not comfortable with the EVA approach. Many companies implement the system too quickly, without a well-developed implementation plan. Unfortunately this decreases the likelihood of EVA's success.

EVA data must be integrated into the company's management information system so that managers view it as integral to their jobs.

Linking EVA performance to employee compensation is an important part of the equation. The EVA implementation process can be regarded as a project within the firm. A project leader must be appointed for EVA implementation. It is also necessary to form an EVA team for understanding EVA.

EVA for planning and control

For a firm, the importance of EVA lies in the fact that it is a complete measure of performance. It enables an integration of capital budgeting with operations, in terms of both planning and control. EVA can be used as a tool for planning purposes. EVA has been hailed as a system that integrates the planning and control functions within the firm.

EVA and rewards

To align managerial and shareholder objectives and to integrate planning with control, managerial bonuses should be linked to EVA. This is to provide managers with the incentive to be paid like owners. Linking managerial bonuses to firm results as well as divisional results gives business unit managers the incentive to take a corporate, instead of divisional perspective. Concentrating solely on their unit at the expense of other units could be detrimental to overall firm value and therefore to the shareholders.

Strategies to improve the efficiency of EVA

For increasing the efficiency of EVA, managers should:

- Improve operating efficiency. This can be done by cutting costs and thus adding to profit without adding to capital.
- Enhance asset-management. Managers should reduce the investment in assets that earn less than the cost of capital.
- Increase profitable growth. This can be done by making new investments that earn returns that are greater than the cost of capital.
- Reduce the cost of capital. This can be achieved by implementing the most effective financial and investor relations' strategies.
- Expand the business. Managers should take on new investments that promise to earn more than the cost of capital.
- Improve efficiency. This will increase operating profit without increasing the existing capital.
- From the existing business, capital should be withdrawn or unprofitable assets sold so as to earn a return that is greater than the cost of capital.

SUMMARY

Organizations need to measure and manage performance. As a developmental tool, performance appraisal can be used in several ways. It can help identify the career needs of the employees and motivate them to perform better. There are five criteria for developing performance standards: strategic congruence, validity, reliability, acceptability and practicality. Since user involvement and feedback contribute to effective performance appraisal, 360-degree performance appraisal has become popular in many organizations. In this context, the coaching and counseling of employees have been discussed. Counseling has also assumed importance in the present day business environment. Coaching and counseling help managers effectively guide employees. Feedback, an important aspect of 360 degree appraisal, helps managers find how they are viewed by their direct subordinates, peers, customers and clients. This type of performance measurement is successful in firms that encourage participatory environment. While performance appraisal takes a close look at past performance of the employee, performance management analyzes what needs to be done in the future to help employees perform effectively. An effective performance management system nurtures individual creativity and strengths. The performance management cycle helps to identify the major components in performance management. They include defining the job, providing a clear picture of the job and evaluating the performance appraisal. Performance related pay is also gaining importance as it helps rewarding the employees on the basis of accomplishing the objectives.

The Balanced Scorecard a new performance management tool, helps companies examine their performance from four perspectives: financial perspective, customer perspective, learning and growth perspective and internal business process perspective. Modern companies have turned to performance measurement tools such as EVA to improve their understanding of and ability to achieve profitability. Many companies are implementing EVA as it encourages managers to act like owners by linking their annual compensation to shareholder wealth.

Chapter 9

Compensation and Strategic Human Resource Management

In this chapter we will discuss:

- Objectives of Compensation
- Organizational Strategy, Goals and Compensation
- Pay Elements
- Compensating Individuals
- Compensating Groups
- Compensating the Chief Executive Officer(CEO)
- Employee Motivation
- Job Evaluation
- Moving from Participation to Ownership
- Employee Stock Options (ESOPs)
- Pay for Performance

Work for ten minutes. Get paid for twelve hours'. This is the system for compensating employees who work temporarily on nuclear reactors. The workers who repair and maintain nuclear reactors are called Jumpers. They work in an extremely hazardous environments. They are paid at an hourly rate for every ten minutes of work. According to a study conducted by the Nuclear Regulatory Commission in the United States, three to eight Jumpers die of cancer caused by excessive radiation. The high compensation attracts many people to such dangerous jobs. One of the major reasons for workers working in such a dangerous environment is high compensation being offered for these kind of jobs. The system an organization uses for rewarding their employees is called the compensation system. This chapter examines the importance of compensation systems, types of compensation system and different compensation strategies.

OBJECTIVES OF COMPENSATION SYSTEM

Following are some of the objectives of a compensation system.

- To motivate employees. (Compensation is the driving force behind employee performance).
- To attract outside talent to join the organization.
- To retain employees.
- To communicate to the employees what the organization expects in terms of quality and output.
- To help employees recognize and understand the organizational goals and the role they have to play in achieving these goals.

Traditional versus Strategic Pay

Traditionally, the pay of employees was kept secret. The main objective behind compensation was to pay employees for the work done by them. Compensation was used as a tool by management for achieving various purposes. Strategic pay, however, uses compensation as a tool for rewarding, motivating and retaining talented employees. Other major differences between traditional and strategic pay are listed in the Table 9.1.

Table 9.1: Differences between Traditional and Strategic Pay

Traditional Pay	**Strategic Pay**
To support and control management and traditional job hierarchies	Designed for attaining business objectives and strategic plans
Emphasis on doing job according to job description	Focus on employee's contribution.
Highly structured pay design; pay structure inflexible	Pay structure changes with change in business priorities
Information pertaining to compensation is kept confidential.	Compensation information is not secret. Performance standards for getting pay hikes and incentives are communicated to employees

Source: www.workforce.com

ORGANIZATIONAL STRATEGY, GOALS AND COMPENSATION OF EMPLOYEES

E.E. Lawler has coined the term 'New Pay' for rewards and compensation that aims to align organizational goals with the compensation system. In many organizations, compensation systems are designed rather vaguely. Organizations apply different compensation strategies depending upon overall corporate strategies. They also rely on external salary surveys for collecting information about compensation levels in other organizations within the same industry. This is not the best method for collecting information because different organizations apply different business strategies, and these strategies govern their compensation system. Table 9.2 shows the relationship between corporate strategy and compensation.

Table 9.2: Relationship between Strategy and Compensation

Corporate Strategy	Compensation strategy	Composition of Compensation
Growth	Encourage entrepreneurship	High cash rewards, stock options, and number of benefits
Maturity	Recognize and reward accomplishments and management skills	Standardized cash pay and moderate benefits
Retrenchment	Control cost and try to retain the best employees	Low cash payments and negligible benefits.

Source: Wayne F.Cascio, Managing Human Resources (McGraw Hill Publications – 4th Edition).

As a major portion of the organization's budget is spent on employee compensation and benefits, organizations must align their compensation strategy with their corporate strategy.

PAY ELEMENTS

The pay of the employees can be divided into two types of elements: direct pay elements and indirect pay elements. Pay in the form of cash, stock etc. directly paid to the employee constitute direct pay elements.

Components of Direct Pay

Base pay

Minimum amount of money invariably paid to the employee is called base pay. This is determined by the nature and number of tasks performed by the employee.

Merit pay

Organizations conduct a performance evaluation of employees at least once a year. Employees who have performed well receive a raise. This is called merit pay.

Incentives

An Incentive is a lumpsum amount paid to employees when the productivity and profit of an organization increases. For example, employees receive a bonus as an incentive when a company’s productivity exceeds expected productivity in terms of volume.

Cost of living adjustments (COLA)

This is a lumpsum amount for helping employees cope with adverse changes in the consumer price index.

Components of Indirect Pay

The perquisites and benefits provided by an organization, as welfare measure or to meet the legal requirements, are known as indirect pay elements.

Some of the indirect pay elements are:

Leave with pay

Employees are entitled to paid leave for fixed number of days. For example, in some organizations, every sick leave taken by an employee is a paid leave for a stipulated number of days.

Protection programs

Organizations bear the premium for employee protection programs like insurance, disability, social security etc.

Services and perquisites

Organizations pay for recreational activities and travels and tours of employees. Many companies also provide employees with cars, as a perquisite.

Let us now discuss the various compensation systems adopted by the organizations towards individual employees and groups of employees.

COMPENSATING INDIVIDUAL EMPLOYEES

Organizations mostly compensate employees on an individual basis. Some of the pay systems used by organizations for compensating individuals are:

- Piece rate system
- Commission system
- Bonus system
- Skill based system
- Merit Pay system

Piece Rate System

Organizations involved in the production or manufacturing of goods adopt this pay system. In this system, employees are paid on the basis of the number of units manufactured by them during a time period. Organizations use the output data of other companies, along with time and motion studies to arrive at the minimum number of units that must be made by a worker.

A major disadvantage of this system is that employees feel that management is only concerned about productivity and not their welfare. A feeling of distrust may develop between management and workers. As the productivity per worker increases, workers may resort to 'go-slow' techniques to prevent management from laying off workers.

The Lincoln Electric plant in Cleveland, has modified the piece rate system of compensation. Their piece rate system is backed by a merit rating based bonus system. This combination of piece rate and bonus system has led to improvement in product quality because workers want to get a good rating to earn a higher bonus.

Commission System

Employees whose productivity can be quantified are usually paid on a commission basis. For example, sales professionals are paid commission on the basis of sales achieved by them. Salespersons feel motivated when they are paid commission in recognition of their efforts. The commission system is an objective and efficient system for compensating salespersons. However, such a system may lead to the use of unethical techniques for increasing sales, thereby increasing the commission.

Bonus System

This refers to a lumpsum payment given to employees at the end of the year for achieving productivity or performance targets. Since the bonus is paid in the form of a lumpsum, employees feel they have received a large sum of money. Consequently, they feel content about the amount they have received. If the employees were given the same amount spread over twelve months, they may not feel the same sense of contentment. The bonus system is one of the most successful and reliable system for compensating employees.

Skill Based System

In this type of compensation system, employees are paid on the basis of number of the skills they possess. Unlike the merit rating or bonus system where employees are paid for performance, in this system they are paid for the skills they learn on the job. Employees are put through various job activities. Over a period of time, they are expected to develop expertise in all the activities of the job. The purpose of adopting a skill based system is to train employees in the various aspects of the job. Organizations having high performance work systems and self managed work groups adopt a skill based pay system for compensating employees. An example for skill based compensation is seen in the IT industry. Exhibit 9.1 shows the trends in compensation in the IT industry over the last few years.

Merit Pay System

Organizations conduct performance reviews at the end of every year. The main purpose of this review is to measure the performance of employees in the previous year. On the basis of their performance in the previous year, employees receive a hike in pay. This increment is called merit pay because it is commensurate with performance. The major problem with merit increments is that organizations have to commit themselves to these hikes and cannot withdraw these increments even when the organization incurs losses. Merit increments are cumulative in nature and prove to be very costly for the organization in the long run. Merit pay is dependent on the merit rating one gets from the concerned supervisor. Hence, there may be an element of bias in these ratings. A supervisor's errors in perception may result in unfair ratings. Although the merit rating system has many inherent problems, it is still used by a large number of organizations.

COMPENSATING GROUPS

Employees usually work in groups in different departments of the organization. Compensation of employees on the basis of the performance of the group in which they work instead of their individual performance is called group compensation. Group incentive schemes have worked well in a number of companies. They have increased productivity and encouraged creativity. For example, the group incentive scheme at the Navy Personnel Research and Development Center at Pearl Harbor has been a great success. The workers who worked in groups also called gangs, reported that the group compensation scheme resulted in an increase in productivity. The groups took less time completing their work and showed a marked increase in efficiency. Group incentive schemes can be categorized into profit sharing plan and gain sharing plan.

Exhibit 9.1

Compensation in IT industry

Compensation within the IT industry was one of the best over the last decade. CEOs of various IT firms topped the list of highest paid CEOs. (Steve Jobs of Apple was the highest paid CEO of 2001). In the last couple years, compensation within the IT industry has taken a beating (because the net bubble burst and many IT startups failed). Globally, the compensation of employees working in the IT industry has been shrinking. Employee stock options which were offered as incentives for employees of IT companies do not attract the attention of employees any more. This is because the share prices of IT companies have tumbled. According to a survey report on compensation published by Workforce.com in October 2001, the average CEO compensation of IT companies decreased from $409,000 to $ 335,000, the compensation of senior project managers decreased has from $91,500 to $ 90,000 and the compensation of senior software engineers has decreased from $ 70,000 to $ 69,100 during the same period. But these findings were challenged by the New York based William Mercer Inc. This survey found that though the compensation of employees working in IT industry had gone down, there was no significant decrease in the base salary of employees. Instead the results showed there was an increase in the average base salary from $ 91,800 to $ 1,05,000 for employees working as software project managers. The report added that though base salary had increased, the value of total compensation had decreased due to cuts in incentives, benefits and perquisites.

Source: www.washingtontechnology.com

Profit Sharing Plan

In a profit sharing plan, a part of the profit earned by the organization is distributed among designated employees. Organizations set a target profit for profit sharing plans. If the profit earned is greater than the target profit, it is distributed among employees. The profits can be distributed equally among the designated employees or it can be distributed in proportion to their income. Employees receive their share of the profit either on retirement or termination.

There are three types of profit sharing plans:

Current Distribution Plan

In this plan, profits are distributed in the form of cash or company shares

Deferred Payout Plan

In this plan, the profits are transferred to a fund created in the name of employees. Employees are given their share of the profit at the time of retirement or termination.

Combination Plan

In this plan employees receive periodic cash payments. At the same time, a fund is created in which profits are transferred to be given to employees at the time of retirement or termination.

The major advantage of profit sharing plan is that it motivates employees to achieve higher profits. When the organization fails to earn any profits, the employees try to find out why and where they failed. Such a plan thus develops a sense of ownership and employees work together to maximize profits. But profit sharing plans become meaningless when organizations fail to make profits.

Gain Sharing Plan

In this plan, the gains made by the organization are distributed at unit level or group level. The basic difference between profit sharing and gain sharing is that in profit sharing profits are distributed among designated employees, whereas in gain sharing plan they are limited to the department or unit that has contributed to the profit. In addition, profit sharing plans are formula computed on the basis of mathematical formulae whereas gain sharing plans are based on the improvements made in productivity in comparison with the previous year.

Compensating CEOs

The topic of executive compensation has gained considerable importance during the last few decades. It has given rise to many heated debates because of the inequity between executive compensation and the compensation of other employees. Executives have been criticized for drawing huge pay packs even when the company was not doing well. A survey conducted by workforce.com in the year 2000, has revealed that over the last decade executive compensation has increased by 212%, whereas worker compensation has increased by only 53%. CEOs receive such high compensation because they provide the company a vision and also give direction to all its activities.

Conferenceboard.com conducted a survey of 1711 companies belonging to 14 major industries in the US in 1997. The aim was to find out the pattern for compensation of top executives in these industries. The survey found that top executives of the insurance industry were the highest paid. (See Exhibit 9.2)

Exhibit 9.2

Pay for Top Executives

Industry	**Median compensation of top executive (In Dollars/annum)**
Insurance	12,75,000
Communication	12,54,000
Telecom	11,41,000
Energy	10,20,000
Financial services	10,09,000
Utilities	9,08,000
Manufacturing	8,86,000
Diversified services	8,46,000
Commercial banking	8,33,000
Transportation	7,10,000

Source: www.conferenceboard.com

Objectives of Executive Compensation

The performance of Chief Executive Officers (CEO) is reflected in the performance of the company. The individual performance of the CEO is insignificant if the organizational performance is poor. The CEO is responsible for the development and growth of the organization. Various sophisticated financial measures like EVA (Economic Value Added) and Total Shareholder Return (TSR) are being used for monitoring CEO performance in relation to organizational performance. Though a number of studies have been taken up in this area, none of them have concluded that a high degree of correlation exists between executive compensation and organizational performance.

Elements of Executive Compensation

Various elements of executive compensation are:

- Executive Incentives
- Long Term Incentives
- Performance Bonuses
- Perquisites

Executive incentives

The incentives or rewards that the CEO of a company gets (apart from his salary) for his contribution to performance of a firm are called executive incentives.

Long term incentives

Long term incentives are gradual payments made over a period of time. The main aim of long term incentives is to retain executives for a longer period of time. Apart from this, the aim is also to create a link between executive incentive and organizational performance. Long term incentives are usually given in the form of stock options[1].

Performance bonuses

More than 90% of companies in the US have a bonus plan for their CEOs. The method of calculating the bonus varies from company to company. In some companies cash bonus, amounting to 20-25% of the salary, is paid. Some other companies use a mathematical formula to calculate bonus on the basis of return on investment and net profit. In certain companies, the Board of Directors decides the bonus amount on the basis of the performance of the company.

Perquisites

Perks are special facilities given to CEOs apart from their salary. These perks add glamor to the executive's job. They could be in the form of free jet planes for traveling, club memberships, fully paid vacations etc. The perks offered by some companies are more attractive than their salary.

Executive Compensation - Indian Scenario

Executive compensation in India is still in its infancy. Though it is increasing steadily, it cannot be compared to the compensation of executives in the west especially the US. The CEOs salary primarily has two components, i.e. fixed and variable. In the case of Indian CEOs the fixed component is higher that of American CEOs in terms of percentage. An American CEOs salary generally has a high percentage of variable

[1]Stock options have been discussed later in this chapter.

pay. According to a survey conducted by Omam[2] Consultants in 2001, the average income of a CEO in India is Rs. 9.88 million per annum, while a CEO in the US earns $13.1 million[3] per annum. CEO salaries keep fluctuating and differ from industry to industry. CEOs of IT companies in India used to have high salaries, but this is not the case any more. Nowadays, salaries of CEOs of automobile and FMCG industries are on par with the salaries of CEOs of IT companies (See Exhibit 9.3).

The Kumaramangalam Birla Committee report on Corporate Governance has suggested the formation of remuneration committees within companies for determining the CEO's pay. The Board of Directors, along with the shareholders, should play a proactive role in designing the CEO's pay structure.

Table 9.3: Highly Paid Indian CEO's

Name of the CEO	Company	Pay in Rs	% Increase from last year (2001)
Dhirubhai Ambani	Reliance	88.5 mn	73.8
Azim Premji	Wipro	42.8 mn	130.1
B L Munjal	Hero Honda	41.8 mn	-
YC Deveshwar	ITC	11.3 mn	11.1
Sandeep Goyal	Zee Telefilms	11.7 mn	-

Source: Business Today, October 2001.

Paying the CEO the Right Way

- CEO pay should be linked to the achievement of the company's strategic goals.
- Strategic performance measures like EVA(Economic Value Added) should be used for measuring CEO performance
- Independent compensation committees should be formed to measure the performance of CEOs
- CEO pay should be linked to the performance of the company's stock as well as the resulting wealth created for the shareholders.

EMPLOYEE MOTIVATION

Employee performance depends on employee motivation. One of the biggest motivating factors is pay. In order to understand the relationship between pay, employee motivation and performance, we shall study the concept of equity.

Equity

Equity is a perceived feeling of being treated fairly by the firm in terms of compensation. Employees develop this feeling by comparing their salaries with that of their colleagues. Equity theory helps us understand the relationship between motivation and pay.

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[2]Omam consultants is a Hyderabad based HR consultancy

[3]To get the amount in rupees, multiply 13.1 million with the current rupee-dollar exchange rate.

Equity Theory

$$\frac{\text{Outcomes/Reward (self)}}{\text{Inputs/ Contribution (self)}} = \frac{\text{Outcomes / Rewards (others)}}{\text{Inputs /Contribution (others)}}$$

$$\frac{\text{My rewards}}{\text{My Contributions}} == \frac{\text{Other's rewards}}{\text{Other's contribution}} == \text{Equity}$$

$$\frac{\text{My rewards}}{\text{My Contributions}} < \frac{\text{Other's rewards}}{\text{Other's contribution}} == \text{Inequity (Under-rewarded)}$$

$$\frac{\text{My rewards}}{\text{My Contributions}} > \frac{\text{Other's rewards}}{\text{Other's contribution}} == \text{Inequity (Over-rewarded)}$$

According to the Equity theory[4], workers compare the work done by them and the compensation they get with that of their peers who do similar work. Employees need to perceive an equity between the jobs they do and those done by their peers in terms of their input (education, skills, knowledge, number of hours worked etc.) and the outcome (pay, recognition and other rewards they get for doing that job). The pay differential should be fair to motivate employees. When the employees perceive an inequitable situation, he will try to alter his inputs or outcomes to achieve equity.

For example, let us assume that there are two lecturers in a college. One is more experienced than the other and is being paid more by the college. The other lecturer perceives this as an inequity and tries to alter his inputs. He may start taking fewer classes or demand higher pay for himself to achieve equity between his job and the other lecturer's job.

In case an employee feels he is being under-rewarded then he will try to alter his inputs by working less number of hours or will try to enhance his outcomes i.e. ask for higher pay. An employee who perceives an inequity may also try to alter the inputs of the other employees by asking the management to increase their workload. If these efforts do not achieve the deserved results, he may quit. In some cases, an employee may be over rewarded. Such an employee may feel that other employees are being treated unfairly. In such a situation, he may try to increase his efforts or reduce their workload. He may also ask for a pay cut in extreme circumstances.

There are three types of equity depending upon comparisons that can be drawn. They are:

- Internal equity
- External equity
- Individual equity

[4]Equity theory was proposed J. Stacey Adams.

Internal equity

Organizations have different types of jobs within their work system. These jobs need people with different competencies and skills. The effort needed for doing these jobs differs too. That is why a general manager earns more than a manager and a manager earns more than a supervisor. These differences in pay are said to be fair when they are in proportion to the work done by the employee. To determine internal equity, two jobs within the same company are compared. Organizations employ various job evaluation techniques to establish equity between jobs.

Job Evaluation

This technique is used for calculating the relative worth of jobs in an organization. There are various methods for finding out the intrinsic value of the jobs and the contribution of these jobs to the achievement of the overall objectives of the organization. The factors which create the difference in the value of jobs are called compensable factors[5]. Take the case of two engineers with similar background and work experience, working in the same factory but receiving different pay packets. They may be paid different salaries because their job responsibilities differ.

There are three major techniques of job evaluation.

- Job ranking
- Job classification
- Point system

Job Ranking

This is the easiest method for evaluating jobs. The job evaluation team ranks jobs according to their job descriptions. This technique is highly subjective. As a result, it is very difficult for managers to assign salaries for jobs evaluated by these techniques. It is difficult to assess the relative difficulty in doing two jobs which have been given the same rank under this technique.

Job Classification

This is also referred to as a job grading technique. It is the most widely used technique for evaluating jobs in public sector companies. In this technique, jobs are assigned to a predetermined job grade. For example, in public sector companies there are seven grades: G1 to G7. The jobs are grouped under these grades. Job grading is easy, flexible but also highly subjective. In addition, more importance is given to job titles rather than the job content.

Point System

This is the most widely used job evaluation method in private sector companies. In this system, jobs are split into various job elements. These elements are assigned points. The point method is objective and easy to administer. It uses a four step process for evaluating jobs.

Step I- Identification of compensable factors – Various compensable factors common to all the jobs in the organization are identified. A few examples of compensable factors are education, skill, job conditions, effort etc.

Step II - Factor scales – Once the compensable factors have been identified, scales are designed to reflect the degrees within each factor. These degrees are listed in ascending order of complexity. The degrees for a factor like numeric skills would look something like this.

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[5]Compensable factors have been explained under the heading job evaluation techniques.

1st Degree – Ability to read and write numbers. Should know how to add and subtract numbers

2nd Degree – Should be adept at multiplication, division and basic algebra. Should be able to interpret graphs and other mathematical diagrams.

3rd Degree - Should be good at geometry and drawing three dimensional objects. Should know how to use precision instruments.

In this way, degrees have to be developed for all the compensable factors which the organization has identified.

Step III - Assigning Points to degrees – Once the degrees have been identified, they are assigned points. The lower degrees are given less points than the higher degrees. For example, in the table 9.4 the organization has taken three compensable factors i.e numeric skills, experience and education. These factors have been split into three degrees which in turn have been assigned points.

Table 9.4: Point System

Degrees **Factors**	**1st**	**2nd**	**3rd**
Numeric skills	20	35	50
Experience	25	40	55
Education	30	45	65

Source: Icfaian Center for Management Research

Step IV- Applying degrees and points to a job. This is the last stage of this technique. After the compensable factors have been identified and the degrees have been assigned points, the points are assigned to the jobs in the organization. The following table shows how points are assigned for a supervisor's and a shop floor worker's job.

For example, compare the job of supervisor with that of a shop floor worker. (see Table 9.5) Supervisor’s job scores higher on experience and education than a shop floor workers job. The supervisors job is thus assigned more points than the shop floor worker's. Hence, the job of a supervisor has more intrinsic value than the job of a shop floor worker. In this example, we took into consideration only three compensable factors, but organizations usually have 7- 25 factors for evaluating different jobs in the organization. The higher the job scores, the greater the value of the job for the organization.

External Equity

Employees compare their inputs and outcomes with the inputs and outcomes of employees in other organizations. For example, a general manager working in a fast moving consumer goods company compares his effort and income with the effort and income of another general manager working in a similar company within the industry.

Employees must be careful when making comparisons with other organizations. The comparisons should be fair and rational. For example, the general manager of a company with a turnover of Rs.100 million cannot compare his inputs and outcomes with the general manager of a company with a turnover of Rs.500 million.

When there is external inequity, employees feel demotivated and do not perform well. These organizations also experience a high rate of turnover. Organizations should keep track of latest salary and wage surveys so that they achieve external equity. The data collected through salary surveys is mapped with the internal job evaluation. This process is called wage pricing.

Table 9.5: Assigning Points to Degrees

	Supervisor		Shop Floor Worker	
Factors	**Degree**	**Points**	**Degree**	**Points**
Numeric skills	2	35	1	20
Experience	3	55	2	40
Education	1	20	1	20

Source: Icfaian Center for Management Research

Wage and Salary Surveys

A wage and salary survey involves three steps

- Identification of key jobs.
- Selecting organizations for surveying.
- Collecting data from selected organizations.

Identification of Key Jobs

Organizations need to identify the jobs for which they want to collect salary data. Ideally, they should select those jobs that are essential for an organization's growth. For example, organizations should try to get the salary data for managerial rather than secretarial jobs. Organizations should also try to select jobs from different levels of an organization. In addition, jobs spanning all management levels (operational, tactical and strategic) should be identified for data collection.

Selecting Organizations for Surveying

The organizations selected for surveying should be similar to the organization conducting the survey in terms of size, turnover, culture; should be within a specified geographic area; and should be a part of the same industry. Comparing the salaries found in a big organization with those in a small organization is a meaningless exercise because the salaries of big organizations would inevitably be higher than salaries in small organizations. The workers employed by the organizations being compared should also be similar in terms of education, experience, skills etc.

Collecting Data

Organizations either conduct a salary survey themselves or access the data collected by specialist organizations which conduct these surveys on a regular basis. For example, Hewitt Associates and Hay Group. Conduct salary surveys on a periodic basis and share this data with other organizations for a small price. The collection of salary data can at times, be a laborios process and may require considerable amount of money. Organizations specializing in such surveys provide detailed information regarding the size of the workforce, their direct and indirect compensation elements, benefits offered by the organization etc. This data is collected on an ongoing basis and is updated as and when required. As the people collecting and tabulating the data are professionals, the data is generally error free.

Individual equity

The terms 'internal equity' and 'individual equity' are often used interchangeably though there is a lot of difference between the two. In internal equity a relationship is drawn between jobs but in individual equity, individual employees doing the same job are compared. It is difficult to achieve individual equity when designing the compensation system. The salary expectations of employees differ because of their experience, education, skills etc. Because of differences in qualification, organizations pay different salaries to different employees. This is where the problem rises. Organizations need to pay variable salaries and still maintain equity within the organization. For example, the remuneration for two sales managers in an organization should be different if one has more experience than the other. The sales manager with more experience should be given higher salary, commensurate with his experience. But this creates problem. As both of them hold the same position i.e. of a sales manager, the less experienced sales manager may feel that although his duties and responsibilities are equal to the other sales manager, he gets a lower pay when compared to him. To overcome this problem organizations use pay ranges for compensating employees. Pay ranges are designed keeping in mind the number of job grades within the organization. Pay ranges have an upper limit and a lower limit of pay. For example, an organization may have a pay range of 8,000 to 10,000 for sales managers. This means that all sales managers will get a pay between 8000 to 10,000 in the organization.

Rs.	Rs.
Wage grade I 20-30 Wage grade II 30-40 Wage grade III 40-50	Broadband 20-50

CONCEPT OF BROADBANDING

Organizations that either downsize or restructure their human resources have to redesign their compensation system. In this situation, organizations use broadbanding for designing the compensation system. This is a temporary move to prevent the chaos that often results from unequal pay during the post restructuring period. In broadbanding, an employer clubs together a number of wage grades. As a result employees who used to get different salaries would now get salaries within a range.

Broadbanding can be done taking the lower limit of the lowest wage grade and the upper limit of highest wage grade. Broadbanding helps simplify compensation procedures during restructuring. It also increases the responsibilities of employees and gives them a sense of direction during the restructuring process.

MOVING FROM PARTICIPATION TO OWNERSHIP

The concept of worker participation gained importance after the human relations movement. The aim of workers participation is to involve employees in all the activities of management and build a participative culture. To achieve employee involvement, organizations have tried different ways of linking organizational performance to individual performance. However, in spite of many efforts, organizations have more often than not been unable to achieve employee involvement. Employees remained aloof and often uninterested in organizational performance. While profit sharing schemes and productivity linked bonuses encouraged employee involvement, they were only short term measures and such schemes did not sustain employee interest in overall organizational performance.

Quite often, employees raised questions like – why should we participate? What will we gain from participation? This negative attitude of employees can only be tackled by developing a sense of ownership in employees.

Organizations should take the following steps to develop an ownership culture:

- Create a balance between organizational and employee needs
- Make employees understand the advantage of long-term growth oriented measures over short-term schemes
- Make employees understand the long-term objectives and goals of the company
- Encourage transparency and create a knowledge sharing culture

A major challenge in developing an ownership culture lies in overcoming the previously advocated participative culture. In organizations that have a highly participative culture, productivity-linked bonuses, 360^0 feedback etc, employees find it difficult to differentiate between participation and ownership. Organizations can overcome this problem by educating employees about the differences between ownership and participation.

EMPLOYEE STOCK OPTIONS (ESOPS)

Employee stock options, a form of equity compensation paid to employees, are used

- To motivate employees and create a sense of ownership in them
- To retain and attract outside talent
- To reward employees for their performance. (If ESOPs are given to a number of employees, then they are called broad-based stock options plans) (See Exhibit 9.3).

Exhibit 9.3

Broadbased Stock Options – Starbucks Coffee Company

Starbucks coffee company was founded by Jerry Baldwin, Zev Seigl and Gordon Bowler in 1971. Later it was bought by Howard Schultz. Initially Starbucks was only into the sale of coffee beans, but later Schultz started building coffee bars. The concept of coffee bars was not famous in the United States. Schultz got this idea after visiting Italy where he saw people often met over a cup of coffee. Schultz started the first coffee house in Seattle which is also the headquarters of Starbucks. Starbucks success has a lot to do with its compensation system. Starbucks offered stock options to almost all its employees in the year 1991. Every employee gets stock options if he has worked for at least one year in the company. The options are given on the basis percentage of annual wages of the employee. Every year, around 10% of the employees are offered stock options, depending on the profits made by the firm. The vesting period given to employees is five years i.e. employees can exercise their options within five years. By giving stock options to almost all its employees Starbucks pioneered the concept of broadbased stock options.

Source: www.workforce.com

Initially, stock options were synonymous with technology companies. Since these companies had a high rate of turnover, they offered stock options to retain talented employees. Currently, many retailing businesses and pharmaceuticals companies also give stock options to their employees. Research conducted by the National Center for Employee Ownership in the US reveals that 10 million employees in the US receive stock options. This indicates the increasing use of stock options for compensating employees.

Another objective of granting stock options is to create employee ownership. From an employer's perspective, stock options create ownership as stock options are not given for free and employees buy the options at some point of time. However, employees feel that stock options do not create ownership because most of the options granted are call options in which employees have the right to purchase the stock but are under no obligation to do so.

Characteristics of Stock Options

Stock options as a motivational tool

Organizations are increasingly using stock options to motivate employees and improve their performance. In a study conducted by the economist John Abowd[6], it was revealed that corporate performance improved when stock options were given as compensation. Research conducted by economists Clifford Holderness, Randall Krozner and Dennis Sheehan showed that stock options created a sense of ownership in the top management of the company. This sense of ownership encourages the top management to perform better, thus leading to better organizational performance. On the flip side, stock options can create uncertainty and anxiety in the mind of employees, causing their performance to suffer.

Stock options are mostly given to top management

Most companies do not adopt a broad based stock options plan, and even if they do so, the stock options given to top managers are far higher than those given to other employees. According to a survey conducted by the Financial Market Center (FMC) of 220 Fortune 500 companies, the number of stock options given to top managers was 279 times the stock options given to other employees. In another survey of 50 firms conducted by FMC in 1998, it was found that 11% of stock options were given to CEOs and another 21% was distributed among five executives of the firm. This means that more than 30% of the stock options were shared among the top executives.

Accounting systems ignore stock options

Accounting rules and standards do not make it obligatory on the part of the company to include the stock options given to employees or the CEO in their balance sheet. Generally, a footnote is given in a company's financial statements to indicate the stock options granted to employees. In 1992, Financial Standards Accounting Board of America stressed the need to include stock options in the financial statements. Its recommendations went unheeded because of lobbying by big technology companies. (See Exhibit 9.4)

Stock options affect bottomline

Do stock options affect the bottomline or profitability of a company? The value of stock options granted to CEOs multiplies over a period of time so stock options do have a bearing on the profitability of a firm. Research conducted by Bear Stearns, accountants, revealed that the profits of companies listed on the S&P 500 index fell by 4% when their stock options were taken into account. A survey of top 145 companies in the US by Smithers and Company, showed that these firms understated their profits by 30% in the year 1995. Profits were understated because stock options were not taken into account.

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[6]Professor John Abowd is the 'Edmund Ezra' Professor of Industrial and Labor Relations at Cornell University, Director of the Cornell Institute for Social and Economic Research (CISER), Distinguished Senior Research Fellow at the United States Census Bureau, Research Associate at the National Bureau of Economic Research (NBER Cambridge, Massachusetts), and Research Affiliate at the Centre de Recherche en Economie et Statistique (CREST, Paris, France).

Exhibit 9.4

Compensation and Enron Debacle

In the year 2001, Fortune magazine brought out an article that showed how the management of companies can use stock options to manipulate their accounts. This type of manipulation of accounts led to the collapse of Enron. The Enron case can be viewed from many perspectives (i.e. ethical, political, financial) and one of the chief perspective is compensation. To understand what Enron did in terms of compensation, we will have to take a look into the transactions between Enron and banks like Citibank. Enron did not directly take a loan from Citibank. Instead it created a shell company which took the loan. The banks gave the loan to the company because it was backed by a Fortune 500 company like Enron. The loan given by the bank to the shell companies was used by Enron. As a result, the loans were shown as liabilities in the accounts of other companies, though the amount was used by Enron to inflate its profits. The inflated profits made Enron's stock price spiral. Because its stock price was increasing the employees exercised their options and bought Enron's stock. The company assumed that stock options would motivate employees to perform better. It was also assumed that linking CEO pay to the stock market would motivate the CEO to make all the right moves, as a fall in the stock market would mean a fall in his income too. Eventually, as Enron's stock plumetted, it became clear how Enron had manipulated its accounts. Though assumptions made by Enron were baseless, companies still are willing to tie the fortune of their employees to the stock market through stock options.

Source: www.bear-left.com

PAY FOR PERFORMANCE

The world economy is going through a bad phase. With investor confidence waning and capital markets performing badly, companies have been badly hit. Stock options have lost their attractiveness due to the resulting market slump. Pay hikes are distant possibility in this situation. This has made companies demand more from their employees. In turn, management promises to recognize the efforts of the employees and pay them according to their performance. As a result, concept of pay for performance has become important. In the years to come, it will be adopted by companies worldover.

Concept of Variable Pay

Earlier, employees were compensated on the basis of the number of hours they worked rather than on the basis on their performance or output. Now, uniform pay has been replaced by the concept of variable pay. The concept of variable pay has importance because the performance of no two employees is the same. The quantity and quality of their output differs. Since their performance differs, they should be paid differently. Variable pay consists of numerous pay elements like skill based pay, commission, non-financial rewards etc.

Problems in Implementing Variable Pay

A variable pay system is difficult to implement because there are no standard and objective performance measurement methods for measuring employee performance. If the work can be quantified, then it's easy to measure performance. For example, in a call center company. The performance of a call center executive can be measured by the number of calls successfully answered by the employee. But it's difficult to measure the performance of a front office executive in the hotel industry because the tasks cannot be quantified. Thus, it is necessary to have an objective, efficient and effective performance management system before implementing a variable pay system.

SUMMARY

Employees are paid for the services they render to organizations. They receive both monetary and non- monetary rewards. The system organizations use for rewarding their employees is called the compensation system. The major objective of a compensation system is to motivate employees. It's the driving force behind employee performance. It attracts outside talent and helps organizations retain employee. The pay of employees can be divided into two elements: direct pay elements and indirect pay elements. Compensation given directly to the employee in the form of cash, stock etc. is called direct pay. Perquisites and benefits, provided by the organization either as a legal requirement or as a welfare measure is called as indirect. Organizations compensate employees on the basis of individual or group performance. Some of the pay systems used by organizations for compensating employees for individual performance are -Piece rate system, Commission system, Skill based system, Bonus system, and Merit Pay system. Organizations also compensate employees on the basis of the performance of the unit or group in which they work. Group incentive schemes can be categorized into profit sharing schemes and gain sharing schemes. Over the last few decades the amount of compensation given to executives has attracted considerable attention. Executive compensation usually includes long term incentives, performance bonuses and perquisites. It is believed that employee performance is dependent on employee motivation. One of the most important motivating factors is pay. Equity is a perceived feeling of being treated fairly by the firm in terms of compensation. There are three types of equity: internal equity, external equity and individual equity. Organizations employ various job evaluation techniques to establish internal equity at the workplace. Some of the job evaluation techniques are job ranking, job classification and point system. To establish external equity, organizations have to conduct salary and wage surveys. Organizations try to achieve individual equity by using pay ranges. Organizations that either downsize or restructure their human resources have to redesign their compensation system. In this situation, organizations use broadbanding for designing the compensation system. Organizations have adopted different methods of compensation for developing a sense of employee ownership. Many companies give ESOPs to make employees feel that they own the firm. These stock options are generally given to top management. Another modern system of compensation is the system of variable pay. In this system, employees are paid on the basis of performance or output rather than on the number of hours they have put in.

Chapter 10

Strategic Challenges for Leadership

In this chapter we will discuss:

- Strategic Challenges for the HR Manager
- Managing in the Global Environment
- Managing Workforce Diversity
- CEO Succession Planning
- Leadership in Family Owned and Professionally-owned
- Level 5 Leadership
- Women CEOs
- Managing Technological Innovation

Jack Welch, the leader of General Electric (GE), is described as a business genius, a self-made man and a rebel. Welch is given the credit for developing GE's leadership strategies. Within two decades, he increased GE's market capitalization to $400 billion. According to Welch, short-term results are equally important as long-term results. Anybody can achieve this but the challenge is to balance the two. Jack Welch made sure that the best business leaders were rewarded properly. Welch used rewards like stock options to motivate employees and drive their behavior. To assess the performance of his personnel of executive level and above, Welch conducted Session C meetings which started every February and ran for 20 days. In the meetings, every employee was asked to fill a self-assessment review which was later discussed by the review manager. The managers sent the reviews up the management chain. Jack Welch with his vice chairpersons and senior human resources personnel, met the business leaders at their respective headquarters. Jack Welch had actually become a 'teacher' within GE. At Crotonville, Jack Welch led more than 250 class sessions and trained more than 15,000 GE managers and executives. He went to the academy every two weeks, for 17 years to interact with new employees, middle managers, and senior managers. Each session at the academy lasted for about four hours. Jack Welch asked questions and then challenged the employees to answer.

He faced various challenges relating to promotions, assignments, and succession plans. He strongly believed that people at GE should choose their successors. The Crotonville Institute started by GE groomed successors for important positions of the company. As a CEO, Welch wanted to transform GE into an informal learning organization. All these have made Welch the world's most admired CEO.

This example illustrates the different strategies to be adopted by a manager to be a successful leader.

This chapter examines the importance of strategic challenges for a leader such as managing in a global environment, managing workforce diversity, and managing technological innovations. The chapter also provides useful insights on how leadership strategies in family-owned businesses differ from those of professional businesses. It also discusses the leadership strategies of women CEOs and Level 5 leadership.

STRATEGIC CHALLENGES FOR THE HR MANAGER

HR managers face critical challenges like supporting new organizational structures and dealing with growing variations in employee relations. These strategic challenges can be encountered across HR policy clusters, HR roles and in HR outsourcing.

Strategic Challenges across HR Policy Clusters

Organizations need to redesign their human resource systems to support new organizational structures. The reasons are:

- Employee relationships vary across organizations and these variations are to be considered while developing new structures.
- Managers need to develop human resource policies for contract workers who are not part of the organization.
- Performance and absenteeism should be assessed.
- The need to develop human resource strategies to support globalization.

HR policies have different clusters based on which HR managers can develop various strategies to manage the business. They are:

- Talent identification and deployment

- Human capital development
- Reward management
- Employee relations

Talent identification and deployment

HR managers need to ensure that the workforce has the right skills to meet the organization's future needs. It is essential to identify employees who can fit and adapt to knowledge-based cultures. Another challenge faced by managers in top positions is succession planning where they need to choose their successors who can contribute to the organization's growth. HR managers are also required to reduce the time and cost involved in hiring people.

Human capital development

In this cluster, the strategic challenge for managers is to ensure that the performance and learning systems fit into the new organization structures. It is also important to socialize employees with the new structures. The organization needs to channelize its resources to train and develop its employees. Often, employees are too busy concentrating on individual and team objectives and give less importance to the organization's objectives They are less focused on top priorities such as achieving performance objectives. It is a challenge for managers to link the organization's performance with the employee's skills and behaviors.

Reward management

It is a challenge for managers to align reward systems with new structures and also link reward systems to performance.

Employee relations

The strategic challenges involved here are:

- To create a work environment that encourages high performance
- To respect employee needs and commitments
- To ensure high employee commitment and job satisfaction
- To help employees overcome the feeling of job insecurity.

HR Roles: Strategic Issues

HR roles have become significant due to increased competitive external environmental pressures. There has been a cultural transformation in HR roles as a result of which strategies are being constantly reassessed. The different strategic issues involved in HR roles are:

Redesigning

A recent survey revealed that most HR executives give top priority to redesigning their organizations to survive competition. Hence, HR managers need to design policies that can foster desired behaviors in the employees. These organizations must also encourage cultures that respect competing factors like cost, quality, innovation and variety. Most employees believe that it is possible to achieve one corporate objective only at the expense of other objectives. Hence, it is manager's duty to develop HR policies to help employees achieve multiple corporate objectives.

HR outsourcing and role delivery

Some firms hire expert external vendors who can develop a clear understanding of organizational needs. Such firms are overly dependent on external consultants.

Organizations must avoid outsourcing HR capabilities that are critical for them to compete effectively. Hence, it is important for firms to integrate HR tasks with their day-to-day tasks to enable employees who are not trained and do not possess the necessary expertise to perform these tasks.

MANAGING IN THE GLOBAL ENVIRONMENT

To do business in a global environment, it is important for organizations to understand cultural differences and develop cross cultural sensitivity.

Understanding Cultural Differences

Organizations that compete in the global market have to deal with diverse cultures. Therefore, it is necessary for managers in multinational organizations to appreciate cultural differences.

Geert Hofstede, a Dutch researcher, has found that cultural differences affect work-related attitudes. He surveyed 1,60,000 managers and employees of IBM, who represented the company in sixty countries. He identified five dimensions of culture which influence the work-related attitudes of employees. They are:

- Individualism Vs Collectivism
- Power Distance
- Uncertainty Avoidance
- Masculinity Vs Femininity
- Time Orientation

Exhibit 10.1

Qualities of GE Leaders

1. Have a passion for excellence and hate bureaucracy
2. Are open to ideas anywhere
3. Emphasize quality for competitive advantage
4. Have the self-confidence to involve everyone in the decision-making process
5. Create a clear, simple, realty-based vision and communicate it throughout the organization
6. Have the energy and ability to motivate others
7. Set aggressive goals and reward progress, yet understand accountability and commitment
8. See change as opportunity, not threat
9. Have ability to manage in global environment and build diverse and global teams

Adapted from www.ge.com

Individualism Vs Collectivism

Cultures that promote individualism have loose social frameworks. Individuals who work in such cultures are more concerned about themselves and their families. On the other hand, cultures that promote collectivism have tightly knit social frameworks. Individuals who work in such cultures respect and accept group decisions.

Cultures that are individualistic value individual freedom and responsibility. Organizations that follow such cultures, develop organizational charts that show individual positions. Cultures that are oriented towards collectivism value group welfare and harmony. Organizational charts in such cultures show only sections and departments, giving less importance to individual positions. Organizations in North America, Canada, and the United States have individualistic cultures, while Japanese, Israeli and Malaysian cultures have collectivist cultures.

It is found that cultural differences affect the personal characteristics of the managers. Managers who are oriented towards individualism encourage individual achievement. On the other hand, managers in collectivist cultures encourage employees to work in groups.

Power Distance

Power distance refers to the degree of acceptance of the distribution of power in cultures. In cultures that have high power distance, employers enjoy more power. This is more commonly found in countries like India, Mexico and Venezuela where titles are used to refer the superiors rather than their first names. Cultures with high power distance seldom allow bypassing of authority.

In cultures that have low power distance, people trust each other and are less threatened by one other. They strongly believe that inequality should be minimized. Managers who possess the necessary expertise are given power. Cultures with low power distance allow bypassing of authority i.e. sometimes, to get the work done employees bypass the boss. Denmark and Australia are examples of countries with low power distance.

Uncertainty Avoidance

Some cultures avoid uncertainty of any situation while others tolerate uncertainty and ambiguity. Cultures that have high uncertainty avoidance avoid risks. Japanese and Italian cultures have high uncertainty avoidance. Therefore, they emphasize on career stability i.e they do not take the risk of changing their careers frequently.

Cultures that have low uncertainty avoidance tolerate ambiguity. People working in these cultures tend to take more risks. They believe that conflicts and risks can be constructive. They prefer job mobility and are less concerned with the stability of their careers. Norwegian and Australian cultures have low uncertainty avoidance.

Masculinity Vs Femininity

Masculine cultures emphasize assertiveness and materialism. Men are expected to be tough, decisive, and assertive. Women are expected to be shy, tender, and caring. Performance, achievement, and money are considered important. The gender roles are clearly defined. Austrian, Indian, and Japanese cultures are masculine.

In feminine cultures, relationships and concern for others are important. Gender roles are not clearly defined. Men and women are expected to be assertive and caring. Countries like Norway, Sweden, and Denmark are known for their feminine cultures.

Time Orientation

Time orientation refers to the importance given to time by different cultures. Cultures differ in their orientation toward the past and the present and toward the future. Cultures with long-term orientation (i.e. future-oriented,) for example, the Chinese, emphasize values such as persistence. Cultures with short-term orientation (i.e. past-oriented and present-oriented) such as the Russian, emphasize values like respecting the tradition (past) and other social obligations (present.)

Developing Cross Cultural Sensitivity

Multinational organizations consist of employees from diverse cultural backgrounds. Sometimes, employees hold stereotyped views about other cultures and so they fail to appreciate those cultures. One way to avoid this is to help employees understand different cultures. Each employee can be asked to describe the culture of his or her colleague. Some organizations have cultural training where employees are taught to recognize and appreciate cultural differences. Some organizations like Northern Telecom have training programs to help employees change their negative attitude towards people who belong to different cultures.

There are organizations which use task forces or teams to develop cultural sensitivity. For example, 7000 out of 15,000 employees of General Electric Medical Systems (GEMS) work outside the United States. The Americans, the Asians, and the Europeans work together in different business projects. To help employees appreciate cultural differences, GEMS has a 'Global Leadership Program' which consists of work groups.

These work groups consist of managers from different parts of the world who make efforts to integrate the different cultures. They also develop programs that increase the sense of belonging of employees throughout the organization.

HR managers, in a global organization, face the following challenges:

- Supporting a diverse workforce
- Developing a global perspective of various HR functions such as human resource planning, recruitment, training, and selection.
- Possess adequate knowledge about the legal systems of various countries
- Understanding global economics, culture and customs
- Help employees interact with people from other cultures

Since most organizations are entering into the international arena, diversity has gained tremendous importance. Workforce diversity is no longer considered a liability for the organization. Cultural diversity emerges when organizations operate in international markets. Strategic alliances and ownerships force people to have job assignments in other countries or to work with foreign managers within their own countries. With employees taking up job assignments across national boundaries, organizations and their subsidiaries within each country become more diverse. Hence, it is important for organizations to manage workforce diversity.

MANAGING WORKFORCE DIVERSITY

Diversity refers to differences in age, personality, ability and social status. The changing demographics have resulted in increased attention to diversity. Two problems that managers constantly face when dealing with diversity are:

- Lack of adequate knowledge about motivating work groups.
- Inability to communicate with employees who are culturally diverse.

Demographic studies reveal that by 2020, the U.S. workforce would become more culturally diverse, and would be dominated by women as more and more women are being recruited in most organizations.

Gender Diversity

The past few decades have witnessed the entry of more women into the workforce. There has been a significant change in the proportion of male and female employees.

Traditional organizations had clearly defined roles. Women were considered unfit for managing people since they were not assertive like men. But the scenario has changed now.

However, a gender-related problem that exists in many organizations today is the 'glass-ceiling effect.' Glass ceiling is a barrier that prevents women from reaching top management positions. A major reason for its existence is the reluctance of male managers in promoting female managers.

It has been found that out of 1000 large organizations in the United States, only two have women CEOs. Also, women are paid less compared to their male counterparts. Therefore, many talented women professionals leave large organizations to start their own businesses.

Eliminating the glass ceiling effect is a major challenge to organizations. Organizations need to encourage women through promotions, equal pay and benefit programs. However, there are some organizations that encourage women employees. ICICI, Pepsi and Kinetic Honda are examples of companies that support women is terms of advancement and development. Lalitha Gupte, Head, Global Operation, ICICI, has been highly successful in managing her company. She has been responsible for restructuring ICICI from a financial institution to a consumer banking corporation. She joined ICICI in 1971 as an officer. Thirty years later, she headed the financial institution. Lalitha Gupte asserts that she never encountered the glass ceiling effect as ICICI has always been an equal opportunity employer.

Age Diversity

According to a study, by 2030, the U. S. workforce will have seventy million older persons (twice their number in 1996). The number of middle aged Americans will rise drastically.

People who belong to different generations have different attitudes and values. The challenge for managers is to integrate employees with diverse attitudes and values into a cohesive group to achieve a common goal.

Cultural Diversity

Globalization has increased the cultural diversity in organizations. A transnational organization consists of people from different countries. Thus, an organization may have Indians, Americans, Australians, Chinese and Koreans working together. This kind of cultural diversity poses the risk of employees having prejudices and stereotyped notions about different cultures. These may prevent managers and employees from developing synergies between their respective cultures.

Managing cultural diversity at General Electric (GE)

At GE, it is believed that the workforce diversity is a source of limitless ideas and opportunities. The company has networking groups that successfully manage cultural diversity at the workplace. The different networking groups are; the African American Forum, the Asian American Forum, the Hispanic Forum, and the Women's Network.

The African-American Forum encourages employees from similar cultures with similar experiences to interact with each other. The forum conducts seminars and informal group discussions. It also organizes holiday food drives, walk-a-thons (similar to marathons) and humanity projects to strengthen the bonds between the people of the African-American community.

The Asian-American Forum provides career development programs to employees from the Asian-American community. The members are educated about the cultural differences that exist in the company.

The Hispanic Forum provides coaching, mentoring and role modeling programs to new recruits from the Hispanic community. The forum organizes minority tours, community services, and corporate sponsorships for the Hispanic employees.

The Women's Network helps women employees to maintain contact with their peers throughout GE. It also helps women to develop leadership skills and grow professionally. Participants of the forum share information about job opportunities and exchange views with successful role models within the organization.

Apart from managing workforce diversity, organizations have begun to focus their attention on CEO succession planning. Many leading companies like GE practice succession planning. Though at a slow pace, succession planning is gaining significance in Indian companies too.

CEO SUCCESSION PLANNING

Succession planning is the process of identifying, assessing, and developing talent to ensure that every key position in the organization is held by an efficient leader.

Benefits of Succession Planning

The following are the benefits of succession planning:

- It assures the continuity of leadership in organizations.
- It contributes to the success of the organization.
- It guides the development activities of key executives.
- It ensures that the senior management does a disciplined review of the leadership talent available within the organization.
- It helps review the selection, appraisal, and management development processes.

Succession planning has begun to gain significant importance in Indian companies. For example, L&T (Larsen and Toubro), one of India's leading engineering companies, has successfully adopted succession planning. Many of the company's senior managers are expected to retire in a few years. L&T CEO, A.M. Naik has started identifying top ten executives who are named as the 'stars.' A fast track career path is being chalked out for them. According to Naik, by 2005, L&T will be in strong hands. The company employed the services of a HR consulting firm before initiating succession planning. The consulting firm was asked to list the vacant positions and the required competencies for potential candidates. L&T usually hires internal candidates to fill up internal vacancies. However, in some cases, the internal candidate is compared with the external candidate to judge his or her readiness to move to the new job.

However, there are a number of companies which face problems while managing succession planning. One such example is that of the Pune-based company, Thermax. The company faced a major crisis in the beginning of the new millennium following the death of its CEO Rohinton Agha. the company. Though Agha had developed and nurtured Thermax for a long period, he did not pay much attention to succession planning. According to Agha's wife, Agha never discussed succession plans clearly. Abhay Nalwade, who was the executive director, seemed to be the obvious choice for the Managing Director's position.

According to Nalwade, the transition to the new position left him with no time to think as he never knew that he was the successor Agha had in mind. A definite succession plan would have made things better. Now the company's MD, Prakash Kulkarni faces the challenge of giving Thermax a new direction.

The board of governors has an important role in the selection of the next CEO. The prospective candidate for the CEO position should be clearly told that his or her ability to handle succession will determine his or her chances of becoming the CEO. It is a challenging task for the board to specify the criteria for an incumbent CEO. While some boards are concerned about the incumbent's abilities to build a team or ability to manage change, others confine themselves to technical skills. Surprisingly, some boards overlook the leadership skills.

Given below are a few guidelines for a board, to determine the qualities it should look for in an incumbent CEO. They are:

- The candidate's consistency in inspiring trust in others.
- The candidate's ability to delegate and introduce a high degree of accountability.
- The time spent by the candidate motivating others and in communicating the purpose and the company's values down the hierarchical levels.
- The candidate's listening skills and ability to encourage others.
- Respect for followers.
- The level to which the candidate is comfortable in sharing information and resources.

Strategies for Effective CEO Succession Planning

Some of the strategies for effective succession planning are:

- The board of governors should be involved in the process of succession planning.
- The selection criteria of the new CEO must be specified.
- Both internal and external candidates should be considered for succession planning.
- Decisions should be based on personal interactions and not paper reports.
- The current CEO must spend sufficient time with the potential candidates.
- No candidate should be excluded from the list until the final choice is made. The listing should be done few months before the current CEO retires.
- It would be wise to appoint two people; one as the CEO and the other as the chairman, as successors.
- The responsibility of choosing the next CEO should not be thrust on others.
- Succession plan should be viewed as an ongoing exercise.

Succession planning at General Electric (GE)

GE is well-known for its ability to groom leaders consistently. The company announced that Jack Welch’s successor would be selected from a shortlist of three. At the same time, the company also made efforts to nominate successors for each of these three successors.

Welch remarked way back in 1991 that choosing his successor was the most important decision he would make. Welch chose Jeffrey Immelt as his successor after a long screening process.

GE has a Leadership Development Institute at Crotonville, New York. The activities of the institute are closely linked to the company's business strategy. At the end of one year, GE evaluates the corporate leadership development to see if it supports its business initiatives.

Interestingly, leadership development at GE is tied to succession planning. About 10,000 GE employees are trained every year at Crotonville. The top 500 people are considered corporate resources. They are then sent to manage different businesses around the world depending on the business and development needs.

LEADERSHIP IN FAMILY OWNED AND PROFESIONALLY-OWNED

Family-owned businesses are believed to be more traditional. It is difficult to separate ownership and management in such businesses. CEOs of family-owned businesses often choose their sons, or other relatives as their successors. Some family-owned businesses have most of their family members on the board. For example, Reliance Industries' 11-member board has six members from the family, two institutional nominees and three professionals.

On the other hand, professionally-owned businesses do not promote active participation of family members in the business. They separate management and ownership although the family retains control on the business. For example, the Tata Group has only one member of the Tata family, Ratan Tata on its board. Other top positions are occupied by professional managers.

Differences between family-owned businesses and professionally-owned businesses with special reference to trust, control systems and governance are discussed below.

Trust

The belief that family-owned businesses enjoy trust both from employees and customers has changed. Piramal Industries is an example of a company that strongly supports the professionalization of business. According to Ajay Piramal, the chairman, professionally-owned businesses have greater capacity to convince the employees and customers about the organization's practices.

Control Systems

Most family-owned businesses fear that they may lose authority if they give up control. Therefore, these businesses usually adopt bureaucratic control. Bureaucratic control focuses on regulation through rules, policies, supervision, budgets, schedules, reward systems, and other administrative mechanisms aimed to ensure that employees behave appropriately and meet performance standards. Professionally-owned businesses need clan control to facilitate delegation of authority, and to promote an informal work environment. Clan control relies on values, beliefs, traditions, corporate culture, shared norms, and informal relationships to regulate employee behavior and achieving organizational goals.

Governance

Professionally-owned businesses ensure that the board does not include more than one member from the family. For example, Azim Premji, CEO of Wipro, represents the family on the board. The other 10 members on the board are professionals not related to the Premji family. Family members are not included on the board lest professional managers show allegiance to the family rather than to business needs. Family members may also try to impose their views on management without paying attention to the long-term goals of the company.

Reasons behind the Transition of Family-owned Businesses into Professionally-owned Businesses

Reasons underlying the transition of family-owned businesses into professionally-owned businesses are:

Globalization

Globalization requires rapid manpower deployment and productivity enhancement. Therefore, family-owned businesses are now hiring experienced professional managers who can manage business in a global environment.

For example, Parvinder Singh, former CEO of Ranbaxy, chose D.S. Brar as his successor because he believed that Brar was competent enough to handle international operations. He further added that if his son wished to become the CEO, he could do so by rising through the ranks and prove his competence.

Increased complexity

Family-owned businesses that wish to diversify and globalize have to become professional to cope with the complexities of the businesses such as competitive pressures, technological advancements.

Need for specialist expertise

Businesses that need the expertise of specialists cannot recruit family members who do not possess the necessary skills for the job. This need for specialist expertise has made many family-owned businesses employ professional managers who possess the required expertise.

Competitive pressures

Competitive pressures have forced family-owned businesses to change their strategies and processes. Ajay Piramal, CEO of Nicholas Piramal chose 65 year old Hattangadi as his successor. Hattangadi has been associated with Nicholas Piramal for five years. It was his 11-year stint with Parke-Davis and 23-year stint with Pfizer that made him a highly experienced professional manager. Ajay Piramal chose Hattangadi who, he felt, had the ability and courage to develop the right strategies to compete in the market place.

Strategies for Successful Transition of Family-owned Business into Professionally-owned Business

Some strategies for successfully making the shift from a family-owned business to a professionally owned business are:

Freedom to professional managers

Professional managers should be given enough freedom to make decisions. It must be made clear to them that certain decisions need not have the approval of the family.

Change in the mindset

Family-owned businesses should stop exercising bureaucratic control. They should have not more than one or two members of the family on the board.

Ownership

The family should shift to indirect ownership from direct ownership to prevent interference. Sanjay Lalbhai, one of the CEOs of the Lalbhai Group, prefers indirect ownership. He gives enough freedom to managers to achieve the original goals. He does not appear to behave as the owner of the company.

Table 10.1: Level 5 leadership

Level 5	**Level 5 Executive** Successful blend of personal humility and professional will.
Level 4	**Effective Leader** Creates a clear vision and catalyzes commitment to vision. Also sets and stimulates high performance standards.
Level 3	**Competent Manager** Ensures effective and efficient achievement of objectives by organizing people and resources properly.
Level 2	**Contributing Team Member** Emphasizes achievement of group objectives and contributes individual capabilities to achieve those objectives.
Level 1	**Highly Capable Individual** Successful blend of talent, knowledge, skills, and good work habits.

Adapted from Jim Collins, "Good to Great: Why Some Companies Make the Leap, Others Don't"(Harper Business, First Edition 2001) 20

Determination

Founders and patriarchs of family-owned businesses must ensure that their heirs do not make unfair attempts to re-enter the management.

LEVEL 5 LEADERSHIP

The term Level 5 refers to a hierarchy of executive capabilities. Level 5 leaders are considered to be modest and willfull, humble and fearless. They successfully combine personal humility and professional will to turn a good company into a great one. Level 5 leaders tend to have tremendous ambitions for the company, not for themselves. At times of crisis, they do not blame others or external factors, or bad luck for the problems that arise. At times of success, they give credit to others, external factors, and thank their good luck. They believe in producing sustained results, shun celebrity status. and have a stoic resolve towards life

When Darwin F. Smith took over as the CEO of Kimberley-Clark, in 1971, the company's stock had fallen miserably for the past 20 years. Smith remained the CEO of Kimberley-Clark for twenty years. During that period, Smith transformed Kimberley-Clark into a leading paper-based company. The company could outperform world-famous companies such as Procter and Gamble, Coca-Cola, 3M, and Hewlett-Packard.

As a CEO, Smith took a bold decision to rebuild the company. He stunned his well-wishers and competitors when he made the most dramatic decision to sell off the paper mills.

Smith was criticized by the media when he decided to sell the mills. However, Smith stood by his decision. Twenty five years later, Kimberley-Clark acquired Scott Paper and was ahead of Procter & Gamble in six out of eight product categories.

Thus, Smith can be considered as a Level 5 leader as he could successfully combine personal humility with professional will. He transformed Kimberley-Clark from a good one to great one. Table 10.1 shows the different levels in the Level 5 leadership.

Characteristics of Level 5 leaders

The different characteristics of level 5 leaders are as follows:

Exhibit 10.2

Women Managers: In Search of a New Identity

The new generation of women executives seem to believe strongly that they need not imitate men to succeed in management. Most employees feel that women executives adopt family-friendly policies that help them cope with the dual demands of job and home. According to IBM's divisional sales manager, Charlene Bleakley, the first generation of women managers felt the need to adopt the male style of management to succeed. But the new generation has realized that it is no longer necessary to act like men to manage people. In a survey conducted by the behavioral scientists of Sirota Consulting, New York, the percentage of women in the management pool has increased from 34% to 44%. Women executives are believed to bring humanity into the workplace. According to Mrs.Lotte Bailyn, a professor at Sloan School of Management, compared to men, women are better in recognizing the policies and practices that help them adapt to changing work needs. They also reject false assumptions that to be productive, one needs to work for longer hours.

According to Gail Blanke, the president of an executive coaching center in New York, women are capable of creating a better work environment. For them, a company is a group of individuals who have deep respect for each other and are ready to assume each other's commitment. Mr. Alastair Robertson, head of Accenture, a Boston-based management consultancy firm, says "In future women are sure to make better managers than men. The women network is better than that of men. They receive tremendous support from their colleagues to work from home."

Source: Icfaian Center for Management Research

Setting up successors for success

Level 5 leaders are more concerned with the success of the company than with their own. Colman Mockler who was the CEO of Gillette from 1975 to 1991 exemplified this unique characteristic of Level 5 leaders. He strongly believed that the success of the company mattered the most.

Level 5 leaders who turn a good company into a great one try to choose a successor who can ensure the same success for the company in the future. When David Maxwell became the CEO of Fannie Mae, an American home financing company, it was losing money. Maxwell turned Fannie Mae into a profitable company. He chose Jim Johnson as his successor. However, Maxwell's retirement package that was worth $20 million became a point of controversy in the Congress as Fannie Mae operated under a government charter.

Maxwell sent a letter to his successor Johnson, stating that the controversy could generate an adverse reaction in Washington. This could have a negative impact on the future of the company. He further stated that he was willing to let go of the remaining $5.5.

Compelling modesty

Level 5 leaders rarely talk about themselves. They prefer to speak about the contributions of other executives to the success of the company. They give credit to their predecessors who contributed to the success of the company. Level 5 leaders are often described as quiet, humble, modest, shy, gracious, mild-mannered, understated and self-effacing individuals.

Unwavering resolve

Level 5 leaders have stoic determination to do everything they can for the success of the company. They have the drive to produce sustained results.

WOMEN CEO'S

It is said that women make better managers because they are known to be intuitive, conscientious, sensitive, sympathetic, caring, and innovative. They constantly discover new approaches to solve problems. Sulajja Firodia Motwani is the Managing Director of Kinetic Finance. She is also the Joint Managing Director of Kinetic Honda Ltd. She looks after the strategy, finance, sales and marketing activities of the company. According to a poll conducted by Fortune India, Motwani was voted among the top 25 business leaders of the next century.

Oprah Winfrey, a popular television personality reaches 20 million viewers everyday. She owns Harpo Productions which telecasts various programs on the American television. She launched the "Oprah Book Club" in 1996.

These are few examples of women joining the managerial positions and corporate world in the recent past. Most of them have proved highly successful in the corporate world.

Glass Ceiling Effect

The Glass Ceiling effect prevents women from rising across the hierarchical levels in the organization. This exists not because women lack the ability to handle positions at the top levels but because they are prevented from advancing to higher positions. Certain other reasons that can be attributed to the existence of glass ceiling effect are: lack of proper training and mentoring programs for women and lack of relevant job experiences.

The glass ceiling effect seems to be gradually disappearing. Many companies now have developed mentoring programs to help women gain skills that are needed to move to top positions. Many organizations have women CEOs. Indra Nooyi is the president and chief financial officer (CFO) of PepsiCo, Inc,. She was made the president after she successfully negotiated a $14 billion deal for Quaker Oats. An annual survey on the 50 Most Powerful Women in Business' by Fortune 500 magazine ranked Nooyi as the 10th best woman leader. Nooyi is responsible for the corporate strategy, treasury, tax, control, audit, global mergers and acquisitions, information technology and purchasing.

Leadership Traits

It has been found that women leaders are better equipped with power and information than their male counterparts. However as many as 162 different studies suggest that men and women do not exhibit any significant difference in leadership styles.

These studies reveal that women leaders are stereotyped as being more relationship-oriented which was proved wrong by certain real-life examples.

MANAGING TECHNOLOGICAL INNOVATION

Technology has transformed the way in which a business is done. It has also changed the communication process of organizations. Organizations no longer consider time, space and distance as constraints. Advanced communication technologies have enabled organizations to integrate computer, cable, and telecommunication technologies to compete in the market place. Thus, an organization which is well-equipped with advanced technologies can do business anywhere and anytime. The World Wide Web has revolutionized the way in which organizations operate.

Exhibit 10.3

Carly Fiorina: CEO of Hewlett-Packard

Carly S. Fiorina joined HP in July 1999. Soon after becoming the CEO, Fiorina realized that HP needed reinvention i.e. inventing new uses for the existing technology. Under her leadership and guidance, HP returned to its roots of innovation and inventiveness. Fiorina also stressed the importance of customer satisfaction.

Before joining HP, Fiorina worked in companies like AT &T, and Lucent Technologies. She was the president of Lucent’s Global Business Service Provider. She helped Lucent expand its international business and was also involved in the planning and execution of Lucent's initial public offering.

In an interview with InformationWeek, Fiorina said that the HP's strategy is to provide e-services and enable its usage through a combination software. Her main strengths are her ability to conceptualize and communicate strategies, ability to deliver financial goals, and skills to drive 'Net Vision' throughout the organization.

Fiorina systematically restructured HP to provide both a coherent, unified face to the customer and renewed commitment to engineering excellence, R&D and intellectual property. She consolidated 83 independent product lines into 17 product categories. This allowed the company to reduce redundant overheads and channelize the savings into R&D and sales. She also introduced a "Total Customer Experience" program to track, measure and enable the organization to focus on customer needs and exceed customer expectations. She made a bold move by planning a merger with Compaq, another computer giant. With the merger, she could double the service and support capacity in the area of mission-critical infrastructure design, outsourcing and support. According to Fiorina, the merger doubled the size of HP's sales force to 15,000. The R&D increased to more than $4 billion a year, and add important capabilities to HP Labs. HP will become the No. 1 player in many countries and be the leader. Before the merger took place, she appointed 450 dedicated people from HP and Compaq to understand the complexity of past mergers and make the right decisions for the new company. The group was asked to study Compaq’s merger with Digital Equipment Corporation (DEC) and Tandem.

Fiorina's vision is to combine computing power with communications to revolutionize the way data and images flow and are printed in cyberspace. Fiorina strongly believes that HP’s people are very smart and are clear about the things they do. As a leader, the challenge for Fiorina is to propel HP into the Internet age without sacrificing employees who have made the company great.

Adapted from www.hp.com

An important contribution of technology to organizations is 'expert systems.' Expert systems represent human expertise in solving problems in a specialized field of knowledge. Another important technological innovation has been the invention of robots that have enabled organizations to cut down on manpower and speed up processes.

Leaders need to adopt various strategies to manage technological innovations. Some of these are providing alternative work arrangements such as telecommuting, adapting to the changing nature of managerial work and helping employees to adapt to technological changes.

Telecommuting

In telecommuting, people choose to work from home, with the help of a PC without reporting to an office, thereby saving money and time on commuting. Telecommuting includes flexible work schedules and the use of advanced information technology such as wireless phones, Internet, voice mail and fax to communicate.

Advantages of telecommuting

- It increases retention rate of employees

- Maximizes office space
- Reduces absenteeism
- Reduces overtime pay
- Increases employee productivity and job satisfaction.

Disadvantages of telecommuting

- Decreases face-to-face communication
- Demands greater coordination
- Suitable only for certain jobs
- May be misused by employees.

Telecommuting promotes family-friendly work environment and allows the employee to have control over work. Telecommuting is advantageous to organizations as they can hire and retain talented employees who find it easy and attractive to work from home.

Changing Nature of Managerial Work

Technological innovations have a tremendous impact on the nature of managerial jobs. Many organizations have computer systems which can secretly monitor the interactions of employees with customers. While employers support such systems, employees may resist working under close scrutiny.

Technological innovations force managers to constantly upgrade technical skills. Early theories of management emphasized human skills and conceptual skills. Technical skills were considered less important. However, managers today need to develop competencies in order to respond to technological changes. Technological innovations also help managers use open communication, participative management styles and technical expertise.

Managers can adopt the following strategies to manage the changing nature of managerial job.

- Help employees manage work-related stress that arise due to technological innovations.
- Motivate, counsel, and coach workers to help them understand the importance of technological innovations in organizational growth.
- Motivate employees to accept the changing nature of managerial job rather than control them and take stringent steps against them, if they resist technological changes.
- Develop their own technical competencies to gain respect of the workers.
- Help employees adapt to technological changes

Helping Employees Adjust to Technological Change

Managers can take the following steps to help employees adjust to technological changes.

- Allow employees to participate in the decision-making process regarding technological innovations. Taking part in the decision-making process makes employees feel more empowered.
- Assess the impact of technology on the skills of the employees. Employees readily accept technological changes that have a positive impact on job requirements such as increased responsibility, job autonomy, and pay.

- Train employees about the different ways to use new technology. Training programs should match the needs of the workers and help them master new technologies.
- Develop support groups within the organization that can solve the emotional problems of workers. Workers who are not able to adapt to technological changes can seek help from the support group.
- Encourage workers to invent new uses for existing technology. This is known as 'reinvention.' Workers who invent new uses can be rewarded for their efforts.

SUMMARY

This chapter examined the different challenges faced by managers in an organization. Managers need to deal with workforce diversity. To manage in a global environment managers need to understand cultural differences and cross cultural sensitivity. Since workforce diversity is considered a competitive advantage, managers need to adopt various strategies to manage workforce diversity. The strategies are discussed in detail in the chapter.

Succession planning is the process of identifying and developing talent to ensure that an organization is led by an efficient leader. Level 5 leadership refers to the hierarchy of executive capabilities. The different hierarchical levels are: highly capable individual, contributing team member, competent manager, effective leader and Level 5 executive. A Level 5 leader possesses a perfect blend of personal humility and professional will.

Of late, many family-owned businesses are transforming themselves into professional businesses. Some reasons are: globalization, increased complexity in the business environment and competitive pressures.

It is not uncommon for modern organizations to have women in top positions. Women CEOs are making their present felt in the corporate world. Though women CEOs are said to possess the same leadership traits as their male counterparts, they are said to be relationship-oriented.

To manage technological innovations, managers need to provide alternative work arrangements to workers, help them cope with the changing nature of managerial job and help them adapt to the technological changes.

Section III
Strategic Maintenance of Human Resources

Chapter 11

Strategic Issues in Employee Safety, Health and Labor Relations

In this chapter we will discuss:

- Strategic Issues in Employee Safety and Health
- Changing Nature of Industrial Relations
- Changing Trends in Labor Management Relations
- Labor-Management Cooperation
- Strategies to Improve Industrial Relations

On December 3, 1984, a poisonous grey cloud of Methyl IsoCyanate 4 (MIC) emerged from the Union Carbide factory in Bhopal, Madhya Pradesh killing over 10,000 people and injuring about 2,00,000. Around 30,000-50,000 people became too ill to return to their jobs. The tragedy was named the 'Hiroshima of the Chemical Industry.'

The mishap was caused by the increased pressure in the tanks containing MIC which forced the safety valve to open. The poisonous gas leaked into the atmosphere and the wind carried it to adjoining areas. Investigations revealed that not a single year had passed without minor mishaps occurring at the Union Carbide plant in Bhopal.

Though the company ordered probe as soon as the mishaps took place, inquiries were never taken seriously. Union Carbide failed miserably to maintain proper safety standards. A major outcome of the mishap was that talented engineers left the factory for better prospects.

The Union Carbide story shows that some organizations do not attach much importance to employee safety and health. This chapter examines the strategic issues pertaining to employee safety and health. It also provides insights into different strategic issues in labor and industrial relations.

STRATEGIC ISSUES IN EMPLOYEE SAFETY AND HEALTH

The following are some strategic issues that an organization has to have in place to ensure worker safety and health.

- Build organizational effectiveness related to safety and health
- Implement safety and health controls
- Devise training strategies to promote safety consciousness among employees.

Building Organizational Effectiveness Related to Safety and Health

Most organizations attach much importance to safety programs. Safety programs that are implemented for sometime are revoked either due to lack of interest or lack of funds.

Some organizations replace the revoked safety programs with more innovative ones. The purpose of the short-term programs is to identify and eliminate unsafe behaviors by employees. Some safety programs also have rewards for employees who avoid accidents.

Organizations have to ensure that employees take protection against unsafe practices, with the help of audits. Some organizations have teams of employees to provide feedback on unsafe behaviors to their peers.

Implementing Safety and Health Controls

The Occupational Safety and Health Act (OSHA) in the US recommends the use of Job and Safety Health Analysis (JSHA) for an effective safety and health control program.

There are four basic steps in JSHA.

- Select the unsafe job to be analyzed
- Divide the job into basic steps
- Identify hazards associated with each step
- Control the hazards.

Organizations need to analyze jobs that have had a history of employee illnesses, injuries for analysis. They also need to select jobs that are not vulnerable to hazards.

The next step is to identify workplace conditions that are hazardous to employee health. This is followed by implementing controls that help in elimination of work hazards.

Exhibit 11.l

Innovative Safety and Health Programs at General Electric

Portland General Electric (PGE), a subsidiary of GE, has received SHARP (Safety and Health Achievement Program) designation for implementing effective safety and health programs at its Coyote Springs Plant. PGE 's Boardman Plant received the same designation three months before the Coyote Plant received it.

SHARP provides incentives to employers to:

- Identify hazards that pose a threat to employee safety
- Develop and implement an effective safety and health program
- Improve production process to prevent hazards
- Become self-sufficient in providing safety and health measures to employees

PGE set certain safety guidelines and was successful in meeting those guidelines to establish and maintain safety and health measures. This helped the company qualify for SHARP designation. According to the CEO of PGE, since the company is in electricity business, it is imperative to have safety on the top of the priority list. Since 1995, Coyote Spring Plant's employees have had no complaints of injuries during work hours.

PGE's innovative safety and health programs protect more than a million employees. These programs also help employers implement effective safety and health techniques. PGE also provides training and education to employees regarding workplace hazards and ways to prevent them.

Adapted from www.ge.com

The safety and health controls recommended by OSHA are:

- Providing protective equipment such as safety glasses, earplugs, respirators and gloves.
- Training employees about chemical hazards, and having administrative controls such as inspection of safety equipment.
- Having warnings such as sirens, horns, labels, signs, and odor in natural gas.
- Having engineering controls such as ventilation, machine guarding, sound enclosures and circuit breakers.
- Having less hazardous elimination or substitution systems to eliminate noise and reduce energy and speed

However, OSHA is applicable only to US companies. In India, the Factories Act of 1948 that came into force on April 1, 1949, has provisions for safety and health for employees working in any factory belonging to the central or state government.

Provisions for Health

According to the Factories Act, employers have to pay attention to employee health and make necessary arrangements to provide a safe and healthy workplace. Some of the provisions are:

- Clean workplace
- Disposal of waste materials and effluents
- Proper ventilation and temperature control
- Artificial humidification
- Elimination chimney for dust, fumes, and smoke
- Prevent overcrowding
- Adequate lighting, drinking water facilities, and sanitary conditions.

Provisions for Safety

The Factories Act has provisions for worker safety. Some of them are:

- Providing fencing of machinery
- Employing younger persons to operate dangerous machines
- Providing safety devices, specially for employees in power plants
- Prohibiting women and children from operating dangerous machinery
- Protection against dangerous fumes, explosive or inflammable dust, gas etc.
- Providing protection against fire accidents and defective machinery parts.

Safety and health controls reduce employee absenteeism due to injuries or health-related problems. These measures can also boost employee morale, because they instil a sense of security.

Exhibit 11.2 suggests measures to prevent accidents at the workplace.

Exhibit 11.2

How to Prevent Accidents at Workplace

1. Education: It is important to create 'safety awareness' among people to make them think about safety. Some methods of creating safety awareness are using visible signs that have safety slogans, publishing articles on preventing accidents in newsletters, etc. Most manufacturing organizations have signs proclaiming that a particular plant never had an accident for many days.
2. Skill Training: Employees should be taught safety issues and preventive techniques during the training sessions. It is important to incorporate a course on prevention of accidents in the training program.
3. Engineering: Engineering methods such as equipment design and job design can be used. Select equipment that can minimize accident rates. Equipment design should be such that it reduces operator fatigue and boredom as these factors can increase accident rates. While designing jobs, it is important to consider factors such as the position of workers in relation to the control devices, the amount of stooping, twisting, and tension required as these factors can also increase accident rates.
4. Protection: Employees should be provided with safety shoes, gloves, hard hats, noise mufflers, and safety glasses to help them protect themselves. In addition, machinery should also be protected to avoid fires, explosions and oil leakage.
5. Regulation Enforcement: It is very important to enforce rules and regulations that can minimize accident rates. Management should take necessary steps to ensure that employees do not smoke in 'no smoking' zones, operate machines from behind demarcated safety lines, and wear safety helmets.

Adapted from C.B. Mamoria, 'Personnel Management (Himalaya Publishing House 1997).

Devising Training Strategies

OSHA recommends training for employees to help them eliminate hazards at the workplace. Employees need to be trained about safe operating procedures and the hazards of chemicals apart from OSHA's regulations.

The HR manager can employ in-house personnel to train their colleagues or he can rope in outside consultants or use video-driven training programs.

It is the duty of the HR manager to ensure that the training strategy is in line with employee and organizational needs. The following are some steps the HR manager needs to take to put in place an effective training program.

- Conduct a needs-analysis to identify the specific knowledge, skills, and attitude required to perform a task safely.
- Develop the course of the training program and identify the evaluation instruments needed to achieve the objective. It is important to ensure that every course has learning objectives that can successfully meet the safety and health requirements of the job.
- The third step is to train the employee. The HR manager can test the training program on a target audience and evaluate the feedback from the participants. This will help him decide whether the course needs changes.
- The final step is to evaluate the course development process by using evaluation instruments that assesses the knowledge and skills of employees. To evaluate the course development process, managers have to:
    - Ensure that the training improves employee understanding of safety and health.
    - Maintain written records of employee competence.
    - Determine whether the knowledge and skills are critical to the safety and health of the employees.

Requirements for a successful training program

- Training should be conducted in a place free of distractions
- Supervisors should be informed about the training schedule so that they may release employees from work.
- Training programs must be conducted at the beginning of the shift so that employees participate with more enthusiasm. Employees may find it boring and tiresome if training programs are scheduled at the end of the day.

Safety and health can also have implications for different functions such as finance, operation, and marketing.

Financial Impacts of Safety

Safety measures have implications for the finance function of the organization. Organizations cannot ignore safety measures-which means they have to have them in place even if it means incurring additional costs. On the other hand, if organizations choose to ignore safety norms, then they may be forced to incur huge sums on compensation in the event of an accident or injury.

Compensation for workmen injuries

The Workmen's Compensation Act, 1923 provides for the payment of compensation to workers in the events of untimely death and injuries and disease. It is the responsibility of the employer to compensate financially when an employee is injured at the workplace. The amount of compensation depends on the nature of the injury as well as the employee's salary. The purpose of compensation is to provide financial security to employees and their family members. Exhibit 11.3 talks about compensation for workmen injuries at Ford Motor Company.

Exhibit 11.3

Compensation for Workplace Injuries at Ford Motor Company (Ford)

At Ford, employees who are injured at the workplace are given time off work and reasonably compensated. Employees are paid a lump sum amount if the injury renders them unfit for the job.

When an injury occurs, the injured person reports to the supervisor. The supervisor reports the injury to the Workers Compensation and Rehabilitation Section of the Risk Management department within 24 hours of receiving the report. The injured worker is given medical attention as soon as he or she reports the injury.

Ford also has a Workplace Injury Management Program. The objective of this program is to help employees return to productive employment as quickly and as safely as possible. The rationale of this program is that employees can recover faster at the workplace rather than at home or a medical institution, since they enjoy the care and attention of their co-workers and management.

Adapted from www.ford.com

Man days lost

Injuries at the workplace reduce man days for an organization which affects productivity, and subsequently the profits. To compensate for man days lost, organizations hire contract workers. Some organizations provide rehabilitation schemes to employees who wish to come back to work after they recover from injury.

Operational Impact

Lack of proper safety measures has a major impact on the day-to-day operations of an organization. Organizations may suffer losses due to plant shutdown, production loss, and employee turnover.

Plant shutdown

Let us consider that a group of 10 workers are allotted a job in an assembly line. One worker suffers a serious injury due to the lack of proper safety measures. If the management does not compensate the victim, other workers may strike, demanding medical aid, compensation for the victim, and proper safety measures to prevent accidents in future. They may have the support of all the workers in the assembly plant. If negotiations between the management and agitating workers are not successful, the workers may continue with the strike. If this continues for a long time, the organization may suffer losses and may be forced to close the plant eventually.

Production loss

Plant shutdown leads to production loss. Employees may be reluctant to work in a place that has no safety measures. This reduces the productivity of the organization. A drop in production is likely to have an adverse affect on the sales of the company which may have an impact on the profits.

Employee turnover

High employee turnover is most common in manufacturing organizations where workers handle heavy machinery. Organizations that neglect employee safety are bound to lose their people.

Marketing Impact

Employee safety and health influence an organization's image and goodwill. Issues like product safety and child labor also affect the marketing strategy of an organization.

Image

Employees and customers have a favorable impression of organizations that provide safety measures. People prefer to work for organizations that care about employee safety and security.

Employees as brand ambassadors

Some companies use employees as brand ambassadors. The purpose is to communicate to the public that employee welfare is the top priority to the organization. Starbucks Coffee uses its employees as brand ambassadors. According to Starbucks chairman, Howard Schultz, brand equity is about investing in employees as they take the brand to the consumers.

According to Starbuck's officials, conventional advertising never contributed significantly to the growth of the brand. The counter staff at Starbucks is referred to as 'baristas', and are regarded as brand ambassadors. According to Schultz, Starbucks stores are reliable, and safe where people can take break. The company uses its employees as brand endorsers even in international markets. It has created a unique trend of reaching customers through employees that could not have been created with traditional advertising. Instead of spending millions on image-building campaigns, Starbucks let its employees to speak for the company.

Goodwill

Ford Motor Company and Nickelodeon (US-based entertainment company) joined hands to educate children and parents about automobile safety. According to Jan Klug, Ford's marketing communications manager, educating customers and families about automobile safety is a responsibility that Ford takes very seriously. Nickelodeon and Ford have also created a publication on safety and a website on automobile safety.

As a part of the campaign, children are taught that is is very important to wear the seat belt when they are driving a car or a truck. The parents are taught how to use car seats and booster seats. Ford also acquired equity stake in Top Drivers Inc., a leading provider of integrated driver training and education. This acquisition enabled Ford to teach safe driving techniques to drivers. Instructors at Top Driver attend Ford's model training workshops to learn the latest safety innovations. These instructors later communicate safety technology to the employees of Ford as well as to the drivers. This way, Ford tries to connect with its consumers and create goodwill.

This goodwill enables organizations to gain competitive advantage. Showing concern for their users, and taking safety measures help organizations build trust and goodwill.

Product safety issues

Certain products like snacks, baby food, kids toys, medicines, inflammatory products require safety standards. Employees who are involved in designing and manufacturing these kinds of products need to be protected from various hazards.

CKE Restaurants Inc., a New York-based company operates in 14 countries and has approximately 35,500 employees. The CKE, management is committed to food safety. The company has a Quality Assurance Program, which is a vital part of the company's corporate policy. Employees are provided with information regarding the various materials and chemicals used. The company also has a Food Safety Training Program where employees are trained in critical components of food handling. At CKE, quality products that meet safe food and product requirements prescribed by government agencies and the company's Quality Assurance Department are used. Even suppliers are required to meet the safety standards. Such standards help attract customers who want safe food.

Child labor

The growing awareness on human rights and child labor has led to many companies shedding their 'sweat shop' and 'corporate greed' image. They have discovered that customers no longer purchase goods that have been produced in violation of human rights.

Child labor is very high in third world countries because of low rate of per capita income and poverty. Children are mostly employed in shops, hotels, hospitals, agricultural sectors, transport organizations, cracker and carpet industries. The demand for cheap labor is the most important factor behind the growth of child labor. The Indian carpet industry at one time employed many children. However, the growing awareness about human rights has led to a considerable decrease in child labor. Prospective buyers worldwide buy only those carpets that are accompanied by a "child labor free" label.

Exhibit 11.4 talks about the Indian cracker industry, which is the largest employer of children. Children are made to work in miserable and unsafe conditions. They also suffer several accidents because these factories do not have adequate safety measures.

Exhibit 11.4

Child Labor in the Indian Cracker Industry

The cracker industry in India employs more than 50,000 children. Most manufacturing units that make crackers do not have adequate safety measures. Children as young as three-and-a-half years olds toil for long hours for a meager income of Rs.20 per day. They are made to work in poorly ventilated rooms and in hazardous conditions. Children work for 12 hours a day and handle dangerous chemicals which affect them physically and mentally. They are made to sit in the same posture for long hours which affect, their bone structure. Since they handle explosive and inflammable material, their eyesight and respiratory systems are also affected. They suffer from malnutrition and loss of appetite. Many manufacturing units that make crackers lack fire safety measures. The lack of safety measures has led to fire accidents, that have killed several children and injured several others.

Adapted from www.thetimesofindia.com

Sweat shops

Sweatshops are places where people including children work for long hours for a meagre income, and in hazardous work conditions. In most of the sweatshops, children are made to eat, sleep, and work in overcrowded rooms. Human rights activists launched 'No sweat' campaigns to stop companies from making people work like slaves. Consumers were requested to boycott goods that were manufactured in sweatshops.

In January 1999, Kofi Annan, the U.N. General Secretary launched the Global Compact campaign which required companies to commit themselves to nine key principles which included elimination of child labor and closure of sweat shops. About 50 companies including Daimler Chrysler, Nike Inc., Bayer Corporation, DuPont, Ericsson, Novartis agreed to join the campaign.

Organizations need to have good industrial relations to promote safety consciousness among employees.

CHANGING NATURE OF INDUSTRIAL RELATIONS

The International Labor Organization (ILO) defines industrial relations as, "the relationship between the state and employer and employers and workers".

Earlier, it was assumed that industrial relations was about the management-worker relationship. However, rapid changes in the business environment, technological developments and intense competition changed the concept of industrial relations. Industrial relations have now come to include:

- Individual relations and joint consultations between employers and workers
- Collective relations between employers and their organizations, and trade unions
- The role of state governments in regulating industrial relations

Exhibit 11.5 lists the objectives of industrial relations.

Exhibit 11.5

Objectives of Industrial Relations

- To safeguard the interests of labor and management, by securing the highest level of mutual understanding and goodwill between all sections in the industry which participate in the process of production.
- To maintain industrial peace and avoid industrial conflicts, and enhance labor-management relations.
- To enhance the economic status of the worker by improving wages and other fringe benefits.
- To establish industrial democracy.
- To ensure discipline and boost the morale of workers.
- To enable workers to solve their problems through mutual negotiation and consultation with management.
- To encourage and develop trade unions.
- To increase productivity by minimizing industrial conflicts and maintaining healthy industrial relations.

Adapted from C.B. Mamoria, Personnel Management and Industrial Relations (Himalaya Publishing House 1997) 927.

Major Players in Industrial Relations

The major players in industrial relations are: workers and organization, the management and the government.

Workers and organizations

Workers have a major role to play in industrial relations. Their educational background, family background, culture, skills and attitude towards work affect their relationship with the organization.

To further strengthen their relationship with the organization and protect their interests, workers form trade unions. Trade unions bargain with the management on behalf of the employees. Examples of trade unions in India are the Indian National Trade Union Congress (INTUC), All India Trade Union Congress (AITUC), National Labor Organization (NLO). Center of Indian trade Union (CITU). These trade unions use pressure tactics such as threats, strikes to protect the interests of their members. In socialist countries, trade unions act as a controlling group. They work with the management to raise productivity. They also undertake social responsibilities such as social insurance schemes and safety and welfare work.

The aim of trade unions is to secure concessions from employers related to wages, better amenities, improved working conditions, and employee welfare. However, trade unions are often viewed as associations where there are constant conflicts among members.

Management

The authoritative and exploitative style of management was found in the early years of industrialization, has been replaced by a participative one. Labor was considered a commodity and exploited ruthlessly. The working conditions, safety measures, and welfare amenities were poor. This style of management led to the growth of "revolutionary trade unions."

Modern organizations no longer believe in the authoritative style of management. They follow the participative style in which employees looked upon as friends rather than as subordinates. Employees are also considered partners in the organization's endeavor to improve its efficiency and productivity.

Government

The labor policy and industrial relations policy of the government have an impact on industrial relations. It regulates the activities of the employees, employers, and their organizations. The state legislature passes labor laws, the executive government implements labor policies, while the judiciary adjudicates disputes.

Strategic Issues in Labor-Management Relations

With the changing business environment, industrial relations have undergone a sea change. Developing and maintaining good labor relations has become a part of organizational strategy. In this section we shall discuss some of the strategic issues involved in labor-management relations are:

Developing healthy labor-management relations

The following conditions facilitate healthy labor-management relations:

- A well-organized and democratic employee union that can protect employee interests by providing job security and ensuring proper wages and benefits.
- A well-organized employers union that can promote and maintain uniform personnel policies. They should protect the interests of weaker employers.
- Mutual negotiation and consultation between the employees and employers. It is important to develop the collective bargaining approach a process through which employee issues are settled through mutual discussions.

Maintaining industrial peace

Industrial peace is essential to increase production and ensure healthy relations between workers and employers. The following measures help attain industrial peace:

- Industrial disputes can be settled with the help of legislative enactment such as The Trade Unions Act, The Industrial Disputes Act and Work Committees and by Joint Management Councils.
- The government should be empowered to refer disputes to adjudication, specially when the situation gets out of hand. Government intervention is required during frequent stoppage of production due to long strikes or lockouts.
- Forums based on the code of the discipline in industry, the code of conduct, the code of efficiency etc. can be set up to settle disputes.

Developing industrial democracy

Industrial democracy can be established when labor is given the right to be associated with various activities of the industry. Industrial democracy can be attained by:

- Establishing shop councils and joint management councils at the floor and plant level to improve the working and living conditions of workers, enhance productivity, and encourage feedback from them. These councils serve as channels of communication between the management and the workers.
- Recognizing human rights in the industry by viewing employees as human resources, not as commodities.
- Increasing labor productivity by motivating employees to perform better and help them improve their efforts and skills.
- Providing proper work environment to help workers adapt to work.

CHANGING TRENDS IN LABOR MANAGEMENT RELATIONS

Before industrialization, one couldn't even dream of cordial labor-management relations. However, organizations realized that employee participation was needed for their survival. From exploiting workers, organizations sought the participation of workers in every activity.

From Exploitation to Participation

In the initial years of industrialization, most organizations adopted the authoritative style of management. There were no formal communication channels between the management and labor. Labor was considered a commodity. Workers were provided with poor, unsafe working conditions and meager incomes. Workers were not aware of their rights and their activities were strictly monitored.

The enactment of protective legislation, changes in the economic environment, and the growing awareness of human rights led to a change in the management style. Organizations realized the importance of human resources. Many organizations encouraged worker participation to counter the challenges posed by the rapidly changing business environment. The concept of industrial relations began to gain in importance. Most organizations supported workers' participation in management to serve certain specific purposes such as:

- Managing resistance to change among employees
- Encouraging communication between management and workers who are a part of the decision-making process
- Establishing democratic values in the organization right from the shop floor level.

Changes in the Economic Environment

Economic liberalization and globalization have had a tremendous impact on labor-management relations.

Economic liberalization

The Indian economy, which was liberalized in the year 1991, shifted its focus from import substitution to export promotion and domestic competition. Thus, domestic firms had to compete with multinational firms. Firms discovered that to maintain high quality and maximize productivity, it was important to have a committed workforce.

To have a committed workforce, it was essential to create a sense of belongingness towards the organization. This made organizations work towards labor-management relations.

Before liberalization, trade unions in India played a major role in protecting the interests of workers by using political tactics such as strikes and gheraos. Some trade unions even threatened the management of dire consequences if their demands were not met. However, with most organizations adopting a participative management style, trade unions began to cooperate with the management. This is because the trade unions realized that market forces and not the strength of the trade union determined workers' interests.

Globalization

Globalization is defined as the growing liberalization of international trade and investment, due to the integration of national economies.

Most workers associate globalization with loss of jobs. They strongly feel that globalization has always had a negative impact on labor relations. The reasons fare:

- Multinational companies are successful in exporting jobs from developed countries to developing countries with the help of foreign investments.
- Trade liberalization has boosted the marketing of foreign goods rather than domestic goods.
- Multinational companies extensively use technology and are less dependent on labor.

Priority Issues in Labor-Management Relations

We shall now discuss the priority issues in labor-management relations.

Roles and responsibilities of the labor union and management

The roles and responsibilities of unions and management have undergone a significant change in the past few years. Earlier, unions used political pressure to force the management to accept their demands. The management looked at unions as negative forces that did more harm than good.

The changed roles and responsibilities of unions are:

- To provide job security to workers
- To safeguard the interests and protect the rights of workers
- To encourage and enable worker participation in management
- To help employees develop their skills
- To cooperate with management at times of crises
- To negotiate with management on industrial conflicts

The roles and responsibilities of management are:

- To get things done on time
- To cooperate with the unions and satisfy their needs
- To maximize productivity by enabling participation
- To guarantee rights to workers
- To treat unions as a strength, not as a liability

- To help workers adapt to changes
- To involve workers in decision-making

Building consensus

Unions and management can build consensus by listening to each other and getting involved in each other's activities.

Consensus can be built by:

- Identifying the problem
- Establishing goals
- Developing strategies and tactics to achieve goals
- Measuring the results

Conflict management

Conflicts at the workplace affect the physical and mental health of people. This has a bearing on organizational performance. Therefore, it is important to recognize, understand, and resolve conflicts in labor relations. Some methods to manage conflicts are:

- Find solutions that are acceptable to conflicting parties with the help of bargaining- a negotiation technique used to ensure that the conflicting parties reach an agreement and settle the issue. Involve a neutral third party to resolve the conflict.
- Use the problem-solving approach involves identifying problems and devising ways and means to solve the problem.

Effective negotiations

Negotiation is a peaceful way of resolving disputes. Management and unions can develop strategies to ensure that the negotiations are effective.

Management strategies

- Determining the compensation package that the company intends to offer the union
- Collecting statistical data that is likely to be used during negotiations
- Collecting and compiling information on issues that are likely to be discussed during negotiations
- Analyzing various trade union acts and their use in other companies

Union strategies

- Collecting information regarding:
- The financial health of the company and its ability to pay employees
- Negotiations handled by the company in the past
- Negotiation strategies adopted by similar companies
- The desires, preferences and interests of employees regarding their work
- Preparing a questionnaire to finalize the demands to be discussed during the negotiation
- Persuading members of the union not to resort to violence during the process of negotiation

Interpersonal communications

Communication is essential for unions to convey their grievances to the management, and for the management to convey its opinions to the union. Effective communication helps remove misunderstandings between the conflicting parties.

The different forms of interpersonal communication used in labor relations are:

- Oral Communication
- Written communication

The management uses oral communication during negotiations, discussions, and interactions with the union. Management and unions use written communication in the form of memos, letters, and reports.

Trust and cooperation

Trust and cooperation are essential in labor relations. They help build a partnership between workers and employers and both groups to work together. Lack of trust and cooperation between the two groups can result in conflicts, disputes and strikes. That slow down the productivity of the organization.

The Steel Authority of India Limited (SAIL) is well-known for its culture of mutual trust and cooperation between the workers and management. SAIL has not had a strike after the 1969 negotiations between the management and the trade union. The 1994 collective agreement made by The National Joint Committee for Steel Industry (NJCS) and SAIL identified areas to improve organizational performance. Some of them are:

- Reducing wastage by handling raw materials efficiently
- Reducing operational costs and procuring material at economic prices
- Improving quality in all operations
- Making necessary improvements in the working conditions
- Reducing unauthorized absenteeism
- Optimizing capacity utilization in each steel plant
- Improving house-keeping, customer service, and delivery
- Making effective use of all resources including human resources.

LABOR-MANAGEMENT COOPERATION

Southwest Airlines is known for its labor-management relations. There was only one strike in the company's history. At Southwest, unions are considered a positive force that contribute to the growth of the company. About 85-90% of employees are members of unions. The company does not have a formal labor relations department. Labor representatives work under the departmental vice presidents. According to union representatives, company managers listen to problems faced by the employees.

Southwest has cultural committees that consist of managers and workers. These committees organize various cultural activities. The company also offers flex-time work arrangements and job sharing programs, by way of which workers who are under union contract can trade shifts with one another. The airline has a committee which looks after the safety of employees. This cooperation between labor and management has contributed significantly to the growth of the company.

Labor-management cooperation is essential to:

- Reduce conflict

- Develop ownership and commitment
- Boost employee morale
- Encourage contributions from employees
- Reduce costs
- Respond to competition

Benefits of Labor-management Cooperation

Labor-management cooperation benefits both the management as well as the workers. The benefits for the organization are:

- Increased productivity
- Better working relationships
- Improved quality
- Better employee safety

Benefits for workers are:

- Improved safety
- Participation in the decision-making process
- Better working conditions
- Scope and opportunities for skill improvement

Exhibit 11.6 illustrates how Bata faced HR problems due to poor labor relations. The company suffered lockouts and financial losses due to frequent labor disputes. Lack of cooperation between the management and union added to the problems.

Strategies for Successful Labor-Management Cooperation

The different strategies for successful labor relations are as follows:

- The labor-management cooperation efforts should involve all employees.
- Union members must be given benefits such as increased membership and additional jobs.
- Authoritative leaders should be replaced by supportive leaders.
- Efforts should be made to involve management and employees in various organizational activities such as goal-setting, planning, problem-solving and decision-making.

STRATEGIES TO IMPROVE INDUSTRIAL RELATIONS

Human resource strategies play a major role in improving the industrial relations. Some of them are discussed below:

Employee Assistance Programs (EAP)

Organizations need employee assistance programs to create a productive work environment. These programs help strengthen relations between management and workers. EAP attempts to solve the personal problems of employees, which helps them improve their performance and retain them. Given below are some types of EAP:

Exhibit 11.6

Bata: Facing Problems due to Poor Labor Relations?

In 1992, the Bata factory at Batanagar near Kolkata was closed for four and a half months. In 1995, Bata entered into a 3-year bipartite agreement with the workers, represented by the Bata Mazdoor Union (BMU). BMU had the West Bengal government as a signatory. In 1998, the company signed another long-term bipartite agreement for the first time with the union without the work being disrupted. Fearing that the labor problems would spread to its other plants, Bata entered into similar long-term agreements with the unions at its manufacturing units at Bangalore and Faridabad.

In February 1999, a lockout was declared in Bata's Faridabad unit. The lockout lasted for eight months. Production resumed in October 1999, when the company signed a three-year wage agreement.

In March 2000, a lockout was declared at Bata's Peenya factory in Bangalore. This was followed by a strike by its employee union. The new leadership of the union refused to abide by the wage agreement, which was to expire in August 2001. Negotiations between the management and the unions failed. As a result, the management decided to go for a lockout. The lockout was lifted in July 2000, after the management agreed to certain demands of the workers such as maintaining normal production schedule.

In September 2000, there was a major labor dispute at the Batanagar factory. The BMU asked the West Bengal government to intervene, to oppose the downsizing exercise undertaken by the management. BMU justified its move saying that the management had started outsourcing the Power range of fully manufactured shoes from China. Earlier, it outsourced only assembly and sewing line job. The outsourcing led to a drop in production, resulting in lower income for the workers. This forced the workers to approach the government.

Labor problems in Bata affected its marketing and human resource strategies. Frequent lockouts and strikes led to a drop in production. This resulted in a decreased supply of footwear. Customers turned to competitors who could deliver fashionable footwear within a short span of time.

The company incurred huge employee expenses due to frequent strikes and lockouts. The organization was restructured and several changes were made in the management. The company overhauled its operations and key departments. It also decided to downsize and asked about 250 manager to leave. It stopped further recruitments. To cut costs, the company announced the phasing out of several welfare measures. However, Bata remains apprehensive of lockouts and strikes.

Source: Icfaian Center for Management Research

- Stress management, weight control, blood pressure control, and smoking cessation programs.
- Marital counseling, family counseling and alcoholism treatment.
- Financial counseling and legal advice.

Establishing Employee Assistance Programs

The different stages in establishing an employee assistance program are:

- Problem Identification
- Program Development
- Program Implementation
- Program Evaluation

Problem identification

This step identifies problems that affect employees. For example, family relationships and marital problems account for 40-50% of the EAP referrals. These problems affect the job performance of employees to a great extent. It is important to identify the number of employees who are afflicted by similar problems. If the number is significant enough, the EAP will be cost effective. An isolated problem can be solved with the help of an external agency or through personal counseling.

Exhibit 11.7

HR Policies at Tata Steel

Safety Policy

Tata Steel firmly believes that a healthy worker is the basis for its continued success. The company trains its employees on safety consciousness and monitors safety measures with the help of joint committees of executives and employees' representatives. Every employee is held accountable for:

- Establishing and maintaining a safe and healthy work environment
- Ensuring that there is strict conformity to safety and health requirements
- Minimizing damage to plant and equipment by maintaining them
- Encouraging employees, contractors and visitors to follow safe work procedures.

Alcohol and Drugs Policy

Tata Steel boasts of a alcohol and drug-free environment. Since the company has recognized that consumption of alcohol and drugs affects the well-being of individuals, their families and the community as a whole, it has adopted several initiatives to create alcohol and drug-free environment. Some of them are:

- Creating awareness among employees by educating them on the harmful effects of alcohol and encouraging them to have healthy lifestyles
- Providing psychological assistance to employees who have alcohol and drug problem, while keeping such cases confidential

Human Resource Policy

Tata Steel strongly believes that its people are its primary source of competitiveness. It creates equal employment opportunities to attract the best talent. To maximize the productivity of workers, the company designs management practices that enrich the quality of employees' worklife. It also ensures fairness and transparency in all its dealings with the employees. The company strives to foster a climate of openness, mutual trust and teamwork.

Source: www.tatasteel.com

Program development

The next step is to decide whether the program should be conducted within the organization premises or at an external venue. Programs conducted within the organization premises may be expensive, but they have their own advantages. In-house programs illustrate the commitment of the management toward employee welfare. The management can also have total control over the program.

Management should also determine the appropriate time to conduct the program. Programs conducted during work hours are more likely to be attended by employees. It is important to communicate the benefits of employee assistance programs to employees to ensure employee commitment to these programs.

Program implementation

In most organizations, employers initiate the EAP. The supervisor identifies workers who are afflicted with problems and recommends them to EAP. Therefore, supervisors should be trained to recognize workers afflicted with problems and approach a troubled worker. A trained supervisor helps build better labor relations.

Program evaluation

EAP can be evaluated by counting the number of employees who use the programs and the feedback received from them. EAP evaluation should focus on five performance standards: effort, outcomes, adequacy, efficiency, and process.

Some organizations use the utility approach to assess the cost benefits associated with EAP. In this approach, average annual costs are determined first. This figure is multiplied by the estimated percentage of employees afflicted with problems. If the company assumes that the job performance of workers is affected by personal problems, then 25 five percent of the resulting figure represents the loss due to troubled employees. The net benefit of EAP is calculated by subtracting costs from estimated savings.

Collective Bargaining

Collective bargaining is a negotiation technique in which workers and employers try to collectively resolve their differences with or without the assistance of a third party. This technique was used by Mahatma Gandhi to improve labor-management relations in the textile industry in Ahmedabad. In India, companies like the Indian Aluminium Company, and the Tata Iron and Steel Company entered into long-term collective bargaining agreements with their unions in the 1950s.

Collective bargaining is used by management and unions to compromise on conflicting interests by arriving at a consensus.

Collective bargaining can be used by organizations to safeguard the interests of workers. Since it involves discussions and interactions, the conflicting parties can learn more about each other and remove misunderstandings.

Collective bargaining plays a major role in improving industrial relations because it:

- Resolves conflicts and differences
- Guarantees rights and responsibilities to workers
- Brings social change through acceptable solutions
- Formulates terms and conditions under which labor and management will work together

The Grievance System

Sometimes, there might be disagreements between the conflicting parties even after settling their dispute. As a result, employees may feel that their rights under the union contract are violated and they may file a grievance.

Dale S. Beach in his "Handbook of Personnel Management and Industrial Relations", defines grievance as, "dissatisfaction or feeling of injustice in connection with one's employment situation that is brought to the notice of the management."

In a grievance system, the aggrieved worker approaches the immediate superior and informs him about his grievance and seeks redressal. If the aggrieved worker feels that his grievance is not redressed, he can approach the supervisor again. The supervisor must address the worker's grievance within 48 hours.

If the supervisor's answer is not satisfactory or if he is not able to answer within 48 hours, the worker can approach the departmental head who has three days to answer the worker. If the departmental head is not able to answer within three days or gives an unsatisfactory answer, the aggrieved worker can approach the grievance committee that is constituted by the representatives of employers and employees.

The worker can approach the manager if he receives an unsatisfactory response from the committee. If the manager provides an unsatisfactory answer, the worker can approach the management for revision. He can also take a union official along with him to facilitate discussion with management.

If an agreement is still not possible, the union and management may refer the grievance to voluntary arbitration within a week of the receipt of the management's decision by the employee.

SUMMARY

This chapter examined the importance of employee safety, and labor relations in an organization. The strategic issues involved in safety are: building organizational effectiveness related to safety and health, implementing safety and health controls, and devising training strategies. The financial impacts of safety are: compensation for workmen injuries and man days lost. The operational impacts include plant shutdown, production loss, and employee turnover. The marketing impacts of safety are creating a favorable image and goodwill for the organization, using employees as brand ambassadors, giving importance to product safety issues, and discouraging child labor. Each of these have been discussed in at length in the chapter.

Apart from employee safety and health, organizations are giving importance to industrial relations. The concept and nature of industrial relations has undergone a sea change in the recent past, owing to the change in the business environment. The major players in industrial relations are: workers and their organizations, the management and the government. The different strategic issues involved in industrial relations include: developing healthy labor-management relations, maintaining industrial peace and developing industrial democracy.

Today, organizations have adopted a supportive style of management as against the authoritative style in the past. From exploitation of labor, organizations have moved to encouraging labor to participate in various organizational activities. Some factors that led to this change are: changing economic environment and globalization.

Labor-management cooperation is essential to reduce conflict and improve productivity. Some strategies for successful labor-management cooperation are: involving employees in the day-to-day activities of the organization, providing benefits to union members and replacing authoritative leaders with supportive leaders.

The different strategies to improve industrial relations are: providing employee assistance programs, promoting collective bargaining and facilitating grievance systems.

Chapter 12

Career Management

In this chapter we will discuss:

- Importance of Career Management
- Major Career Transitions
- Types of Corporate Career Management

Career management is important to individuals and organizations. It involves setting personal career goals and developing strategies to achieve them. Individuals must frequently revise their career goals based on work experiences. Modern organizations help individuals manage their careers.

While individuals manage their careers through self-assessment and mentor relationships, organizations implement programs to enable their employees to focus on career choices. Individuals also experience major career transitions.

This chapter examines the reasons for the increased importance of career management. It discusses major career transitions in an individual's life like promotion, demotion, transfer, and relocations. It also analyzes the various types of corporate career transitions like job rotation, career planning and succession planning etc.

IMPORTANCE OF CAREER MANAGEMENT

Career management has been given more importance in recent times as increased competition, structural changes and job insecurity have forced organizations and individuals to rethink their careers.

Increased Competition

The changes in the social, political, economic, and business environments, in which organizations operate today, has increased the competition. With the advent of globalization, organizations have realized the importance of retaining people both in domestic and overseas operations. They have also realized that talented professionals can contribute to a company's growth.

Structural Changes

The major structural changes in the present day business can be attributed to downsizing and delayering

Downsizing and Delayering

Many organizations worldwide have downsized to reduce costs and improve productivity. Downsizing refers to the process of making people redundant at all hierarchical levels. Downsizing increases the size of the remaining jobs. This results in individuals working for longer hours, thus increasing the productivity per employee. The purpose of downsizing is to achieve immediate and short-term results. Organizations that resort to downsizing show less interest in innovative products and services which are long-term investments.

Another structural change that most organizations have adopted is 'delayering'. It is the process of reducing the number of hierarchical levels. While downsizing results in job insecurity, delayering reduces promotion prospects for employees. As a result, employees feel that they are stuck in their positions. Though these structural changes predominantly aim at reducing costs, they have given rise to several management fads that help boost productivity. These include business process re-engineering, performance-related pay, TQM etc.

Increased Job Insecurity

It has been found that structural changes have an emotional impact on employees. They begin to feel insecure about their jobs. For example, when there is downsizing, employees are more likely to suffer from mental stress, frustration and high blood pressure. These, in turn, affect the productivity of employees to a great extent.

MAJOR CAREER TRANSITIONS

In an organization, employees pass through various stages in their career and are hence subjected to career transitions. These transitions may be either planned or unplanned.

Planned transition

In a planned transition, individuals know in advance about the changes in their job. For example, top executives, in an organization, know about their new assignments well ahead and hence can plan for it. Sometimes, employees who are with the organization for a long period are chosen for early retirement.

Unplanned Transition

Unplanned transition occurs when there is corporate restructuring, downsizing, layoffs, mergers, acquisitions, takeovers, resignations and deaths.

Some organizations help their terminated employees get new jobs i.e., they provide outplacement assistance. Under such circumstances, service firms that specialize in placement activities usually help the organizations.

The major career transitions are: promotions, demotions, transfers and relocations.

Exhibit 12.1

Succession and Career Management: The Colgate-Palmolive Way

Succession Management

Colgate-Palmolive (CP) uses succession management to identify and develop future leaders to carry on the legacy of success. CP's succession management steps are as follows:

- Identifying high potential employees early in their careers so that they can follow a distinct career path to become leaders later.
- Providing challenging assignments to improve their performance and accelerate their development.
- Training and coaching them to accept new responsibilities and receive continuous performance feedback from them.
- Providing necessary exposure and visibility to senior managers.

Individual Development Planning (IDP)

CP encourages employees to grow throughout their career. It is a firm belief at CP that every task is a learning process for the employees. The company provides enough opportunities for employees to expand their potential. The purpose of IDP is to help employees assess the skills, behaviors, and knowledge that are required specific goals. It helps employees grow both on the professional and personal front. IDP has enabled CP employees to be highly flexible during the changes and confidently meet the company's future needs.

Career Development Philosophy (CDP)

At CP, it is believed that when people grow, company grows. Employees are given challenging and motivating work to give them the necessary experience, exposure and support to improve their potential. The purpose of CDP is to hire right people for the right job, at the right time. It helps employees to move up in their careers at CP.

Adapted from colgate-palmolive.com

Promotions

Promotion is a change in job in which an employee moves up the organizational hierarchy. For example, an AGM is promoted to a GM. Promotions are incentives which bring additional responsibilities and increase in pay and follows a distinct path. The promotion process at Wipro Technologies is discussed below.

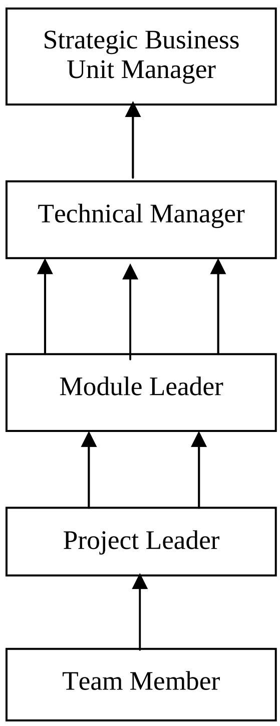
Career path at Wipro

Wipro gives additional responsibilities to employees who have achieved the desired goals. New recruits start off as 'team members'. A team member develops software programs and one who is successful in this is promoted as a 'module leader' (ML). As head of his team, an ML interacts with customers and can choose between a technical and consulting career and a business development career.

A module leader who chooses the technical path and achieves the desired goals, is promoted as a project manager (PM.) A project manager has to set the right standards for the project, build customer relationships, provide technical assistance and a good work environment to the project team and maintain cordial relations with other departments.

A PM, who performs well, is promoted to a technical manager (TM). A TM manages more than one project. He also manages customer and business relations. Based on his performance, a TM gets to head the SBU (Strategic Business Unit). Figure 12.1 shows the career path at Wipro.

Figure 12.1: Career Path at Wipro



Source: Icfaian Centre for Management Research

Demotion

Demotion is to move an individual to a job of lower rank. When an employee is demoted, his responsibilities and status are lowered.

Demotions occurs:

- When employees perform poorly and do not possess the required capabilities to do the job well.
- When organizations use demotions as a disciplinary measure.
- When organizations eliminate jobs in some departments. In such cases, employees may be demoted until normalcy is restored. However, such demotions do not mar the employees' reputation.

Strategies for demotions

Organizations should have a four-fold policy with respect to demotions:

- Organizations should frame rules that are reasonable and communicate these rules clearly to the employees. Any employee who violates the rules should be demoted.
- Organizations should investigate any alleged violation of rules by employees.
- Employees who violate rules should be penalized irrespective of their designation.
- Organizations should have provisions to review any violation of rules.

Demotions affect the employees' self-esteem and sense of belonging and they become defensive. Hence, managers usually prefer discharging to demoting their employees.

Transfers and Relocations

Transfer is a process where an employee takes a similar job at the same hierarchical level of the organization. In relocation, employees are moved from one geographical region to another. When employees are moved from one country to another, it is known as 'expatriation'. 'Repatriation' refers to a relocation in which employees return to their home country. Transfers and relocations bring with them challenges and opportunities for both employees and employers.

TYPES OF CORPORATE CAREER MANAGEMENT

The different types of corporate career management are: self assessment, succession planning, career planning and job rotation.

Self Assessment

In self-assessment, an individual learns about his aspirations, strengths, weaknesses, and career opportunities. It is said that the starting point in managing one's career is learning about oneself.

Individuals should determine the kind of organizations they want to work for. Some might prefer to work for large organizations because they offer a sense of prestige and security, while others may prefer to work for small organizations. Some might want to start a business of their own. However, an individual's preferences and options change during the course of his or her career. Hence, individuals need to be realistic about their career options and learn about opportunities. A person should choose a field that is growing and expanding as it offers more opportunities.

Exhibit 12.2

Famous Quotes on Succession Planning

From now on, (choosing my successor) is the most important decision I'll make. It occupies a considerable amount of thought almost every day.

Jack Welch, former CEO, General Electric, speaking about succession planning in 1991.

Our responsibility considered paramount is seeing to the continuity of capable senior leadership. We have always striven to have proven backup candidates available, employed transition training programs to best prepare the prime candidates and been very open about (succession planning)... We believe that continuity is immensely valuable.

Robert W.Galvin, Former Team Member of the Chief Executive Office, Motorola Corporation, 1991

To have a Welch-caliber CEO is impressive. To have a century of Welch-caliber CEOs all grown from inside-well, that is one key reason why GE is a visionary company.

James C. Collins and Jerry I. Porras, in their book 'Built to Last; Successful Habits of Visionary Companies'

The management-selection process that placed venerable General Electric in Welch's hands exemplifies the best and most vital aspects of the old GE culture. Reginald Jones, predecessor to Jacl Welch, spent years selecting him from a group of candidates so highly qualified that almost all of them ended up heading major corporations.... Jones insisted on a long, laborious, exactingly thorough process that would carefully consider every eligible candidate, then rely on reason alone to select the best qualified. The result ranks among the finest examples of succession planning in corporate history.

Stratford Sherman, Fortune magazine editor, in his book, "Control your Destiny or Someone Else Will."

If an Office of at the top was to succeed, it needed candidates who had experienced and adapted to such as....role earlier in their career. It followed that the experience base had to be provided by similar assignments at business unit levels....The Office Of has its disadvantages. Some incumbents just plain don't prefer it.... Mixed signals can emanate from the office....As a consequence, some Office Ofs have not clicked. Some players departed or were benched. But is has worked well more often. The proof is in the using. On balance it is a figure of merit. It has consistently provided the best informed succession answers. It absolutely helped to provide the proven source of Chief Executive Office Candidates.

Paul Galvin, founder of Motorola, commenting on the failure of the Office Of concept, a mechanism for management development and leadership continuity throughout the company including the lower levels.

Source: James C. Collins and Jerry I. Porras, "Built to Last; Successful Habits of Visionary Companies (Harper Business, 1997).

Succession Planning

Succession planning is the process of identifying and preparing employees for the right jobs. The different stages of succession planning are:

- Identifying key positions and keeping track of vacancies.
- Determining the skills and performance standards required for these positions.
- Identifying potential candidates for development.
- Developing and coaching the potential candidates.

Exhibit 12.3

Organizational Career Planning and Development Tools

A. Self-assessment tools
- -Career-planning workshops
- -Career workbooks
- -Pre-retirement workshops

B. Individual Counseling
- -Personnel staff
- -Professional counselor
  - a. Internal
  - b. External
- -Supervisor or line manager
- -Outside consulting

C. Internal Labor Market Information/Placement Exchanges
- -Skills inventories
- -Career path planning
- -Career resource center
- -Other career communications formats

D. Organizational Potential Assessment Processes
- -Assessment centers
- -Promotability forecasts
- -Succession planning
- -Psychological testing

E. Developmental Programs
- -Job rotation
- -In-house development programs
- -Workshops
- -Educational assistance
- -Supervisory training in career counseling programs
- -Dual-career programs
- -Mentoring systems

Source: Fisher, Schoenfeldt, Shaw, Human Resource Management, Career Management (Houghton Mifflin Company, Third Edition)

Benefits of succession planning

Succession planning helps an organization in many ways:

- It enables the senior management to review the leadership talent available with the organization.
- It ensures the continuity of leadership in the organization.
- It guides the promotion policies of the organization. It ensures that the right people are promoted at the right time.

- It analyzes HR processes like selection, appraisal, and management development in the organization.

Strategies for successful succession planning

- It is important to customize succession planning to suit the company's needs. For example, if an organization cannot find a person who can manage the company in the changed environment, an outsider might have to be brought in.
- It should develop key candidates through job rotation, mentoring, and formal training programs.
- It must take into account the organizational culture.

Exhibit 12.4

Ten Ways to Resurrect Your Career

According to Ajit Vohra of Heidrick & Struggles, an employment consultancy firm, there are ten smart tips to rebuild one's careers. They are:

1. One should make sure that the reason to move out of an organization is not teething pains.
2. One should not make a hasty and unplanned change.
3. It is important to take a look at opportunities in the existing company
4. One should have good network within and outside the organization to increase one's visibility.
5. It is important to define the industry or position for the next move.
6. The time and opportunity should be used to learn new things
7. One should be positive and confident of making the right career move
8. One should seek advice from a reputed executive search professional
9. One should never allow his or her performance to slip
10. One should be very selective about whom to confide in

Adapted from "Hall of Fame" Business Today, July 6 2001.

- It must be consistent with the company's strategic direction

At Lucent Technologies, succession planning is done in two phases. In the first phase, it identifies the leadership requirements and talent available and in the second phase it moves into talent development. The senior leaders develop their own succession process. Each senior executive identifies three successors. The successors are evaluated based on their performance and the ability to develop and adapt to change. Certain attributes that the company looks for in future leaders are:

- Ability to think globally
- Ability to focus on results
- Ability to perform tasks and projects with speed
- Customer orientation, concern and respect for people
- Ability to inspire trust among employees

Lucent has a department responsible for succession planning. This department develops strategies and collects feedback which is used to improve the system. Senior executives spend a lot of time to identify and develop potential successors.

Job Rotation

Job rotation is the process of giving employees a series of assignments in various functional areas of the company. It is used as a training device to improve employees' skills. It also involves rotating employees among jobs in the same department. Job rotation increases an employee’s work interest.

The purpose of job rotation is to:

- Help employees appreciate organizational goals
- Help employees understand the company's different functions
- Help employees develop contacts.
- Help them improve their problem-solving and decision-making skills.

In a typical job rotation, employees have to perform tasks that are different from the previous ones. Hence an employee's designation changes with each job rotation. The time period for a job rotation depends on the purpose of assignment.

Advantages of job rotation

- Job rotation results in a cross trained workforce. This enables organizations to have a skill inventory. It also helps fill up vacancies in the functional departments. Job rotation reduces absenteeism.
- It reduces boredom and monotony as it changes the scenario at the workplace.
- It *r*educes stress and other physical disorders like Cumulative Trauma Disorder (CTD) or Repetitive Stress Injury (RSI.) Industrial workers are more prone to CTD and RSI as their work involves forceful body exertion and awkward. Thus, job rotation enables workers to get a temporary relief from stress and other disorders.
- It results in increased innovation and motivation. Employees who take up new assignments feel energized and so their productivity and creativity improves.
- It reduces employee turnover as it reduces dissatisfaction among employees.
- It increases the employees' ability to accept and handle change, thereby contributing to the growth of the organization.

Though job rotation brings with it promotions and growth in salaries, it has its limitations. Sometimes employees might find it difficult to develop the necessary skills and this might affect their motivation and satisfaction.

Implementing job rotation

Marico Industries has been highly successful in implementing job rotation. The company created a good work environment through a structured job rotation program. This program reduced the absenteeism levels, turnover, and stress-related disorders.

The steps involved in a job rotation process are:

Setting goals: Setting goals is a prerequisite for the successful implementation of job rotation. It emphasizes the advantages of job rotation and convinces the employees from resisting it.

Surveying existing conditions: A survey helps to receive feedback from employees regarding work conditions. The data from the survey serves as qualitative information to schedule the rotation process.

Analyzing Tasks: Qualitative and quantitative data can be used to analyze the tasks to be performed. Physical job requirements and worksheets need to be accurate for the jobs that are to be considered for the rotation program.

Developing rotation schedule: The job rotation schedule is based on qualitative and quantitative data from questionnaires and analysis. It is also important to list the number of jobs an individual should rotate. It should also allow employees to take up dissimilar tasks and foster teamwork. A manager should develop a creative schedule that encourages employees to take up new tasks and gives them scope to learn.

Exhibit 12.5

Learning Initiatives at IBM

At IBM, new employees, are given a development plan to work on. They are asked to identify areas of development and skill enhancement, and how these skills can be enhanced. Learning is an ongoing process at IBM. The company has an induction program in which senior colleagues participate. They share their vision and experiences with the new recruits. The company also has learning and development programs for senior management members. IBM firmly believes that coaching and mentoring help encourage and motivate employees. The following are the different learning initiatives at IBM.

Technical Skills: This is a project-related training in which every employee is trained for 8 days a year.

People Management: This is a management development program for managers and potential managers. Potential managers attend a 3-day workshop to acquire leadership competencies and improve their competencies. They also attend a 3-week development program 'Leading and Managing' which is a combination of e-learning, a one-day face-to-face lab with senior management members and four weeks of e-collaboration. New managers are enrolled in the award winning program, Basic Blue for 9 months. The program which is also a combination of e-learning, face-to-face lab and e-collaboration covers topics like HR policies, managing poor performance, developing employees and managing change. The company has programs like Managing@IBM and Back to Basics for experienced managers. These programs enable managers to get 360 degree feedback on leadership competencies and managerial styles. Based on this feedback, they work out action plans for improvement. Managers also have access to on-line and just-in-time learning through 'edvisor', which is an e-learning tool that helps managers find answers to questions on people management.

IBM's people-management programs are developed in-house with the help of inputs received from world-class learning consultants and premier educational institutions like Harvard.

These management development programs are monitored and implemented by a dedicated team. IBM-India now has a world-class learning center at Bangalore that facilitates continuous learning throughout the organization. Apart from these programs, IBM employees can choose among the following options to develop themselves at their own pace.

Classroom: The topics in the development programs are taught to employees by an experienced person to facilitate face-to-face learning.

e-learning: IBM has a global campus that delivers distributed learning to its employees. Distributed learning means employees can learn any where, any time, just-in-time and just enough. The company offers over 10,000 courses that cover a wide range of technical and professional topics.

Video Learning: Video learning enables employees to watch, listen, think and experience by participating in the respective interactive video sessions.

Computer-based Training: CBT enables employees to pick up technical and soft skills.

Knowledge Teams: Knowledge teams collect information on topics like technology, management, development programs, processes and applications.

Talks/Seminars: Talks and seminars enable employees to share knowledge.

e-collaboration: e-collaboration promotes virtual teaming and learning to solve specific problems on-line.

Adapted from The Economic Times, May 20, 2002

Providing training: During training, employees are taught behavioral strategies, techniques, and risk factors involved in the new job.

Implementing the rotation schedule: This requires constant monitoring from the concerned managers to make sure that the employees do not have any difficulty in performing their new jobs. Employees should be given adequate assistance to help them perform well in their new jobs. Managers should know whether additional training is required for the employees on job rotation.

Monitoring the program: A job rotation program should be evaluated periodically so that the program's pre-set goals are achieved. Managers can also develop questionnaires to evaluate the effectiveness of the program.

Career Planning

Career planning is a process where an individual selects career goals and the path to achieve these goals. When an individual plans his or her career goals, it is known as individual career planning. When an organization plans career goals for its employees, it is known as organizational career planning.

Individual career planning

Individual career planning is done through personal assessment and by consulting a mentor. In personal assessment, individuals determine the kind of organization they want to be a part of. The different steps involved in personal assessment are:

- Identifying and organizing one's skills, interests, work-related needs, and values.
- Integrating these interests and abilities with an organizational setting i.e. aligning individual goals with organizational goals.
- Testing the interests and abilities against the realities of the organization or job market. This is done by interacting with HR specialists and experts from various fields.

Mentor relationships serve as useful tools for managing one's career. A mentor is a senior manager who guides, teaches, and counsels a less-experienced new manager (protege). While a young manager can seek a senior manager's advice and assistance, the latter may take special interest in his protege if he recognizes special traits in the former. If the mentor is satisfied with his protege's performance, he may recommend new assignments to the protege. Johnson & Johnson, Federal express, AT&T, and Colgate-Palmolive have formal mentor programs.

Organizational career planning

Organizations use various methods to match the career needs of their employees with the requirements of the company. Some of them are given below:

Providing challenging jobs to employees early in their careers. This encourages them to perform well in the subsequent years.

Providing substantial information regarding career options so that employees can identify career and succession paths.

Providing assessment centers that assess the employees' abilities to perform specific jobs.

Facilitating career counseling to help employees set directions, review performance and identify areas of professional growth.

Conducting career development workshops to identify problems and misconceptions of employees regarding career development and resolve them. Workshops also help new employees to become familiar with the organizational culture.

Providing continuous training to employees to ensure that their skills do not become obsolete. ***Facilitating periodic job changes*** to prevent obsolescence and improve career growth. This is done through temporary job assignments and job rotation. Career development can be made effective by giving employees extended leaves and sabbaticals. Sabbaticals allow employees to work in the new environment, indulge in constructive reading or attend executive development programs. An extended leave of absence helps employees to get away from the accumulated pressures of day-to-day work.

SUMMARY

This chapter examined the importance of career management in an organization. Some factors that have contributed to the increased importance of career management are increased competition among organizations, structural changes and job insecurity. The three major career transitions that an employee is likely to experience in an organization are: promotions, transfers and relocations, and demotions. The different types of corporate career management are: self-assessment, succession planning, career planning, and job rotation. Self-assessment is the process of learning about oneself, one's aspirations, strengths and weaknesses. Succession planning is the process of identifying the right people for the right job. Career planning is a process where an individual selects career goals and paths to achieve these goals. Career planning is also taken up by organizations to retain talented professionals. In job rotation, employees are given a series of assignments in various functional areas of the company

The different methods of individual career planning are: personal assessment and mentor relationships. Some methods for organizational career planning are: providing challenging jobs, career counseling, conducting career development workshops, and facilitating periodic job changes. Job rotation is the process of moving people within different functional departments or in the same department to develop specific skills and motivate them by avoiding monotonous work.

Chapter 13

Employee Separation and Downsizing

In this chapter we will discuss:

- Concept of Separation
- Concept of Downsizing
- Areas Affected by Downsizing
- Concept of Turnover
- Relationship Between Downsizing and Outsourcing

September 11th 2001 spelt doomsday for the airline industry. The day the World Trade Center was attacked, the airline industry in the United States collapsed. (See Exhibit 13.1) The US economy was already going through a period of recession and the September 11th incident was the final blow. In the words of Alan Mullaly, head of Boeing's commercial airplane group,"The cutbacks will be a mix of layoffs, attrition and voluntary-retirement packages, although "most of them will be layoffs." The layoffs thus announced have had a tremendous impact not only on employees but on the society as a whole. In this context, it is important to understand the concept and objectives behind employee separation and downsizing. In the course of this chapter we will try to understand fundamentals of employee separation and downsizing with underlying objectives, reasons and strategies for retaining employees. We will also learn about turnover and Voluntary Retirement schemes (VRS).

Exhibit 13.1

Airline Industry Layoffs in the Year 2001

Name of the airlines	**No of Layoffs**
Boeing	30,000
American Airlines	20,000
United Airlines	20,000
Delta Airlines	13,000
US Airways	11,000
Continental Airlines	11,000
Northwest Airlines	10,000
Airport Concessionaires	9,600
Sky Chefs	5,000
Gate Gourmet International	3,000
America West Airlines	2,000
Midway Airlines	1,700
American Trans Air	1,500
Other Airlines	2,790
TOTAL WORKERS	**140,590**

Source: Air Transport Association; Boeing press release 9/18/01; The Orlando Sentinel

Organizations are open systems. They are in constant interaction with the environment. Environmental forces compel the organizations to change and adapt. The major environmental forces acting on organizations can be categorized as:

- Political
- Economic
- Social and
- Technological forces

These forces not only offer challenges but also opportunities to the organization. Markets do not remain stable and profitable forever. Due to the threat of new entrants and technological changes affecting production, the market landscape is constantly changing. What do these changes imply for an organizations human resources department? Organizations all over the world spend a large portion of their budget on payroll. Hence, the environmental changes and huge amounts of money associated with payroll would imply that human resources should be strategically managed. HR has to be viewed as a function which can and has to contribute to the achievement of overall goal of the company.

CONCEPT OF EMPLOYEE SEPARATION

Employees have the option as well as a desire to leave their employers for greener pastures. The employer can do very little when employees want to separate because the law in most cases favors the employees in protecting their rights. For example, in terms of compensation of lay-off workers, the Industrial Disputes Act of 1947 says that the employer of any factory, plantation or mine employing at least 50 but less than 100 workmen on average per working day, is required to pay compensation to workmen being laid-off. It should be at the rate of 50% of basic wages and dearness allowance for all days of lay-off except weekly holidays.

Managing Separation

Separations are a part and parcel of a dynamic labor market. Employers must learn to manage separations. They should have a sufficient backup of employees who can take the place of the separating employee. This means that the organization should invest in employee training and development so that it always has the right people, with the right skills at the right time. Above all, an employee retention strategy is needed for managing the human resources, especially separation.

Let us try and understand the types of separations.

Types of Separation

Separations are basically of three types:

- Separation initiated by employee
- Retirement
- Separation initiated by employer (downsizing /layoffs)

Separation Initiated by Employee

This kind of separation is the most common although it may take the employer by surprise. The employer may not be prepared for this kind of separation. This separation usually affects the productivity and structure in the organization.

The major reasons cited for separations by employees are:

- Lack of motivation
- Desire for a better lifestyle and income
- Better opportunities with other organizations
- Desire for autonomy or starting something on their own.

Retirement

This is one of the formal ways of leaving the organization. Employees retire when they attain a certain age. The upper limit for this age may differ from organization to organization.

Aging and change

It has been found that employees resist change, especially technological changes as they grow older. It then becomes highly difficult for employers to find suitable work for them within the purview of the organization. There is also a notion that productivity decreases with age because senior employees are not motivated as easily as junior employees.

Cost of retirement

The biggest loss associated with retirement is the knowledge and experience that the retiring employee takes away with him. Over a period of time, employees learn more about the organization and are well-versed in the working of the different systems and processes of the organization. Their knowledge of the market and the industry is valuable to the organization. Hence it is very important to train junior employees and get them to work under senior employees so that retirement cost is minimized. The retirement process should always result in a win-win situation for both the employer and the employee. Hence it's important to manage retirement strategically.

Concept of voluntary retirement

When employees decide to retire before their terms are over owing to certain incentives given by the employer, it is called voluntary retirement. As the employees grow older, the medical and health insurance premiums are bound to increase and so will the financial liabilities for the employer. These costs can be reduced by introducing voluntary retirement schemes wherein employees are given incentives for retiring at an early age. Secondly, when employees retire early, the new employees replacing them will bring in fresh ideas and are equipped with the latest technological skills and processes. They may also cost less in terms of salaries and health premia (See Exhibit 13.2).

Exhibit 13.2

Recently Announced Voluntary Retirement Schemes

- Maruti Suzuki announced its VRS for shop floor workers in October 2001.The criteria for VRS was employees who have attained the age of 40 or have worked in the company for 15 years. The company is expected to save around Rs. 3 billion in the coming fiscal year.
- GlaxoSmithKline announced its voluntary retirement scheme which got a good response. Nearly 627 employees opted for the scheme. This would save the company around Rs. 300 million.
- Hindustan Motors Ltd. announced its VRS at its Uttarpara plant. The reason stated was the declining sales of its cars in the market.
- Associated Cement Companies (ACC) announced it would cut 1000 jobs through VRS. The company stated that it wanted to cut costs, and improve productivity and bring down the total cost per cement bag.
- Steel Authority of India limited (SAIL) is planning another VRS. This is aimed at people who are 55 years of age. SAIL has already reduced its staff by 26,000 in the last three years.

Source: HRM Review ICFAI Publications

Separation Initiated by Employer Downsizing

The third form of employee separation is initiated by the employer and is known as downsizing or layoffs. This kind of separation usually involves a large number of employees. Downsizing is done irrespective of the phase of business cycle. Firms may resort to downsizing even in the best of business periods when the business is booming.

Downsizing behavior also seems to set off a chain reaction, as one firm follows another in cutting down the number of employees for a trimmer and healthier look.

Although firms may cite different reasons for downsizing, the fundamental reason is to cut down costs. (See Exhibits 13.3, 13.4, 13.5)

Exhibit 13.3

Layoffs at Major Pharma Companies Year 2001

Novartis	1000
Abbott Laboratories	900
Bausch & Lomb	700
GlaxoSmithKline	500
Johnson & Johnson	85

Source: Bioview.com

Exhibit 13.4

Recent Layoffs in Automobile Sector Year 2001

Opel	1500
General Motors	2800
Isuzu	9000
Daimler Chrysler	2700
Daewoo	1250

Source: HRM review – Icfai publications

Proactive versus reactive downsizing

A distinction has to be made between proactive downsizing and reactive downsizing. Downsizing as a part of organizational reengineering or restructuring and in keeping with the overall goals and objectives of the organization is called proactive downsizing. Its aim here is not cost cutting but to bring a culture change which would be beneficial to the organization. On the other hand, reactive downsizing is essentially a cost cutting exercise. It is usually done when the management has overlooked long pending problems that have led to a situation where the overheads have gone out of control. Reactive downsizing is usually characterized by resistance from employees as they too are usually caught unawares. According to Kozlowski, "Reactive downsizing is a result of prolonged period of inattention to looming problems by management."

Objectives of downsizing

The usual objectives of downsizing are:

- Reducing overheads.
- Altering the organizational structure. In other words, to reduce the number of levels, so that decision-making takes less time and bureaucracy is reduced.
- Reducing organizational politics. Troublemakers can be removed during downsizing.
- Outsourcing a certain activity.

- When a firm wants to concentrate on its core activity, it may cut the number of employees.

Reasons for downsizing

Firms cite different reasons for downsizing, but some of the common reasons are:

- Tough competition has made it necessary to have optimum workforce.
- Flexibility and adaptability can be achieved only when there are fewer employees in the organization.
- The spiraling cost of labor calls for a more capital intensive strategy and a less labor intensive strategy.
- Automation of processes which were hitherto manual.

Process of downsizing

Once the organization decides to downsize, it is important to make the process structured and sequential. If downsizing is linked to a broad organizational change and reengineering strategy, the possibility of its acceptance by employees is high and the adverse effects can also be minimized. There are certain rules which, if followed, will make downsizing a smooth exercise.

Rule 1: - There is a greater need for communication and coordination during downsizing. Various tools of communication such as letters, memos, notices etc. can be used so that the message reaches everyone. Care should be taken to see that communication is personalized.

According to a survey conducted by Watson Wyatt, impersonal communication in the form of letters and memos was ineffective in 79% of the downsizing companies.

Rule 2: - Think laterally and search for various alternatives to downsizing. Every effort should be made to try other options. The employees must be convinced that the organization is downsizing as a last resort, after having tried out all other possibilities.

Rule 3: - Organizations have to be generous and justify their action. They have to involve employees in the downsizing process and explain to them the rationale behind the exercise. The criteria for removing people should be fair and justified. Employees should also have the right to appeal against the decision.

Rule 4: - Organizations have to take care of people who are leaving the organization. They should be provided outplacement services along with severance benefits. The employees should be notified well in advance and if possible, personally by the HR manager.

Rule 5: - After the downsizing exercise, make the required changes in positions and redirect the employees' efforts. Organizations have to help survivors to adapt and move on. After a small pause following downsizing, employees have to be briefed on what is expected from them. Their roles can be modified, if needed. The resulting changes in the firms business environment should be explained to the survivors. Quality improvements are only possible when downsizing is followed by training. Hence, it is important to invest in employee training and development.

Downsizing – the choice

Organizations are always confronted with two options during downsizing. One is a massive lay- off where a large number of employees are axed in one stroke, while the other is a gradual downsizing down over a period of time.

Organizations that are not sure about the number of employees to be reduced opt for a gradual downsizing. Though gradual downsizing preys on the mind of employees, its impact on the economy is mild when compared to massive layoffs.

Another important issue is the question of where to cut the jobs. Organizations have different departments employing an unequal number of people. Downsizing may involve cutting jobs across the board i.e. in all departments or it may be targeted at a particular department.

When the layoffs are restricted to one department, it results in internal politics and lobbying in the organization. This may disrupt the working environment in the organization.

In order to avoid such situations, management may resort to across-the-board cuts, wherein jobs in all departments, irrespective of the size or importance of that department, are cut. This may not be the best way to downsize. Employees in the departments that are doing well may feel a sense of injustice. This may in turn demotivate employees in other departments that are performing well.

Areas affected by Downsizing. Following are some of the areas that are affected most by downsizing:

- Employee attitude and morale
- Quality
- Profitability
- Society
- Customer service

Effect on Employee's Attitude and Morale

Downsizing has considerable impact on the morale of the employees. It leads to distrust and dissatisfaction and employees feel stressed and demotivated. In a study conducted by the American Management Association, it was found out 69% of firms reported that their employee's morale was down, 42% firms had registered increased resignations and voluntary retirement, 36% said they had a marked increase in turnover and 13% reported increase in disability claims. In all the cases, the negative impact was seen to last for more than one year.

When firms decide to cut down their manpower, employees who are not axed perceive an increase in workload and long working hours. Improper or lack of training prior to downsizing makes the workers feel demoralized and stressed out.

Effect on Quality

When firms downsize, some of the best employees in the organization also get axed. The reason can be linked to the downsizing process. During a downsizing exercise, one of the first steps is voluntary attrition. During this period, some of the best minds may leave the organization because they are confident of getting better jobs elsewhere.

In some cases downsizing has become more of a ritual, which preys on the minds of even the best employees. Employees in order to play safe may grab the first available opportunity for voluntary attrition. Finally, the severance terms offered by some companies are extremely attractive that even the best of employees are tempted to leave the organization.

Effect on Profitability

According to some researchers, the effect of downsizing on the firm's profitability, have been mixed. In most of the companies, the objective of increase in profit was not met, though there was a decrease in expenses.

Watson Wyatt reported that out of 1000 firms which had downsized, only one third reported an increase in profits whereas only a small number of firms reported increase in the return to shareholders. A study by AMA, concluded that there was no direct relationship between downsizing and profitability in the long run. In fact, it has been found that downsizing reduces the creativity of employees by disrupting the working relationships between the members.

Downsizing and Society

Experts in the field of human resources and other social sciences hold different views on the effects of downsizing on society. One view is that downsizing has adverse effects not only on employees' morale and attitude but also on their families and society as a whole. An empirical relationship has been established between downsizing and social evils like drug abuse, criminality and alcoholism. It is also believed that downsizing results in health disorders, depression and suicides.

On the other hand, some people think there is a positive side to downsizing. They argue that the society benefits in the long run due to downsizing the rationale being that it helps in better matching of jobs and jobseekers. It fuels economic growth by making people take more risks. Proponents of downsizing are against the protectionist approach of the government because they feel it will prove to be a disaster in the long run not just for one company but for the industry as a whole.

Effect on Customer Service

Downsizing affects customer service because it decreases worker participation. Customer service executives may adopt an indifferent attitude towards work in the post downsizing period. In a study conducted in an Australian bank by professor Stephen Deery, it was found that quality of customer service was better at banks which gave more autonomy to its employees, and where decision making was decentralized and work stress was low. In the post downsizing scenario it was noticed that these attributes at work place were considerably lower and there was greater frustration and absenteeism among the retained employees. Eventually the cost saving due to downsizing was offset by the decrease in employee motivation, job satisfaction and the subsequent decrease in productivity.

CONCEPT OF TURNOVER

The rate at which the employees join and leave an organization is called turnover. Employee turnover is defined as, "the rate of change in the working staff of a concern during a definite period."

There are a number of costs involved when there is a high turnover of employees.

- Hiring costs - The costs incurred in hiring new employees.
- Training costs - The costs incurred in training new employees.
- Loss of production and man hours during the period of absence of employee

Turnover can be categorized as functional or dysfunctional. This concept of turnover being functional or dysfunctional forms the basis for retaining or laying off employees. Turnover which is beneficial to the organization is called functional turnover and which is not beneficial or unfavorable for the organization is called dysfunctional turnover.

Employees leave an organization for various reasons. In the process, employees who contribute to the organization in a significant way may also leave. It is important that the organization retains these employees.

Martin Bartol Matrix

The matrix proposed by Kathryn Bartol and David Martin can be used for managing turnover. (See Exhibit 13.5). Martin and Bartol's matrix takes performance of the employee on the vertical axis and replaceability on horizontal axis. Further, they split performance into high, average and low; and replaceability into easy and difficult.

Employees are retained or laid off depending on whether their turnover is functional or dysfunctional. When the turnover is dysfunctional or unfavorable for the organization, every effort will be made to retain a particular employee and when the turnover is functional or helpful, then the services of the employee will be terminated or he will counseled to improve his performance. Whatever be the reason, it is very important to develop a second line of employees who are adept at handling the responsibilities of the separating employees.

Exhibit 13.5

The Performance - Replaceability Strategy Matrix

		Replaceability	
		Difficult	Easy
PERFORMANCE	High	High performers – difficult to replace, highly dysfunctional turnover retain / invest in employees; develop backups	High performers – easy to replace; dysfunctional turnover Retain / invest in employee
	Average	Average performers – difficult to replace, dysfunctional turnover Retain / provide performance incentives, develop backups	Average performers – easy to replace; Dysfunctional turnover if replacement costs are high Retain / provide performance incentives
	Low	Poor performers – difficult to replace; short-term dysfunctional / long term functional turnover.	Poor performers – easy to replace; functional turnover Improve performance / terminate

Source: Jeffrey Mello, Strategic Human Resource Management (South-Western Publishing).

As is evident from the matrix, different strategies are employed for different types of employees depending on their performance.

In case of high performance employees, organizations should use retention strategies in the form of better pay or scope for advancement such promotions, training facilities etc.

In case of employees whose performance is average, the organization should encourage and motivate them through counseling and also offer them incentives to improve their performance.

In case of employees whose performance is low or below average, organization should initially try to encourage and motivate them. If there is no improvement in performance over a period of time, they should be sacked.

In terms of replaceability of employees, it can be easy or difficult depending on the skills needed for doing the work or the nature of job itself. They can adopt the job rotation and job enrichment techniques to build a second line of employees to replace separated employees. Overall, the focus should be on managing dysfunctional turnover with appropriate retention strategies.

DOWNSIZING VERSUS OUTSOURCING

Firms have started outsourcing many of their peripheral activities to service providers for two reasons.

- Service providers offer their services at lower cost than one which the organization would have borne for the same activity.
- Service providers have become specialists in activities within their domain. Hence, their work may be qualitatively superior to the work done by the organization.

Downsizing – the Dilemma

Often, organizations are caught in a dilemma, as to reduce manpower or not. There must be a sound rationale and a common sense approach adopted in downsizing. Above all, the interests of employees who will be retained as well as those who will be laid-off should be safeguarded.

During the process, the need for downsizing and its benefits should be explained to employees. Every step should be taken to see that the downsizing effort does not disrupt the work in organization. The employees who are retained should be assured of job security so that they remain motivated. Downsizing is successful when it is proactive and is done for achieving better alignment between HR activities and overall organizational strategies.

SUMMARY

Employee layoffs and downsizing have taken their toll on the job market all over the world. In the last few years, companies have downsized many times owing to various environmental changes and the subsequent slump in the major economies of the world. Layoffs are separations initiated by the employer. Separations can also be initiated by employees for monetary and non-monetary reasons. Employees also retire over a period of time owing to age. In this situation, employee separation if managed properly can bring great value to the organization. The need is to devise strategies for retaining productive employees while removing the unproductive ones. Employee layoffs to reduce costs are not always the best option. They have to be initiated within the context of a broader organizational strategy. Layoffs affect not only the organization but also the economy and society as a whole. The Martin and Bartol matrix is a good tool for identifying functional and dysfunctional turnover. It also helps in identifying and retaining productive employees. Firms should have clear objectives and understandable reasons for downsizing, backed up by an effective process for downsizing that creates a win-win situation for both the employer and the employees.

Section IV
Emerging Trends and Challenges for HR

Chapter 14

Knowledge Management and Human Resources

In this chapter we will discuss:

- Characteristics of a Knowledge Organization
- Relationship Between Knowledge Management and HR
- Importance of Intellectual Capital
- Managing Intellectual Capital
- Role of the Knowledge Manager

Knowledge Management is a fairly modern concept. It refers to an enterprise that consciously and comprehensively gathers, organizes, shares and analyzes its knowledge to achieve its goals. Therefore, a company needs to identify areas where sharing of knowledge and best practices can help improve performance.

Knowledge Management has gained in importance because companies have discovered that people, their skills and knowledge are essential to gain competitive advantage.

According to Amrit Tiwana in his Knowledge Management Toolkit, "In the context of business, Knowledge Management is all about enabling the creation, communication and application of all kinds of knowledge to achieve business goals."

Knowledge Management has become a major competitive tool for the present day organizations. KM is the acquisition and use of resources to create an environment in which information is accessible to individuals and in which individuals acquire, share and use that information to develop their own knowledge. Further employees are encouraged and enabled to apply their knowledge for the benefit of the organization.

CHARACTERISTICS OF A KNOWLEDGE ORGANIZATION

Companies that are knowledge friendly know that knowledge is one of the important asset and a core competency for moving ahead. Dibella and Gould[i] have identified three characteristics that differentiate a knowledge organization from others. They are

Leveraged Core Competencies: Knowledge organizations invest in developing knowledge in the key areas of core competency such as the process of product development or improving customer satisfaction.

Continuous Improvement of the Value Chain: Knowledge organizations emphasize on continuous learning. British Petroleum (BP) has a worldwide reputation for commitment to Knowledge Management. BP's Knowledge Management has a simple framework, which describes a learning cycle – before, during and after any event – supported by simple process tools. Lessons from that learning loop are distilled by a community of practice that can include peers across the organization who have a stake in agreeing and defining BP's best practice. Finally, both specific and generic lessons are incorporated into "Knowledge Assets" on the corporate intranet. Walmart is another example of a company that believes in continuous learning of its employees. It effectively leveraged knowledge between suppliers and stores.

Ability to Adopt New Techniques: Another factor that distinguishes a Knowledge Management company from other companies is its ability to adapt to the changes. One example is that of Barnes & Noble, which started selling books on the Internet as it had to counter the competition from Amazon.com. Apart from the regular stores, it started to sell on the Net.

Apart from the above-mentioned characteristics, a Knowledge Management organization requires certain other characteristics to succeed. They are

- A focus on the metrics that measure knowledge assets. Incorporating these metrics into the organization to form an effective Knowledge Management strategy.
- A corporate culture that supports Knowledge Management. Technology cannot leverage knowledge successfully in the absence of a supportive corporate culture.
- Ideas and methods suggested by employees at all levels of the hierarchy should be taken into consideration. Further, these ideas and their knowledge management systems should be tested.

- A focus on organizational goals. The company's Knowledge Management strategy should be tied with the business strategy.
- Any Knowledge Management strategy begins with analyzing what a company has and then leveraging the existing knowledge.

RELATIONSHIP BETWEEN KNOWLEDGE MANAGEMENT AND HR

HR and Knowledge Management are related to one another and their interaction plays an important role in an organization. Most organizations do not effectively utilize HR's contribution for the effective implementation of Knowledge Management. Knowledge Management is inextricably linked with fostering innovation and creativity in the workplace. Knowledge Management calls for relationships and sharing. This is possible if employees are recruited, selected and trained to work in a collaborative work environment that encourages creativity and innovation. Emphasis on knowledge, skills and creativity, sharing information, all have an impact on HR's role in Knowledge Management. HR plays an important role in motivating people to work towards a knowledge organization. If people are managed effectively and their knowledge utilized efficiently, then it can become a competitive advantage. Technology and investments in information systems, intranets and electronic commerce will be fruitful if people are actively involved in knowledge sharing. The different areas of HR which help in effective knowledge sharing are:

Reward Systems

The first and most obvious area of HR involvement in Knowledge Management is reward management. An organization that plans to implement knowledge sharing should recognize and reward the acquisition, sharing and utilization of information. The pay system should also be effectively designed so that it motivates employees to personally improve Knowledge Management in the organization. An effective reward management system should incorporate both pay and non-pay reward systems. Non pay reward systems can be in the form of thanking employees who contribute to the company intranet by sending them e-mails. Designing the non-pay elements of the reward system involves reviewing how people are managed on a day-to-day basis, as well as developing formal and informal schemes for recognizing people's ideas and contributions. For maximum participation of employees in a knowledge environment, the reward strategy needs to be developed in consultation with those for whom it is intended. The reward system should be so designed that it encourages the sharing of information and expertise. In a knowledge environment, a mixture of short-term and long term rewards is necessary. Short-term rewards can be in the form of bonuses and the long term rewards in the form of retirement schemes. Short-term rewards will have an immediate impact and satisfaction to knowledge workers, while long term rewards foster greater commitment to the organization. To promote and publicize Knowledge Management initiative internally, companies have adopted several methods. Wipro Infotech for instance has a `saint and thief’ award concept, under which both the saint (person who contributes the maximum knowledge) and the thief (the one who steals the most from the knowledge repository and deploys them) are rewarded.

Recruitment, Retention and Succession Planning

Recruitment, retention and succession planning from a Knowledge Management perspective can be looked at as filling knowledge gaps. Knowledge Management can lead to a more flexible recruitment process. Focusing on people to be recruited and knowledge gaps to be bridged rather than job slots to be filled can lead to a more flexible recruitment process. Flexibility here means selecting employees who are more creative and innovative and can adapt themselves to the changing work environment.

However, if sophisticated selection procedures are used for example, personality and aptitude testing than comparative norms should be used with caution. This is particularly important if procedures are based on internal data and designed to achieve cultural fit. Such an approach can easily rule out more creative and innovative individuals, to the detriment of effective knowledge management which seeks to encourage precisely these attributes. HR policies and practices should be designed in such a way that they allow individuals to meet their personal aspirations. This is most important to retain good employees.

Succession-planning in a knowledge environment is less about filling posts and more about planning to meet future skills and knowledge needs with existing resources.

Training and Development

HR's involvement and its contribution is perhaps the greatest in training and development. However, this area involves a wider, more strategic perspective. Much has been written on developing strategies to create and develop learning organizations, and methodologies that can be adopted to foster innovation. Surprisingly despite the extensive literature, a number of organizations still do not have a documented training strategy.

Managers in a knowledge environment need to foster innovation and creativity and help employees manage their own learning and development. HR should get itself actively involved in the technological developments in the workplace as they can train the employees accordingly.

A training methodology can also be used effectively within an organization to develop team-working at all levels. Training is necessary for individuals to work in teams as cooperation and sharing of information brings in benefits for the whole organization.

Knowledge Management and Organizational Culture

Knowledge Management has profound implications for organizational culture, because it is the culture that helps to bridge the gap between the provision of technology and information and the effective use for the benefit of the organization by individual knowledge workers.

A culture conducive to Knowledge Management is likely to value:

- Respect for individuals
- Creativity and innovation
- Trust and cooperation
- Sharing of ideas and information
- Effective systems and procedures
- Continuous learning and development

Some organizations are caught in inter-departmental power battles where knowledge is seen as power, and not something to be shared which is why they have not managed to shift to a culture which is fundamentally based on trust and sharing. Similarly, the level, or handling, of change in some organizations has created an environment where many employees feel insecure, and so trust is lost.

Building a culture for Knowledge Management on these values will require changes in systems and processes, and a way of doing things which both transmits the organizational culture to new employees and reinforces it to old employees. As with any change situation, conflicts can arise. This is where HR can contribute to the development of the Knowledge Management culture by handling such conflicts.

In a knowledge-based economy, managers become more of facilitators rather than controllers. They will have the support of HR in making this transition. HR will assume a more flexible role as a result of changing roles of business.

IMPORTANCE OF INTELLECTUAL CAPITAL

Intellectual capital of a company includes employee expertise, unique organizational systems and intellectual property. Simply put, intellectual capital is knowledge. While intellectual property means trademarks, patents and copyrights, intellectual capital is the collective knowledge in the organization. The knowledge a company's employees have about its products and services and about its organizational systems and intellectual property make up its intellectual capital. Managing intellectual capital requires corporate executives to measure performance with more strategic initiatives such as capturing knowledge in expert systems and quantifying its value to the company.

Elements of Intellectual Capital

Intellectual capital involves three elements. They are

- Human Capital
- Structural Capital
- Customer Capital

Human capital

Human capital refers to the employees' capabilities, skills and expertise. Human capital, is the accumulated capabilities of individuals working towards organizational goals. Some of the key functions tied to human capital management are drawn from the traditional practices of human resource management. They include:

- Building an inventory of employee competencies
- Scanning the environment and determining competencies which need to be developed to meet strategic objectives
- Developing a system to deliver the needed knowledge, skill.
- Developing an evaluation and reward system which is tied to the acquisition and application of competency that is in line with organizational strategic objectives.

Customer capital

Customer capital refers to the extent and intensity of the organization's relationship with customers. Customer capital includes customer loyalty, goodwill and supplier relations. Various techniques and analysis tools have been developed to understand the value of customers and their perceptions better.

Quality profiles are developed with the help of customer questionnaires to identify what quality really means to the customer; benchmarking each competitor on every aspect of quality; developing overall quality performance measures, all based on the customers definition of quality which decides their purchase. Customer value maps illustrate how a customer decides from among competing suppliers and products. They contain information on which companies might be expected to gain market share.

Structural capital

Structural capital refers to the organizations' capabilities to meet market requirements. Unlike human capital, structural capital can be formally captured and embedded. Also referred to as the organizational capital, it includes capabilities developed to meet market requirements such as patents. While it is impossible to have an all encompassing framework for managing the organizational (structural) capital of the firm, value chain analysis gives a systematic approach to the subject.

Value chain analysis is to identify the elements of organizational processes and activities and link them to the creation of value. Processes are structured and measured sets of activities that are designed to produce a specific output for a particular customer or market. To identify the firm's value creating processes, the way in which knowledge is created, transformed and utilized a model is first established using process analysis and the activities within each process are subsequently analyzed. In this way the management can assess the flow of information, the flow of knowledge and knowledge transformation between functional departments, within divisions, and throughout the organization. The end product of the Knowledge Management process can be then valued as (1) a patent, a consulting process, or a trademark; (2) an improvement in organizational efficiency that can be measured by cost savings, profits, revenue growth, return on investment etc; and (3) improved capabilities of the firm, measured by individual and team-based indicators of performance.

MANAGING INTELLECTUAL CAPITAL

The growing demand for knowledge-based products and services has changed the structure of the global economy. The role of knowledge in achieving competitive advantage has gained in importance. It is important for companies to manage intellectual capital effectively.

Promoting Knowledge Sharing

It is the stage of disseminating and sharing of knowledge in an organization. Collaborative work environments help in sharing knowledge effectively. Collaborative problem solving, teamwork and brain storming sessions help disseminate knowledge. Technological support makes knowledge sharing and utilization effective. For example knowledge sharing at the World Bank is done with the help of knowledge sharing coordinators such as knowledge managers, coordinators, and advisors and a small coordination unit - the Knowledge Sharing Group. The Knowledge Sharing Group meets at least once in a month to ensure that programs, systems, and human resources create an environment conducive to knowledge sharing and learning.

Implementing technological systems

The role of technology has broadened the reach of knowledge acquisition and transfer. Its primary role in Knowledge Management is that of storing and transferring knowledge. Exhibit 14.1 shows how TCS has aligned technology and knowledge management. The World Wide Web and the Internet have increased the power of technology in organizations. The reasons for growing importance of the Internet are:

- The Internet is cost effective than leased networks.
- Using the Internet companies can connect to anyplace, anywhere. This is especially for companies that operate in a number of countries.
- Resources and databases that are distributed can be connected in a cost effective and reliable manner which can help customize to regional preferences.

Exhibit 14.1

KM - The TCS Way

Tata Consultancy Services introduced KM as a concept in 1995. The management initiated the process of defining the framework in 1996 and a dedicated KM team called "Corporate GroupWare" was formed in 1998. After a preliminary study, this group launched the KM pilot in mid 1999.

The KM implementation team is a matrix of several groups: the steering committee, corporate GroupWare Implementers, branch champions, application owners and the infrastructure support group.

Today, KM in TCS covers nearly every component of operation, from quality assurance to HR management. The offices are linked through dedicated communication links across its 50 offices in India, clustered in about eight regions. The communication network is connected in a two tier architecture. Backbone nodes are connected through 2 Mbps/64 kbps links, while the intra-city nodes are connected through a minimum of 64 Kbps links. Overseas offices are connected through the net and the Lotus Notes Domino Servers.

The knowledge repository resides on the corporate and branch servers. As a TCS employee, one can access the knowledge repository through the TCS intranet, with a browser front end or a Notes Client. Once an employee is into the intranet, he could branch off to the knowledge domain he is interested in. Over 8000 employees have access to the intranet. The Knowledge Bases contain information in areas such as processes, line of business/line of technology and projects.

Adapted from Kavitha Kaur, 'Give and Take' Computers-Today, January 16-31, 2000.

Technological components that tie together the Knowledge Management system of a firm can be divided into:

- Knowledge flow meta component
- Information Mapping Meta Component
- Information source meta component
- Information and Knowledge Exchange Meta Component
- Intelligent Agent/ Network Mining Meta Map

Knowledge Flow Meta Component: It includes components that enable the flow of information in the organization. GroupWare, Intranets and extranets help knowledge flow through an organization. Organizations use techniques such as brainstorming sessions, problem solving, idea generation etc for knowledge sharing. Groupware supports such a collaborative work environment. Groupware is a class of software that helps employees to connect to local area network to organize their activities. It is also called work group productivity software. Typically, groupware supports the following operations:

- Scheduling meetings and allocating resources
- E-mail
- Password protection for documents
- Telephone utilities
- Electronic newsletters
- File distribution

Intranets and extranets are useful for providing internal and external information to a firm. Companies need to find effective ways to distribute information. Intranets are useful in improving the overall knowledge flow in the organization. Extranets help companies tap information from their allies and the knowledge-based resources of their partners.

Information Mapping Meta Component: It maps the path of the origins and destinations influencing information. It deals with context, information distribution channels and external network paths that form the information-mapping component. Document management is an important aspect of the information mapping meta component. In general document management, is the automated control of electronic documents right from creating to archiving. Electronic documents can include any kind of digital object bitmap images, HTML files, SGML, PDF, graphics, spreadsheets, and word-processed documents. Document management allows organizations to exert control over the production, storage, management, and distribution of electronic documents leading to greater efficiency in the ability to reuse information. It consists of converting information into a easily transferable and searchable format.

Information Source Meta Component: Consists of components that provide information to the Knowledge Management system. These include distributed search and retrieval mechanisms, multimedia content and project management tools. A good example of a project management tool is the Microsoft Project that provides organizations with tools for storing and organizing data. Project management tools help users link the resources they use to the project management data.

Information and Knowledge Exchange Meta Component: Consists of tools that allow people and systems to exchange, share and transfer explicit and tacit knowledge. The sub components of knowledge exchange meta component are messaging integrators, Internet conferencing systems, video conferencing, etc.

Intelligent Agent Mining Meta Component: Includes sub components such as search engines, content mining and automatic indexing. This component allows synchronous and asynchronous searches to be performed. Synchronous means occurring at regular intervals. Most communication between computers and devices is asynchronous it can occur at any time and at irregular intervals. However, communication within a computer, is usually synchronous and is governed by the microprocessor clock. Meta information provides insights into the kind of information users, types of data and information being accessed and information repositories accessed most frequently. A Knowledge Management system can be implemented effectively if it is leveraged with existing technology tools and information resources. Knowledge servers can be used to integrate significant data spread across the enterprise. Knowledge servers help in smooth integration of knowledge across multiple enterprises.

Measuring the intellectual capital

It is important for any organization to choose the right kind of techniques for measuring intellectual capital. A wrong choice can lead to incorrect performance results. Right metrics can help evaluate the performance of an organization. Organizations need to focus on metrics that can help evaluate the past, present and future performance of a company. Most metrics usually focus only on past performance and ignore the strategic view point of an organization. The following are some of the traditional and the present day techniques of measuring intellectual capital.

Exhibit 14.2 shows how new methods of measuring intellectual capital are being applied by companies. Traditional measures of Knowledge Management include Tobin's q and ROI. Tobin's q was developed by the Nobel-winning economist, James Tobin, to predict investment behavior. Tobin's q measures the ratio of a firm's market valuation to the cost of replacing its physical assets. It uses the value of replacement costs of the company's assets to predict the investment decisions of the firm, independent of interest rates. `q' is the ratio of the market value of the firm (share price multiplied by number of shares) to the replacement cost of its assets. If the replacement cost of a company's assets is lower than its market value, then the company is getting monopoly returns, or higher-than-normal returns on its investment. The disadvantage of this method is that it does not guide the Knowledge Management

Exhibit 14.2

Value Reporting: The 'in Thing'

Traditional corporate reporting practices are inadequate and dangerous in the new economy. They are inadequate because they do not capture the non financial measures and intangible assets that now drive value. Many companies possess intangible assets today- like an outstanding workforce, a commanding market share or instant brand recognition- that provide value far in excess of their intangible assets. Certainly, the market recognizes these "soft" assets and factors them into projections of cash flow and then prices shares accordingly. But because the kind of information that companies regularly report simply do not serve today's investors well in their value and cash flow estimations. These estimations are widely subjected to speculations and assumptions.

"The Value Reporting Revolution", designed by a former Harvard Business School Professor and three accountants at PricewaterhouseCoopers, have called in for a new approach in corporate reporting. Traditional financial statements, designed to the requirements of the industrial age, have lagged far behind with the evolution of the knowledge and intangibles based networked economy. In order to decide whether or not a company is a good investment, analysis and investment professionals need to know as much as possible about the company's tangible and intangible assets, as well as a variety of critical performance measures. This is a new type of "value reporting" which not only provides outside parties like investors but also other corporate stakeholders with more transparency about how a company is performing, will also help corporate executives to get out of the never ending and highly dysfunctional earning game focussed on short-term earnings, which in reality says very little about the future stock price performance. The author's remedy is therefore a disclosure of more and better information. The value reporting approach calls on corporate executives to provide more, rather than less, of the kind of information they use to create value. It urges investors to demand that companies do this. It urges board of directors to make sure it gets done. And it puts accounting firms and security analysts to become a part of the solution rather than a part of the problem.

The "Value Reporting revolution" clearly explains why corporations must move towards greater transparency and more importantly it provides a comprehensive framework for achieving the goal. Among other important lessons, readers learn how to identify the gaps between disclosure practices and the market perception of these practices. By using internal performance tools such as the balanced score card for external reporting, companies can focus more clearly on creating value.

Source: ICFAI Research Center

strategy framework.

Other methods of measuring intellectual capital in an organization are:

Benchmarking: It is the process of identifying the things companies do the best. It means setting standards for performance. Benchmarking can bring about an improvement in the overall productivity, service quality, customer satisfaction, distribution, etc. The benchmarking process can be useful for self comparisons. M J Spendolini[ii] has suggested a five step process for benchmarking which include:

- Determining what to benchmark, whether it is the Knowledge processes or products and the scope of benchmarks and identifying reasons for benchmarking.
- Identifying a benchmarking team, customers involved and the allocated budget.
- Analyzing benchmarking targets and partners.

- Collecting and analyzing the data relevant metrics for Benchmarking, and finally;
- Getting the required feedback and incorporating changes.

Balanced Scorecard: This method supplements traditional financial measures with three additional perspectives - customers, internal business processes, and learning and growth perspectives. This method originally developed by Robert Kaplan and David Norton of the Harvard Business School. Chapter 8 discusses the balanced score card in detail.

Skandia's IC Index: Skandia, a Swedish company has used a technique called the Intellectual Capital (IC) Index to try and track the flow of intellectual capital over time Refer Exhibit 14.3). Skandia first developed its IC report internally in 1985, and in 1994 became the first company to issue an IC addendum accompanying its traditional financial report to shareholders. It aims to provide managers with an indicator of change, and external analysts with a quantitative measure of company performance. The IC-Index has several distinct features as it takes into account performance in the past. The chief architect behind Skandia's initiatives, Leif Edvinsson developed a dynamic and holistic IC reporting model called the Navigator which had five areas of focus: financial, customer, process, renewal and development and human capital. According to Skandia's model, the hidden factors of human and structural capital when added together, form intellectual capital.

Exhibit 14.3

Skandia's Reporting Model

Skandia a Stockholm based company employs approximately 11000 people worldwide. Its reporting model, Navigator, is designed to provide a balanced picture of the financial and intellectual capital. The Navigator looks at how human capital, combined with customer capital, internal processes and the company's capacity for innovation creates financial value for the company. Used as a business planning model, the Navigator provides a big picture perspective on the company's past (financial focus), its present (customer focus, process focus and human focus) and its future (renewal and development focus). With the help of Navigator, Skandia breaks down the vision and objectives of the company into more concrete factors and then measures these factor at the individual level, group level, business level and corporate level.

The Navigator focuses on financial results, capital and monetory flows is complemented by a description of intellectual capital and its development. At Skandia intellectual capital ratios are grouped into five major focus areas. They are customer focus, process focus, human focus, renewal and development focus and financial focus. Within each of these focus areas Skandia reports on its accumulation and use of tangible results. The financial focus report contains details about traditional return based efficiency and effectiveness metrics, whereas the customer focus report lists metrics about customer satisfaction and unit growth. The process focus report focuses on details about efficiency and outputs/savings per employee. The renewal and development focus report contains details of return business and seeds of future growth. The human focus report gives information pertaining to employees loyalty, skills and competencies. Thus, the Navigator provides a balanced type of accounting and reporting results to transform intellectual capital into financial capital. The specific ratios compiled from the measurements then act as leading indicators.

Source: Amit Singh Sisodia, "Skandia Reporting Model: Accounting for Intangibles", Chartered Financial Analyst, October 2001.

ROLE OF THE KNOWLEDGE MANAGER

A Knowledge Management initiative requires a leader who can implement a successful Knowledge Management program in the organization. Here comes the role of the chief knowledge officer (CKO) who can make Knowledge Management an integral part of daily work. The main functions of a CKO are:

Promoting KM: The CKO should educate the employees about the advantages of the KM system and how it can be useful in sharing knowledge. To motivate employees, knowledge objectives should be linked to individual objectives like compensation and rewards. The top management should be educated about the importance of Knowledge Management. The participation of the management will make knowledge management successful.

Mapping existing knowledge is crucial to the successful implementation of a Knowledge Management program. This involves the bringing together of scattered knowledge and technology.

The chief knowledge officer also has to create suitable technology channels that help share knowledge. Technology channels have to be determined keeping the organizational culture and goals in mind.

Knowledge Management systems must be built to support business processes that affect the bottom line of th organization. One of the important tasks of a CKO is to convince employees and the top management about the value of Knowledge Management. The management should be convinced about the financial implications that KM can have on an organization, whereas employees will have to be convinced that KM will not be an added burden to them. Management and employees have to be brought together for successful implementation of the Knowledge Management program. The CKO should also collaborate with core group that includes IT and human resource departments.

In order to implement a KM program successfully, a CKO has to build successful organizational and technical capabilities. On the organizational front the tasks of the CKO are:

- Identify knowledge gaps and assess how they can be bridged.
- Build an organizational culture for knowledge sharing that involves all employees in the process of knowledge sharing.
- Create appropriate measurement criteria to evaluate the Knowledge Management programs in the organization. These measurement standards also help in rewarding employees who share the best practices.
- Familiarize employees with the best practices in Knowledge Management and how they can increase their productivity.
- Educate employees about the KM systems and protocols.
- Remove socio-cultural barriers that inhibit the sharing of knowledge, so that knowledge can be transferred, used and distributed effectively.
- Improve the level of existing knowledge by identifying areas of performance and areas that need improvement.

The technological initiatives that a CKO should take up include:

- Build enterprise-wide channels for communication.
- Develop an effective Intranet through which employees can share knowledge.
- Encourage teamwork and a collaborative work environment that can help in collaborative problem solving.
- Support employees with technical help and introduce them to technologies like telepresence, telecommuting etc.
- Introduce cross functional tools that can help teams from different functional areas to collaborate.

Apart from technical skills and thorough knowledge of the technical aspects of KM, a CKO also should be an effective manager who can understand the functioning of the organization. This is essential to effectively design a KM process. The compensation and performance management systems should be so designed that it helps employees to share effectively what they know.

Trust and cooperation from the employees is absolutely essential for successful implementation of a KM system. While implementing a KM system, every employee should know his importance in knowledge sharing and of collaborating with other members of the organization.

Intellectual capital can influence and be influenced by the unique culture of the organization and the distinct processes and relationships that are present in it.

SUMMARY

With the growing importance of intellectual assets managing knowledge effectively has become crucial to organizations. The chapter talks about the importance Knowledge Management has gained in modern day organizations. The role of HR in Knowledge Management can be discussed on the basis of reward systems, recruitment and succession planning, training and development. Organization culture also plays an important role in effective Knowledge Management. Importance of intellectual capital can be discussed with particular emphasis on three elements. They are

- Human capital which is the capabilities, skills and expertise of employees in an organization.
- Structural capital which is the capabilities of the organization to meet market requirements and
- Customer Capital which is the extent and intensity of the organization's relationship with customers.

For effective management of intellectual capital there is a need to promote knowledge sharing and implement technological systems. To know whether Knowledge Management systems are performing as per the expected standards, there is a need for metrics. Organizations need to consider the role of the Chief Knowledge Officer in implementing a knowledge management system effectively. Right metrics can help evaluate the performance of an organization. Traditional measures of knowledge management include Tobin's q and ROI. Other methods of measuring intellectual capital in an organization are benchmarking, balanced scorecard and Skandia's IC Index. The IC Index has several distinct features as it takes into account performance in the past.

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[1]Understanding organizations as learning systems Sloan Management Review, Winter95, Vol. 36 Issue 2, p73, 134

iiSpendolini, M. J. (1992). The benchmarking book. New York: American Management Association.

Chapter 15

International Human Resource Management

In this chapter we will discuss:

- Introduction to International Human Resource Management
- Approaches to IHRM
- Managing Culture and Diversity
- Forces Contributing to Diverse Workforce
- Dimensions of Diversity
- Diversity Processes
- Strategic Issues in Managing a Diverse Workforce
- Challenges and Emerging Issues in IHRM

General Electric (GE) is one of the few companies in the world that has set high standards in its human resources in all its domestic and international operations. When GE acquired the Hungarian lighting company Tungsram in 1994 it initiated transfer and training programs on a large scale so that the Hungarian employees and their US counterparts could understand each other better. The company gave extra impetus to employee education and training and started quality management programs to improve the quality of the output. As a result, GE was able to increase its market share from 4% to 15% in a period of five years although it reduced its workforce by half in the same period.

INTRODUCTION TO INTERNATIONAL HUMAN RESOURCE MANAGEMENT

P.V.Morgan defines International Human Resource Management (IHRM) as "the interplay among three dimensions – human resource activities, types of employees and countries of operation." A broad view of domestic and international HRM reveals that they are similar in all aspects. The functions of a domestic HR manager are similar to that of a HR manager of a multinational corporation except that the latter has to manage employees from different nationalities and ethnic backgrounds. This difference in managing people of different nationalities has led to the development of various IHRM approaches.

We shall analyze Morgan's definition of IHRM and its elements individually.

Human resource activities

The human resource activities can be broadly divided into:

- Acquiring human resources through recruitment and selection.
- Maintaining human resources through planning, staffing, compensation and labor relations.
- Developing human resources through performance management and training and development.

Types of employees

There are three types of employees:

- Host country nationals
- Parent country nationals
- Third country nationals

Host country nationals are employees who are from the country in which the MNC operates. For example, an Indian working for IBM (a US-based company) in India is a host country national.

Parent country nationals are employees who are from the parent country of the company. (See Exhibit 15.1) For example, if a US citizen works for IBM in India then he is a parent country national.

Third country nationals are employees who neither belong to the parent country of the company nor the host country. For example, an Indian working for IBM in UK is a third country national.

Countries of operations

The country in which the company operates has its own rules, regulations, laws, culture, traditions etc. All these factors need to be considered before starting operations in another country. The countries can be categorized into:

Exhibit 15.1

Citibank – Depending on Parent Country Nationals

Multinational banks, oil companies and construction companies mostly prefer parent country nationals (PCNs) to manage their operations in their foreign subsidiaries. Citibank (a US based bank) is no exception. One of the worlds largest banks, Citibank, is known for recruiting parent country nationals. This was evident when they started their operations in Australia. It sent one of its senior HR managers to survey the Australian labor markets for people with specific banking skills. After surveying for a year, it found that the banking skills it was looking for were not available in the Australian market as the Australian banking system was different from that of the US. So the bank decided to recruit people from the US to manage its operations in Australia. Over a period of time these parent country nationals would train the host country nationals who would later take up the role of the PCNs.

Source: Dowling, Welch, and Schuler, International Human Resource Management (Southwestern Publications, Third Edition)

Host country – The country in which an MNC starts its operations. e.g. An American MNC starting its operations in Japan.

Home country - It's the parent country or usually the country in which the headquarters of the MNC is located.

Other country – Countries other than the host and home countries.

Having discussed the definition, we shall now discuss the various approaches to managing human resources in an international environment.

APPROACHES TO IHRM

For studying HRM at an international level, different organizations adopt different approaches. Some of these approaches are

- **Ethnocentric approach** - organization favors the home country rather than the host country in most aspects.
- **Polycentric approach** - organization favors the host country rather than the home country.
- **Regiocentric approach** - organization favors development of a particular region rather than home or host countries.
- **Geocentric approach** – organization does not favor any region or country but views the whole world as unified market.

These approaches are discussed in Table 15.1

Factors Affecting the Approach to IHRM

MNCs adopt different approaches to IHRM depending upon the host country's work culture, political policies, legal regulations etc. The factors that affect the approaches to IHRM can be divided mainly into four types:

- Political policies and legal regulations of the host country
- Technology and the nature of the product
- Organizational life cycle
- Level of education and technological advancement of the host country

Table 15.1: Approaches to IHRM

Organizational Aspects	Ethnocentric Approach	Polycentric Approach	Regiocentric Approach	Geocentric Approach
HR-policies, procedures.	They are taken as they are prevalent in the organization in the parent country	Policies and procedures are framed considering the host country	Policies and procedures are framed considering the region in which a subsidiary operates	A broad approach is adapted for forming policies and procedures. They are applicable to the subsidiaries of the companies across the world.
Staffing	People are recruited from the parent country	People are recruited from the host country	People are recruited from the region in which the subsidiary operates	People are recruited from all over the world irrespective of country or region.
Control	The control is with the headquarters in the parent country	The control is with the subsidiaries	A regional subsidiary has control over local subsidiaries	It is shared between the parent company and subsidiaries

Source: Kossek and Block, Managing Human Resources in 21st century,(South-western Publications)

Political policies and legal regulations of the host country

MNCs have to follow the rules and regulations of the host country when they start a subsidiary. If an MNC adopts an ethnocentric approach to manage its human resources, then it may try to recruit manpower from the parent country but if the host country has restrictions on hiring people from its own country, then they have to recruit host country nationals or third country nationals. Host countries, usually, impose such restrictions so that the people of their country get employment opportunities. Also, the training and development provided by the MNC improves the quality of workforce in the host country. These kind of legal restrictions are mostly seen in developing countries because the governments view MNCs as vehicles for the country's development.

Technology and nature of the product

The approach adopted by MNC differs depending upon the technological inputs needed by the product during various stages of its development. In case the product is highly technology dependent and requires great degree of quality control, then it adopts an ethnocentric approach. This approach is advisable because the MNC can use the technical expertise which it has developed in its parent country to maintain the quality and standards in the subsidiary. On the other hand, products which are to be customized keeping in mind the taste of local people, needs a polycentric approach.

Organizational life cycle

The organizational life cycle consists of four stages. They are:

- Initiation stage
- Functional growth stage

- Controlled growth stage
- Strategic growth stage

An organization adopts different approaches depending upon the stage.

Initiation stage

In the initiation stage, organizations again opt for an ethnocentric approach. There is a high degree of control over the subsidiary and all its operations are closely monitored. The subsidiary limits its operations as the focus is to establish itself in the host country's market.

Functional growth stage

A polycentric approach is adopted in the functional growth stage. The organizational operations become extensive. The organizations open a number of subsidiaries and the local headquarters is in-charge of the operations while the home country headquarters assumes a more strategic role.

Controlled growth stage

In the controlled growth stage, organizations adopt a regiocentric approach. The focus is to cut costs and enhance productivity. The idea is to integrate businesses at a regional and domestic level and to attain economies of scale. The regiocentric approach is a step towards adopting a geocentric approach.

Strategic growth stage

In this stage an organization becomes a global player as it has established subsidiaries in a number of countries. It faces stiff competition from domestic and international firms. To consolidate its position it establishes joint ventures and strategic alliances. A geocentric approach is adopted so that the domestic and international operations are integrated in terms of product development, marketing and distribution.

Level of education and technological advancement of host country

When an organization plans to open a subsidiary in a developing country, it has to look at the availability of skilled and unskilled labor in that country and also at the country's educational system and the technological advancement. It is generally believed that the quality of education in a country is reflected in the quality of its workforce. A good technical and management education system helps in better planning of human resources. This in turn helps the management to adopt the right approach to IHRM. For example, an MNC opening a subsidiary in a backward country needs to invest more in training and development as the host country nationals may not be highly skilled.

MANAGING CULTURE AND DIVERSITY

Managing Culture

Organizational culture is defined as “the set of shared values, beliefs, habits of thought which interact with the structure, politics and policies of the organization to produce a set of behavioral norms.” It can be seen as the behavioral norms of an organization that emerge from the interaction of its structure, politics and policies with the shared values, beliefs, habits of thought of the individuals and groups within it. These individuals and groups are influenced by many factors including national or regional cultures, professional or institutional cultures and functional or divisional cultures.

In case of MNCs, organizational culture assumes greater importance because it has to strike a balance between the culture in its home country and the host country. Quite often differences in culture leads to disruption of work. If there are many cultural differences, then the MNC may find it difficult to implement uniform practices in all its subsidiaries all over the world. For example, Japanese firms tend to adopt an ethnocentric approach and employ many Japanese people in their Asian subsidiaries. This is because Japanese firms do not find it difficult to adapt to the culture in the Asian subsidiaries unlike the European and American firms. When an MNC sets up a number of subsidiaries in different countries, it has to adopt a polycentric and regiocentric approach so that its policies and procedures are in line with the rules and regulations of the host country.

Multiculturalism

In organizations employees may form groups because of similarity in age, nationality, race, ethnicity and gender. For example, Indians working in a company abroad may form a group and may try to assert themselves in the organization so that they can preserve their culture and identity and for gaining recognition from the management. They may try to dominate other groups depending upon the size of their own group. If the company believes in mutliculturalism, it prevents any single group or culture from dominating other groups or cultures. This is to encourage fairness and prevent discrimination on the basis of age and nationality. However, in many organizations, groupism reigns supreme and there is substantial inter-group conflict. To avoid this situation, an MNC should be unbiased towards any group and encourage multiculturalism. It should offer equal employment opportunities to people from different religions, race and nationalities to avoid conflict.

Managing Diversity

Diversity is a relatively new concept. Ernst Kossek, in his book "Managing Human Resources in the 21st Century" has defined diversity as, "A mixture of people with different group identities operating within the same social system." For an MNC operating in different countries the need for managing diversity at the workplace is very important. It is also important to recognize the various dimensions of diversity as an organization is a complex social system. Diversity should not be limited to elements like gender, racial and ethnic differences but should also include how these differences affect the relationships between employees. The ability to manage diversity better transforms into greater profits and cost savings for the company. Firstly, companies that manage diversity better spend less on lawsuits. Secondly, man days are not lost because there is hardly any organizational conflict. Finally, employee morale improves when companies manage diversity well. Issues like discrimination on the basis of sex, ethnicity and religion have troubled organizations for a long time. These coupled with inter-group conflicts at the workplace brought many to the brink of closure. Hence, companies have to manage diversity not only to prevent discrimination at workplace but also to turn it into a competitive advantage

FORCES CONTRIBUTING TO DIVERSITY AT WORKPLACE

Economic Forces

The economy of nations has made a paradigm shift world over. The modern economy is more focussed on service organizations rather than manufacturing organizations. Service organizations use information as a tool for gaining competitive advantage. The secret for successful management of service organizations lies in managing knowledge and abilities of their workers apart from understanding and catering to the market needs.

Demographic Forces

According to a report called Workforce 2000, published by the Hudson Institute in the US, cultural, racial and ethnic diversity would be greater in the 21st century workforce. Workforce 2000 also predicts that the percentage of women employees would go up from 43% to 47% in the next ten years and the percentage of Caucasian males would go down from 43% to 38% in the US during the same period.

Globalization

Businesses are no longer limited to physical boundaries. Globalization has forced organizations to employ a diverse workforce to manage its operations in different countries. Communication technology and transportation have made the world a smaller place. Many companies in the US, UK, Japan, and Germany earn a considerable part of their revenues through their subsidiaries in other countries.

DIMENSIONS OF DIVERSITY

The two different dimensions of diversity are:

- Primary dimension and
- Secondary dimension

Primary Dimension of Diversity

Primary dimensions of diversity consists of inherent differences between employees like age, nationality, race, ethnicity and gender. These dimensions, known as core dimensions, cannot be modified by the employee and these dimensions affects his or her behavior not only at the work place but also in the society as a whole. The greater the variation in primary dimensions, the greater the diversity at the workplace.

Secondary Dimension of Diversity

Diversity at the workplace can also arise due to the different positions employees hold in the company. The position an employee holds distinguishes him or her from other employees. Some other examples of secondary dimension of diversity are level of education, work experience and values. When compared to primary dimensions, secondary dimensions have less effect on the diversity at the workplace and can be modified by the employee.

DIVERSITY PROCESSES

Organizations adopt various methods or processes for managing diversity. These processes can be either in the form of one time activity or an ongoing process that transforms the whole HR system and practices. In either case, the processes need to have the support of the top management so that the changes made are positive and permanent and the organization can move towards multiculturalism. Some of the diversity processes are:

- Cultural audits
- Awareness training
- Skill-building training
- Diversity enlargement strategies

Cultural Audits

It is usually the first step towards initiating diversity programs. It involves collection of data in the form of interviews and surveys from employees to become familiar with the culture in the host country. The audits are designed to get data pertaining to the employees' attitudes and beliefs about diversity. They also provide information about the organizational norms and practices and how employees perceive these practices.

Awareness Training

Awareness training sessions teach employees about the importance of culture. The programs also aim at making employees understand group dynamics better. The idea behind awareness training is to make employees sensitive to the feelings of other employees.

Skill-building Training

This training develops communication skills, skills for conflict resolution and other behavioral skills so that employees can understand the work relationships and avoid conflict at the workplace. The aim is to develop a team culture within the organization.

Diversity Enlargement Strategies

In a diversity enlargement strategy, organizations recruit people belonging to different backgrounds, age groups and languages to develop a diverse workforce and encourage multiculturalism.

STRATEGIC ISSUES IN MANAGING A DIVERSE WORKFORCE:

- International recruitment
- International selection
- International compensation
- Performance appraisal in an MNC
- International training and development

International Recruitment

MNCs which set up subsidiaries in different countries need to be careful while recruiting employees. They need to have knowledge of the local labor market and employment laws of the host country. For example, an American company setting up a subsidiary in Japan has to be careful because of the significant difference between American and Japanese employment practices. Japanese companies believe in lifelong employment whereas in the US, the usual policy is to hire and fire. In many other south Asian countries (e.g. Vietnam) companies have to depend on local employment bureaus for recruitment needs. Hence, foreign subsidiaries have no other option but to recruit people who are approved by the labor bureaus.

International Selection

Organizations employ various selection tools like psychometric tests, structured interviews and group interviews to select employees. Many MNCs face problems while conducting such tests as they are usually customized for their home country.

These tests are not advisable because the educational system, technological advancement and culture vary in different countries. For example, a personality test designed to assess the personality of an employee in the US is not suitable for Japanese employees. For testing Japanese employees, tests should be designed keeping in mind the Japanese culture and values. Likewise, in a country like Singapore it is ethical to ask questions pertaining to age, race and sex. However, Americans cannot be asked such questions as they feel offended when asked about their age, race and sex. Hence MNCs should prepare a selection system to suit the host country.

International Compensation

Compensation issues are complex and critical and need to be managed carefully by MNCs. The complexity arises due to the fact that all countries have their own wage laws, rules and regulations. MNCs which establish a foreign subsidiary have to adhere to the wage laws of the host country. Wage differences due to age, sex and race are common in South Asian countries whereas such differences based on these criteria are not seen in the US and other Western countries. Another concern for a subsidiary is that its wage policy may not be consistent with the company's corporate strategy. Foreign subsidiaries are in a dilemma over the compensation system to be adopted for compensating host country national, home country nationals and expatriates. Usually, a different system is designed for compensating employees depending on whether they are from the host country, home country, or are expatriates. Though it is advocated that there should be no discrimination in wages on the basis of sex, nationality and ethnicity this is hardly seen in foreign subsidiaries. Another issue which MNCs need to address while designing a compensation system is the role and authority of labor unions. In many countries, the local labor unions have a considerable say in the wage agreements signed by employees and the subsidiary.

Performance Appraisal in an MNC

The main issue during performance appraisal process is the MNCs 'approach' in appraising their employees in the subsidiaries. MNCs have two options to decide the approach for appraising employees in their subsidiary; collectivism or individualism. If the focus of performance appraisal is to measure an individuals performance then its called an individualistic approach and when the focus is to measure the performance of a group, it is called the collective approach. In a country like Japan, an individualistic approach will fail because Japan boasts a strong team culture. Hence the performance appraisals are team-based and bonuses are granted on the basis of team performance.

Many MNCs adopt a Management by objective (MBO) system for appraising employees' performance. In this system, there is a mutual agreement between the subordinate and the supervisor on performance issues. There is mutual goal setting and adequate performance planning. The supervisor also gives frequent feedback to the subordinate on ways to improve his performance. (See Exhibit 15.2)

International Training and Development

When MNCs set up their subsidiaries in underdeveloped or developing countries, they face the problem of unavailability of skilled personnel in the host country for carrying out their operations. Hence, they need to invest heavily in training and development activities. The problem in training at the international level is similar to that of selection. MNCs cannot use the training systems developed in the home countries for training employees in the host country. Employees of the host country may find it difficult to learn during the training programs due to the differences in culture, language and training methodology. Another problem is related to the way trainers are perceived in different countries. In Asian countries like China, India and Japan trainers are held in high esteem. They are neither cross-questioned nor is their teaching is debated. But in Western countries the trainer assumes the role of a co-learner and facilitator. The trainees feel free to clear their doubts and play an active role during the training programs (Refer Exhibit 15.3)

Exhibit 15.2

Performance Appraisal at Pepsi

Pepsi-Cola, the US based soft-drink major, operates in 150 countries. In order to appraise its employees all over the world it uses a standard performance appraisal system. The appraisal system has been prepared in such a way that it motivates employees and at the same time measures their performance. The main feature of the appraisal system is an instant feedback mechanism. Pepsi also uses coaching techniques for guiding employees and to help them achieve their targets. The appraisal system is flexible and can be used in different countries with slight modification. Pepsi believes that a uniform appraisal system is not important. What is important is 'how' the system is used rather than how it is designed. The main aim behind developing a uniform system should be to balance cultural and administrative issues in a diverse work place.

Source: Dowling, Welch, and Schuler, International Human Resource Management (South-Western publications, Third Edition).

Exhibit 15.3

Quality Training at Matsushita

Matsushita, the Japanese electronics giant is known for its progressive HR policies. It recruits people with a technical background and then provides them with intensive practical training. It also uses the job rotation technique to provide the new recruits an overview of all the activities in the organization. It has a good suggestion system which in turn is linked to the rewards system. All the ideas and suggestions are suitably rewarded if they are implemented in the organization. The impetus is on suggestions that would improve the quality of its products. Apart from this, it also conducts training programs for upgrading the skills of its employees. In 1991 it introduced the MIT93 (Mind and Management Innovation towards 1993) program to enhance the creativity of its employees. Matsushita was the first company in Japan to link stock prices with the remuneration of its top management. It also has a set of ethical principles for guiding its employees.

Source: Matsushita, Global Strategic Management, Case studies on Fortune 500 Companies, Volume I, Transworld University.

CHALLENGES AND EMERGING ISSUES IN IHRM:

Some of the challenges and emerging issues in IHRM are:

- Ethics and corporate social responsibilities
- Bribery
- Code of conduct for MNCs

Ethics and Corporate Social Responsibilities

Ethics and corporate social responsibilities in the international business environment are always debatable. MNCs have been accused of being indifferent to the problems of host countries as they are more concerned about the profitability of their companies. MNCs have to balance the ethical and moral standards of their home country and host country. In terms of ethics, MNCs are categorized as:

- Ethical relativist
- Ethical absolutist
- Ethical universalist

Ethical relativist

An ethical relativist believes that there is no right or wrong. What is right in a particular situation in one place may not be so in another. Relativism offers flexibility but may prove to be disastrous in the long run for an MNC.

Ethical absolutist

An MNC which believes in this approach is strongly influenced by the practices and policies of its home country. They do not give much importance to the culture and values of the host country. Ethical absolutists have been criticized for their arrogance and for showing little respect to the traditions and culture of the host countries.

Ethical universalist

An ethical universalist believes that there are fundamental rules which help us differentiate between right and wrong. These rules need to be adhered to in any country and in any situation. An ethical universalist believes that cultural variations between countries should not lead to any wrongdoing on the part of the MNCs. There is a distinction between practices which are culturally different and ones which are morally wrong. MNCs should understand this difference and work towards achieving high ethical standards.

Bribery

According to a survey conducted by J.Macken, developed countries give around $85 billion to underdeveloped countries in the form of bribes. MNCs from developed countries have been accused of bribing government officials. Hence countries should frame laws to prevent corruption. For example, in the US, there is law a called Foreign Corrupt Practices Act (FCPA) which prohibits US-based firms from bribing officials in other countries.

Code of conduct for international business

The first step in framing a code of conduct for international business players came in the form of the ' Caux Roundtable Conference on 'Principles for Business Conduct' held in 1994. It was a conference on international business ethics, held at Caux in Switzerland and was attended by business leaders from all countries. The focus was to formulate a set of rules and ethical codes which would be used for benchmarking global business practices. Major work on this issue was done at Minnesota center for corporate responsibility in US. The main aim of Caux conference as given in the charter is "to further the twin value of living and working together and human dignity by promoting free trade, environmental and cultural integrity and prevention of bribery and corruption."

Following are the general principles enacted at the Caux Roundtable conference for improving the economic and social conditions of human beings.

Principle 1. The responsibilities of businesses: beyond shareholders toward stakeholders

The value of a business to society is the wealth and employment it creates and the marketable products and services it provides to consumers at a reasonable price commensurate with quality. To create such value, a business must maintain its own economic health and viability, but survival is not a sufficient goal. Businesses have a role to play in improving the lives of all their customers, employees, and shareholders by sharing with them the wealth they have created. Suppliers and competitors as well should expect businesses to honor their obligations in a spirit of honesty and fairness. As responsible citizens of the local, national, regional and global communities in which they operate, businesses share a part in shaping the future of those communities.

Principle 2. The economic and social impact of business: toward innovation, justice and world community

Businesses established in foreign countries to develop, produce or sell should also contribute to the social advancement of those countries by creating productive employment and helping to raise the purchasing power of their citizens. Businesses also should contribute to human rights, education, welfare, and vitalization of the countries in which they operate.

Businesses should contribute to economic and social development not only in the countries in which they operate, but also in the world community at large, through effective and prudent use of resources, free and fair competition, and emphasis upon innovation in technology, production methods, marketing and communications.

Principle 3. Business behavior: beyond the letter of law toward a spirit of trust

While accepting the legitimacy of trade secrets, businesses should recognize that sincerity, candor, truthfulness, the keeping of promises, and transparency contribute not only to their own credibility and stability but also to the smoothness and efficiency of business transactions, particularly on the international level.

Principle 4. Respect for rules

To avoid trade friction and to promote free trade, equal conditions for competition, and fair and equitable treatment for all participants, businesses should respect international and domestic rules. In addition, they should recognize that some behavior, although legal, may still have adverse consequences.

Principle 5. Support for multilateral trade

Businesses should support the multilateral trade systems of the GATT/World Trade Organization and similar international agreements. They should cooperate in efforts to promote the progressive and judicious liberalization of trade and to relax those domestic measures that unreasonably hinder global commerce, while giving due respect to national policy objectives.

Principle 6. Respect for the environment

A business should protect and, where possible, improve the environment, promote sustainable development, and prevent the wasteful use of natural resources.

Principle 7. Avoidance of illicit operations

A business should not participate in or condone bribery, money laundering, or other corrupt practices: indeed, it should seek cooperation with others to eliminate them. It should not trade in arms or other materials used for terrorist activities, drug traffic or other organized crime.

SUMMARY

Morgan defines International Human Resource Management (IHRM) as "the interplay among three dimensions – human resource activities, types of employees and countries of operation." A broad view of domestic and international HRM reveals that they are similar in many aspects. The functions of a domestic HR manager are similar to that of a HR manager of an MNC except that he has to handle employees from different nationalities and ethnic backgrounds. This difference in managing people of different nationalities has led to the development of various IHRM approaches. These approaches are ethnocentric, polycentric, regiocentric and geocentric. These approaches mainly differ in three organizational aspects - HR-policies and procedures, staffing and control. The various factors that affect these approaches are political policies and legal regulations of the host country, technology and the nature of the product made by the company, organizational life cycle, level of education and technological advancement and cultural aspects. Another issue which needs attention in IHRM is diversity. Organizations employ people of different races, ethnic backgrounds, religion, nationalities, and languages which contributes to diversity at workplace. Various forces contributing to a diverse workplace are demographic forces, economic forces and globalization. Hence it is important for organizations to manage diversity. Organizations use various processes for managing diversity. These processes are cultural audits, awareness training, skill building training and diversity enlargement strategies. Though the functions of the HR department in domestic firm are similar to that of a multinational firm, the approach adopted is different. Apart from this, cultural, ethical and diversity issues also govern the management of human resources in an MNC. In terms of ethics, MNCs are categorized as ethical relativists, ethical absolutists and ethical universalists. Ethical issues that are of great importance in IHRM are ethics and corporate social responsibilities, bribery and Code of conduct.

Chapter 16

Mergers and Acquisitions

In this chapter we will discuss:

- Mergers and Acquisitions
- Types of Mergers
- Strategic Management of HR during Mergers
- Significance of Organizational Culture During Mergers
- Role of HR Departments and HR Professionals during Mergers
- Avoiding Job Cuts During Mergers

Many companies regard mergers and acquisitions as a strategic tool for increasing profitability, gaining market share and developing synergies. Some of the prominent mergers that have taken place over the last few years are (J.P.Morgan-Chase, Daimler-Chrysler, Reliance Petrochemicals-Reliance Industries, Pfizer-Warner Lambert, AOL-Time Warner, Nations Bank-Bank of America). From banking to software, insurance to technology, companies have started entering into mergers and acquisitions to become market leaders in their respective industries. In this chapter, we will discuss various types of mergers and acquisitions and their effects on the human resources of the company concerned.

MERGERS AND ACQUISITIONS

In a merger, two companies come together to form a new entity; but in an acquisition, one company buys or acquires another company. The acquiring company usually implements its own policies and procedures for managing the acquired company.

TYPES OF MERGERS

Mergers can be broadly classified into two types: merger of equals and merger of unequals. For example, the merger between Reliance Petrochemicals limited and Reliance Industries limited is a merger of equals, whereas the merger between J.P.Morgan and Chase Manhattan is a merger of unequals. The criteria to decide whether a merger is between equals or unequals is based on the post merger implications for both the parties. If the financial, operational and staffing implications are the same for both parties then it is called a merger of equals otherwise it is a merger of unequals. Mergers may be further classified into the following types:

- Horizontal mergers
- Vertical mergers
- Conglomerate mergers

Horizontal Merger

A merger between two or more companies that produce the same products or services and are competing in the same market is called a horizontal merger. These mergers take place to achieve economies of scale, increase market share and monopolize the market. Firms that enter into such mergers often use anti-competitive practices.

Vertical Mergers

A merger between firms working on different stages of production of a product is called a vertical merger. (For example, a company that manufactures the raw material for a product merges with a company that produces the finished product.) Firms integrate vertically to reduce transaction costs and share technological expertise.

Conglomerate Mergers

A merger between two companies that are into unrelated businesses is called a conglomerate merger. Conglomerate mergers are of three types: Product extension mergers, geographic market extension mergers, and pure conglomerate mergers. Companies enter into product extension mergers (also called concentric mergers) to expand their product lines. Geographic extension mergers take place to increase a firms geographical reach. Mergers that do not aim at achieving line expansion or geographic market expansion are called pure conglomerate mergers. One of the best examples of a conglomerate merger is the AOL-Time Warner merger (See Exhibit 16.2).

Exhibit 16.1

Acquisition of Raasi Cements by India Cements

One of the finest examples of an acquisition leading to geographical extension of business is the acquisition of Raasi Cements by India Cements. Raasi Cements had a strong presence in Andhra Pradesh whereas India Cement's was a dominant player in the rest of south India. Taking over Raasi Cements meant India Cements would get an additional capacity of 2 mtpa and it would also get access to its existing distribution network. It would also learn low cost cement production techniques from Raasi Cements. This would enable it to increase its market share by targeting the price sensitive niche markets.

Source: Icfaian Center for Management Research

Exhibit 16.2

AOL-Timer Warner Merger

In one of the world's most historic mergers, America Online (AOL) merged with news and media giant Time Warner.The deal has been termed a merger of equals. The merger got a positive response from the American stock market: stock price of both the companies rose after the deal was announced. AOL paid160 billion dollars to Time Warner as a part of the deal. AOL, which foresees a greater role for the Internet said that the merger would create synergy because Time Warner will have a much wanted web presence (Time Warner's Pathfinder web portal did not click after it was launched) and AOL will in turn get the media coverage it was looking for. The combined market value of the merged company stands at $350 billion dollars.

Source: from www.fullcoverage.yahoo.com

STRATEGIC MANAGEMENT OF HUMAN RESOURCES DURING MERGERS AND ACQUISITIONS

When companies announce mergers, the market usually reacts positively; however, the employees of the merging firms may not be happy about the merger. Employees fear that merger will negatively affect their authority and position. They feel that the merged entity may reduce their salaries or even transfer them to another division or location. Because of this, many employees leave the organization and look for jobs elsewhere.

For effective HR management during a merger or acquisition, following issues must be addressed.

- Preparation of due diligence report
- Creation of manpower plan
- Communication
- Retention strategy
- HR integration
- Cultural integration

Preparation of Due Diligence Report

The merging companies should undertake a thorough audit of their human resources before starting the merger process. The HR departments of both companies should discuss issues relating to recruitment, training, performance appraisal, compensation, labor relations and legal compliance. The aim of such a discussion should be to development better understanding between the parties and to tackle problems that may arise during the course of the merger. They should examine each others records carefully to ensure that the merging companies do not have any lawsuits pending in court for non-compliance with any law.

Exhibit 16.3

The HP-Compaq Merger in the Offing

Hewlett-Packard announced in September 2001 that it would buy Compaq computer corporation in a 25 billion dollar deal, thus creating a computer hardware giant and a real threat to ' Big Blue' i.e. IBM. The merged company would earn revenues of 87.4 billion dollars. From the day the deal was announced it was rejected by Walter Hewlett (eldest son of the founder Bill Hewlett), David Packard and the 'David and Lucile Packard Foundation', who had a combined stake of 15.6%. Carly Fiorina, CEO of HP, and Michael Capellas, CEO of Compaq, were unmoved by this opposition. They were confident that the HP-Compaq merger would create synergy and save around 2.5 billion dollars annually.

HP wanted to adopt the direct selling model which DELL computers was famous for. As Compaq had already adopted this model, HP could use Compaq's expertise in implementing the same. The HP-Compaq combine would cut down the workforce by around 10%. This would mean less expenditure on human resources.

A unified system for procurement of raw material and manufacturing would lead to economies of scale. HP-Compaq would jointly develop products, leading to product rationalization. Administrative and distribution costs would be saved because of increase in span of operations and a combined expansive distribution network.

Carly Fiorina's role in the merger has brought to the fore the issue of the role of CEOs in mergers. Serious doubts have been cast about Carly Fiorina's ability to pull off the merger. She has been held responsible for all the chaos that has resulted from the merger deal. The image of HP has been tarnished because of the tussle between the Walter Hewlett and Carly Fiorina and other members who support the merger. Serious doubts have also been raised regarding Fiorina's continuation as CEO of HP if the merger does not get the shareholder's approval (Shareholders have to vote in the month of March 2002). Apart from this, the proposed job cuts and pay cuts announced by HP have traumatized employees during this critical period. It remains to be seen whether Fiorina can carry out the merger with the support of the remaining 67% stakeholders.(Rest of the 33% shares are held by the Walter Hewlett, David Packard and the 'David and Lucile Packard Foundation'). Ultimately, on 30th April 2002, the merger of HP and Compaq was completed (after the merger was approved by the shareholders during the voting held in March 2002).

Source: Icfaian Center for Management Research

Creation of a Manpower Plan

Before a merger or acquisition takes place, companies must prepare a manpower plan which indicates the structure of the merged entity. This plan should clearly delineate roles and reporting relationships. The structure should be in line with the business objectives of the merged company. The merged companies should also identify the people who would be holding strategic positions in the merged entity before the process of merger or acquisition begins.

Communication

Once the decision to merge or acquire has been taken, the companies concerned must communicate their decision to their employees. Quite often, employees object to mergers and acquisitions. The CEO should therefore inform the employees, of the objective of the merger/acquisition and its impact on employees.

Retention Strategy

Companies can expect an increase in the number of separations once it communicates its merger/acquisition decision. To prevent separations, companies should adopt appropriate retention strategies. They should develop a retention bonus plan to retain talented employees. The plan should be lucrative enough to retain employees and at the same time should not be biased. Retention bonus plans are often biased and favor only top managers instead of all the managers of a company.

HR Integration

After a merger or acquisition, conflict could occur between the HR systems, policies and practices of the two companies. A number of changes are necessary to integrate the systems, policies and practices of the two companies. The compensation system, performance appraisal system, training system etc. of the two companies should be integrated and aligned with the objectives of the merged company. Changes made to these systems along with policy changes should be communicated to the employees for successful integration.

Cultural Integration

Cultural integration is the most difficult part of any merger/acquisition process. A host of mergers and acquisitions fail because of the inability of the concerned companies to integrate culturally.

SIGNIFICANCE OF ORGANIZATIONAL CULTURE DURING MERGERS

Debra Nelson and James Quick in their book Organizational Behavior define Organizational Culture as "a pattern of basic assumptions that are considered valid and are taught to new members as the way to perceive, think, and feel in the organization." Political, social and technological changes necessitate a change in organizational culture. A merger also necessitates such a change. There are two approaches for changing organizational culture. In the first approach, a company can coach and counsel its employees to help them change their behavior and assumptions. In the second approach, the company can remove the people who are unwilling to change and recruit new people in their place. The employees of the merged entity will have to unlearn the behavioral norms of their previous company and adopt those of the new company. There has to be a fundamental change in their assumptions. (See Exhibit 16.4 and Caselet 16.1 at the end of the chapter)

ROLE OF HR DEPARTMENT AND HR PROFESSIONALS IN MERGERS

HR department plays a vital role during a merger. Once the merger deal has been signed, it drives the whole process of integration. Many mergers fail to achieve their objectives because HR professionals are either not involved or are involved at a very late stage in the merger process. In some cases, even though HR executives were involved at an early stage, mergers failed because of lack of experience and insight on the part of HR professionals in managing mergers. To ensure a successful merger, the HR department of the concerned companies should undertake the following activities:

Exhibit 16.4

Exxon-Mobil Merger

The Exxon-Mobil merger had to overcome many cultural problems. Although the merger involved American companies, unlike the Daimler-Chrysler merger, considerable differences in culture and work style had to be dealt with. Exxon was known for its conservative culture, whereas Mobil was known for its bold and robust culture. This differences in culture was reflected in their corporate symbols. Exxon's symbol was a stalking tiger whereas Mobil's symbol was a flying horse. The tiger represented Exxon's conservative approach of Exxon whereas the flying horse represented Mobil's open and transparent cultural. At Exxon even the smallest thing was planned and executed carefully, whereas at Mobil new ideas and risk taking were always encouraged. Exxon took a lot of time to take decisions because of bureaucratic structure, whereas at Mobil even risky decisions were taken quickly.

Source: ICMR

- Formulating Strategy – All companies should formulate a strategy before starting the process of a mergers or acquisition. HR departments should be involved in formulating the strategy.
- Creating teams - HR departments should form teams and task forces that include members from both the companies. The team members should be trained to develop negotiation and interpersonal skills. Team building and change management skills should also be imparted to key employees.
- Creating structure- HR departments should create a new organizational structure in line with the merged entity's new strategy.
- Developing a communication plan - HR departments should prepare a communication plan so that information is collected and delivered to the right people at the right time.
- Creating a transition system - HR departments should also prepare a blueprint of the new HR systems, like compensation and performance appraisal system to avoid confusion in after the merger.

HR Managers Assume the Following Roles during Mergers

Facilitator

HR managers facilitate and guide transition teams (teams formed to study and recommend mergers). Members of transition teams often get involved in organizational politics and try to push their own agendas. This often leads to conflict between the team members. HR managers should try to prevent such conflicts and ensure that the decisions made by these teams are not biased.

Educationist

Employees in the organization are under tremendous stress during mergers. HR manager should help employees in managing stress. They should conduct seminars and try to dispel doubts and fears about the merger.

Team Builder

Once the merger is complete, new teams are formed to carry out various activities within the merged company. HR managers should make sure that synergy is not lost due to the formation of new teams. Team building exercises should be taken up before resuming operations after the merger. Lack of role clarity and interpersonal conflict are common after a merger. HR manager should take steps to avoid such confusion and conflict.

Culture Integrator

When two companies merge, there is bound to be a clash of cultures. HR managers must help people understand each other's culture and develop a culture of its own. To do so, HR managers can adopt the best cultural aspects of both the companies. The HR manager can use a cultural change plans for the same purpose (See Table 16.1).

Table 16.1: Cultural Change Plan

Cultural element	Supporting	Conflicting features	Action required	Persons responsible	Completion date
Rules and policies	Flextime	Dress code	Focus group	HR Manager	
Goals and Measures	Quality plan	Parts out the door	Task force	Operations manager	
Training	Individual development plan	Voluntary and not tracked	Task force	HR Manager	
Reward and recognition	Quality day	No consistent system	Design system	HR Manager	
Physical environment	Rural	Isolated	Focus group	Operations Manager	
Ceremonies & events	Annual picnic and family day	_ _ _ _ _ _ _ _	Task force	HR Manager	

Source: Kossek and Block, Managing Human Resources in the 21st Century (South-Western Publications)

A cultural change plan is a tool for evaluating the cultural, functional and organizational aspects of companies. It helps HR managers anticipate and deal with cultural problems that often arise after a merger has taken place. Problems can arise over seemingly trivial matters. For example, if one of the merging company has a strict dress code, but the other company does not, cultural problems may arise after integration. Similarly, if a quality conscious company merges with a company that emphasizes productivity over quality, an ideological conflict may arise.

Strategy Formulator and Implementer

HR managers of merging companies work along with top management or outside consultants to prepare the HR strategy to be adopted during mergers. More often, outside consultants are preferred because they are specialists and are not in favor of any of the merging company. For example, Andersen Consulting offers its Mergers and Acquisitions People Strategy (MAPS ™) framework to help companies formulate and implement people strategy during mergers.

AVOIDING JOB CUTS DURING MERGERS

Hewlett-Packard (HP) and Compaq announced a string of layoffs after they took the decision to merge the companies. The workforce will be cut by 10% by the time the merger process is completed. The merged entity aims to save around 2.5 billion dollars a year and the layoffs will contribute a major part of this these savings. According to an International Labor Organization survey, 130,000 jobs were lost as a result of mergers during the 1990s. This number is bound to increase because of the increasing number of mergers. How can organizations avoid post-merger job cut? To avoid job cuts, management can take the following steps.

- Top management should give HR as much importance as it does to finance and operations.
- Management should educate employees about the importance and need for mergers.
- Management should adopt a proactive approach during a merger. The belief that people are soft and difficult to manage should be given up.
- Management should consult employees on all steps it takes during mergers. Forums and the company intranet can be used to find out the views of employees.
- Management should attempt to minimize separations in the event of mergers, not just try to retain employees. Management can use retention bonuses as a form of compensation during mergers. These bonuses should be distributed equitably among the different categories of employees.

Caselet 16.1

Daimler-Chrysler (DCX) Merger – Clash of Cultures

Daimler Benz of Germany and Chrysler Corporation of the US were merged in November 1998 to form the world's third largest automobile company after General Motors and Ford. The merger was termed a merger of equals, but analysts felt that it was more like an acquisition of Chrysler by Daimler Benz. The merger process began under the leadership of Jurgen Schrempp of Daimler and Robert Eaton of Chrysler. The process took less than a year to complete; it was one of the quickest mergers considering the gigantic size of the organizations. As soon as the merger deal was announced, the problems arose. Daimler and Chrysler had overlooked the impact of culture on the integration of the two companies. Even in terms of operations the companies initially did not integrate. Daimler continued to manufacture the luxurious 'Mercedes' brand whereas Chrysler continued with the manufacture of its mass market cars.

Daimler-Chrysler overlooked cultural issues when they started the merger process. They did not understand the fact that Germans were starkly different from their American counterparts. Chrysler employees were known for their carefree attitude. They relied more on individual instincts and ideas whereas Germans believed in a planned and methodical way of doing things. Chrysler encouraged experimentation and a trial and error approach to doing things, whereas Germans stuck to their plans and frowned on failure. Chrysler had a more or less flat structure which emphasized flexibility and empowered employees, whereas Daimler had a hierarchical, top down structure. Chrysler was highly decentralized and believed in giving employees the freedom to take decisions, whereas Daimler was bureaucratic and most decisions were made by top management. There were other issues like language and dress. Daimler employees were passionate about their language (German) and rarely spoke English. On the other hand, Chrysler employees hardly knew German. Daimler employees had formal dress code whereas, the Chrysler employees wore casual dresses.

Another issue that assumed great importance during the course of the merger was compensation. The compensation of employees at Chrysler was much higher than that of Daimler employees even though Chrysler was incurring losses. The compensation system was restructured by Jurgen Schrempp. The salaries were revised and were made more equitable. This did not go down well with Chrysler employees who were used to exorbitant salaries. After the merger, Daimler started exerting pressure on

Chrysler employees to adopt most of its policies and procedures. As a result, two Chrysler CEOs left the company within nineteen months. Subsequently, Dieter Zetsche was made the CEO of Chrysler. Zetsche was a close aide of Jurgen Schrempp. Chrysler was slowly being overshadowed by Daimler in almost all areas. Daimler employees were in key positions and took most of the key decisions. The vacuum which had developed at the time of the merger had expanded and DCX was on verge of a major crises.

SUMMARY

Merger takes place when two companies come together and form a new entity. In an acquisition, one company buys or acquires another company. There are two types of mergers- merger of equals and a merger of unequals. Mergers can also be classified into Horizontal mergers, Vertical mergers and Conglomerate mergers. During a merger or acquisition, the HR department must prepare a due diligence report; develop a manpower plan, communication plan and retention strategy; and integrate HR systems and corporate cultures. HR department plays a vital role during a merger. It facilitates the integration of two companies once the merger deal has been signed. The various activities taken up the HR department during a merger are formulating strategy, creating teams, creating organizational structure, developing a communication plan, creating transition HR systems etc. An HR professional has to play the role of facilitator, educationist, team builder, and culture integrator during a merger. When a merger takes place, many employees, including key employees, leave the company. Companies may also layoff a number of employees to control costs. Whether separations are initiated by the employer or employee, HR managers should ensure that they do not disrupt the operations of the company.

Chapter 17

Outsourcing

In this chapter we will discuss:

- Concept and Definition of Outsourcing
- Reasons for Outsourcing
- Criteria for Outsourcing
- HR as an Outsourcing Practice
- Types of HR Outsourcing
- HR Outsourcing as a Best Practice
- Outsourcing and HR Department
- Making the Outsourcing Decision
- Outsourcing in the Future
- Problems Associated with Outsourcing

"Do what you do best and outsource the rest", said Tom Peters speaking on core competencies. In today's volatile economy, both business strategy and nature of work are changing constantly. Technology is redefining the way business is being done.

Traditionally, companies were viewed as highly integrated firms which owned and managed all the resources in their domain. Over the years, the scale of operations and the complexity of business grew making companies think of more flexible business models. The concept of outsourcing grew out of this need for better and flexible organizations. Instead of doing everything themselves, organizations looked out for specialists who were experts in their respective fields and offered services required by the organization at lower costs. Thus, organizations could save precious time and money and also focus on what they did best.

The complexity in modern day business operations has led to specialization in different aspects of a company's business. Organizations should no longer be viewed as tightly integrated firms with primary focus on factors of production but as knowledge centers.

CONCEPT AND DEFINITION OF OUTSOURCING

Michael Corbett[1] defines outsourcing as" The use of outside business relationships to perform necessary business activities and processes in lieu of internal capabilities."

It is clear from the definition that outsourcing involves developing and managing relationships. But what kind of relationship exists between the outsourcer and the service provider? The relationship is usually long-term, multidimensional and depends on the nature of work to be outsourced. One of the prominent examples of outsourcing is the outsourcing service offered by ICICI bank. It handles the payroll processing for a number of companies with its payroll service package, called "Power Pay".

Outsourcing Vs Consulting

Many people confuse outsourcing with consulting. The difficulty in differentiating the two arises because many firms offer both consulting as well as outsourcing services. The fundamental difference is that while consulting firms play an advisory role, outsourcing service providers put the advice into practice. Firms that are into consulting as well as outsourcing are called hybrid firms. e.g. Accenture.

Outsourcing Vs Jobbing

Outsourcing is a long-term relationship formed for mutual benefit. It is a close, contractual, continuous relationship that requires a lot of understanding and communication between the outsourcer and the service provider. Jobbing, on the other hand, is a short-term and temporary relationship formed because of inadequate capabilities of the out-jobbing firm. For example- when the demand for a firm's goods is more than its capacity to produce, then it shares its production with an outside manufacturer. This is called jobbing.

Outsourcing has been growing and will continue to grow in the future. This was revealed in a study conducted by *firmbuilders.com*, (outsourcing consultants). According to another study by Mckinsey and Company, US companies target developing countries like India for outsourcing their work. Organizations all over the world are trying to make themselves more flexible and adaptable. Organizations are analyzing the benefits of outsourcing and subsequently realigning their business strategies. Those activities which are necessary but do not add value to their portfolio

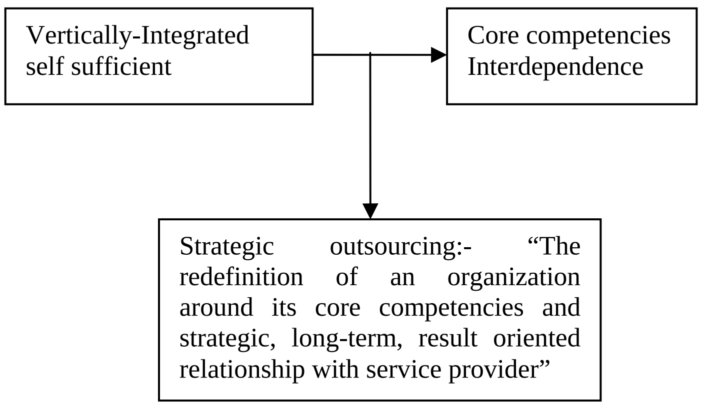
[1]Michael F.Corbett is an outsourcing consultant and CEO of the company Corbett and Associates.

are being outsourced. Usually, organizations outsource to cut costs. Sometimes they may also do it to solve certain problems. For example, a company may outsource the manufacturing of a particular component of a product to another company because it may be unable to fix a problem in its own manufacturing system. The focus of outsourcing is not just on cost reduction, but on creating value for the customer as well.

Model for Outsourcing

Figure 17.1 shows the model of outsourcing proposed by Michael Corbett and Associates. The model shows a lateral shift where firms that were once highly integrated are now more focused on core competencies. In other words, there is a shift from the situation in which firms managed and controlled all the activities related to their product or service to one in which firms manage only the core activities. Outsourcing is one of the options that emerged during this lateral shift.

Figure 17.1: Model for Outsourcing



Source: Firmbuilder.com (Michael Corbett & Associates)

Evolution of Outsourcing

Outsourcing has grown tremendously in the last decade. It has become a tool of great importance for managers at all levels of decision making - strategic, operational and tactical. Initially, outsourcing started at an operational level in manufacturing firms and later the human resources and administrative departments followed suit. The latest is technological outsourcing. Kodak was one of the first firms to initiate technological outsourcing in partnership with IBM and AT&T.

REASONS FOR OUTSOURCING

There could be strategic, tactical and transformational reasons for outsourcing.

Strategic Reasons

1. Firms outsource to enhance their business focus. Routine administrative activities are outsourced so that firms can concentrate more on issues related to their core business activities.
2. Outsourcing service providers are specialists in their own fields. They make best use of the available tools, techniques, methodologies and procedures for

improving their services. They also have knowledge of process and systems of other companies. The relationship thus formed between the outsourcing firm and service provider may prove to be one of competitive advantage to the outsourcing firm.

3. Companies going in for business process engineering (BPE) end up outsourcing a number of activities. Hence the process of BPE can be speeded up by employing external service providers.
4. When firms outsource, the risk associated with outsourced activities is also reduced.

Tactical Reasons

1. Firms can cut down costs on operational activities by outsourcing.(See Exhibit 17.1)
2. Outsourcing generates additional cash which would have otherwise remained tied up in non-productive activities.
3. When the resources needed for a particular activity are not available, a firm opts for outsourcing.
4. Money saved by outsourcing can be invested in more productive activities. In other words, it makes more capital available to the firm.

Exhibit 17.1

Outsourcing at Bank of America

Bank of America, the largest bank in the United States decided to outsource its HR activities to Exult Corporation in 1999. The contract was for a 10-year period. Exult was to take care of all major HR activities like payroll and benefits, employee data and human resource information system maintenance. Bank of America has 1,50,000 employees and net-worth of US $672 billion. Exult was to develop a customized Web-based HR service for Bank of America using its myHR.com service portal. Bank of America aims to cut down its HR costs by 10% by outsourcing HR activities.

Source: www.informationweek.com

Transformational Reasons

1. Outsourcing reduces the risk associated with the entry of a company into new markets.
2. Outsourcing enables firms to build relationships with other firms. This transforms the value chain completely, which results in better and quick service for customers. For example, *Amazon.com* formed strategic outsourcing relationships with different firms specializing in different areas to create more value for its customers.
3. Product life cycles are as not as long as they used to be. This means that firms have to constantly innovate and offer newer and better products to the customers so that they remain competitive. For achieving the same, support activities in product development can be outsourced to help them become flexible and adaptive.

CRITERIA FOR OUTSOURCING

The decision to outsource a particular activity poses a dilemma for the outsourcing firm. Usually, firms find it difficult to identify the activities that can be outsourced.

The following matrix can be used to help firms examine and take decisions on outsourcing. (See Table 17.1)

Table 17.1: Criteria for Outsourcing

<table>
<tr><td rowspan="3">Strategic
Importance</td><td>High</td><td>Separate Spin off
Long-term relationship with vendor or independent contractor
Key criteria - quality</td><td>Internal (Core Outsourcing)</td></tr>
<tr><td>Low</td><td>"Pure" Outsourcing
Key criteria
Cost/Flexibility</td><td>Internal; Part-timers outsource to firm with similar culture or HR policies.</td></tr>
<tr><td></td><td colspan="2">Low High
(Interdependence of tasks)</td></tr>
</table>

Source: Jeffrey Mello, Strategic Human Resource Management (South Western Publishing.)

As indicated in the matrix, the firm's decision to outsource depends on two criteria:

- Strategic importance of the activity to be outsourced.
- Interdependence of the activity to be outsourced with other activities.

Activities in an organization may have high strategic importance but at the same time low task interdependence. For example – though the R&D department of a firm is of strategic for a firm's growth, it rarely has anything to do with day-to-day operational activities. In this case, if the firm decides to outsource, it can sign a long-term contract or can go for a spin-off (spin-off is type of sell-off in which a separate legal entity is created from the existing firm). On the other hand, an activity which has high interdependence but is of low strategic importance can be outsourced to outside firms that have a similar culture. For example, in most companies routine administrative activities require a high degree of inter-dependence but may not be of strategic importance. If strategic value and interdependence are high for an activity, then it should not be outsourced. Finally the decision to outsource or not depends on the cost and quality of the service being provided by the service provider.

Administrative Consideration in Outsourcing

In most companies, routine and administrative work accounts for a major portion of the work done by human resource department. HR department is entrusted with the job of recruiting, training and compensating employees. The cost in administering these services are usually very high. This forces organizations to look for alternatives like human resource outsourcing.

HR AS AN OUTSOURCING PRACTICE

Outsourcing of human resource activities started in the early 1950s and since then organizations have been outsourcing administrative and operational activities of HR functions such as recruitment, training, payroll, compensation and benefits etc. A number of human resource activities are specific, routine and non-strategic in nature and hence they can be outsourced. (See Exhibit 17.2)

Exhibit 17.2

HR Outsourcing at BP- AMOCO

In 1998, BP- AMOCO were merged to form one of the world's largest petrochemical companies. Their revenue in 1998 was US $ 83 billion. They had 120 operating units and employed 120,000 people. According to Howard Nelson, VP Human Resources, "'Administration drove the whole process within HR. What we needed was a change in skill set so that HR could become strategic partner it aspired to be." The focus was to improve the information delivery system used by employees. In December 1999, BP-AMOCO entered into a five-year contract worth US $600 million with Exult Inc. for providing HR services and to make its HR system web enabled so that it could be accessed by its employees across the world. It accepted the 'e-HR' package offered by Exult Corporation under which Exult was to assume management, ownership and accountability for BP-AMOCO's global HR administration and transactions. The HR activities it outsourced were compensation, benefits, payroll, organizational development, performance management, training, employee development, recruiting/staffing/resourcing, expatriate administration, domestic relocation, employee relations, legal compliance, employee data and record management, and vendor sourcing.

Source: www.exult.net

TYPES OF HR OUTSOURCING

HR-outsourcing can be broadly divided into three types (See Figure 17.2).

1. Application Service Provider(ASP)
2. Business process Outsourcing (BPO)
3. Total HR outsourcing

Application Service Provider

A host of companies specialize in providing hardware and software applications to support large organizations, including application vendors like Peoplesoft, Oracle etc. which have developed application packages (Peoplesoft HRMS, Oracle HRMS) for supporting human resource activities in an organization. They install, customize and provide support for running these applications. The major disadvantage with ASP is the costs associated with application software. Secondly, the successful implementation of the application software is doubtful.

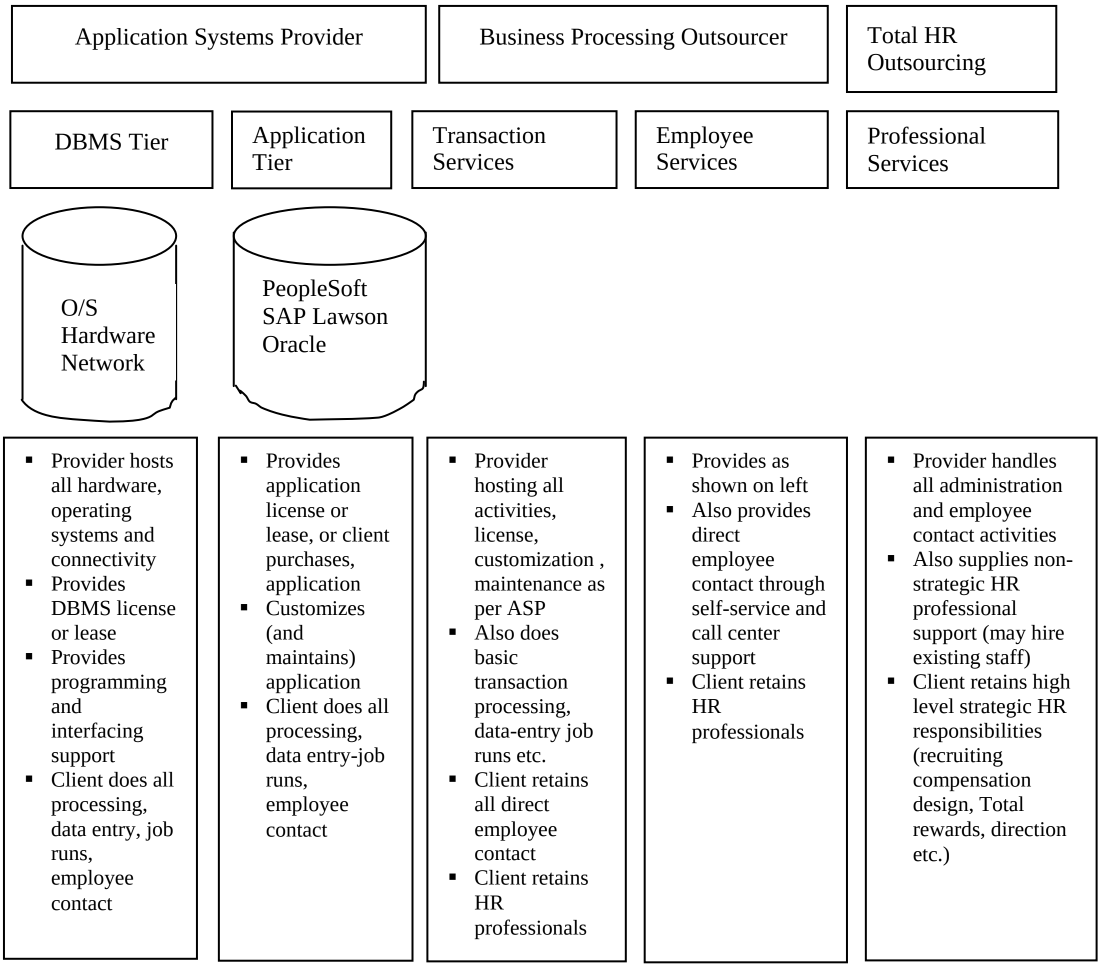
Business Process Outsourcing

The major difference between BPO and ASP is that in BPO, the client is in direct contact with employees through call centers or support centers. MNCs generally opt for BPO as they operate in many countries and employ a large number of people. While certain firms wish to retain the power to control human resources, others hand over the power to service providers.

Total HR Outsourcing

In this type of outsourcing, the entire HR function is run by the service provider. There is no specific HR department in the organization. The client organization only has senior HR professionals who are also HR-strategists. A host of non-strategic functions & employee contact is done by the service provider.

Figure 17.2: Cumulative Spectrum



Source: Adam Walker, Web based human resources (McGraw-Hill Publications.)

HR Outsourcing as a Best Practice

In a survey conducted by Prosci, a HR consultant firm, HR outsourcing was voted as a best practice by many organizations. (See Exhibit 17.3 for twelve best HR practices). Companies felt the need to outsource the operational activities of HR to service providers who were better equipped to deal with operational problems in HR. Secondly, there a was need to integrate Human Resource Information System (HRIS), payroll and benefits administration. This can be achieved easily by outsourcing the same to specialists.

Following are some of the HR activities that can outsourced:

Recruitment

The service provider takes up the responsibility of inviting applicants for interviews and provides them with information pertaining to the job, nature of work etc. They may also conduct a preliminary interview but the final interview and selection is done by the outsourcing company.

Exhibit 17.3

Best HR Practices

1. Internet employee Service
2. Employee self-service
3. Centralized HR and call centers
4. Resume scanning and Internet recruiting
5. 360- degree performance appraisal
6. Voice response systems
7. Kiosks
8. HR Outsourcing
9. Team-based HR policies
10. Automated time and attendance systems
11. Strategic human resources
12. Human Resource Information System (HRIS)

Source: Human-resources.org survey of HR Best Practices

Payroll Processing

In payroll processing, the service provider takes over the payroll function. He calculates gross salaries, deductions, taxes and writes pay checks. Certain companies also outsource other HR functions like benefits administration and workmen compensation.

OUTSOURCING AND HR DEPARTMENT

Once safe and secure HR-departments are no more safe. HR-departments played a major role in organizational restructuring and were often behind the layoffs in a company. They have now become the target due to outsourcing of HR-functions. HR-departments remained untouched during the downsizing in most companies. They were viewed as support functions which were necessary for the smooth functioning of the organization. With HR-outsourcing, the face of the human resource department is bound to change. Human resources are now central to the organizations strategy. They are no more viewed as headquarters of administration. According to a survey conducted by the Hacket Group, it was found out that HR professionals spend 50% of their time in doing routine, administrative tasks which add little value to the organization. HR-departments remain endangered until and unless they adopt a proactive approach and play a strategic role in the attainment of organizational objectives.

MAKING THE OUTSOURCING DECISION

Human resource managers often find it difficult to decide which activity to outsource and which to retain. All HR-activities that are critical to the success of the organization should be retained. (This has been discussed in the matrix under criteria for outsourcing). However, the HR department should not suffer from HR-anorexia after outsourcing. HR-Anorexia refers to a feeling of lost capabilities in people working in the human resource department. (See Exhibit 17.4)

Exhibit 17.4

Exult Corporation – HR Service Provider

Exult Corporation, human resource outsourcing service provider is head quartered in California. Its mission "To provide comprehensive business process management solutions that enable Global 500 corporations to increase the productivity of their human capital, convert HR spending to a variable cost basis and reduce the overall cost of human resource management and administration." Exults products include e-HR, my HR and shared client services. It provides services in the areas of Payroll services, Reward services, Advice and information services, Life event services, Finance and accounting services. Its clients include BP-AMOCO, Tenneco automotive, Unisys Corporation. Bank of America etc. Exult corporation believes that by implementing e-Hr solutions offered by it, outsourcing companies can save 25-30% of their HR costs. They can become more focused, proactive and knowledge-based organizations.

Source: www.exult.net

Selecting Service Provider

Once the firm decides to outsource HR- activities, it should start looking for vendors or service providers to provide the required service at low costs but without compromising on quality. There are some other factors which are to be kept in mind to keep the outsourcing relationship vibrant and lasting. As discussed earlier, outsourcing is a long-term relationship which can at times assume the role of a partnership between the outsourcing company and service provider.

Important factors to be considered in vendor Selection are:

- Focus on results – It is important to convey clearly to the service provider what the organization expects from them in terms of quantity, quality and commitment. It is advisable to go in for a pay for performance agreement.
- Customization - The service provider should be creative and innovative. He should understand the organization's problems and customize his solutions.
- Integrity - A company that outsources shares relevant data with the service provider. Therefore, the relationship is based on the trust that the service provider wouldn't share the confidential data with anyone without the permission of the outsourcing company.
- Experience – It is always better to select a service provider who already has a client base and is not new to the business.
- Cultural fit - It is possible that the outsourcer – service provider relationship will break due to cultural incompatibility. Hence, it's important that they share similar values and form a long- term relationship

Managing the Outsourcing Relationship

There is a need for specialists who are good at managing the outsourcing relationship. The specialist should strengthen and nurture the relationship over a period of time and this requires considerable experience and foresight on part of both parties. The relationship should encourage a culture of knowledge sharing and mutual learning. (See Exhibit 17.5)

Monitoring and Evaluating Vendor Performance

Before the HR-activity is outsourced, the performance standards for the activity have to be conveyed to the vendor. External consultants can be consulted to develop performance standards. There is a need for frequent communication between the outsourcer and the vendor. In order to enhance performance, the organization can also resort to schemes where it shares the amount saved due to reduction in compensation claims with the vendor.

Exhibit 17.5

Outsourcing Relationship - Cable and Wireless - Accenture and e-peopleserve

Cable and Wireless, the global telecom giant, announced that it had outsourced its accounts receivable function to Accenture, a leading management and technology consultant firm. The deal is worth $115 million and will be for a period of 5 years. As part of this deal Accenture will sub-contract the HR outsourcing to e-peopleserve, which is a service provider for HR activities. e-peopleserve, will provide Cable and Wireless with human resources administration, learning and professional development services, handle the company's recruiting function, handle its payroll services and run its day-to-day human resource operations. Avery Duff, Executive Vice President HR, Cable & Wireless Global said, "This outsourcing agreement is not simply about generating cost efficiencies but about transforming our operations to achieve world-class performance levels."

Source: www.firefly.co.uk

OUTSOURCING IN THE FUTURE

As we have already discussed, organizations are focussing more on their core competencies. This, coupled with techno-structural changes has made the role of the HR-manager vital for the organization. There are various issues that have to be dealt with before and after making the outsourcing decision. Some of them are:

Outsourcing and Technology

Technology is one factor that has changed the HRM domain. Emerging technologies like HRIS (Human Resource Information System), application software (Oracle HRMS) and self-service human resource packages have changed the way HR-services were being administered. Organizations that were unable to keep up with technological changes decided to outsource their HR activities.

Restructuring and Outsourcing

In many organizations, new structures like network and matrix structure have replaced old, functional or departmental structures. These restructured organizations rely more on outsourcing for gaining competitive advantage. For example Cisco, the leader in Internet technology, has developed a network model which it uses for forming strategic partnerships.

Role of HR Manager

HR managers today need to have multiple skills. They should be adept at solving business problems apart from managing human resources. They should play an active role in the formulation and implementation of business strategy. HR managers who are generalists and can fit into any role are in short supply. Because of the lack of availability of HR generalists, organizations may resort to HR outsourcing.

PROBLEMS ASSOCIATED WITH OUTSOURCING

Some of the problems associated with outsourcing are:

- When an organization outsources an activity it also gives up a considerable amount of authority. It does not have complete control over the outsourced activity.
- Outsourcing may turn out to be cheaper in the present context, but there is risk involved because outsourcing costs may go up in the future.
- Outsourcing when associated with downsizing may tarnish a company's image.
- Outsourcing may be a demotivating force for the existing employees of the company because of the fear of losing their job or loss of control.

SUMMARY

In a survey conducted by human-resources.org, outsourcing was one of the twelve best HR practices. Outsourcing has been defined as, "The use of outside business relationships to perform necessary business activities and processes in lieu of internal capabilities." Traditionally, companies were viewed as highly integrated firms which owned and managed all the resources in their domain. Over the years, the scale of operations and the complexity of business grew making companies think of more flexible business models. The concept of outsourcing grew out of this need for better and flexible organizations. Usually, organizations outsource to cut costs. Sometimes they may also outsource to solve certain problems. Outsourcing can be done for three reasons - strategic, tactical and transformational. The goal of strategic outsourcing is to enhance business focus. Routine administrative activities are outsourced so that organizations can concentrate more on issues related to their core business. Tactical outsourcing is done primarily to save huge amounts spent on operational activities. Transformational outsourcing enables firms to build relationships with other firms. This helps in transforming the value chain completely which in turn means better and quick service for customers. HR-outsourcing can be broadly divided into three types- Application Service Provider (ASP), Business Process Outsourcing (BPO) &Total HR outsourcing. Outsourcing is a long-term relationship which can at times assume the role of a partnership between the outsourcer and the service provider. The bottomline is that outsourcing can be done when activities are non-strategic, routine and there is very little interdependence among them.

Chapter 18

Human Resources and Information Technology

In this chapter we will discuss:

- Impact of IT on HRM
- Technologies Affecting HRM
- Human Resource Innovations
- Conventional HRM to Web Based HRM – Transition
- Application Software for Human Resource Practices
- Impact of IT on Training and Development
- Impact of IT Impact of IT on Labor Relations

Boeing, the leading aircraft manufacturer uses Interactive Voice Technology (IVT) to provide retirement services to its employees. Before the implementation of this technology, the human resource department had to do a lot of paper work to take care of the retirement benefit plans of these employees. Interactive voice technology has made the process of claiming retirement benefits easier. The HR department also saved a lot of time, money and energy. Technology has revolutionized a number of human resource activities like recruitment, compensation and performance appraisals. Earlier, the activities of a human resource department seemed routine, repetitive and at times trivial. However, with technology, HRM has assumed the role of a strategic partner moving away from its transactional role. In this chapter we will study the effect of technology on HR.

Link between HR and Technology

Organizations employ different strategies for achieving various objectives. The one major objective is reducing costs and improving quality. Organizations spend a large amount of their budget on delivering human resource services. Although they spent a lot of money, HR services in most of the companies were neither quick nor efficient. Technology has not only reduced HR administration costs but also improved the efficiency and effectiveness of HR services. Hence a number of organizations have started to providing quality HR services.

IMPACT OF IT ON HRM

Technology has played a vital role in transforming HR. Table 18.1 shows how HR has been transformed due to the impact of technology. Most HR activities that were routine have now become automated. Technology has helped to customize HR according to the needs of the employees

Table 18.1: HR Transformation

From	To
Local	Global
Administration	Self-service
Internally delivered programs	Outsourced delivery
Transactions	Business information
Employer oriented plans	Individualized employee and manager plans

Source: Adam Walker, Web Based HR (McGraw Hill Publications.)

TECHNOLOGIES AFFECTING HRM

New technologies have made a majority of HR functions simpler and more effective. Jobs that were previously handled by human resource executives have now been taken over by systems and equipment specifically designed for the job. For example, scanners are now being used to store employee data as scanned image in the computers. Other technologies that have changed the way activities related to human resources are performed are:

1) Interactive voice technology
2) CD- ROM and Laser Disc Technology

3) Networks and Client Server Technology
4) Internet
5) World Wide Web
6) Relational Database Management Systems
7) Imaging technology
8) Groupware

Interactive Voice Technology

Also known as interactive voice response systems, it is installed primarily to provide employees relevant information pertaining to retirement plans, retirement benefits and other general information. The voice response system's inbuilt personal computer answers employee queries when they make a call to the company. Interactive Voice Response (IVR) is a technology that helps employees access information regarding account balances, benefit plans and retirement plans. An IVR application provides pre-recorded voice responses for specific information needed by employees. Using Computer Telephony Integration (CTI), IVR applications give messages to an employee who can view data related to the caller at a display screen. IVR combines the power of the Internet, wired and wireless telephony and natural language voice commands to promote anytime, anywhere communication between an enterprise and its customers, employees, suppliers, partners, and investors.

CD-ROM and Laser Disc Technologies

Compact Disk Read Only Memory (CD-ROMs) are synthetic discs which can store data in the form of text, graphics, videos, etc. Training is one area of human resources which has benefitted immensely from the CD-ROM technology. Training modules in the form of (Computer Based Testing) CDs can be provided to employees for education, training and development.

Networks and Client Server Technology

In many companies data is stored in computers on their fixed memory disks called hard disks. Stand alone systems are of little use as there cannot be any exchange of information between systems. This problem has been solved by the developments of network and client server technology. Network systems and client server technology have made information exchange within a company and outside possible.

Internet

The Internet is a network of networks. A large number of computers are interconnected for the purpose of communicating and sharing data. The Internet has not just revolutionized communication but it has also led to the development of e-business.(doing business over the Internet). It has imparted an element of virtuality to the whole process of doing and conducting business. The Internet is the driving force behind organizations' decisions to move towards virtual HR. HR stores, HR portals, HR service centers, etc. are all Internet dependent.

World Wide Web

The World Wide Web is a major source of information on the Internet. It consists of a number of websites hosted by web servers all over the world. The websites contain web pages which store texts, images, videos etc. The websites can be accessed using a

Figure 18.1 Linking of Two different Files in RDBMS

Personal Information File

Name	Age	Gender	Employee ID	Location
Vikram	25	M	275	Office
Sirisha	30	F	276	Plant
George	50	M	277	Plant

Salary Data File

Relational database file links data by common elements

Employee ID	Salary	Grade
275	10,000	6
276	9000	4
277	8000	3

Source: Icfaian Center for Management Research

web address or a universal resource locator. We will learn more about the effect of World Wide Web on HR, later in the chapter.

Relational Database Management System (RDBMS)

Data storage has been a major problem for organizations. Before RDBMS, files and folders were difficult to manage. Relational databases use tables for storing a variety of information. These tables collectively constitute database files. It is easy to store and retrieve data in an RDBMS. Data Redundancy is also minimized. Figure 18.1 explains the way data is stored in an RDBMS. The figure shows that employee data is stored in two database files called personal information and salary file. In RDBMS, an element within one file (personal information file) can be linked with another element in another file (salary information file). In this case, since employee ID is common to the two files, data from both personal information file and salary file are linked with the employee ID.

Imaging Technology

This technology helps in scanning documents and storing them electronically in the form of an image. These images can be stored and retrieved from a computer. Optical scanner is a device which reads the data using a high intensity light beam (LASER). In a research conducted by human-resources.org, an HR portal, resume scanning was reported as a HR best practice. For example, the use of optical scanners for scanning documents has rendered the data entry job obsolete and reduced the amount of paper work.

Groupware

Groupware is an application software that helps employees in an organization to communicate and share information. A data file saved using a groupware can be used and updated by different people at different places, simultaneously. Lotus Notes from IBM, is an example of groupware software which many companies use for internal communication and information sharing. Monsanto, the leader in agro-based products uses Lotus Notes to helps its salespersons communicate over the company's intranet.

HUMAN RESOURCE INNOVATIONS

Information technology has made a major impact on the way human resources function is viewed and managed in today's businesses. The impact of technology has led to the development of various HR innovations. These emerging customized innovations have made a great difference to the way human resources services are administered. Some of these HR innovations are:

- Human resource information systems
- HR web-based applications
- HR service centers
- Employee self service system and
- HR data Marts

Human Resource Information Systems (HRIS)

There are three levels of decision making in an organization - strategic, tactical and operational. The information needs of the manager depends on the level at which they work. Therefore information systems are also categorized into three types (See Table 18.2).

Table 18.2: Characteristics of Information System

Characteristics	Operational System	Tactical System	Strategic System
Frequency	Repetitive	Periodic	Ad hoc
Nature of Information	Predictable, accurate and detailed	Unexpected, comparative and summarized	Unexpected, predictive and summarized
Source	Internal	Internal or External	External
Format	Structured	Structured/ Unstructured	Unstructured
User	First line supervisor	Middle Managers	Top Management

Source: ICMR

Since human resource activities have become complex they require a professional approach. This is where Human Resources Information System (HRIS) has come to the rescue of HR professionals. HRIS is a computer based system which helps managers take decisions pertaining to various aspects of human resources management.

HRIS can be divided into three types:

1) Operational HRIS
2) Tactical HRIS
3) Strategic HRIS

Operational HRIS

Operational HR information systems are also called transaction processing systems. Operational HRIS is designed to provide information that is frequently used by the human resource department. Some examples of operational human resource information systems within the purview of HR are:

- Position control system
- Employee information system
- Performance management system
- Government reporting system
- Applicant selection and placement system
- Training system

Position control system

Employees in an organization are assigned different positions, depending on their tasks in that position. Position control systems help the organization to identify the various positions and employees suitable for that position. It also helps the HR manager identify the problems associated with a particular position. For example, a particular position in an organization may have high turnover rate. The HR manager can investigate the reasons behind the turnover and work out a strategy for controlling it with the help of the position control system.

Employee information system (EIS)

Organizations need to maintain personal details of employees for the purpose of reporting. Employee information systems (EIS) maintain employee profiles, which contain both personal as well as professional information. EIS also contains details of employees' previous job experience, interests, skills and proficiencies.

Performance management system

Performance management system helps the HR manager during performance appraisal by providing information pertaining to the employee's performance. This information provides insights into the employee's productivity in the current job and inputs needed to perform better.

The manager can use this information to make decisions regarding pay hikes, promotion and transfer.

Government reporting system

Organizations need to provide the government information pertaining to employee salaries, benefits, taxes etc. They also need to keep details of the rules and regulations regarding the employment and termination of employee's, with the help of government reporting system.

Applicant selection and placement system

The application selection and placement system contains information relating to selections process such as resume scanning, group discussions, preliminary and final interview etc.

Training systems

Training system helps HR managers identify the training needs of employees, provide them with required training and monitor their performance. Organizations are beginning to rely on computer based training for employees which is more effective and cheaper than conventional methods of training. It is also simple and can be customized.

Tactical HRIS

The huge amount of money spent on human resources in the form of salaries, perks, bonuses is the financial implication for management of human resources in an organization. On the other hand, employees use their skills and knowledge for achieving organizational goals and targets. Hence the HR manager has the dual responsibility of reducing HR costs and managing human capital. The tactical human resource information system helps the manager reduce the hiring, maintaining costs of employees and take decisions regarding investment in employee training and development. The components of tactical human resource information systems are:

1) Job analysis and design system
2) Compensation and benefits system
3) Succession planning system

Job analysis and design system

The job analysis and design system is an information system that provides information regarding the job description and job specification. Job description details the various activities that constitute the job and job specification describes the type of person needed for the job i.e., the person's qualification, skills and experience. The job analysis and design system uses data provided by supervisors and first line managers as inputs for framing the job descriptions. Information from the system is also used for comparing similar jobs within or outside the company for calculating the relative worth of jobs in monetary terms.

Compensation and benefits system

This system provides information pertaining to salaries and benefits. Organizations have different salary systems and benefit plans such as health plans, insurance plans, stock option plans etc. As the pay is closely related to the performance of the employee, it is important to maintain all the relevant data in a detailed and structured format.

Succession planning system

The succession planning system is a database of the succession plans of all the employees of an organization. Succession plans are source of motivation for employees as they can see they will progress in the organization over a period of time.

Strategic HRIS

This system is used by the top management to plan and forecast human resource needs for the future. It is also used at the time of downsizing, workforce planning, mergers and acquisitions. The different types of strategic human resource information systems are:

1) Workforce planning system
2) Labor negotiation support information system

Workforce planning system

Organizations diversify into different areas and start operating in new locations to capture newer markets. This kind of growth plan should be supported by a suitable human resource plan, which enables organizations to have the right man at the right place at the right time.

The strategic human resource information system provides information for long-term planning of human resources. It helps HR departments address concerns like:

- The number of employees needed in the future?
- The kind of workforce required in the future?
- The skills and training that needs to be imparted to employees in future?

This system helps organizations compare their present workforce with the projected workforce and strategically plan their future human resources.

Labor negotiation support information system

Organizations need to maintain information regarding labor negotiations. The labor negotiation support information system maintains records of the different agreements between the labor union and management. It also has data pertaining to wage rates offered by other companies, apart from the details of various labor laws which are helpful in preparing agreements. Having discussed the various aspects and types of human resource information system, we shall now discuss HR portals and web based applications.

CONVENTIONAL HRM TO WEB BASED HRM - TRANSITION

Organizations use databases along with various software applications for storing and retrieving employee data, which is accessible to a few people in the human resource department. As the volume of data and complexity of human resource practices increase, it becomes difficult for the human resource department to manage and retrieve data quickly. Web-based systems provide an answer to the increasing complexity of human resource practices. These systems are easy to design and implement. The most attractive feature of web-based systems is that employees can use them irrespective of time and place. They can operate on their own and carry out most of the HR activities themselves rather than depending on HR departments. For example, employees can use the HR portal for information on the various benefits plans a company offers. The Web-based HR has expedited the process of decision-making, made information sharing easy and has passed the onus of managing routine HR activities from the HR department to employees (See Exhibit 18.1)

Changing Face of the HR Department

Human resource departments have been going through a process of transformation over the last few decades. HR is no more the service function it once used to be. It is now a strategic partner in achieving corporate goals. The diversification of businesses coupled with the diversity in workforce have changed the way the human resource function is perceived and administered. HR activities like recruitment, training and compensation and benefits administration have changed drastically with the emergence of the World Wide Web. HR departments now offer customized plans and programs to employees which suit their needs or demands. Employees can now share some burden of the HR department by using self-service human resource packages. They can key in and maintain their personal data, and relieve the HR department of routine and repetitive tasks such as updating employees data.

The New Role of the HR Manager

The role of the HR manager has changed because of the development of web based HR services. The HR manager is now a:

Exhibit 18.1

Survey Reports-Web-based Services

According to Tower Perrin e-track survey of 200 employers in the US, 92% reported that they used web based services for keeping their employees informed, 42% reported they used web based services for personal data changes, 41% reported they used it for benefits enrollment and 30% reported they used it for financial planning.

According to a study conducted by Forrester Research, 38% of companies are currently using web technologies for administering employee health benefits.

Dataquest reported that companies can save immensely by making their compensation and benefits system web based, based on a study on web based HR services.

Source: Adam Walker, Web Based HR (McGraw Hill Publications.)

- Strategic partner in achieving organizational goals
- Center of Expertise
- Service center – Customer service representative role
- Vendor Manager

Web Based Human Resource Management

The World Wide Web has affected almost all human resources practices like recruitment, benefits administration, performance appraisal etc. A human resource application can be designed and customized according to the organizational needs with the help of various web designing software. Web-based HRM enables employees to retrieve information related to any HR aspect anywhere anytime.

HR Portals

The development of HR portals[1] was a big step towards the development of web-based human resources. HR portals help the managers and employees gain information pertaining to HR policies and procedures and enable them to take quick decisions. They foster a knowledge sharing culture and help in the development of cross functional teams. (Refer Exhibit 18.2)

Human Resource Service Centers

A human resource service center consists of a group of individuals from the HR department who deliver HR services to employees with the help of technology. Employees need not go to the service centers, but can use the communication devices such as telephone, fax, e-mail for getting information regarding their pay, benefits, training programs etc. Service centers are very common in companies in the west, and those that employ a large number of people. Service centers also use the web to deliver services to employees. HR service centers help reduce HR costs and improve the quality of HR services. They are also helpful during the process of organizational transformation[2].

A service center has the following characteristics:-

[1]An HR Portal is an effective web interface that supplements the HR information system, and ensures uniform access for employees to HR data and various relevant applications.

[2]Organizational transformation implies comprehensive organizational change that may take place during the process of organizational development.

Exhibit 18.2

HR Portal at General Motors

General Motors Corp. has worked hard to built its new, personalized portal, mySocrates.com, for its workforce. This portal is designed to provide up-to-date, customized and exact information to its 180,000 employees all over the world.It is also in the process of rolling out a comprehensive, three-part program that will offer Internet-accessed, self-service applications, and local news, weather, and sports reports to any employee with a computer or a television in their home. Tony Scott, GM's Chief Technology Officer says, "Our goal was to reach the maximum number of employees and connect them to GM, whether it be at home, at work, or, ultimately, in their car." GM decided to develop this when surveys revealed that 70% GM workers had access to a computer, either at home or work. For the remaining 30%, GM brokered a deal with America Online to offer AOLTV, that provides Internet access through television sets. The GM portal is easy to use, whether an employee logs on via a Web browser or AOLTV. This portal will enable employees to enroll in e-learning courses. mySocrates.com portal is built on Sun Microsystems' Solaris operating system and iPlanet's application server. Workscape is hosting the portal for GM and serving as the system integrator. Workscape's proven integration work with other large businesses such as the United States Postal Service, proved helpful for GM. Employee reaction towards the portal has been favorable: more than 70,000 U.S. employees have signed up for the service. In the next 18 months, the service will be extended to GM's 90,000 workers in Europe.

Source: www.informationweek.com

Centralization

A single HR service center caters to the needs of all the employees irrespective of where they work and what type of work they do. Employees need not meet the service center people in person, but can use the communication devices such as telephone, fax and e-mail to get information on leaves, compensation and benefits. HR service centers primarily offer advice and information. They are not authorized to take decisions on behalf of the HR department.

Use of technology

HR service centers rely on advanced technological systems like interactive voice response system, automated call distributor system and case[3] management system for delivering their services. The customer service representatives are suitably trained for handling these systems.

Types of service centers

Organizations have two types of service centers

1) Employee service center
2) Shared service center

Employee service centers provide services to employees in the areas of payroll and benefits.

Shared service centers help line managers by providing them the information on various training programs, staffing, compensation etc. These service centers are also called centers of excellence. They play the role of a consultant and advisor for line managers.

[3] Its a system that records the information that has been exchanged between a customer and the customer service representative.

Employee Self-service System (ESS)

Human resource departments spend 50% of their time in routine administrative activities that do not contribute to achievement of the organizational objectives. Employee self service systems were developed to help HR departments reduce the employee data redundancy. ESS is developed using interactive voice technology, web based tools and company intranet. Some HR applications like Oracle HRMS and Peoplesoft HRMS integrate an ESS along with their other modules. Employees can access information regarding organizational policies, rules, regulations etc. using a web browser. ESS aims to make employees self-dependent and help them take their own decisions (See Exhibit 18.3).

Exhibit 18.3

Employee Self-Service System (ESS) at Cisco

Cisco Inc. uses an advanced employee self service system, which has been implemented using wide area network (WAN). The aim is to provide employees with relevant information wherever and whenever they need. ESS helped Cisco reduce its administrative costs and improve the productivity of employees. With ESS, the process of decision making became faster and more effective because information sharing at all level. Cisco uses ESS for administering payroll and benefits, getting information on competitors and customer etc.

Source: www.cisco.com

Goals of employee self-service

Improving quality of personal data

Before web based self-service systems, the HR department updated and validated employees, personal data. The process was time consuming and information was wrongly fed into the system. However, ESS changed all that. With ESS, employee is responsible for maintaining his personal data. This instils a sense of ownership in the employees and makes available updated information.

Empowering employees

Due to the development of self-service systems, employees have first hand information of all the organizational policies and procedures. They also have access to various benefit programs, retirement plans, appraisal system and employee survey data. This makes employees play an active role in the activities of the organization.

Improving HR processes

Development of Web-based employee self-service system saves a lot of time. Data integration and online storage has eliminated paperwork, has made information flow easier and concurrent updating of various data files possible. Employees do not have to wait for someone to process things. They can do it themselves according to their own convenience.

HR integration

Self-service systems help employees understand organizational policies and practices. All the systems within the human resource department can be integrated into a single system, so as to offer comprehensive and unified set of services to employees. If an employee wants to apply for a position which has come up in the organization, he/she can do so by using the self-service system which is connected to the staffing system. In case the employee is not eligible for the position and needs training to gain eligibility, then he will be directed to the training system.

HR Data Marts

Human resource department is a storehouse for data, usually stored in relational database applications such as Oracle and Sybase. This data is meaningless unless it is converted into valuable information which can be used by the HR departments. The concept of HR data marts emerged from the need to store and manage data. Data marts store information about a single management function unlike data warehouses which store information about multiple functions. For example, a data mart stores information pertaining to HR, but a data warehouse stores information related to finance, HR, and marketing. Data marts were created primarily to convert the stored data into vital information that can be used by the organization.

APPLICATION SOFTWARE FOR HUMAN RESOURCE PRACTICES

Application software is a pre written program that supports the operations of different business functions. For example, word processing software like MS Word help prepare documents. There are a number of application software for HRM that make the job of managing human resources easy and efficient.

- Human resource planning application software
- Staffing application software
- Performance management application software
- Training and development application software
- Compensation and Benefits applications

Human Resource Planning Application Software

Human resource planning application software consists of HR planning software, succession planning software and human resource forecasting software. These application software have numbers of data files like starting population file, growth rate file, exit rate file and promotion pattern file. (See Table 18.3)

Table 18.3: Types of files in HR Planning Software

Type of file	**Contains information pertaining to**
Starting population file	Job grade, gender, race/ethnicity, age, service, training and experience of employee.
Growth rate file	Demographics of employees and the rate of increase in the number of employees
Exit rate files	Training completion rate, turnover rates, hiring rates.
Promotion pattern files	Rate of movement into and out of a position

Source: Icfaian Center for Management Research

HR planning software is used for classifying jobs and classifying employees on the basis of their jobs. For example, Cyborg systems' workforce planning module is a part of its human resource planning software. This software runs on both mainframes and personal computers and is useful in:

- Storing and managing employee information (personal and job-related)
- Integrating data from different payrolls

- Presenting data on the number of people hired, transferred, promoted and terminated
- Maintaining a skill and position inventory, which is used to match people with positions in the organization

Staffing Application Software

It is an application software used for the purpose of recruiting and selecting employees. It helps maintain an inventory of applicants who apply for different jobs in the organization. This software can be used for:

- Identifying potential sources of information.
- Storing the personal information according to name, gender, date of application.
- Retrieving applicants information by querying data files on field name such as date of birth.
- Tracking the process of recruitment and selection
- Scheduling interviews
- Reporting results of tests, interviews, group discussions which are a part of the selection process
- Customizing the process of recruitment according to one's need
- Getting the right candidate for the right job by formulating a recruitment strategy.

Performance Management Application Software

Performance appraisal is the process of measuring employee performance, with the help of methods like essay method, rating scales, management by objective etc. Performance application software conducts appraisals which are objective and fair. Using this software employers can monitor and evaluate employee performance, and make decisions on their pay hikes, promotions and training. The software is used for:

- Customizing rating scales
- Assisting managers in performance management
- Setting performance standards according to the nature of the job
- Analyzing and reporting performance review results

Training and Development Application Software

Very often, training programs do not bring about the desired results and organizations just end up spending a lot of money on these programs. The basic aim of training and development programs is to impart skills to the employee which can improve his efficiency, thereby improving the overall performance of the organization. The training needs of employees differ owing to the nature of their jobs. Not all training programs achieve the desired results because of mismanagement on the part of the trainers or inability of the organization to gauge the training needs of employees. The training application software can be used to:

- Identify the training needs of employees.
- Keep track of the training process.
- Store information regarding training programs previously attended by employees.

- Schedule and manage training sessions.
- Provide information to professionals in the company on various managerial and legal aspects.
- Prepare training budgets.
- Build teams depending on the basis of available training data.
- Assist in promotion and transfer process.

Compensation and Benefits Application Software

There are a number of applications software within this category. They are

1) Payroll applications software
2) Job evaluation application software
3) Salary survey and salary planning application software
4) Benefits management application software

Payroll Application Software

Payroll processing includes calculating salaries and wages, and reporting the same to the government or concerned authorities from time to time. Employee salaries have various elements such as basic pay, dearness allowance, house rent allowance etc. This constitutes the gross pay of an employee. From this, provident fund, income tax, loan repayments etc. are deducted to arrive at the net pay. For large companies, this is a cumbersome process and is also prone to errors. The payroll processing software used for calculating pay, helps speed up the process and also avoid errors.

Job Evaluation Application Software

Jobs in an organization are inter-related and inter dependent. It is important to find the relative worth of jobs for the purpose of compensating employees. The process of calculating the relative worth of job in an organization is called job evaluation. Earlier, human resource managers were responsible for job evaluation. As jobs grew evaluations became subjective and biased. This gave way to a programmed system for job evaluation. Most of the job evaluation software use point system[4] for job evaluation.

Salary Survey and Salary Planning Application Software

Salary survey is the process of collecting data of salaries offered by other companies and competitors for comparison. The salary survey application software helps in storing, analyzing and reporting salaries. Employee salaries have to be commensurate with their experience or position in the organization. Salary planning is the process of allocating pay hikes on the basis of merit, seniority, performance etc. Salary planning software uses the pay scales along with annual salary budget for salary planning.

Benefits Management Application Software

Apart from salaries, organizations offer a range of benefits to their employees in the form of health insurance, disability insurance, retirement benefits, stock options and saving programs. These are all welfare activities which motivate employees to perform better. Employees are offered benefits plan based on their job and position in

[4]Point System of job evaluation has been explained in the chapter on compensation.

the organization. The benefits management software help design benefit plans and administer them to the employees. This software can keep track of employees who come under various plans, authenticate their eligibility, calculate insurance premiums and taxes, and assess current and future benefits.

The benefits management software is an excellent reporting tool. It uses graphs and tables for presenting data. It can calculate the total cost of benefits taking into consideration the various benefit plans and present a comparison of the benefit plans within the industry on the basis of job evaluation system.

IMPACT OF IT ON TRAINING AND DEVELOPMENT

Motorola, the US-based telecom company estimates that for every 1 dollar it spends on corporate learning, it gets $ 30 in return, within 3 years in the form of increased productivity and better quality of products from employees. Employers need to invest in improving quality of human capital from time to time. In the modern business environment, employers have to harness the power of the Internet for delivering valuable services in their quest for becoming knowledge-based organizations. Development of e-learning systems is a major step towards achieving this goal. E-learning means using different technologies like the Internet and the World Wide Web to deliver education and training to employees. Although there is a need for a huge investment, the advantages of an e-learning system far outweigh the costs. In the long run, e-learning system has proved to be cheaper than traditional classroom systems. The biggest deterrent in the development of an e-learning system is the low speed and low bandwidth of the Internet. Finally, the suitability of e-learning solutions for an organization depends on its needs. Organizations need to understand the pros and cons of the traditional classroom learning system and an e-learning system before making the decision to switch.

IMPACT OF IT ON LABOR RELATIONS

Information Technology (IT) is fast changing labor-employer relations and the mechanism by which the terms and conditions of employment are negotiated, adjusted and enforced. Rapid changes in IT has affected the framework of power and politics within the organization.

Workplace Changes

Information technology has made the management rethink on critical issues in industrial relations such as workers' empowerment, inequalities in wages, relevance of the labor union, and the use of e-mail as proper notice. Information is a key resource since it connects the worker to fellow workers and to the organization. Technology gives workers access to information, thereby, giving them the power to make critical decisions and to have a say on the shop floor. With the increasing number of knowledge workers, today's world does not need a mass of organized workers to bring a company's production to a halt. An "information strike" could turn out to be a one-man protest. Some obvious methods of sabotage available to an individual include slipping a computer virus into a program or destroying information in a database. In terms of bargaining, the individual's aspirations and those of the union are diverging. As such, individuals prefer to negotiate agreements or contracts that are tailored to their needs. Since unions are founded on collective representation, they cannot represent the needs of a specific individual. Here, IT can help create transparency and to prepare customized employment agreements. In a true IT environment, communication between management and labor is through e-mail and other forms of electronic communication, such as videoconferencing, which can also add a new dimension to labor-management relations.

SUMMARY

Technology has affected almost all HR activities. It has automated the routine HR activities and reduced the burden on the HR departments. Human resource departments can now have a more strategic role to play in the growth of the company. Various technological innovations like Interactive Voice technology, CD- ROM and Laser Disc technology, networks, Client Server technology, Internet, World Wide Web, Relational Database Management System, Imaging technology, Groupware etc. have changed the face of HRM. Apart from these, various methods of delivering human resource services have developed because of the impact of information technology. Some of the HR innovations that have developed are human resource information system, HR web-based applications, HR service centers, employee self service and HR data marts. The synergy between HR and technology has improved HR services. Robust application software have been developed to take care of HR functions. Application software is available for a range of HR functions like human resource planning, staffing, performance management, training and development, compensation and benefits. The Internet has had the greatest impact on HR. Information technology has also had a great impact on labor relations in an organization.

Chapter 19

Ethical Issues in Strategic Human Resource Management

In this chapter we will discuss:

- Core Concepts in Ethics
- Gender Differences
- Ethics at the Workplace
- Ethical Issues in Labor -Management Relations
- Manager-Shareholder - Conflict of Interest

Johnson & Johnson has a well-defined code of ethics. According to the code, the first responsibility of the company is towards doctors, nurses, patients, mothers its employees and all others who use the company's products. Other clauses in the code of ethics include:

- Compensation must be fair and adequate, and working conditions, clean, orderly, and safe.
- Employees must feel free to make suggestions, and complaints. There must be equal opportunity for employment, employee development, and advancement for qualified employees.

Companies like Johnson and Johnson have the code of ethics to foster ethical behavior among employees. Ethics enables individuals to distinguish between right or wrong and good or bad behavior.

This chapter discusses the core concepts of ethics, and the different issues in ethics such as morals, etiquette, political correctness, legality, and gender discrimination. The chapter also examines the importance of ethics at the workplace, reasons underlying differential income structure at the workplace, ethical issues involved in the selection and promotion processes and other aspects such as the right to privacy, right to information etc. It also discusses the ethical issues in labor-management relations and manager-shareholder relationship.

CORE CONCEPTS IN ETHICS

Ethics is often linked with an individual's morals. To understand the difference between ethics and morals we shall first define ethics.

Definition of Ethics

Ethics is defined as a set of moral principles. In an organization, ethics are rules or standards to govern the conduct of members. It is important to pay attention to ethical issues in an organization as it may influence the strategic decisions made by managers. Companies like Johnson & Johnson, Coca-Cola, Kodak, and 3M have discovered that doing the right thing can have a positive effect on the performance of an organization which is why these companies pay attention to fostering ethical behavior.

Ethics, Morals and Philosophy

Morals are defined as a set of personal standards that make up an individual's character. Morals are a result of an individual's social and family interactions. They change according to circumstances.

Unlike morals, ethics remains constant throughout an individual's life. It requires a sound philosophical foundation. It is constantly subjected to questioning, inquiry, and intense scrutiny. Thus, it is possible for an act or a thing to be moral and ethical, moral but unethical, and immoral but ethical. For example, an employer may offer certain concessions to employees like frequent breaks, extended leaves who belong to the same religion as he does. He may not allow people of other religions such concessions. For the employer, the situation may seem to be more a moral one, than an ethical one. Employees belonging to other religions may feel that they are being discriminated against on the basis of their religion.

Ethics and philosophy are closely related. Ethics is a branch of philosophy that explores the nature of moral virtues and evaluates human actions. Having a philosophical approach to ethics avoids irrationality that characterizes personal moral views.

Ethical foundations are extremely important for an organization. Organizations must be ethical while dealing with stakeholders.

Law and Legality

Ethical behavior becomes complicated when legal considerations crop up. Since laws are amended in keeping with the requirements, it is difficult for ethics to keep pace with law. It has been found that ethics and laws usually do not go hand-in-hand. What may be legal may not be ethical and vice versa. For example, the formation of labor unions was considered ethical, even though they were not protected by laws until recently. In the United States, many years ago, employment laws and practices discriminated against Afro-American employees though it was well known that American values and morals never supported discrimination.

Political Correctness

Political correctness plays an important role in day-to-day life. It includes avoiding behaviors that are offensive to people belonging to different ethnic groups, such as using offensive signs and language etc. Political correctness is essential to prevent people from behaving in ways that will be considered unethical by others.

Good Manners, Etiquette and Civility

Good manners and etiquette (socially correct behavior) make the environment at the workplace pleasant. In workplaces that have polite and courteous people, performance targets are achieved without friction. Good manners, etiquette, and civility ensure that the work place is free from conflicts, misunderstandings, and stress.

GENDER DIFFERENCES

Not long ago, workplace traditions were dominated by religious beliefs, social norms and gender-bias. As more and more women began to join the workforce in the 20th century the glass ceiling, was broken and the emphasis shifted to skills rather than gender.

Gender bias should not be allowed at the workplace. Gender bias in compensation or job duties is considered unethical. Employees should be judged on merit and not on gender.

ETHICS AT THE WORKPLACE

Ethics at the workplace includes:

- Incorporating ethical components in labor-management relations
- Choosing between individual rights and group rights
- Ensuring fair treatment to all employees
- Solving the ethical dilemmas in employer-employee relations and
- Solving personality conflicts.

The strategic issues involved in ethics at the workplace are:

- Selection and promotion of employees and supervisors
- Right to information versus Right to privacy
- Differences in incomes at the workplace

Selection and Promotion of Employees and Supervisors

The HR department recruits and promotes employees. The process of recruitment and promotion involve various ethical issues. Some of them are:

- HR professionals should address certain ethical questions such as good citizenship, organizational goodwill while selecting and promoting personnel. However, job descriptions that are developed while recruiting people seldom list these qualities.
- Sometimes, the HR department may have a candidate in mind. It may select the candidate even before the selection and promotion processes take place formally. In such situations, the HR department is answerable to candidates who were not selected and promoted in spite of possessing the required skills.
- HR professionals expect candidates for selection and promotion to have certain ethical values. Some employers look for people who are caring and courteous as they perceive that such people are ethical. However, the dilemma here is whether it is ethical for employers to look for such attributes in prospective employees. Another issue is whether or not to include such criteria during the selection and promotion processes, when ethical behavior can be fostered through subsequent training.

Right to Information Vs the Right to Privacy

Two employees who worked as trainers at Nissan Company, U.S, never imagined that their supervisor would check their e-mails. The supervisor found that the two had made nasty comments about him. He rebuked them upon which they filed a lawsuit against the company for violating their privacy. The court warned the company for invading the privacy of employees.

Employee privacy is an ethical issue. Managers need to measure the performance of their subordinates without encroaching upon their privacy.

It has been found that many companies monitored e-mails of their employees, and voice mail to check whether or not they worked properly or detect company thefts.

Employee privacy can be protected with the help of information practices such as open communication, Intranets and group interactions. Employees need information to make choices and assert their rights. Some strategic issues involved in ethical conflicts regarding employee privacy and employers' rights to collect information are:

- Employees must be monitored for drug or alcohol abuse. The ethical issue here is the number of employees being monitored or and the frequency with which they are monitored. The question also is whether only employees who perform poorly are to be monitored or should all the employees be monitored. Employees who fail monitoring tests must be given a chance to correct their mistakes. This can be done providing them information about the impact of drugs and they can be counseled on how to avoid drug or alcohol abuse.
- Some employers collect information on the employee's personal life and previous work performance, while recruiting. If the employers share this information with third parties, employees or candidates can take legal action against them.
- Monitoring employees through computers, voice mails, telephone calls, and video cameras can result in ethical conflicts between employers and employees. While employers may justify this by citing their right to control, employees may take this as a violation of their right to privacy and the right to own personal information.

Exhibit 19.1 shows how privacy rights of people who visit various websites, are violated. It is surprising to know that there are private agencies that track information, more particularly, personal details by buying the information from the websites that sell them. Employers make use of this information while recruiting people and also monitoring their performance.

Exhibit 19.1

Beware! You are Being Mapped

If you thought that since you do nothing illegal, you need not worry even if the government maintains detailed databases about your online movements, you need to rethink. Many private organizations that specialize in trawling databases are mushrooming all over the world. They develop profiles of employees working online and sell these profiles to anyone who can give them a good price.

Arunabh Das Sharma, president of the Delhi-based Intercept Consulting, is a specialist in trawling databases. He has built comprehensive profiles of at least 30% of the online Indian community. He claims to have databases that have detailed records of three million Indians and 1.5 million non-resident Indians.

The last few years have witnessed a sudden upswing in the number of visits that people make to portals. Most people leave sensitive information about their finances or other personal issues. Job-seekers are less likely to provide inaccurate information on job sites. Similarly, people who visit websites on education leave accurate information about their past.

Sharma buys the databases of these websites and runs a specialized software that can search through different databases to create a composite picture of the surfer. The search continues till the common names and other personal details like date of birth and address are found. The data is then organized to make a collate picture.

According to Sharma, all websites routinely sell the information they collect. He and his colleagues collect information by city, time zone, IP address and organizational local area networks (LANs). It is possible to find details such as the ethnic group the person belongs to and the IP address as well.

It will not come as a surprise, if employers decide to use this information before employing people. For example, when an employer finds out beforehand that the employee to be recruited is a heavy smoker and he can refuse to pay the employee’s medical bills.

The Story Gets Worse…..

A few years from now, people like Sharma can relax because they need not have to work hard to put together profiles. Technology is evolving at such a rapid rate that the profiling process will become much easier.

Let us assume for a moment that someone like Sharma has to buy databases from websites to put together the profile of a person. It becomes almost impossible for him to buy the information from websites. He may also find it difficult to keep track of each and every website the person visits or registers with. Some websites may even refuse to sell data to Sharma. Suppose there was a software that could crawl the Web and find such data to build a reasonably well-equipped database of people. The software can further help to group them into categories and use the information to strike conversations. Such a software would strike a chord with the employers who can simply instal the software in their computer systems rather than hunt for people like Sharma to make profiles of the concerned people which means people's personal details can be collected even without their knowledge, the personal details of the people are collected in a jiffy. One can now be sure that privacy is not guaranteed on websites. Beware, the next time you visit a website, someone could be monitoring/mapping your movements.

Adapted from Charles Assisi, 'End of Privacy', Business World, 4th June, 2001

Exhibit 19.2

Equal Work Unequal Pay

A recent survey in China reveals that in the last 10 years the income gap between Chinese men and women widened by a great extent which reiterates that women all over the world earn less than men for doing the same work.

The survey — with a sample size of 48,192 across 30 provinces — proved that women still work for meager income though their income levels have risen over the years. Even in white-collar jobs, there is a gender disparity in the pay levels. For instance, women executives are paid 59.9 per cent of the salary while their male colleagues earn 68.3 per cent.

The story is equally gloomy as we move from the east to the west, from China to the US. Surveys by AFL-CIO, the American Federation of labour unions representing 13 million America's working men and women, revealed that there is a huge wage disparity between men and women, equally qualified or skilled and doing the same job. According to one of its surveys, in 1999 women were paid on an average 72 cents for every dollar the men received. That's $28 less to spend on groceries, housing, child care and other expenses for every $100 worth of work women do. A report posted on its website, (www.aflcio.org), AFL-CIO says, "Equal pay has been the law since 1963. But today, 38 years later, women are still paid less than men — even when we have similar education, skills and experience”. Another reposrt states that working families lose $200 billion of income annually to the wage gap.

It is hardly surprising that over the working span of a woman's life this shortfall adds up to a whopping $523,000!. As women are paid less, thye have less to save for thier futures and will earn smaller pensions than men. Half of all older women receiving a private pension in 1998 got less than $3,486 per year, compared with $7,020 per year for older men. What’s more worse is that the pay disparity is even more severe for African-American women who earn only 65 cents and Latino women who earn 52 cents for every dollar that men earn. Japan is a step further to Asian countries when it comes to the treatment meted out to its working women; in many Japanese offices, women are expected to serve tea to their male colleagues! Interestingly, Britain, not US, is doing much more to ensue gender equity at the workplace.

Things are certainly not hunky dory when it comes to women's wages in India. Some employers not only pay women less but justify it too. They argue that since women in their early 20s and 30s, who have a much have greater burden of family responsibilities, they tend to leave their jobs more frequently than men. This costs the organisation in terms of training input. Such employers forget that traditionally a woman is more likely to remain "loyal" and less likely to change jobs frequently unlike her male counterpart.

Gender discrimination begins at the recruitment stage itself and continues through transfers or relocations like overseas assignments and travel. However, women are less likely to rake the issue and executives who commit the offence get away easily. Women also tend to be much less forthright while negotiating their starting salaries or demanding a pay hike or a promotion.

Of course, things are changing; at home and overseas. Women, especially the younger lot, are getting more aggressive, and even moving courts on issues like disparity in wages.

Adapted from The Hindu Business Line, 22nd February 2001

Differences in Incomes at the Workplace

Sometimes, organizations have to modify pay structures to respond to employee concerns regarding salaries and benefits. This may result in conflicts, which may snowball into ethical debates regarding the fairness in pay structure. Some ethical issues pertaining to income levels are equality in the compensation structure, equality in wage rules, education level, and skills and abilities. For a HR professional, question is "what is a fair day's wage for a fair day's work."

Gender bias also contributes to differences in incomes at the workplace. It is a common perception that the compensation package in companies that are dominated by men is higher than those that are dominated by women. The ethical consideration is to let skills and not gender to determine the individual's income. Though the law bans gender discrimination at the workplace, very few industries follow it. The same holds true for racial discrimination. Studies reveal that employees belonging to minority groups are paid less apart from being discriminated against on the basis of their color.

ETHICAL ISSUES IN LABOR-MANAGEMENT RELATIONS

Some ethical issues involved in labor-management relations are discussed below:

- Before the amendment of labor laws, joining labor unions was considered unethical by employers. Employees who joined unions were discriminated against at the workplace. Some employers violate law that legalizes the existence of unions.
- Trade unions also face ethical dilemmas such as whether to collect dues or service fee from members or not. The money collected should be used for collective bargaining, grievance handling, and employee welfare activities. Misusing the money raised by the members is unethical and illegal.
- The process of collective bargaining also involves various ethical aspects. Concealing information from the other party during negotiations is considered unethical. Sometimes, one party may coerce the other party to arrive at a solution. This is also unethical. Collective bargaining is considered ethical when the conflicting parties find solutions to problems that are in best interests to both parties.

Negotiations between trade unions and management should be open and should facilitate participation from both parties. The process of negotiation should be used as an opportunity to build trust among the conflicting parties. Some unions blame the management for winning the negotiations by using power and authority. Such issues raise ethical concerns regarding the appropriate negotiation style during a win-win situation.

MANAGER-SHAREHOLDER CONFLICT OF INTEREST

Enron, a Fortune 500 company, landed in a mess, when it borrowed loans from Citibank in the name of a shell company created by it. Enron, in its accounts, showed the loans as assets to shareholders. However, the loans were used to inflating its profits. The trick worked when stock prices went up, but all hell broke loose when prices came down. The most horrifying fact was that the company used the loans from Citibank to bet at the roulette table (a type of gambling.) When they won, the investors' money tripled, and Citibank was paid on time. When they lost, everything fell apart. What was more shocking was that Arthur Andersen, the consultancy group that audited Enron overlooked all these facts.

The first victim in this case was Citibank. The bank had no clue about Enron's activities. The bank blamed Enron for not informing it the reason for taking the loans.

Enron's example illustrates that companies need to be ethical while dealing with shareholders. Shareholders contribute to the growth of an organization- both directly and indirectly.

Manager-shareholder relationship is important for the growth and survival of the organization. Shareholders expect managers to act in their interest. Ethical conflicts arise when managers cannot win the shareholders' confidence or when there is a conflict between the parties and when the parties cannot meet each other's expectations.

Further, when both parties act in their self-interest and when managers conceal information from shareholders, there are bound to be ethical debates. Ethical conflicts between managers and shareholders can be resolved through frequent interactions and meetings, sharing of relevant information sharing and negotiations whenever required.

SUMMARY

This chapter looked at core concepts in ethics such as morals, etiquette, political correctness, law and legality. Some organizations discriminate employees on the basis of their gender. This is unethical as individuals should be judged on the basis of their abilities and not their gender.

Ethics at the workplace involve various strategic issues like selecting and promoting workers on the basis of qualities mentioned in the job description, whether or not to monitor employees etc. Ethical issues are important even in labor-management relations. Ethical conflicts between managers arise and shareholders when they try to pursue their own interests. This can be resolved if they interact more frequently with each other share information.

Glossary

Alternative Staffing A term that describes the gamut of nontraditional work arrangements available to organizations other than regular, direct, and full-time employment. Alternative staffing arrangements include temporary help, leased worker arrangements, home-based work, and contract employment.

Asynchronous The term asynchronous is usually used to describe communications in which data can be transmitted intermittently rather than in a steady stream.

Balanced Scorecard Method of measuring performance of a firm beyond the typical financial measures. It links corporate goals and direct performance measures in a framework specific to a firm, and is one method of measuring the impact of knowledge management.

Barriers to Entry The factors that make it costly for companies to enter an industry

Behavioral Anchored Rating Scales Performance appraisal tools that assess the effectiveness of the employee's performance using specific examples of good or bad behaviors at work.

Benefits A compensation component that accounts for almost 40 percent of the typical total compensation package and includes health insurance, pension plans, unemployment insurance, vacations, sick leave, and the like.

Brainstorming A technique to generate creative ideas for solving problems by reducing critical and judgmental reactions to ideas from group members.

Broadbanding A pay strategy that consolidates a large number of relatively narrow pay grades into much fewer broad bands with relatively wide salary ranges, typically in the neighborhood of 100 percent or more.

Business Ethics Business ethics provide standards or guidelines for the conduct and decision making of employees and managers.

Cafeteria plan A plan in which participants may choose among two or more benefits containing taxable or nontaxable compensation elements, i.e. “cash” or “qualified benefits.”

Call Center Communications facilities operated by companies, or third parties on behalf of companies, that handle a high volume of inbound or outbound calls, using specialized staff.

Career Path The steps and a plausible time frame for accomplishing objectives for advancement to a career goal.

Coaching It is an ongoing, mostly spontaneous, meeting between managers and their employees to discuss career goals, roadblocks, and available opportunities.

Compensation The total amount awarded to an employee in return for work and services, including all employment-related pay elements such as base pay, bonuses, allowances, premiums, etc. It is also referred to as reward, remuneration, pay, salary.

Competitive Advantage It is a company’s ability to outperform its competitors through innovation, efficiency, customer responsiveness, and quality

Computer-Based Training (CBT) Training that is delivered via a computer as opposed to an instructor or paper-based format. CBT programs typically incorporate a mix of text, graphics, animation and interactive exercises.

Content Management Tools Software that helps developers track the location of information (especially important in medium and large systems, where the location of content can be easily forgotten) and relationships among the different pieces of information.

Content Validity The measurement that the selection process represents the actual activities or knowledge required to successfully perform the job.

Core Competencies Core Competencies are the set of the most strategically significant and value-creating skills within an organization.

Corporate Social Responsibility The belief that corporations have a responsibility to conduct their affairs ethically and to be judged by the same standards as people.

Counseling It is a private supervisory conference between a supervisor and a subordinate employee at which the employee's performance deficiencies are discussed. The motivation for such counseling sessions is to improve the employee's performance and eliminate the performance deficiencies.

Customer Capital It is defined as the information about, and relationships with, current, past, and potential customers. Also defined as the value of an organization's relationships with the people with whom it does business.

Delayering The process of reducing the number of hierarchical levels in an organization.

Delphi Technique A decision-making technique in which group members are presented with a problem and complete an anonymous questionnaire soliciting solutions; the results are tabulated, summarized, and returned to the group members, and each is asked again for solutions; the process continues until a consensus decision is reached.

Differentiation Strategy A strategy a company pursues in order to achieve a competitive advantage by creating a good or service that is perceived by customers to be unique in some important way.

Employee Leasing A contractual relationship under which the leasing company assigns workers to client locations and thereby assumes responsibility as an employer of the leased workers assigned to the client location. The leasing company retains the right to hire, reassign and fire the leased employees.

Empowerment The process of transferring control of individual work behavior from the supervisor to the employee.

Enterprise Resource Planning (ERP) A computer program that combines all of a firm's computerized functions into a single, integrated software program that runs off a single database, allowing various departments to easily share information and communicate with each other.

Equity This concept refers to a criterion of pay based on similar responsibilities and contribution to the organization. It may focus on the “fairness” of pay between employees within or outside the organization

Explicit Knowledge Content that exists within an individual or organization and that has been recorded or exchanged for others to use.

External Equity The perceived fairness of the compensation employees receive relative to what other companies pay for similar work.

Extrinsic Rewards Work-related rewards that have value measurable in monetary terms, as opposed to intrinsic rewards, such as satisfaction in a job well done.

Five Forces Model A framework developed by Michael E. Porter that focuses on the five forces that shape competition within an industry risk of new entry by potential competitors, degree of rivalry among established companies in an industry, bargaining power of buyers, bargaining power of suppliers, and threat of substitute products.

Focus Strategy A strategy a company pursues whereby it concentrates on serving the needs of a limited customer group or segment, defined by geography, type of customer, or segment of the product line.

Forecasting Predicting what is likely to happen in the future, the intensity of the anticipated event, its importance to the firm, and the pace or time frame in which it may occur.

Glass Ceiling The intangible barrier that prevents women and minorities from rising to the upper levels in business.

Groupware It is a software that permits people at different computer workstations to collaborate on a project simultaneously.

Growth Strategy An investment strategy at the business level for a company with a goal of maintaining a relative competitive position in a rapidly expanding market and, if possible, increasing it.

Human Capital The knowledge that resides in the heads of employees and that has not been shared with others.

Incentive (pay plans) Pay plans designed to reward the accomplishment of specific results.

Intellectual Capital An effort by organizations to place a financial value on its tacit and explicit knowledge.

Intelligent Agents Software that works without the assistance of users by making choices. The choices are based on rules of behavior that software developers have identified and built into the software.

Internal Equity The perceived fairness of the pay structure within a firm.

Intranet A company's internal network which is based on Internet technology. It is accessed using a Web browser and is protected from unauthorized access by other Internet users via a firewall.

Job Analysis The systematic, formal study of the duties and responsibilities that comprise job content. The process seeks to obtain important and relevant information about the nature and level of the work performed and the specifications required for an incumbent to perform the job at a competent level.

Job Description A written statement detailing the duties of a particular job title.

Job Evaluation The systematic determination of the relative worth of jobs within the organization, which results in a pay system within the organization.

Job Rotation The process of giving employees a series of assignments in various functional areas of the company.

Knowledge Management Capturing, storing, transforming, and disseminating information within an organization, with the goal of promoting efficiency at the least and innovation and competitive advantage at the most.

Knowledge Workers Employees who manage information and make it available to decision makers in the organization.

KSA (Knowledge, Skills, and Abilities) These are referred to as common job specifications. Knowledge refers to acquired information necessary to do the job Skills refer to acquired measurable behaviors Abilities refers to natural talents or acquired dexterity

Lagging Indicator Series of indicators that often follow changes or movement in a given direction. Indicators that are typically associated with programmatic results.

Layoffs Layoffs are the termination of employees with or without advance notice and for reasons other than performance.

Leading Indicator Series of indicators that indicate movement in a given direction and which generally precedes the movement of other indicators in the same or in a similar direction.

Learning Organization The management approach based on an organization anticipating change faster than its counterparts to have an advantage in the market over its competitors

Management Information System (MIS) An information system that provides information to managers to use in making decisions.

Management-by-Objectives (MBO) It is a means by which each management team identifies its key tasks and goals and uses these as a yardstick against which performance is measured.

Matrix Approach A departmentalization approach that superimposes a divisional structure over a functional structure in order to combine the efficiency of the functional approach with the flexibility and responsiveness to change of the divisional approach.

Mentoring Developmental activities carried out by more seasoned employees to help those who are usually in the training stage.

Mission Statement A statement of the role, or purpose, by which an organization intends to serve its stakeholders. Describes what the organization does (current capabilities), who it serves (stakeholders), and what makes the organization unique (justification for existence).

Needs Assessment The process of identifying, prioritizing and documenting gaps between performance goals/standards and actual performance for a target population. It also includes determining likely causes of gaps in performance.

On the Job Training (OJT) This can be a formal or informal program of instruction by subject matter experts who coach, advise and mentor workers in need of training while they are performing real job tasks.

Organization Chart A graphic depiction that helps summarize the lines of authority in an organization.

Organization Design The selection of an organization structure that best fits the strategic goals of the business.

Organization Structure The formal system of relationships that determines lines of authority (who reports to whom) and the tasks assigned to individuals and units (who does what task and with which department).

Organizational Culture A system of shared values, assumptions, beliefs, and norms that unite the members of an organization.

Outsourcing Use of an outside business services vendor and its supervised personnel, either on the customer's premises or off-site at the vendor's location, to perform a function or run a department that was previously staffed and supervised by the customer directly.

Payrolling The provision of longer-term temporary workers to a customer where the workers have been recruited by the customer but become employees of the temporary help company. This may occur in an instance when only the customer has the proper knowledge and experience to properly evaluate potential workers.

Performance Drivers Output Measures that are quantitatively measured. Performance Drivers can include such indicators as cycle time, defect rates or quality rates and ratios, and most financial metrics.

Performance Evaluation A method of evaluating the behavior of employees in the workplace, normally including both the quantitative and qualitative aspects of job performance.

Performance Management It involves the regular review of the performance measurement process flow to ensure that value is added and that the processes accurately reflect current stakeholder and customer requirements.

Performance Related Pay (PRP) links an individuals performance with their pay.

Portals Special web pages that organize access to all of the online resources about a topic, providing a one-stop shop of sorts.

Productivity Value added by the process, factored against the value of all labor, capital or other resources consumed by processes.

Profit Sharing Providing a share of a company's profits to the employees in the form of a bonus.

Recruiting The process of locating and screening a candidate or candidates for an employer as part of a search assignment.

Selection The process of choosing qualified individuals who are available to fill positions in the organization.

Self-managed Team A group that is responsible for producing an entire product, component, or service. It is sometimes called a process team.

Skills Inventory A human resource inventory that keeps track of the firm's internal supply of talent by listing employees' education, training, experience, and language abilities.

Staffing It involves determining future needs, and recruiting, selecting, and training the organization's work force.

Stakeholders Individuals, groups, and parties that either affect or who are affected by the organization. Stakeholders include all internal and external customers.

Strategic Planning The process by which an organization formulates and implements important decisions across different levels and functions of the organization.

Structural Capital It includes capabilities developed to meet market requirements such as patents. It is also referred to as the organizational capital.

Succession Planning It is the process of identifying, assessing, and developing talent to ensure that every key position in the organization is held by an efficient leader.

SWOT Analysis (Strengths-Weaknesses-Opportunities-Threats) A strategic management tool to evaluate the firm, which is accomplished by identifying its strengths and weaknesses, identifying its opportunities and threats, and cross-matching strengths with opportunities, weaknesses with threats, strengths with threats, and weaknesses with opportunities.

Synchronous Something which occurs at regular intervals is called synchronous. Communication within a computer is usually synchronous and is governed by the microprocessor clock.

Tacit Knowledge Content that exists within an individual or organization but has not been recorded or exchanged.

Telecommuting Working at home, or at another off-site satellite location, for an organization whose office is located elsewhere, with one-way or two-way electronic linkage to that organization via phone, fax, modem, and/or the Internet or a company Intranet.

Total Quality Management (TQM) An organization wide management approach that focuses on quality as an overarching goal. The basis of this approach is the understanding that all employees and organizational units should be working harmoniously to satisfy the customer.

Training Planned learning to develop needed skills, knowledge, ability to improve performance in one’s current job.

Transactional Leaders Leaders who use legitimate, coercive, or reward powers to elicit obedience and attempt to instill in followers the ability to question standard modes of operation

Transformational Leadership A leadership style characterized by the ability to bring about significant change in an organization, such as a change in vision, strategy, or culture.

Validity The extent to which a test, criterion, or qualification measures the trait (some performance ability) for which it is being used, rather than some other trait.

Value-chain Analysis Strategic management analysis that breaks the firm down into a sequential series of activities and attempts to identify the value-added of each activity.

Values Set of beliefs or standards that the organization and its stakeholders believe in and operate from. Organizational values are utilized to guide the day-to-day operations, serving as a linkage between Mission and Vision

Virtual Teams Groups that use interactive computer technologies such as the Internet, groupware and computer-based videoconferencing to work together regardless of distance.

Web-Based Training (WBT) Web-based training (WBT) is a popular term for instruction that is delivered over the Internet or a company's intranet. The Web-based training program is accessed through a Web browser, such as Netscape or Internet Explorer.